Tasmanian
Audit Office

Report of the Auditor-General
No. 5 of 2012-13

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

Volume 1

Analysis of the Treasurer's Annual Financial Report 2011-12

November 2012

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The Role of the Auditor-General

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

Our primary responsibility is to conduct financial or 'attest' audits of the annual financial reports of State entities. State entities are defined in the Interpretation section of the Audit Act. We also audit those elements of the Treasurer's Annual Financial Report reporting on financial transactions in the Public Account, the General Government Sector and the Total State Sector.

Audits of financial reports are designed to add credibility to assertions made by accountable authorities in preparing their financial reports, enhancing their value to end users.

Following financial audits, we issue a variety of reports to State entities and we report periodically to the Parliament.

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

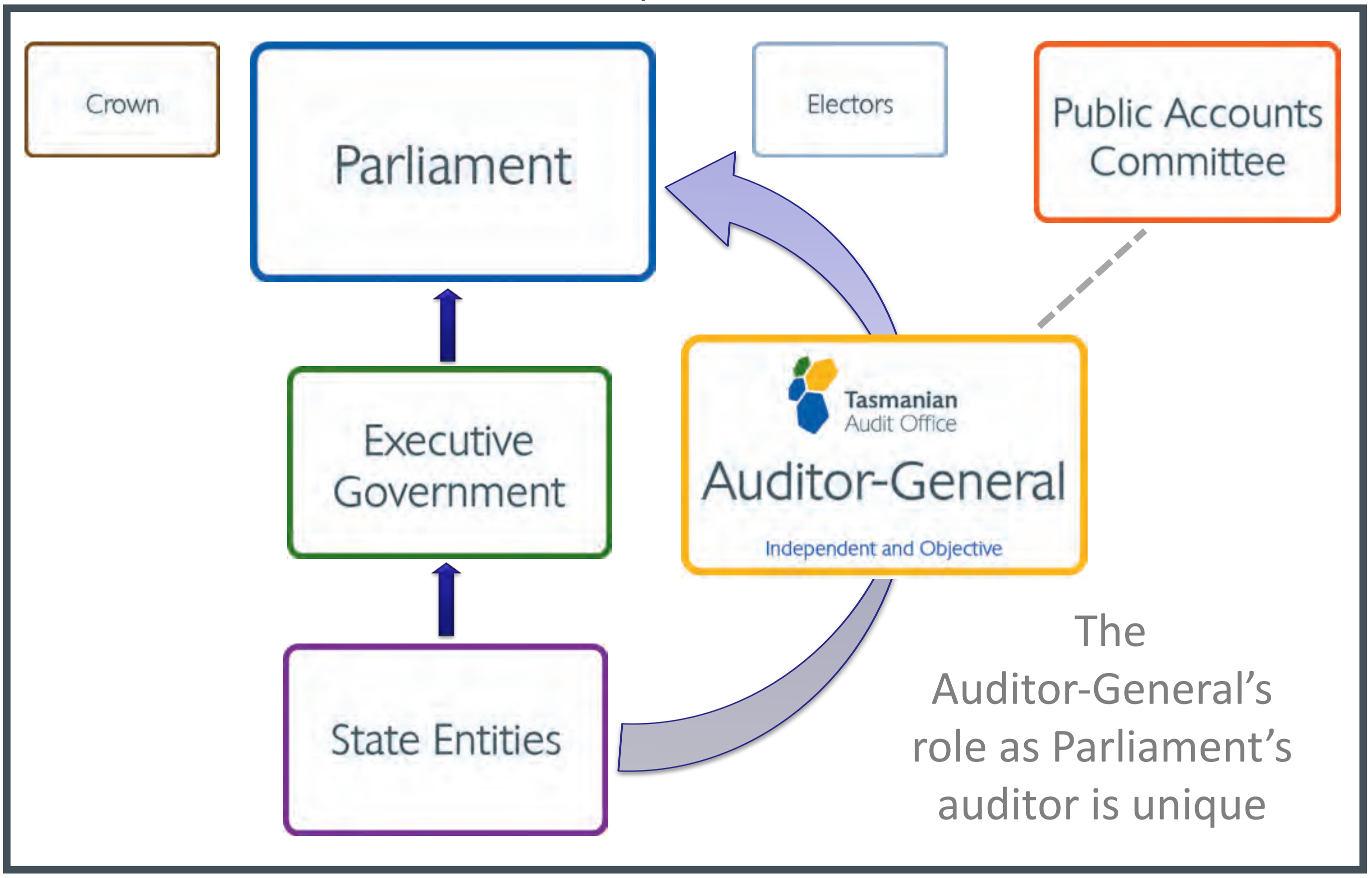
Compliance audits are aimed at ensuring compliance by State entities with directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), account balances or projects.

We can also carry out investigations but only relating to public money or to public property.

Performance and compliance audits 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.

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.

The Auditor-General's Relationship with the Parliament and State Entities



2012 (No. 31)

TASMANIA

2012
PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL
No. 5 of 2012-13

Volume 1

Analysis of the Treasurer's Annual Financial Report 2011-12

November 2012

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

Auditor-General's reports are available from the Tasmanian Audit Office, Hobart. This report and other recent reports published by the Office can be accessed via the Office's home page. For further information please contact:

Tasmanian Audit Office

GPO Box 851
Hobart
TASMANIA 7001

Phone: (03) 6226 0100, Fax (03) 6226 0199

Email: admin@audit.tas.gov.au

Home Page: http://www.audit.tas.gov.au

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Tasmanian Audit Office

Level 4, Executive Building, 15 Murray Street, Hobart, Tasmania, 7000
Postal Address GPO Box 851, Hobart, Tasmania, 7001
Phone: 03 6226 0100 | Fax: 03 6226 0199
Email: admin@audit.tas.gov.au
Web: www.audit.tas.gov.au

22 November 2012

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Madam President

Dear Mr Speaker

Report of the Auditor-General No. 5 of 2012-13 – Financial Statements of State entities Volume 1 – Analysis of the Treasurer's Annual Financial Report 2011-12

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 2012.

Yours sincerely

H M Blake
Auditor-General

FOREWORD

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.

This year reports to Parliament on outcomes of financial audit work comprise five separate volumes:

- Volume 1 (which is this Report) tabled on 22 November 2012
- Volume 2 which deals with our audits of the Executive and Legislature, Government Departments, other General Government Sector entities, other State entities and the State's Superannuation funds also tabled on 22 November 2012
- Volume 3 which deals with our audits of government businesses and regional water corporations tabled on 20 November 2012
- Volume 4 which deals with audits of local government councils and related business units also tabled on 20 November 2012
- Volume 5 which will deal with our audit of entities with a 31 December 2012 balance date and any entities with a 30 June 2012 balance date not completed when compiling volumes 1 to 4. We plan to table this report in April or May 2013.

A primary objective when preparing these reports is to assist Parliamentarians and other stakeholders in their evaluation of the financial performance of State entities.

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 2012

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AUDIT SUMMARY

Underlying Net Operating Balance

In 2011-12, the Total State Sector (Total State) reported a Net Operating Balance surplus of $1m compared to $132m in the prior year. The result for the General Government Sector (GGS) was less favourable, a Net Operating Balance deficit of $186m compared to a smaller deficit of $23m reported in 2010-11. As was the case last year, results were largely affected by funding from the Australian Government under the Nation Building – Economic Stimulus Plan. Without this one-off capital funding, the Underlying Net Operating Balance for both the GGS and Total State would have been deficits of $348m and $176m respectively. This was the fourth year of consecutive underlying deficits.

Employee costs dominated State expenditure, particularly in the GGS. However, employee costs in this Sector grew by only 1.6% in 2011-12, the lowest growth over the period under review. This lower growth was a combination of a reduction in the number of public servants and a new wages policy which limited non-productivity based wage increases to 2%, with additional productivity gains able to be provided as part of any wage negotiation capped at an equivalent value of 0.5% per annum.

Just as employee costs dominated State expenditure, funding provided by the Australian Government continued to be the single largest source of revenue for the GGS. The ability of any State to raise revenue is strongly dependent on local economic conditions and the options for introducing new efficient taxes that raise significant revenue are limited. The strong reliance of Tasmania on distributions from Goods and Services Tax (GST), which represented on average 38% of total operating revenue over the past four years and which are vulnerable to consumer spending and allocation of the GST pool among States and Territories, increases revenue risks faced by Government.

Over the period under review, capital funding had a significant impact on GGS revenue and the conclusion of the Economic Stimulus Plan resulted in a negative annual revenue growth of (1.6)% in 2011-12. However, when one-off Australian Government capital funding was excluded, the annual growth in revenue was considerably higher at 7.0% in 2011-12. This was a positive result, although it is noted that the growth in operating revenue was largely attributed to additional non-recurrent grants received this year, for example funding to assist Tasmanian exporters and for implementation of the Tasmanian Forests Intergovernmental Agreement (TFIA).

STATE OWN-SOURCE REVENUE

Revenue raised by Government through taxes and by non-tax means, for example sale of goods and services and fines and regulatory fees, increased by 6% in 2011-12 to $1.674bn. Taxation revenue accounted for more than half of Government own-source revenue. Payroll tax was the single largest State based tax at just over one third of total taxation revenue. Revenue collected from conveyance duties deteriorated further in 2011-12 due to weakening financial and capital transactions and for the first time it was surpassed by motor vehicle registration fees and other related vehicle fees and taxes.

REVENUE FROM GOVERNMENT BUSINESSES

Government businesses distributed dividends and paid income tax equivalents and guarantee fees to Government totalling $223m in 2011-12, with electricity businesses accounting for 86% of these dividends.

Government businesses, excluding water corporations, reported a combined loss before income tax of $104m in 2011-12, compared to a combined profit of $137m last year.

Operating Result

After other economic flows were taken into account, mainly movements in the market value of assets and liabilities, the GGS reported an Operating deficit of $1.824bn, while the Total State reported an Operating deficit of $2.367bn. This year's results were adversely affected by actuarial losses on the defined benefit superannuation liability of $1.796bn for the GGS and $1.988bn for Total State. These losses arose mainly from the use of lower discount rates to determine the present value of the superannuation liability. The discount rates used to calculate the superannuation liability were based on Australian government bond yields, which fell significantly during the year and reflected the economic situation in Europe, weaker global economy growth and strong demand for the Australian dollar. Given the long term nature of superannuation liabilities, material reductions in the discount rate cause significant increases in the liability.

Comprehensive Result

Overall Comprehensive Result for the State was a deficit of $1.426bn, less than the Operating deficit of $2.367bn, mainly due to an upward revaluation of infrastructure assets held by electricity businesses and roads and bridges.

Underlying Net Operating Balance – Budget, Preliminary and Actual Outcomes

In the *2011-12 Mid-Year Financial Report*, released on 15 February 2012, the Government revised the 2011-12 Budget in light of further reductions in estimated GST receipts, lower revenue from State taxes and an increase in expenditure by agencies. The revised forecast was for an Underlying Net Operating Balance of $(382)m, compared to a budgeted Balance of $(271)m.

Further revisions were made in the *2011-12 Preliminary Outcomes Report* released on 13 August 2012. The projected result was an Underlying Net Operating Balance of ($300)m, mainly due to projected increases in grants from Australian Government, higher taxation revenue and increased distributions from Government businesses. Some of these projections did not eventuate to the extent expected. The GGS Underlying Net Operating Balance was a deficit of $(348)m, which was $48m higher than projected result in the Preliminary Outcomes Report. In relation to the original and revised budgets, the actual deficit was $71m higher than original estimates, but $60m below the revised budget.

Equity

Total Equity decreased from $12.492bn to $11.066bn at 30 June 2012. The decrease was in line with the Comprehensive result which was a deficit of $1.426bn. During the year, Government businesses were provided with net $72m of additional capital.

UNFUNDED SUPERANNUATION LIABILITY

At 30 June 2012, the unfunded superannuation liability of the GGS rose to net $6.925bn (30 June 2011, net $4.966bn) with the increase of $1.959bn being a combination of an increase in the present value of superannuation commitments, $1.961bn, offset by an increase in plan assets, $2m. In previous years, the Government's strategy was to build up cash reserves 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 recent years, this is no longer the Government's objective. Instead, superannuation payments will be met on an emerging costs basis from the Consolidated Fund.

Undiscounted defined benefit superannuation cash outflows analysis shows that defined benefit pensions and lump sum payments will peak approximately between fifteen to twenty years from now. However, the analysis also indicates that superannuation payments will start increasing significantly much sooner. In five years from 2012-13, the payments are estimated to increase by 35%. The capacity of the State to meet its future superannuation obligations will require close monitoring.

At a Total State level, the net unfunded superannuation liability of Public Non-Financial Corporation (PNFC) and Public Financial Corporation (PFC) entities, excluding water corporations, was $806m at 30 June 2012 ($621m). Similar to the GGS, the analysis indicates that superannuation payments will peak approximately between fifteen to twenty years from now. Higher superannuation payments by the PNFC/PFC sector will impact on annual profits and subsequently returns to the Government.

NET DEBT

GGS showed a negative Net Debt position in recent years because debt-related financial assets exceeded gross debt liabilities, by $409m as at 30 June 2012. However, the level of Net debt has been declining due to continued cash deficits recorded by the State.

Net State Debt declined by $108m to $1.201bn at 30 June 2012.

NET FINANCIAL LIABILITIES

Net Financial Liabilities of the GGS increased by $1.977m to $6.123bn in 2011-12 in line with the increase in the defined benefit superannuation liability. At Total State level, Net Financial Liabilities increased by $2.176bn to $11.042bn, which again reflected higher Net Debt increase in liabilities, mainly superannuation.

Public Account Statements

Cash held by the GGS increased from $620m at 30 June 2011 to $1.294m at 30 June 2012, being the balance of Special Deposit and Trust Account (SDTF). This increase was due to an overnight borrowing of $650m to gross up the Government's cash holdings to at least equal the balance of accounts in the SDTF. This was the main reason why cash on hand at 30 June 2012 was $623m greater than prior year and borrowings increased by $627m compared to 2011.

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 2011-12 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 28 September 2012. The GGS Statements were re-signed on 16 October 2012. Separate unqualified audit opinions were issued on 22 October 2012.

Audits of the 2011-12 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 2011-12 financial results against prior years and budget. Our major focus in this Chapter is comparing 2011-12 results with the previous two 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.

Dollar amounts presented in tables, the text and figures have been rounded. Discrepancies between the Chapter and the GGS Financial Statements and the PA Statements reflect rounding.

Statements of Comprehensive Income, Financial Position and Cash Flows include amounts budgeted in the 2011-12 Budget, the 2011-12 Revised Budget published in the *2011-12 Mid-Year Report* and preliminary outcome information published in the *2011-12 Preliminary Outcomes Report*.

COMPREHENSIVE INCOME STATEMENT

	2011-12 Original Budget $m	2011-12 Revised Budget[1] $m	2011-12 Preliminary Outcome[2] $m	2011-12 Actual $m	2010-11 Actual $m	2009-10 Actual $m
Revenue						
Grants	2 699	2 759	2 833	2 854	2 656	2 730
Taxation	906	888	901	888	860	872
Sales of goods and services	391	376	334	341	303	289
Fines and regulatory fees	90	96	90	90	84	97
Interest income	26	23	28	27	40	45
Dividend, tax and rate equivalent income	218	206	216	194	159	79
Other revenue	131	133	149	134	130	109
Total Revenue	**4 461**	**4 481**	**4 551**	**4 528**	**4 232**	**4 221**
Expenditure						
Employee expenses	1 991	2 029	2 093	2 096	2 070	1 957
Superannuation contributions	230	232	291	279	271	233
Superannuation liability expenses	265	267	242	239	232	208
Depreciation	267	286	265	242	236	229
Supplies, consumables and Other expenses	961	1 017	952	994	1 015	1 004
Borrowing costs	14	14	14	14	14	18
Grant and subsidy expenses	1 004	1 018	994	1 012	952	935
Total Expenditure	**4 732**	**4 863**	**4 851**	**4 876**	**4 790**	**4 584**
UNDERLYING NET OPERATING BALANCE before:	**(271)**	**(382)**	**(300)**	**(348)**	**(558)**	**(363)**
One-off Australian Government Funding	156	136	162	162	535	381
NET OPERATING BALANCE	**(115)**	**(246)**	**(138)**	**(186)**	**(23)**	**18**
***Plus* Other economic flows - Included in Operating result**						
Gain (loss) on sale of non-financial assets	5	100	1	(6)	6	(24)
Revaluation of equity investment in GBEs/SOCs	316	(43)	(169)	135	228	1 893
Movements in Superannuation liability	0	0	340	(1 796)	85	(692)
Gain on sale of TOTE Tasmania Pty Ltd	0	0	89	89	0	0
Other gains (losses)	**(3)**	**2**	**(65)**	**(60)**	**(124)**	**(41)**
Other economic flows - net	**318**	**58**	**196**	**(1 638)**	**195**	**1 136**
OPERATING RESULT	**203**	**(188)**	**58**	**(1 824)**	**172**	**1 153**
***Plus* Other economic flows - Other movements in Equity**						
Revaluations of non-financial assets	237	235	346	425	(807)	387
Other non-owner movements in equity	(134)	(110)	(35)	45	120	(14)
Total Other equity movements	**103**	**125**	**311**	**470**	**(687)**	**373**
COMPREHENSIVE RESULT	**306**	**(63)**	**369**	**(1 354)**	**(515)**	**1 527**
KEY FISCAL AGGREGATES						
Net Operating Balance	**(115)**	**(246)**	**(138)**	**(186)**	**(23)**	**18**
less Net acquisition of non-financial assets						
Purchase of non-financial assets	551	474	366	371	721	607
Less Sale of non-financial assets	42	40	51	52	62	69
Less Depreciation	265	267	242	243	236	229
Net acquisition of non-financial assets	**244**	**167**	**73**	**76**	**423**	**309**
FISCAL BALANCE	**(359)**	**(413)**	**(211)**	**(262)**	**(446)**	**(291)**

1 Revised Budget information sourced from the 2011-12 Mid-Year Financial Report
2 Preliminary Outcome information sourced from the 2011-12 Preliminary Outcomes Report

Comment

UNDERLYING NET OPERATING BALANCE

The GGS Underlying Net Operating Balance (before One-off Australian Government funding for major capital projects) was a deficit of $348m compared to a deficit of $558m reported in 2010-11. The lower deficit of $210m was a result of higher Total Revenue, $296m, partly offset by a slight increase in Total Expenses, $86m.

The increase in Total Revenue, $296m or 7.0% was mainly the result of:

- increased Grants from the Australian Government (excluding One-off Australian Government Funding), $198m, due to a general increase in financial assistance and One-off initiatives, including:
    - funding received for the implementation of the TFIA, $66m. Features of the TFIA are discussed in the Forestry Tasmania Chapter in *Volume 3 Government Business Enterprises, State Owned Companies and Water Corporations 2011-12*
    - Temporary Assistance for Tasmanian Exporters, $20m,
    - higher local government financial assistance grants, $20m, which included an advance payment of $36m being half of the 2012-13 allocation, compared to one quarter paid in advance last year (2010-11, $17m). The advance was paid to local government councils before 30 June 2012 and included in Grant and subsidy expenses
- higher Taxation, $28m, namely payroll tax, $18m, and land tax, $13m, offset by lower taxes on financial and capital transactions, $9m. In 2011-12, Government removed land tax exemptions for concession card holders and veterans and holiday home owners
- higher revenue from Sales of goods and services, $38m, with most significant growth in Departments of Health and Human Services, Education and Primary Industries, Parks, Water and Environment, due to improved management of revenue streams, including patient fees, school activities, levies and overseas student fees, rental and retail
- lower Interest income, $13m, due to lower cash balances and lower interest rates
- higher Dividend, tax and rate equivalent income, $35m, driven by higher returns from electricity businesses.

Total Expense increased by $86m or 1.8% although the increase this year was the lowest in the period under review, largely due to budget saving strategies implemented in response to the fiscal challenges confronting the State.

As in previous years, the increase in Total Expenses was driven predominantly by higher expenditure relating to employees, $41m or 1.6%. Combined employee costs represented 53.6% of Total Expenditure for 2011-12 and the $41m comprised:

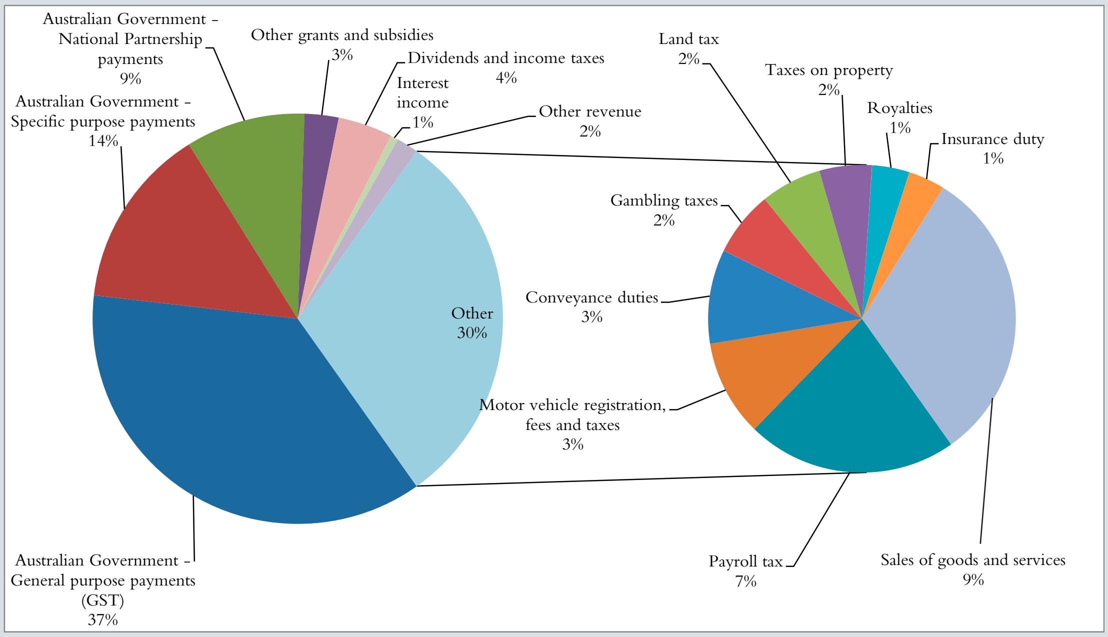
- Employee expenses, $26m or 1.3%, reflecting a combination of annual and structural adjustments and other increments under various awards and agreements, offset by savings achieved by reducing staffing levels during the year and implementing a revised wage policy. The new State Service Wage Policy provides for a 2% increase per annum and an additional 0.5% based on productivity gains. The 2011-12 Budget provided for a 2% wage indexation for all new agreements
- Superannuation contributions, $8m, in line with the increase in wages and salaries, which are the base for calculating employer contributions and service costs
- Superannuation liability expenses, $7m, due to higher nominal interest expense on defined benefits schemes for which the Government is responsible, partly offset by an increase in expected returns on plan assets.

The increase in Grant and subsidy expenses, $60m, reflected distribution of additional financial assistance, including the advanced payment to local government councils and TFIA grants.

The effect of the foregoing was partly offset by a reduction in Supplies, consumables and Other expenses, $21m.

Similar to previous years, funding from the Australian Government represented the majority of revenue generated by the GGS at 63.0% in 2011-12 and an average 63.3% over the past four years. Figure 1 shows the composition of operating revenue in 2011-12.

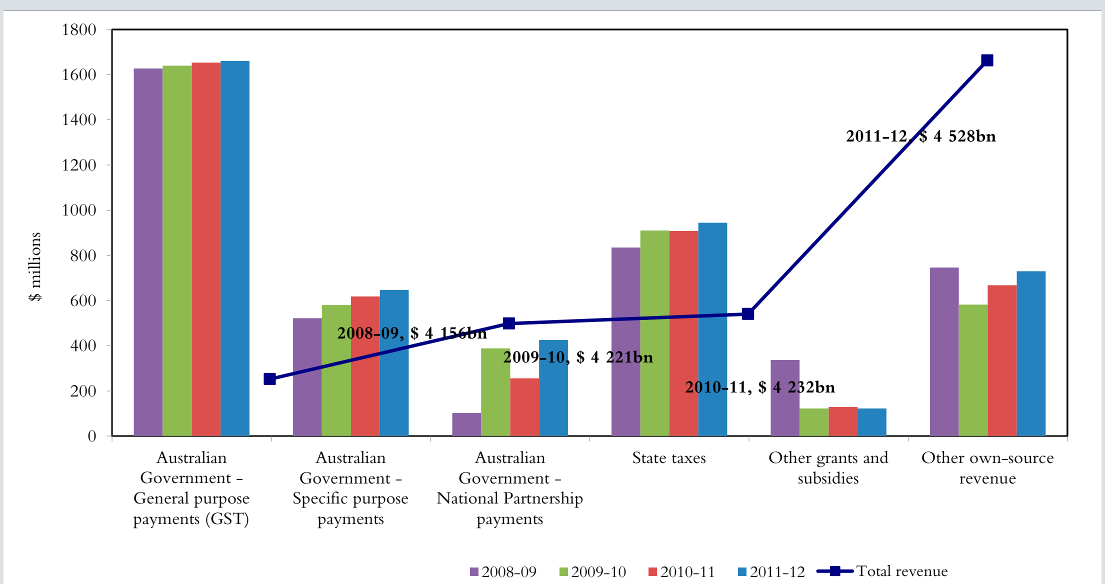
Figure 1: Revenue Composition for GGS



Source: Tasmanian Audit Office

Figure 1 highlights the reliance by the State on funding provided by the Australian Government to fund its operations, especially GST payments which represented 37% of total revenue. Figure 2 shows the composition of the GGS revenue and the movement in Total Revenue over the past four years since 2008-09.

Figure 2: Revenue Composition for GGS (4-year trend)



Source: Tasmanian Audit Office

Most importantly, Figure 2 shows that GST revenue, which declined significantly between 2007-08 and 2008-09 due to the global financial crisis, has been rising gradually, although slowly, $12m in 2009-10 and $14m in 2010-11. In 2011-12, the growth slowed to only $7m mainly because of continued weaker consumption and dwelling investment nationwide. In previous years, the reduction in consumer spending was offset by economic stimulus measures implemented by the Australian Government in response to the global financial conditions. The $42bn Nation Building and Jobs Plan (Economic Stimulus Plan), which provided a significant investment in roads, schools and social housing and community facilities since it was announced in early 2009, was winding down during 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 GGS.

The Australian Government distributes GST among the States in accordance with the principle of horizontal fiscal equalisation and having regard to state population and the distribution of Special purpose payments. In 2011-12, Tasmania's share of the GST pool was 3.6% and is expected to lower slightly to 3.5% in 2012-13, even though in dollar terms the share is estimated to rise to $1.721bn, based on the Australian Government's estimates in the *Mid-Year Economic and Fiscal Outlook 2012-13.* The decrease in the adjusted population percentage share of the GST pool is due to lowering Tasmania's GST relativities[1] from 1.59942 in 2011-12 to 1.58088 in 2012-13, although the dollar impact will be partly offset by an increase in Tasmania's estimated population and larger GST pool. A change of +/- 0.1% in the share of adjusted population percentage on the State's GST receipts would be around +/- $49m, based on the total GST pool of $49.431bn estimated in the *Mid-Year Economic and Fiscal Outlook 2012-13.*

In March 2011, the Australian Government announced a review of the distribution of GST revenue to the States. The panel conducting the review has been asked to consider whether the current arrangements for distributing the GST will ensure Australia is best placed to respond to the expected significant structural changes in the economy and will maintain public confidence in the financial relationships within the Federation. The panel has released two interim reports to date. The review will not affect the distribution of the GST in 2012-13 and its outcomes are uncertain.

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, helping to grow the Tasmanian economy or combinations of these.

[1] *GST revenue sharing relativities are recommended by the Commonwealth Grants Commission and used in calculating each State's entitlement of the GST pool. In calculating the GST relativities, the Commonwealth Grants Commission takes into account differences in the State's capacity to raise revenues, including Special Purpose payments funding available to the State and differences in the costs the States would incur in providing the same standard of government services.*

State Own-source Revenue

Table 1 illustrates the composition of own-source revenue raised by Government through taxes and by non-tax means, for example sale of goods and services and fines and regulatory fees.

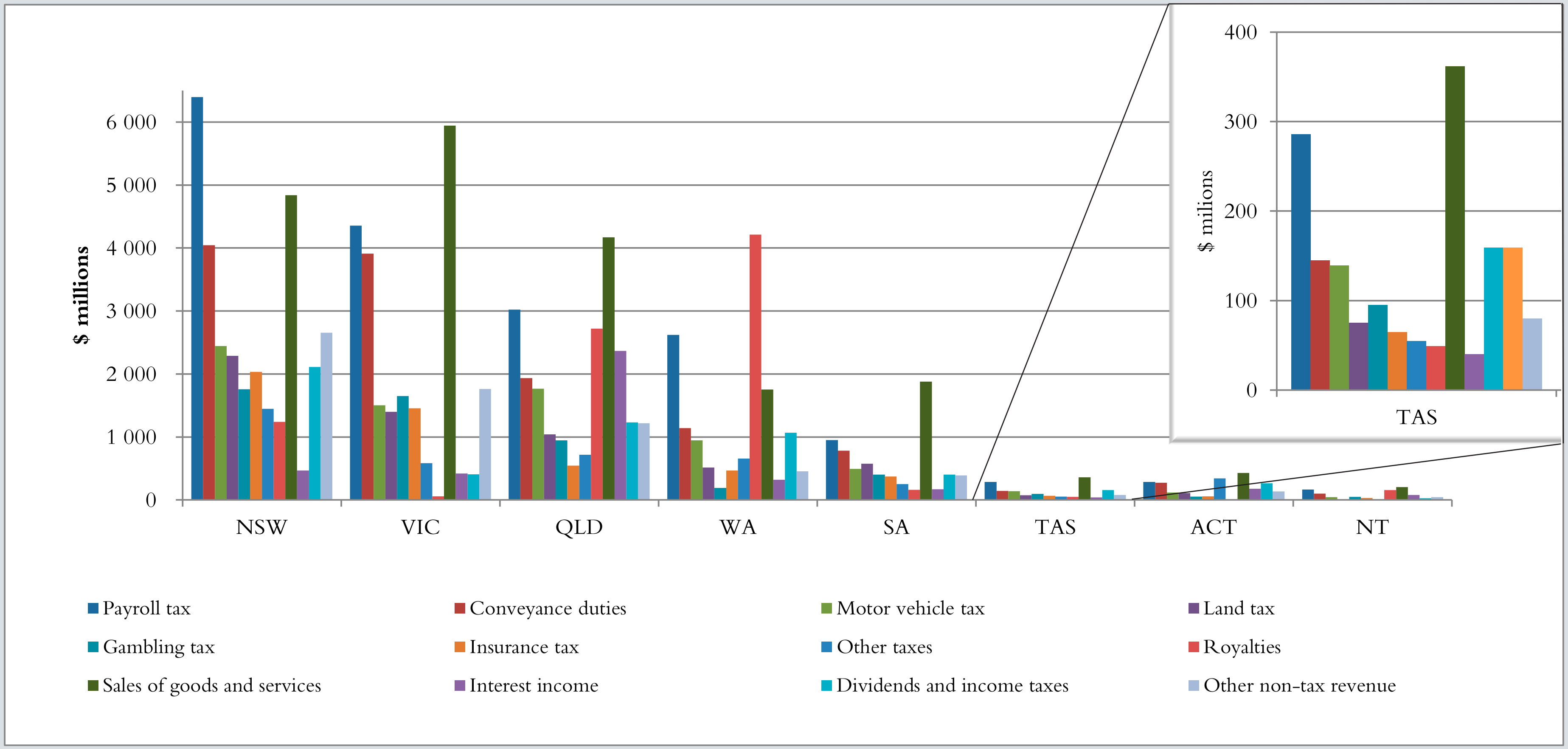
	2011-12	2010-11	2009-10	2008-09
	$m	$m	$m	$m
Payroll tax	304	286	271	259
Motor vehicle registration, fees and taxes	139	139	135	119
Conveyance duties	136	145	163	151
Gambling taxes	94	94	99	94
Land tax	88	75	91	80
Taxes on property	76	71	65	59
Royalties	54	49	39	30
Insurance duty	53	49	47	43
Taxation Revenue	**944**	**908**	**910**	**835**
Sales of goods and services	431	387	386	395
Dividends and income taxes	194	159	79	210
Interest income	27	40	45	68
Other revenue	78	82	72	73
Other State Revenue	**730**	**668**	**582**	**746**
Total State Own-Source Revenue	**1 674**	**1 576**	**1 492**	**1 581**

Classification of revenue items between Taxation Revenue and Other State Revenue is different from the presentation in the Statement of Comprehensive Income
Source: Tasmanian Audit Office

The table shows that taxation revenue accounted for more than half of Government own-source revenue. Payroll tax was the single largest State based tax collected by Government at just over one third of total Taxation Revenue. Revenue collected from Conveyance duties deteriorated further in 2011-12 due to weakening financial and capital transactions and for the first time it was surpassed by Motor vehicle registration, fees and taxes.

The GST review panel acknowledged that in practice "…States have limited options for introducing new efficient taxes that raise significant revenue…" and their ability to raise revenue is strongly dependent on local economic conditions. Figure 3 compares the different sources of revenue earned by States and Territories:

Figure 3: Government Own-Source Revenue in 2010-11



Source: GST Distribution Review Second Interim Report

Figure 3 illustrates that with the exception of mineral rich states of Western Australia and Queensland, which generate significant royalties, and excluding Sales of goods and services, the majority of States and Territories relied heavily on revenue from Payroll tax and Conveyance duties in 2010-11. In that sense, the composition of Tasmania's Taxation Revenue is similar to other jurisdictions.

Revenue from Government Businesses

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

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

	2011-12	**2010-11**	**2009-10**	**2008-09**
	$'000s	$'000s	$'000s	$'000s
Motor Accidents Insurance Board	20 249	34 567	45 044	83 715
Transend Networks Pty Ltd	59 443	26 418	13 942	27 970
Hydro-Electric Corporation	112 504	48 405	10 286	4 477
Aurora Energy Pty Ltd	20 398	9 161	24 613	26 263
Tasmanian Ports Corporation Pty Ltd	94	1 525	4 341	7 973
Tasmanian Public Finance Corporation	9 816	6 595	8 866	9 698
TOTE Tasmania Pty Ltd *	0	6 462	6 523	1 194
Public Trustee	346	226	805	644
TOTAL	**222 850**	**133 359**	**114 420**	**161 934**
Tasmanian Water and Sewerage Corporations **	22 619	22 113	18 013	0

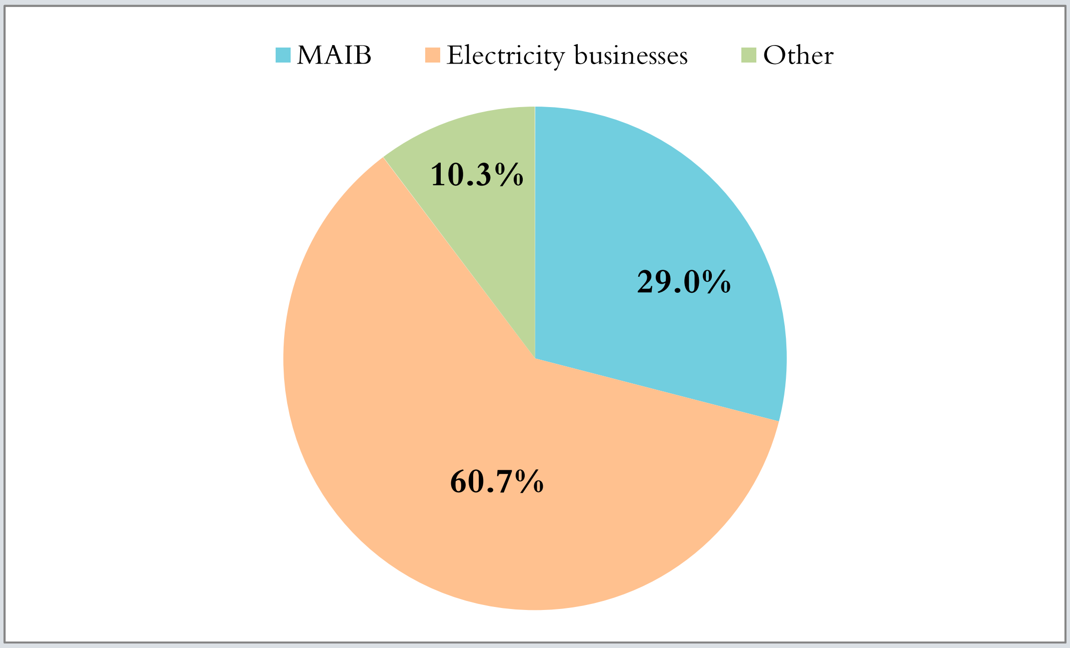
** TOTE Tasmania Pty Ltd was sold on 26 March 2012.*

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

Source: Tasmanian Audit Office

Table 2 shows that the Motor Accident Insurance Board (MAIB) and the three electricity businesses (Aurora, Hydro and Transend) provided the highest returns over the period under review. In dollar terms, MAIB distributed $184m and the electricity businesses, combined $384m, with Hydro returning $176m, followed by Transend, $128m, and Aurora, $80m. Figure 4 presents this information in percentage terms.

Figure 4: Returns to the State (2008-09 to 2011-12)



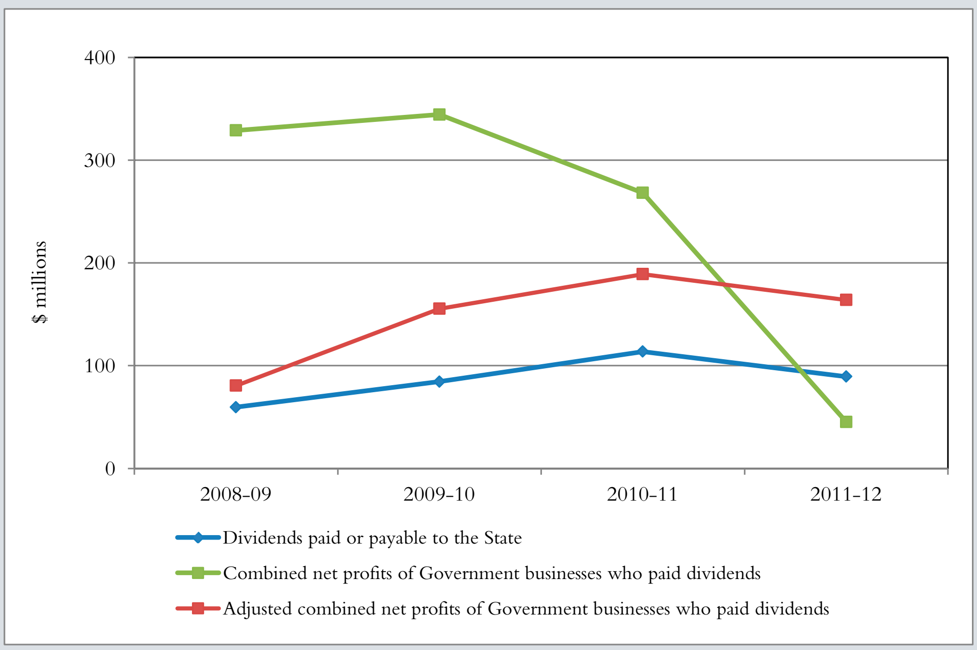
Source: Tasmanian Audit Office

The following businesses provided no returns during the period under review: Forestry, Tasmanian Irrigation (previously Rivers and Water Supply Commission), Metro, TT Line, Port Arthur Historic Site Management Authority, TasRail and Tasracing. Tasmanian Water and Sewerage Corporations were excluded because they make distributions to local government councils and not the State.

Going back to Figure 3 and based on 2010-11 figures, Tasmania's share of revenue from Government businesses was larger in proportion to total revenue when compared to other States.

Figure 5 compares dividends paid or payable to the State by Government businesses with their combined net profits over the relevant period. Entities that did not pay any dividends have been excluded.

Figure 5: Return to State by Government Businesses



Source: Tasmanian Audit Office

On an accrual basis, Government businesses returned average dividends of around $83m per year over the past four years. In 2011-12, dividends paid or payable declined by 21.9% to $89m compared to $114m last year. At the same time, combined net profits after tax of Government businesses who paid dividends dropped sharply by 83.2% due to negative movements in fair value of Hydro's derivatives and underwriting losses of MAIB. However, when net profits were adjusted for items excluded from dividend calculations, for example fair value movements in Hydro and customer contributions, fair value movements and actuarial superannuation gains and losses in Aurora, the drop was only 13.3% and dividends mirrored more closely the movement in adjusted combined net profits. MAIB dividends are based on the average of profits and losses over the current and four preceding years.

Further details are in *Volume 3 Government Business Enterprises, State Owned Companies and Water Corporations 2011-12.*

NET OPERATING BALANCE

After taking into account One-off Australian Government funding for capital projects, the GGS reported a Net Operating Balance deficit of $185m, which was $162m higher than the deficit of $23m reported last year.

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 three years:

Table 3: Australian Government Capital Funding

	2011-12	**2010-11**	**2009-10**
	$m	$m	$m
Nation Building and Jobs Plan			
Building the Education Revolution	2	113	198
Social Housing	5	30	93
Roads and Rail	57	120	0
Royal Hobart Hospital Redevelopment	20	270	0
Water for the Future	28	2	18
Macquarie Point Rail-yards Remediation	50	0	0
Auslink	0	0	72
Total	**162**	**535**	**381**

Source: Tasmanian Audit Office

Table 3 indicates the higher deficit in 2011-12 was partly due to lower capital funding from the Australian Government of $373m. Australian Government capital funding in 2010-11 included $270m for the redevelopment of the Royal Hobart Hospital and second full year of Economic Stimulus Plan funding. The Economic Stimulus 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 bulk of the funding was provided in 2009-10, followed by a gradual withdrawal in 2011-12.

OPERATING RESULT

The Operating Result showed a loss in 2011-12 of $1.824bn, compared to a surplus of $172m reported in 2010-11 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 turnaround of $1.996bn was predominantly a result of losses on superannuation liability, $1.796bn, due to revised actuarial projections.

The 2011-12 Operating Result was affected by:

- revaluation of equity investment in Government businesses, $135m, representing movements in the value of their net assets, namely Hydro, $119m, Transend, $70m, and Aurora, $40m, partly offset by losses in Forestry, $(70)m and MAIB, $(49)m. During 2011-12, the Government withdrew equity from Transend, $20m, and provided equity contributions to TasRail, $55m, Tasmanian Irrigation, $36m, and Tasports, $1m,
- movements in Superannuation liability, $1.796bn, representing net actuarial losses due to an increase in the present value of the defined benefit superannuation obligation
- gain on sale of TOTE Tasmania, $89m, being proceeds for the sale, $104m, less the value of TOTE Tasmania's net assets at the time of sale, $15m,
- other losses, $60m, mainly due to write down of physical assets, $103m, offset by the value of assets acquired below fair value, $34m. Included in Other losses was the net effect of future asbestos compensation levies receivable, $131m, less provision for future asbestos compensation claims, $137m. During the year, Government set-up an asbestos compensation scheme, which is funded through a levy on insurance premiums. The estimated value of future claims approximates the amount of levies receivable due to the fact that all expenditure incurred by the asbestos compensation scheme can be recovered through the levy.

COMPREHENSIVE RESULT

The 2011-12 Comprehensive Result was a Deficit of $1.354bn and was arrived at after adjusting the Operating Result for movements in equity. The deficit was predominantly the result of a revaluation increment of $425m following an upward revaluation of infrastructure and land and buildings held by Departments of Infrastructure, Energy and Resources, $259m, Primary Industries, Parks, Water and Environment, $98m, and Education, $67m.

UNDERLYING NET OPERATING BALANCE – BUDGET, PRELIMINARY AND ACTUAL OUTCOMES

In the 2011-12 *Mid-Year Financial Report*, released on 15 February 2012, the Government revised the 2011-12 Budget in light of further reductions in estimated GST receipts, lower revenue from State taxes and an increase in expenditure by agencies. The revised forecast was for an Underlying Net Operating Balance of $(382)m, compared to a budgeted Balance of $(271)m.

Further revisions were made in the *2011-12 Preliminary Outcomes Report* released on 13 August 2012. The projected result was an Underlying Net Operating Balance of ($300)m, mainly due to an increase in grants from Australian Government, higher taxation revenue and increased distributions from Government businesses. Some of these projections did not eventuate to the extent expected. The GGS Underlying Net Operating Balance was a deficit of $(348)m, which was $48m higher than projected in the Preliminary Outcomes Report. In relation to the original and revised budgets, the actual deficit was $71m higher than original estimates, but $60m below the revised budget.

Total Revenue was $47m over revised budget, but $23m below the preliminary estimate. Overall, Grants from the Australian Government exceeded the revised budget by $95m due to an increase in National Partnership payments, offset by lower GST grants. Offsetting the increase in Grants were lower revenues from Sales of goods and services and returns from Government businesses.

Actual expenditure was $13m above the revised budget and $25m above the preliminary estimate. Employee related cost were the major contributing factor for the unfavourable result, being $86m higher than the revised budget. Offsetting the higher employee costs were lower Supplies, consumables and Other expenses, $23m, Depreciation, $44, and Grant and subsidy expenses, $6m.

One-off Australian Government Funding was $26m higher than revised budget due to additional funding received towards the end of June 2012.

KEY FISCAL AGGREGATES - DISCLOSURE OF THE STATE'S FISCAL BALANCE

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

In 2011-12, Fiscal Balance was a deficit of $262m compared to a deficit of $446m reported in the previous year. The decrease in Fiscal Balance deficit of $184m was due to a decrease in acquisition of non-financial assets. In 2011-12, gross investment on non-financial assets was $371m, which was $350m below the previous year's figure and the lowest in the three years under review. The high level of investment during 2009-10 and 2010-11 was due to programs funded by the Economic Stimulus Plan. Expenditure on non-financial assets is commented on in the Statement of Financial Position section of this Chapter.

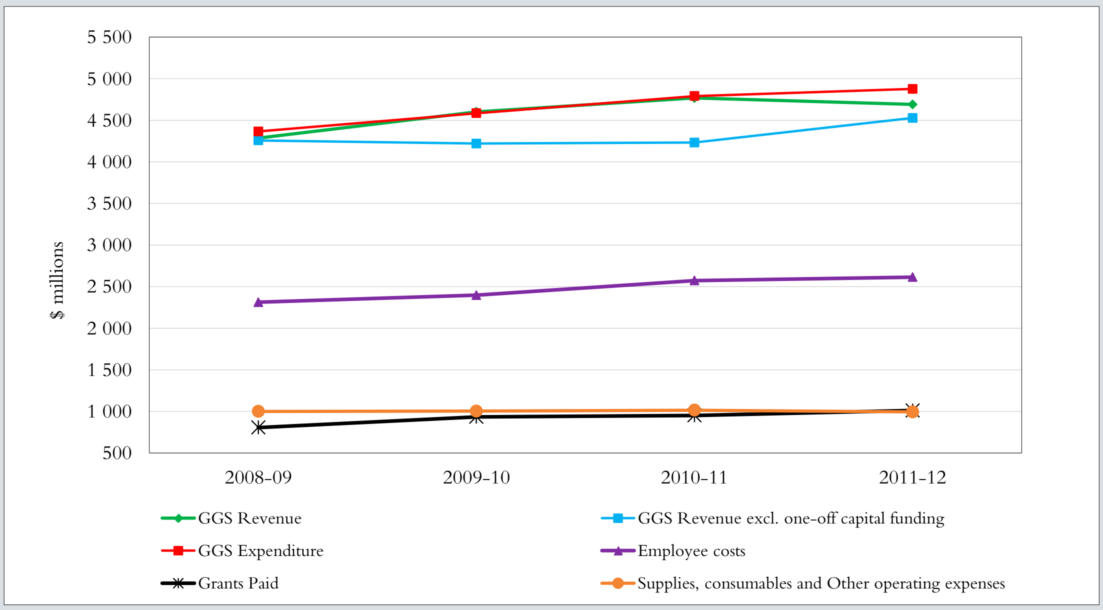
FOUR YEAR REVENUE AND EXPENDITURE ANALYSIS

Revenue and expenditure

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

Figure 6 presents revenue and expenditure trends for the GGS over the past four years.

Figure 6: GGS Revenue and Expenditure



Source: Tasmanian Audit Office

Figure 6 indicates that the rate of expenditure growth (annual average of 5.3%) exceeded the growth in revenue (annual average of 4.0%) between 2008-09 and 2011-12. When One-off Australian Government capital funding was excluded, the average growth in revenue was only 3.1% and the gap between the growth in revenue and expenses broadened from 0.7% to 2.2%. 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.

Over the period under review, capital funding had a significant impact on GGS revenue and the conclusion of the Economic Stimulus Plan resulted in a negative annual revenue growth of (1.6)% in 2011-12. However, when One-off Australian Government capital funding was excluded, the annual growth in revenue was considerably higher at 7.0% in 2011-12. The annual growth in operating expenditure was 1.8% over the same period. This was a positive result, however it is noted that the growth in operating revenue was largely attributed to additional non-recurrent funding discussed earlier.

As mentioned previously, combined employee costs represented 53.7% of Total Expenditure for 2011-12 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 13.0% since 2008-09. Wages, salaries, leave entitlements and on-costs alone increased by 12.5% over the period. This increase was a combination of annual and structural adjustments and progression increments under various awards and agreements, partly offset by savings achieved by abolishing a significant number of positions during 2011-12.

The GGS is primarily comprised of Government Departments and their staffing levels are detailed in Table 4.

Table 4: Departmental FTEs

	2012	2011	2010	2009
Economic Development, Tourism and the Arts	413	452	455[b]	400
Education [1, 4]	7 486	7 849[a]	7 179	7 835[c]
Environment, Parks, Heritage and Arts	0	0	0[b]	714
Health and Human Services	9 290	9 879	9 697	9 322
Infrastructure, Energy and Resources	491	524	524	583
Justice [2]	1 120	1 106	1 074	1 080
Police and Emergency Management	1 569	1 635	1 631	1 658
Premier and Cabinet	436	459	448	485
Primary Industries, Parks, Water and Environment [3]	1 370	1 449	1 422[b]	1 587
Treasury and Finance	294	312	317	325
Sub total [e]	**22 469**	**23 665**	**22 747**	**23 989**
TAFE Tasmania	n/a	n/a	n/a	0[c]
Tasmanian Academy	0	0[a]	191	149[c]
Tasmanian Polytechnic	0	0[a]	1070	1039[c]
Tasmanian Skills Institute	289	345	356	358[c]
Total	**22 758**	**24 010**	**24 364**	**25 535**

[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] *In November 2007, 382 FTEs from the Mersey Community Hospital were seconded to the Australian Government. In September 2008, 264 FTEs were returned back to DHHS.*

[e] *Excludes Integrity Commission, Tasmanian Audit Office, State Fire Commission, Inland Fisheries, MAST and Executive Legislature Agencies.*

[1] *Includes Tasmanian Qualification Authority, Teachers Registration Board and LINC Tasmania.*

[2] *Includes Director of Public Prosecutions and Office of the Ombudsman.*

[3] *Includes Inland Fisheries and Rivers and Water Supply Commission.*

[4] *Annual reports prior to 2011-12 quoted structured FTEs and not paid FTEs. Hence FTEs for years prior to 2011-12 were adjusted to reflect paid FTEs as per information published by the Office of the State Commissioner. Casual paid FTEs were excluded.*

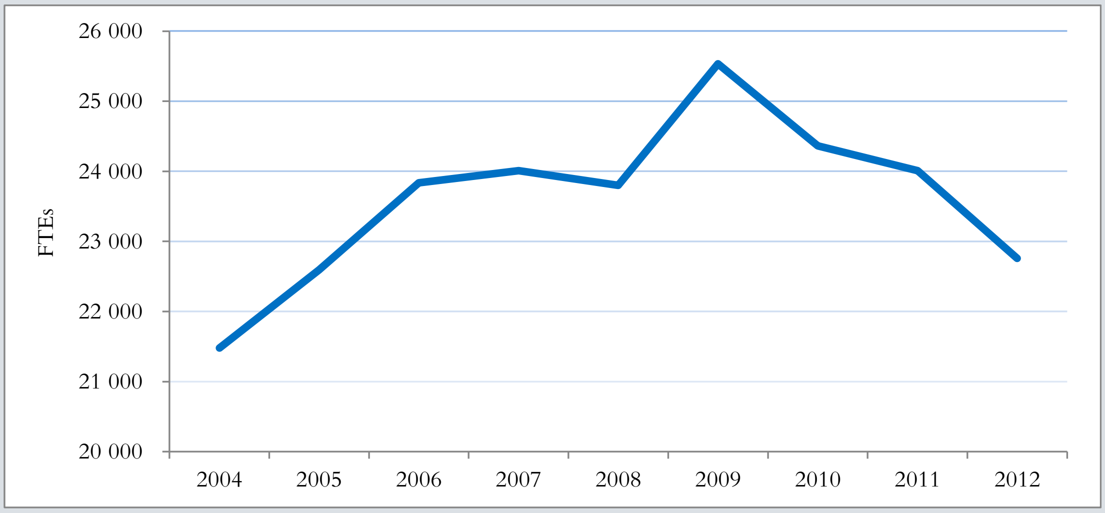
Source: Tasmanian Audit Office, data was sourced from published annual reports of individual Departments

Table 4 shows a significant decrease in FTEs since they peaked in 2009. The largest reduction in staffing occurred between 2011 and 2012 as over 1 000 FTEs left the public sector. Departments of Education and Health and Human Services had the largest reductions in staff. Figure 7 below presents the movements in staffing levels of Government Departments between 2004 and 2012.

This year, combined employee costs grew by 1.8%, the lowest growth over the period under review. This lower growth was a combination of a reduction in the number of public servants as shown in Table 4 above and a revised State Service Wage Policy which limited non-productivity based wage increases to 2% per annum, with additional productivity gains able to be provided as part of any wage negotiation capped at an equivalent value of 0.5% per annum.

In March 2012, Government entered into a new Tasmanian State Service Wage Agreement for public sector employees, which provides for an annual indexation of 2% or $1 000, whichever is greater. In addition, if the number of employees who participate in the Purchase Leave Scheme reaches 2 150, public sector employees will receive a productivity payment of up to 0.5%. This agreement will expire in June 2013. The 2012-13 Budget provides for wages indexation at 2% over the budget and forward estimates period.

Figure 7: Departmental FTEs (2004 to 2012)



Source: Tasmanian Audit Office

Figure 7 shows substantial increases in staffing levels at Government Departments in 2006, due to increased funding to Departments of Health and Human Services and Police and Emergency Management to provide for additional hospital workers and police officers. Similarly, staffing levels increased in 2009 due to the growth in the Department of Health and Human Services after the recruitment of additional nurses and allied health professionals.

COMPARISON OF OPERATING REVENUES AND EXPENDITURES WITH GROSS STATE PRODUCT

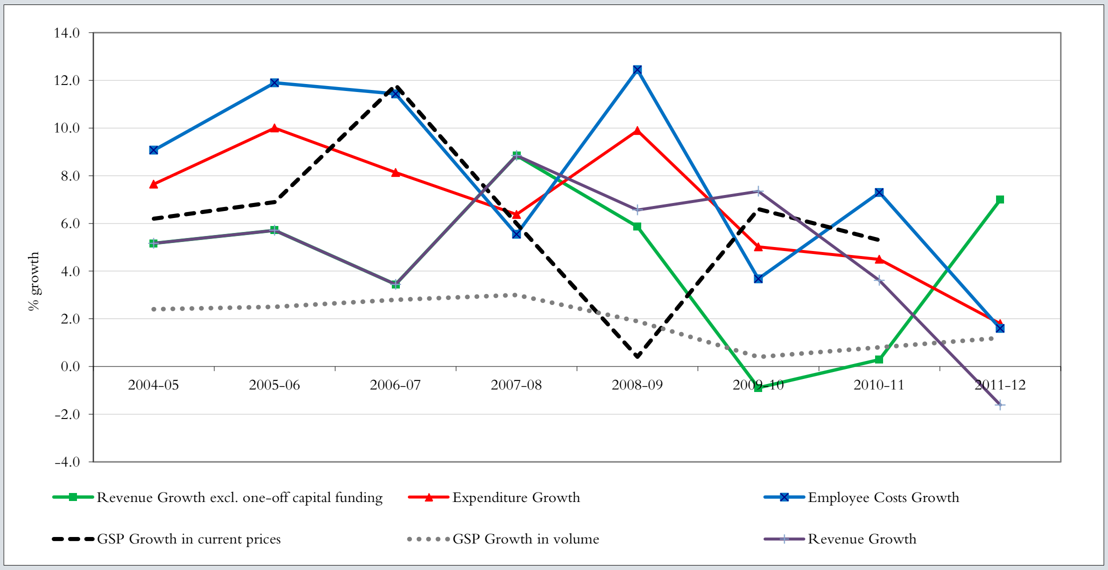
Figures 8 and 9 compare the growth in revenues, expenditures and employee costs with the value added by economic production in the State as measured by Gross State Product (GSP). At the national level the equivalent concept is Gross Domestic Product. GSP is the total market value of goods and services 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 0.8% in volume (i.e. real) terms[2] in 2010-11. Other States and Territories recorded higher GSP growths, with the exception of Queensland. National GDP grew by 2.4% over the same period. Information on GSP for 2011-12 was not available at the time of writing this Report. Treasury estimated the GSP for 2011-12 to be 1.5% and forecasted the GSP for 2012-13 to be 1.25% as noted in the 2012-13 Budget. It is noted that GSP growth rates are regularly revised and reissued by the Australian Bureau of Statistics.

When using current prices, Tasmania's GSP rose 5.3% in 2010-11. This was lowest among the States and Territories. We used the GSP in current prices to compare the growth in revenues and expenditure of the GGS and GSP growth in volume terms to illustrate the growth in the State economy after adjusting for movements in prices.

[2] *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 8: GGS Revenue and Expenditure Growth Compared to GSP Growth (%)



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 2011-12 was sourced from the Department of Treasury and Finance.

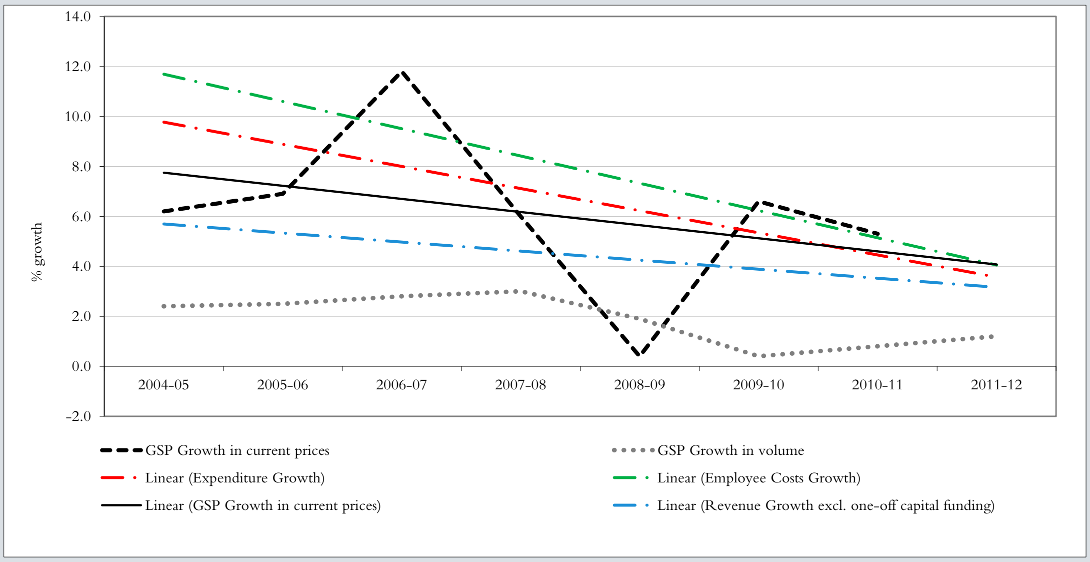
Figure 8 shows a negative growth in expenditure and employee costs of the GGS between 2006-07 and 2007-08 which mirrored a negative growth in the GSP. During the same period, revenue went up as did the volume of the State's economic output. Revenue fell following the global financial crisis in the second half of 2008, as did the GSP 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* and a significant increase in staff FTEs. 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. The cumulative impact of the *2008 Public Service Wage Agreement* was significant.

Budget saving strategies announced in the 2011-12 Budget, which included targeted voluntary redundancies, redundancies for employees who have not been able to be redeployed and limiting non-productivity based wage increases to 2 % per annum slowed the growth in employee costs to 1.6%, compared to an average growth of 8.8% per annum for the past seven years.

The 2011-12 year also saw a steep increase in the growth of operating revenue, mainly due to the drop in One-off capital funding as a result of the winding down of the Economic Stimulus Plan. As mentioned previously, when One-off Australian government capital funding was excluded, operating revenue grew by 7% in 2011-12. However, this growth was largely attributed to additional non-recurrent funding for the implementation of the TFIA and support for exporters.

Figure 9: 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 2011-12 was sourced from the Department of Treasury and Finance.

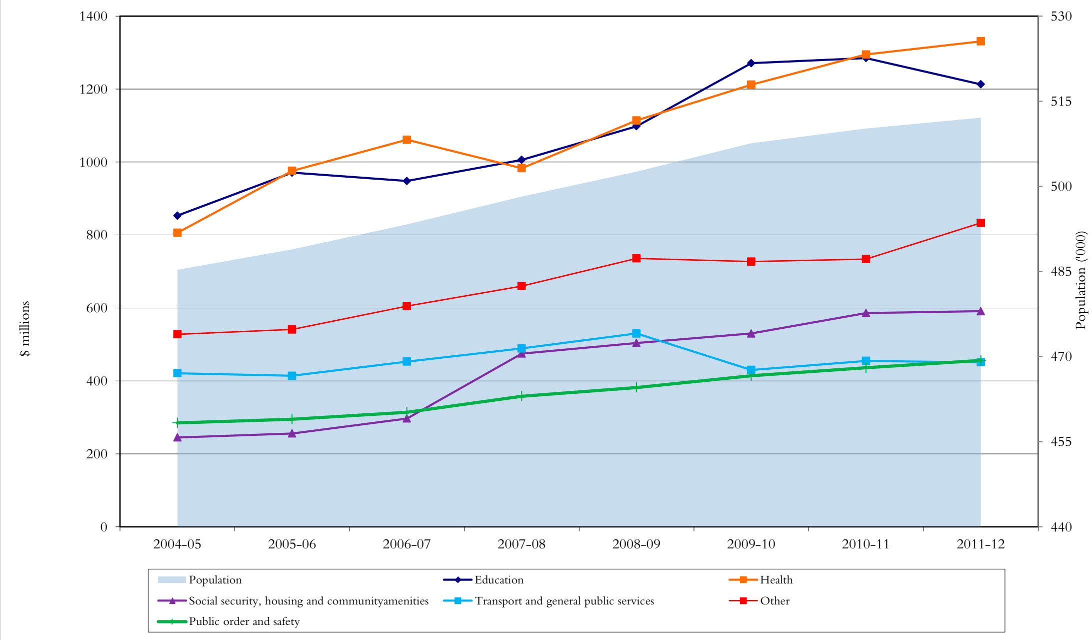
The trends in Figure 9 indicate a decline in the growth of both revenue and expenditure in line with a decline in the GSP. In previous years, the gap between the growth in revenue and expenditure was widening, as spending outstripped revenue growth. Budget saving strategies implemented in 2011-12 in response to fiscal challenges confronting the State curtailed expenditure growth to a low level of 1.8% and helped to narrow the gap.

GENERAL GOVERNMENT EXPENSES BY FUNCTION

TAFR includes details of general government recurrent expenses by function in accordance with the Government Purpose Classification which is based on the Australian Bureau of Statistics classifications.

Figure 10 depicts graphically recurrent expenditure incurred over the past seven years by function, together with growth in population.

Figure 10: Government Expenses by Function



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

GGS expenses totalled $4.876bn in 2011-12 (2010-11, $4.790bn). Figure 10 highlights that the majority was spent on Health, 27.3% (27.0%), and Education, 24.9% ($26.8%), which was similar to previous years. Overall, total expenditure grew by 55.4% over the past seven years. In real terms, the growth was 29.9%. Population increased by 5.5% to 512 100 over the same period.

The cost of the GGS was $9 520 per capita in 2011-12 ($9 390 per capita in 2010-11), which was $1 784 or 23.1% higher than in 2004-05 (CPI adjusted).

The increase in expenditure on Other purposes, $99m, was predominantly driven by increased expenditure in the Forestry, fishing and hunting category, $66m, mainly due to grants paid under the TFIA.

STATEMENT OF FINANCIAL POSITION

	2012 Original Budget $m	2012 Revised Budget[1] $m	2012 Outcome[2] $m	2012 Actual $m	2011 Actual $m	2010 Actual $m
Assets						
Financial assets						
Cash and deposits [a]	259	392	1 228	1 252	629	966
Investments [b]	63	60	53	53	56	56
Equity in GBE's and SOC's [c]	6 353	6 127	5 994	6 298	6 178	5 950
Other equity investments	4	5	6	6	4	3
Receivables d	217	220	341	340	216	214
Other financial assets [e]	981	1 008	1 027	1 061	1 031	913
Total Financial Assets [f]	**7 877**	**7 812**	**8 649**	**9 010**	**8 114**	**8 102**
Non-financial Assets						
Land and buildings	6 040	6 104	5 959	6 026	5 897	5 219
Infrastructure	5 263	3 994	4 078	4 095	3 787	4 837
Plant and equipment	218	207	227	213	224	216
Heritage and cultural assets	575	455	441	450	442	553
Investment property	14	13	12	12	12	13
Intangible Assets	29	30	35	36	34	34
Assets held for sale	20	26	21	20	28	21
Other non-financial assets	39	35	40	39	35	36
Total Non-financial Assets	**12 198**	**10 864**	**10 813**	**10 891**	**10 459**	**10 929**
Total assets	**20 075**	**18 676**	**19 462**	**19 901**	**18 573**	**19 031**
Liabilities						
Borrowings [g]	269	254	896	896	269	274
Superannuation	5 176	5 121	4 802	6 925	4 966	4 860
Employee entitlements	523	517	524	531	488	461
Payables	114	93	69	101	97	122
Other liabilities	238	262	386	382	261	249
Total Liabilities [h]	**6 320**	**6 247**	**6 677**	**8 835**	**6 081**	**5 966**
Net Assets	**13 755**	**12 429**	**12 785**	**11 066**	**12 492**	**13 065**
Equity						
Accumulated surplus	8 135	6 017	8 739	6 940	8 791	7 627
Asset revaluation reserve	5 008	3 936	4 046	4 126	3 701	4 508
Other reserves	612	2 476				930
Total Equity	**13 755**	**12 429**	**12 785**	**11 066**	**12 492**	**13 065**
Net Worth	**13 755**	**12 429**	**12 785**	**11 066**	**12 492**	**13 065**
Net Financial Worth (f-h)	**1 557**	**1 565**	**1 972**	**175**	**2 033**	**2 136**
Net Financial Liabilities (h-f+c)	**4 796**	**4 562**	**4 022**	**6 123**	**4 145**	**3 814**
Net Debt (g-a-b)	**(53)**	**(198)**	**(385)**	**(409)**	**(416)**	**(748)**

1 Revised Budget information sourced from the 2011-12 Mid-Year Financial Report

2 Preliminary Outcome information sourced from the 2011-12 Preliminary Outcomes Report

Comment

The GGS showed a negative Net Debt position in recent years because debt-related financial assets exceeded financial liabilities, by $409m as at 30 June 2012. However, the level of negative Net debt continued declining due to the lower Cash and deposits balance which was consistent with deficit operating balances.

Net Worth decreased by a further by $1.426m in 2011-12 to $11.066bn in line with the Comprehensive deficit, $1.354m, plus net equity contributions to Government businesses, $72m. The decrease was represented by:

- higher Cash and deposits, $623m, offset by higher Borrowings, $627m, explained below
- higher Equity in GBEs and SOCs, $120m, representing the growth in net assets of Government businesses
- increased Receivables, $124m, representing mainly insurance levies receivable by the newly established asbestos compensation scheme, offset by an increase in Other liabilities, $121m, due to recognition of a provision for future asbestos related claims
- higher Land and buildings, $129m, comprising net additions of $234m and a revaluation increment of $139m less depreciation of $113m. The most significant movements occurred in Departments of Health and Human Services and Education. Department of Primary Industries, Parks, Water and Environment revalued national parks, reserves and Crown Land by $25m in 2011-12
- increased Infrastructure, $308m, due primarily to an upward revaluation of walking tracks, access roads and other infrastructure held by the Department of Primary Industries, Parks, Water and Environment, $84m, and roads and bridges held by the Department of Infrastructure, Energy and Resources, $241m
- increased Superannuation liabilities, $1.959bn, discussed later in this Chapter.

Net Financial Liabilities of the GGS increased by $1.978bn to $6.123bn at 30 June 2012 in line with the increase in the unfunded superannuation liability.

CASH AND BORROWINGS AT 30 JUNE 2012

The Treasurer has approved new superannuation funding arrangements in 2011-12. Under these new arrangements, the emerging cash cost of the defined benefits superannuation scheme will be met directly from the Consolidated Fund. In conjunction with the implementation of an alternative funding model for the defined benefits superannuation scheme, the credit balance of the Superannuation Provision Account (SPA) in the Special Deposits and Trust Fund (SDTF) was offset against the overdrawn (debit) balance of the Temporary Debt Repayment Account (TDRA), and both accounts were closed on 30 June 2012.

The residual overdraft of the TDRA was funded by a temporary overnight borrowing of $650m on 30 June 2012 the effect of which was to gross up the Government's cash holdings to at least equal the balance of accounts in SDTF.

This was the main reason why cash on hand at 30 June 2012 was $623m greater than prior year and borrowings increased by $627m compared to 2011.

INVESTMENT IN GOVERNMENT BUSINESSES

Table 5 details the Net Assets of Government businesses at 30 June 2012.

Table 5: Net Assets of Government Businesses

Government Business Enterprise/State Owned Company	2012	2011	2010	2009
	$m	$m	$m	$m
Aurora Energy Pty Ltd	601	561	496	518
Forestry Tasmania	117	147	275	581
Hydro-Electric Corporation	2132	2 013	1 882	1 665
Metro Tasmania Pty Ltd	28	33	33	32
Motor Accidents Insurance Board	240	289	271	220
Port Arthur Historic Site Managment Authority	17	15	14	15
Private Forests Tasmania	1	1	1	1
Public Trustee	2	5	4	5
Tasmanian Irrigation Pty Ltd [b]	63	65	63	42
Tasmanian Ports Corporation Pty Ltd	176	181	123	126
Tasmanian Public Finance Corporation	43	41	38	31
Tasmanian Railway Pty Ltd [a]	100	82	72	-
Tasracing Pty Ltd [a]	46	50	53	-
TOTE Tasmania Pty Ltd [c]	-	9	9	5
Transend Networks Pty Ltd	693	623	564	525
TT-Line Company Pty Ltd	253	256	249	237
Tasmanian Water and Sewerage Corporation - Northern Region Pty Ltd [a]	500	493	488	-
Tasmanian Water and Sewerage Corporation - North-Western Region Pty Ltd [a]	331	326	327	-
Tasmanian Water and Sewerage Corporation - Southern Region Pty Ltd [a]	955	921	916	-
Total Net Assets*	**6 298**	**6 111**	**5 878**	**4 003**
Amount recorded as equity in TAFR	**6 298**	**6 178**	**5 950**	**4 105**

a *Commenced operations during 2009-10*
b *Previoulsy Rivers and Water Supply Commission*
c *Sold on 26 March 2012*
* *Values obtained from audited financial statements*
Source: Tasmanian Audit Office

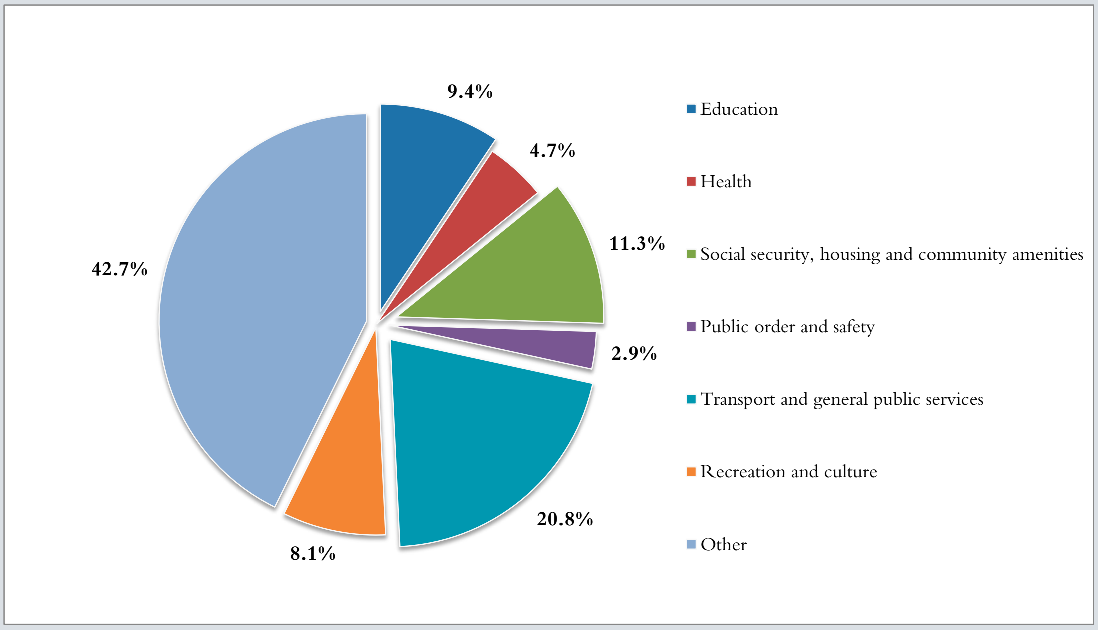
As mentioned earlier and confirmed by the above Table, the State's Equity in Government businesses increased by $120m in 2011-12 to $6.298bn.

Differences between Total Net Assets and Amount recorded as equity in TAFR arose due to differences in accounting by Government businesses as for-profit-entities.

GENERAL GOVERNMENT ASSETS BY PURPOSE

Figure 11 depicts asset balances classified according to their function at 30 June 2012.

Figure 11: GGS Assets by Function (Excluding Equity Investments in PNFC and PFC)



Note: Other includes Recreation and culture, Fuel and energy, Agriculture, forestry, fishing and hunting, Mining and mineral resources, Other economic affairs.

Source: Tasmanian Audit Office.

Figure 11 highlights that the majority of assets are in the Transport and general public services category, 20.8%, followed by Social security, housing and community amenities, 11.3%, and Education, 9.4%. The Other category includes national parks and cultural facilities.

DEFINED BENEFIT SUPERANNUATION LIABILITY

The Superannuation liability comprised the following defined benefit 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, net $6.817bn (2010-11, net $4.891bn) and net $24m (net $19m) respectively and Judges Contributory Pensions, $47m ($35m). 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, net $17m (net $12m), recognised in the financial statements of the Department of Health and Human Services
- Tasmanian Ambulance Service Superannuation Scheme (TASSS), net $12m (net $3m), 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), net $8m (net $4m), administered by the RBF Board, with the liability recognised in the financial statements of the State Fire Commission.

At 30 June 2012, the unfunded liability was net $6.925bn (30 June 2011, net $4.966bn) with the increase of $1.959bn being a combination of an increase in the present value of superannuation commitments, $1.961bn, offset by an increase in plan assets, $2m.

As these schemes are unfunded or partially funded, the State is ultimately responsible for meeting obligations of the schemes. Currently, the Government meets 75% of the cost of benefits paid and the remaining 25% is funded by the RBF Board from its assets. The percentage of the State's share of benefit payments and contribution rates discussed below is reviewed at each triennial actuarial investigation. The next review is due in 2012-13.

GGS agencies are required to contribute 12.3% of salary for RBF Contributory Scheme members as well as make 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%). Previously, agency contributions in respect of RBF Contributory Scheme members and gap payments were paid into the SPA. The State's share of pensions and lump sum payments to retiring members were then reimbursed to the RBF Board from the SPA.

As part of the development of the 2012-13 Budget, the Treasurer approved new superannuation funding arrangements. Under these new arrangements, the emerging cash costs of the defined benefits superannuation scheme will be met directly from the Consolidated Fund when they fall due. Subsequently, the credit balance of the SPA account was offset against the overdrawn balance of the TDRA and both accounts were closed prior to 30 June 2012. Contributions by GGS agencies are now paid directly into the Consolidated Fund.

For the purpose of the 2012-13 Budget, the emerging cost of defined benefits is funded, from the Consolidated Fund, by agency contributions and by an adjusted Reserved by Law contribution, which will comprise the balance of the Government's share of pension and lump sum benefits costs. Alternative funding models are being considered for future years.

Measuring Accrued Benefits

The defined benefit superannuation liability represents the present value of accrued superannuation benefits calculated in accordance with the requirements of Australian Accounting Standard AASB 119 *Employee Benefits*. The concept of accrual accounting for post-employment benefits including interests in defined benefit plans was introduced by AASB 119 in January 2005, as part of Australia's convergence with international accounting standards. Prior to this, the accounting standards did not specify measurement rules. Actuaries use demographic and economic assumptions (for example the discount rate, future salary increases, the expected rate of return on plan assets etc.) to calculate the present value of accrued benefits.

AASB 119 requires that actuarial assumptions shall be unbiased and mutually compatible. Most importantly, it requires that market yields on high quality corporate bonds at reporting date be used to discount post-employment benefit obligations (and if the market is not "deep", market yields on government bonds shall be used). In respect of not-for-profit public sector entities, AASB 119 prescribes that post employment benefit obligations denominated in Australian currency shall be discounted using market yields on government bonds.

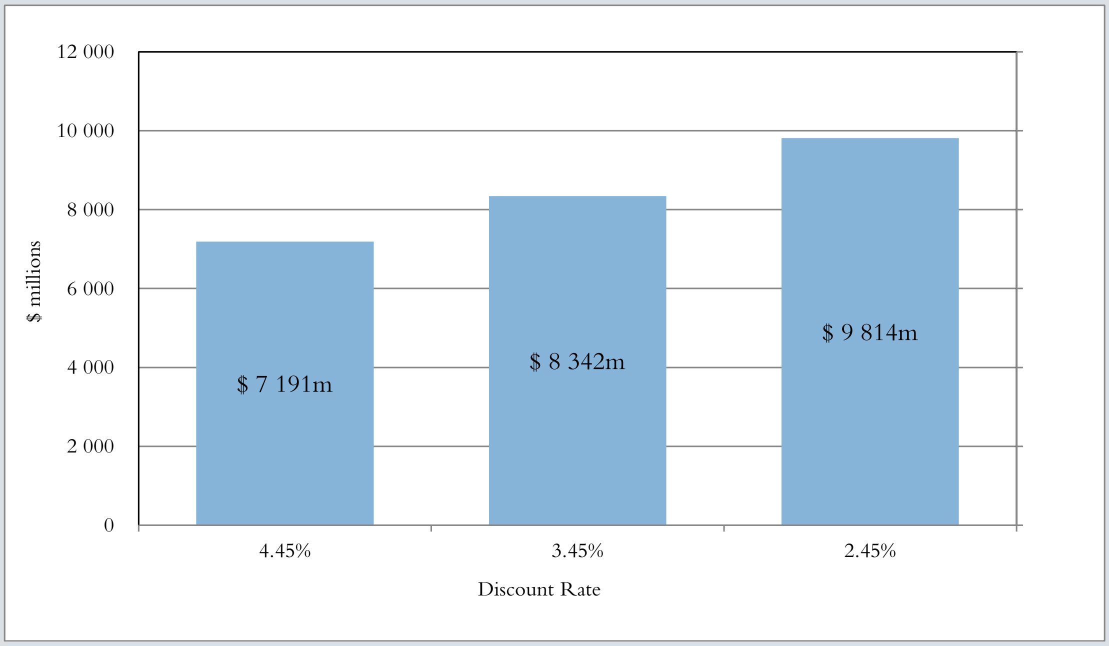
The RBF Board, being a superannuation plan within the meaning of Australian Accounting Standard AAS 25 *Financial Reporting by Superannuation Plans,* measures the accrued benefits of its defined benefit contribution plans in accordance with this standard. The measurement rules of AAS 25 are less prescriptive. Similar to AASB 119, it too requires accrued benefits to be measured at present value using actuarial assumptions and valuations. However, the actuary is left to determine the discount rate by reference to a current, market determined, risk adjusted rate of return appropriate to the plan, i.e. the rate of return that the plan anticipates it could achieve if, at the measurement date, sufficient funds were available to meet accrued benefits as they fall due.

A valuation of accrued benefits under AAS 25 is less sensitive to changes in factors beyond control, such as the unpredictability of bond markets. The record-low Australian government bond yields reflected the economic situation in Europe, weaker global economy growth and strong demand for the Australian dollar.

To illustrate these differences, the discount rate used by the State Actuary to value the accrued benefits of the Contributory Scheme under AASB 119 was 3.45% in 2011-12 (2010-11, 5.5%), which was based on the Australian government bond yield consistent with the term of the liabilities and adjusted for investment income tax. However, in determining the liability under AAS 25, the actuary used a discount rate of 7.5% (7.5%), based on the long term earnings rate of the scheme, net of investment income tax. Other economic assumptions, such as salary inflation and price inflation rates did not differ between the two valuations. The value of accrued benefits of the entire Contributory Scheme (including RBF Board and University of Tasmania which are not part of the GGS or Total State) as at 30 June 2012 under AASB 119 was $8.471bn (30 June 2011, $6.168bn) and under AAS 25 the liability was $5.566bn ($5.513bn). This example illustrates the sensitivity of the valuation of accrued benefits to the discount rate.

Figure 12 shows the effect of changes to the discount rate on the present value of the GGS defined benefit superannuation obligation:

Figure 12: GGS Present Value Defined Benefit Obligation Sensitivity Analysis



Source: Tasmanian Audit Office

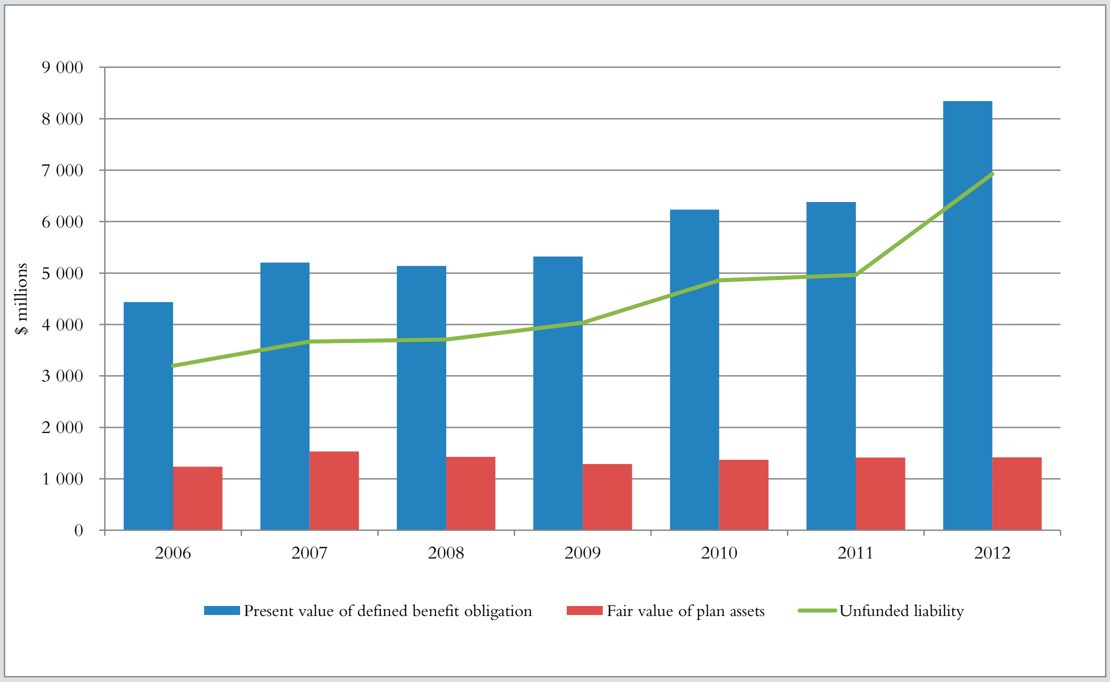
The sensitivity analysis in Figure 12 illustrates the inverse relationship between present values and discount rates. If the discount rate was to change -1% from the base rate of 3.45% used at 30 June 2012 and assuming that demographic and economic assumptions, including salary inflation and price inflation rates remained the same, the value of the present value of the defined benefit superannuation obligation would increase by $1.472bn. If the opposite was to happen and the discount rate changed +1%, the value of the present value of the defined benefit obligation would decrease by $1.151bn.

We discuss accrued and vested (unconditional benefits members were entitled to receive had they terminated their membership) benefits of schemes administered by the RBF Board, which are measured in accordance with AAS 25 in the Superannuation Funds section of *Volume 2 – Executive and Legislature, Government Departments, other General Government Sector State entities, other State entities and Superannuation Funds 2011-12.*

Unfunded Liability

Figure 13 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.

Figure 13: Unfunded Superannuation Liability



Source: Tasmanian Audit Office

Figure 13 illustrates the increasing value of the State's obligation arising from the current and former members of unfunded or partially funded public sector defined benefit superannuation schemes, all of which are now closed to new membership.

Given the long-term nature of superannuation liabilities, material reductions in the discount rate cause significant increases in the liability. As mentioned previously, the value of the unfunded superannuation liability was $6.925bn at 30 June 2012 (30 June 2011, $4.966bn). The increase of $1.959bn was a combination of:

- increased present value of superannuation commitments (measured in accordance with AASB 119), $1.961bn, predominately due to the decline in the discount rate used from 5.50% at 30 June 2011 to 3.45% at 30 June 2012, caused by the reduction in yields on Australian government bonds during the year
- relatively low investment returns, $2m, due to the slow recovery of equity markets after the global financial crisis and the global economy entering into a period of further uncertainty arising from the sovereign debt crises in Europe and weaker economic growth.

In previous years, the Government's strategy was 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 have not been fully cash-backed and the target to extinguish the unfunded superannuation liability by 2035 is no longer the Government's objective. Instead, superannuation payments will be met on an emerging costs basis from the Consolidated Fund. As indicated in the 2012-13 Budget[3]:

[3] *2012-13 Budget Paper No 1: Budget Presentation and Accounting Issues*

'This new approach reflects the Government's key responsibility of meeting the emerging cost associated with the closed scheme, as and when it arises, while also increasing the financial transparency of the Government's superannuation arrangements.

Financial modelling shows that this is a fiscally responsible and manageable approach to the unfunded superannuation issue. The defined benefits scheme was closed in 1999 and the Budget provides funding that meets current pension costs and lump sum payments to retiring public servants and, with appropriate indexation, will meet future costs.'

Table 6 details the expected nominal (un-discounted) cash outflows required to meet the emerging cost of superannuation benefits payable to members as estimated at 30 June 2012.

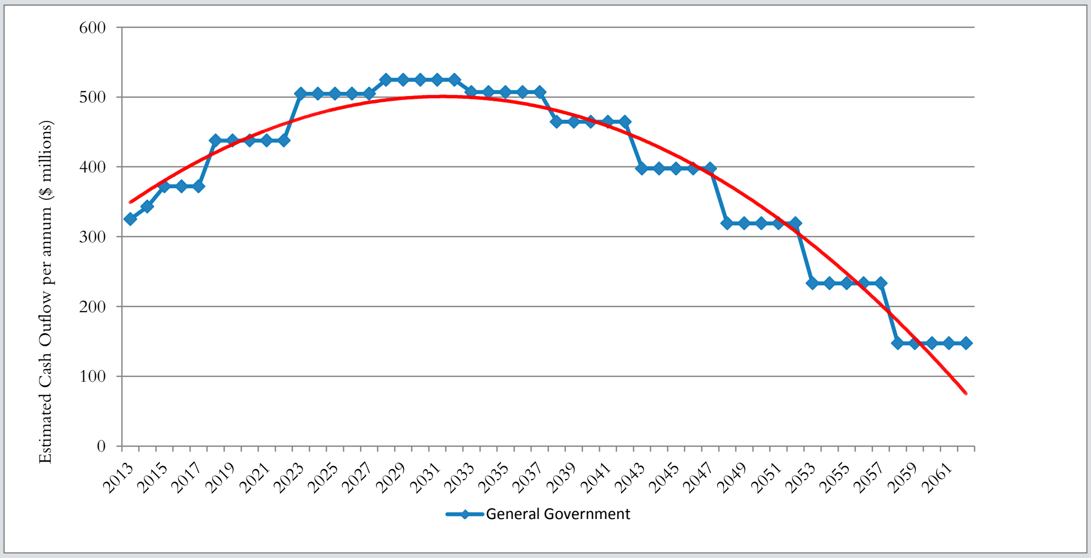
Table 6: Undiscounted Defined Benefit Superannuation Cash Outflows

	2012
	$m
No later than 1 year	325
Later than 1 year and no later than 2 years	343
Later than 2 years and no later than 5 years	1 116
Later than 5 years and no later than 10 years	2 188
Later than 10 years and no later than 15 years	2 523
Later than 15 years and no later than 20 years	2 623
Later than 20 years and no later than 25 years	2 535
Later than 25 years and no later than 30 years	2 323
Later than 30 years and no later than 35 years	1 988
Later than 35 years and no later than 40 years	1 595
Later than 40 years and no later than 45 years	1 166
Later than 45 years and no later than 50 years	736
Undiscounted defined benefit obligation	**19 460**

Source: Treasurer's Annual Financial Report

The estimated cash ouflows represent the total cost of benefits payable and the estimates do not take into account the current arrangement where 25% of pension costs and lump sum payments is met by the RBF Board from investments proceeds. Figure 14 presents this information in a timeline.

Figure 14: Undiscounted Defined Benefit Superannuation Cash Outflows (2013 – 2062)



Source: Tasmanian Audit Office

Figure 14 shows the costs of meeting defined benefit pensions and lump sum payments will peak approximately between fifteen to twenty years from now at around $525m per annum (or $394m per annum using the current 75/25 funding arrangement). However, the analysis indicates that superannuation payments will start increasing significantly much sooner. In five years from 2012-13, the payments are estimated to increase by 34.6%. The capacity of the State to meet its future superannuation obligations will require close monitoring.

STATEMENT OF CASH FLOWS

	2011-12 Original Budget	2011-12 Revised Budget[1]	2011-12 Preliminary Outcome[2]	2011-12 Actual	2010-11 Actual	2009-10 Actual
	$m	$m	$m	$m	$m	$m
Cash flows from operating activities						
Cash inflows						
Taxation	907	888	886	876	847	867
Sales of goods and services	391	376	319	294	311	291
Grants received	2 699	2 759	2 839	2 853	2 649	2 749
Dividend, tax and rate equivalents	218	206	211	211	126	106
Fines and regulatory fees	88	94	95	98	86	86
Interest received	25	24	29	29	41	44
Other receipts	304	313	341	389	382	293
	4 632	**4 660**	**4 720**	**4 750**	**4 442**	**4 436**
Cash outflows						
Employee entitlements	(1 965)	(2 001)	(2 051)	(2 077)	(2 046)	(1 958)
Superannuation	(303)	(305)	(340)	(335)	(305)	(304)
Supplies and consumables	(976)	(1 031)	(931)	(950)	(1 016)	(933)
Grants and subsidies paid	(1 004)	(1 018)	(1 038)	(1 007)	(931)	(929)
Borrowing costs	(14)	(14)	(14)	(14)	(15)	(17)
Other payments	(204)	(226)	(240)	(236)	(269)	(256)
	(4 466)	**(4 595)**	**(4 614)**	**(4 619)**	**(4 582)**	**(4 397)**
Net cash flows from (used in) operating activities	**166**	**65**	**106**	**131**	**(140)**	**39**
Cash flows from investing activities						
Net cash flows used in investment in non-financial assets						
One-off Australian Government Funding	156	136	162	162	535	381
Purchases of non-financial assets	(551)	(474)	(366)	(371)	(720)	(606)
Sales of non-financial assets	42	40	52	52	62	69
	(353)	**(298)**	**(152)**	**(157)**	**(123)**	**(156)**
Net cash flows used in investment in financial assets for policy purposes						
Equity injections	(99)	(84)	(74)	(72)	(59)	(111)
Proceeds on disposal of equity in TOTE Tasmania Pty Ltd	...	103	104	104		
Net advances paid	(8)	(8)	1	1	(10)	(11)
	(107)	**12**	**31**	**33**	**(69)**	**(122)**
Net cash flows from investment in financial assets for liquidity purposes						
Net purchase of investments	....	....	....	(1)	(1)	1
	....	**....**	**....**	**(1)**	**(1)**	**1**
Net Cash flows (used in) investing activities	**(460)**	**(287)**	**(121)**	**(124)**	**(193)**	**(278)**
Cash flows from (used in) financing activities						
Net borrowing	(14)	(15)	626	626	(4)	(22)
Other financing	....	....	(11)	(9)	(1)	....
Net Cash flows (used in) financing activities	**(14)**	**(15)**	**615**	**617**	**(5)**	**(22)**
			0			
Net increase (decrease) in cash held	**(308)**	**(237)**	**600**	**624**	**(338)**	**(261)**
Cash at the beginning of the year	**567**	**628**	**628**	**628**	**966**	**1 227**
Cash at the end of the year	**259**	**392**	**1 228**	**1 252**	**628**	**966**
KEY FISCAL AGGREGATES						
Net cash from operating activities	**166**	**65**	**106**	**131**	**(140)**	**39**
***plus* Net cash from investments in non-financial assets**	**(353)**	**(298)**	**(152)**	**(157)**	**(123)**	**(156)**
CASH SURPLUS	**(187)**	**(233)**	**(46)**	**(26)**	**(263)**	**(117)**

1 Revised Budget information sourced from the 2010-11 Mid-Year Financial Report
2 Preliminary Outcome information sourced from the 2011-12 Preliminary Outcomes Report

Comment

Combined cash held by the GGS increased by $624m to $1.252bn at 30 June 2012. The reason for this increase was due to the overnight borrowing of $650m from TASCORP on 29 June 2012 in order to gross up cash holdings to at least equate the estimated balances of accounts in the SDTF.

If this transaction was eliminated, combined cash held by the GGS would decrease to $602m. The main components of cash flows in 2011-12 were:

- Operating cash surplus of $131m. 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 $157m, driven predominantly by capital programs in health, schools, infrastructure and social housing
- equity injections into Government businesses, net $72m, comprising contributions to TasRail, $55m, Tasmanian Irrigation, $36m, and Tasports, $1m, less equity withdrawal from Transend, $20m,
- proceeds from the sale of TOTE Tasmania, $104m,
- repayment of debt and other financing, $33m.

The composition of cash held at 30 June 2012 of $1.252bn is detailed under the Public Account Statements below.

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.

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.

Prior to 2011-12, surplus cash was 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

Special Deposits and Trust Fund	2012 $m	2011 $m	2010 $m	2009 $m
comprising:				
Superannuation Provision Account[a]	0	1 447	1 364	1 324
Infrastructure Tasmania Fund	42	61	85	95
Risk Management Account	178	177	169	163
Hospital Capital Fund	37	49	70	80
Department of Health and Human Services	88	62	85	58
Department of Infrastructure, Energy and Resources	18	20	40	50
Department of Primary Industries, Parks, Water and Environment	91	101	124	145
Australian Government Funding Management Account	498	424	172	113
Other	342	257	267	318
Balance 30 June (before Temporary debt repayments)	**1 294**	**2 598**	**2 376**	**2 346**
Less Temporary debt repayments [a]	0	(1 978)	(1 438)	(1 156)
Balance 30 June (after Temporary debt repayments)	**1 294**	**620**	**938**	**1 189**
Represented by:				
Westpac Banking Corporation	26	(8)	(22)	(19)
TASCORP Investments	1 268	628	960	1 209
Balance 30 June	**1 294**	**620**	**938**	**1 189**

a Closed during 2011-12

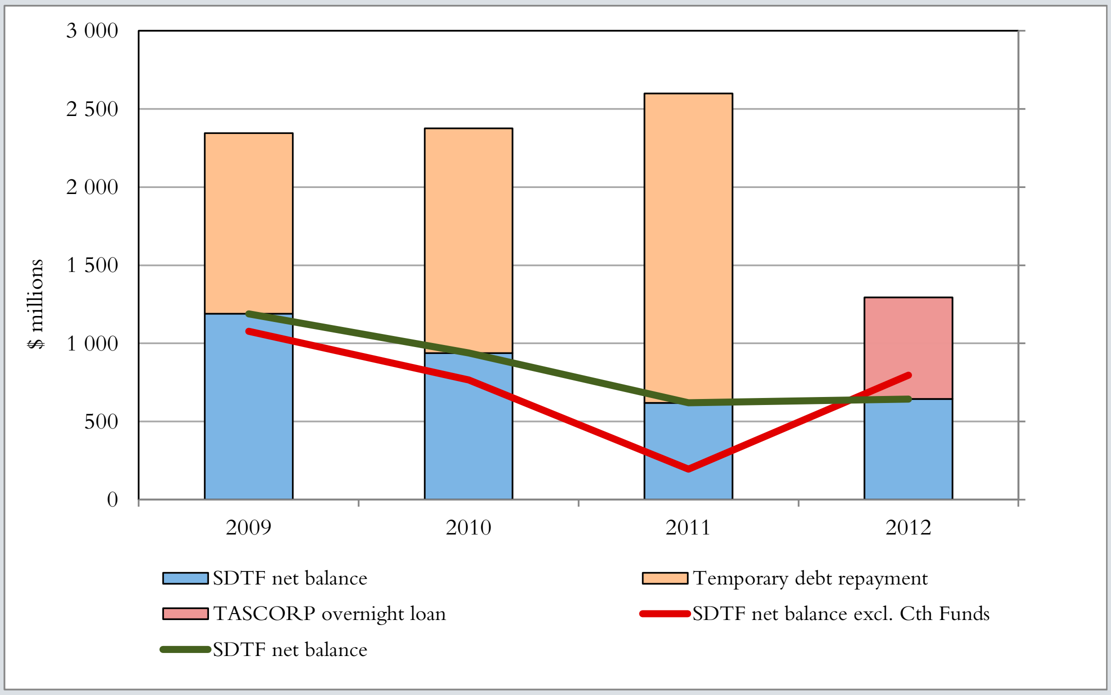
Source: Tasmanian Audit Office

Comment

The balance of SDTF accounts decreased to $1.294bn at 30 June 2012 mainly due to the closure of the SPA. If the SPA balance was disregarded, the balance of SDTF accounts would increase by $143m mainly due to unspent funding from the Australian Government, including funding for the Macquarie Point Rail-yards Remediation project, Royal Hobart Hospital Redevelopment and the implementation of TFIA.

Figure 15 illustrates movement in SDTF account balances over the past four years.

Figure 15: Balance of SDTF Accounts



Source: Tasmanian Audit Office.

Figure 15 shows that the balance of SDTF accounts, inclusive of the TDRA, increased over the three-year period until 2010-11, largely due to unspent funding from the Australian Government for capital projects. SDTF Net Balance has been declining as a result of the State recording cash deficits since 2009-10.

Changes to the TDRA and SPA arrangements implemented in 2011-12 resulted in the use of the SPA balance to repay the overdraft balance in the TDRA and subsequent closure of the two accounts. To ensure the SDTF remained in credit at the end of June 2012, the residual overdraft was funded by a temporary overnight borrowing, with the proceeds being placed in an overnight deposit. This had the effect of grossing up the value of cash holdings to at least equate the balance of accounts in the SDTF and was consistent with the practice in place prior to the establishment of the TDRA in 2002-03.

General Government Sector continued to maintain its negative Net Debt status. Net Debt was negative $409m at 30 June 2012 (2011, negative $416m).

CONSOLIDATED FUND OUTCOME

	2011-12 Original Budget $m	2011-12 Revised Budget[1] $m	2011-12 Preliminary Outcome[2] $m	2011-12 Actual $m	2010-11 Actual $m	2009-10 Actual $m
Receipts						
Australian Government sources	2 848	2 838	2 831	2 831	3 113	3 058
State sources	1 429	1 514	1 447	1 447	1 237	1 271
Total	**4 277**	**4 352**	**4 278**	**4 278**	**4 350**	**4 329**
Expenditure						
Recurrent services	4 084	4 138	4 103	4 103	4 340	4 004
Works and services	363	330	317	317	550	591
Total	**4 447**	**4 468**	**4 420**	**4 420**	**4 890**	**4 595**
Consolidated Fund Outcome	**(170)**	**(116)**	**(142)**	**(142)**	**(540)**	**(266)**

1 Revised Budget information sourced from the 2011-12 Mid-Year Financial Report
2 Preliminary Outcome information sourced from the 2011-12 Preliminary Outcomes Report

Comment

Consolidated Fund Outcome was a deficit of $142m in 2011-12, compared to a deficit of $540m in 2010-11. The improved outcome was achieved despite lower funding from Australian Government, $282m, and was the result of higher own-source revenue, $210m, and lower Expenditure, $470m, all discussed previously in the Statement of Comprehensive Income section of this Chapter.

The Consolidated Fund Deficit was $28m below the deficit estimated in the original Budget, but above the revised outcome of $(116)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 GGS, PNFC, PFC and Total State levels. The consolidated level is after eliminating inter-sector transactions. The Statements are prepared ina ccordance with Australian Accounting Standards AASB 1049 *Whole of Government and General Government Sector Financial Reporting.*

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 TAFR, which includes the GGS Financial Statements, PA 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 2011-12 TOTAL STATE SECTOR FINANCIAL STATEMENTS

The Statements were signed on 16 October 2012 and an unqualified audit report was issued on 22 October 2012. The audit was completed satisfactorily with no major items outstanding.

STATEMENT OF COMPREHENSIVE INCOME

	2011-12	2010-11	2009-10	2008-09
Revenue	$m	$m	$m	$m
Grants	2 865	2 655	2 748	2 676
Taxation	832	808	829	775
Sales of goods and services	3 568	3 345	3 021	2 545
Fines and regulatory fees	89	84	97	92
Interest income	232	201	147	245
Dividend, tax and rate equivalent income	35	64	31	62
Other revenue	153	163	153	168
Total Revenue	**7 774**	**7 320**	**7 026**	**6 563**
Expenditure				
Employee expenses	2 529	2 513	2 358	2 172
Superannuation contributions	323	313	269	291
Superannuation liability expenses	272	264	233	225
Depreciation	591	572	540	470
Supplies, consumables and Other expenses	3 007	2 930	2 778	2 390
Borrowing costs	341	291	212	310
Grant and subsidy expenses	887	841	826	713
Total Expenditure	**7 950**	**7 724**	**7 216**	**6 571**
UNDERLYING NET OPERATING BALANCE before:	**(176)**	**(404)**	**(190)**	**(8)**
One-off Australian Government Funding	162	535	381	28
Net Revenue from dicontinued operations	15	0	0	0
NET OPERATING BALANCE	**1**	**132**	**192**	**20**
***Plus* Other economic flows - Included in Operating result**				
Gain (loss) on sale of non-financial assets	(18)	8	(27)	3
Movements in Superannuation liability	(1 988)	101	(755)	(168)
Gain on sale of TOTE Tasmania Pty Ltd	89	0	0	0
Other gains (losses)	(451)	(279)	(107)	218
Other economic flows - net	**(2 368)**	**(170)**	**(889)**	**53**
OPERATING RESULT	**(2 367)**	**(38)**	**(697)**	**73**
***Plus* Other economic flows - other movements in Equity**				
Revaluations of non-financial assets	860	(678)	116	235
Other non-owner movements in equity	81	142	1 997	(40)
Total Other equity movements	**941**	**(536)**	**2 113**	**195**
COMPREHENSIVE RESULT	**(1 426)**	**(574)**	**1 416**	**268**
KEY FISCAL AGGREGATES				
Net Operating Balance	**1**	**132**	**192**	**20**
less Net acquisition of non-financial assets				
Purchase of non financial assets	1 040	1 319	1 324	1 016
Less Sale of non financial assets	129	77	109	76
Less Depreciation	591	572	540	470
Net acquisition of non-financial assets	**320**	**670**	**675**	**470**
FISCAL BALANCE	**(319)**	**(538)**	**(483)**	**(450)**

Comment

Total State Net Operating Balance for 2011-12 was a surplus of $1m compared to a surplus of $132m in 2010-11. The results over the past three years would have been significantly worse without the One-off Australian Government funding for major capital programs. This funding is of a short-term nature and was in response to the global economic downturn. 2011-12 was the last year of the Economic Stimulus Plan funding. Excluding this revenue source and Net Revenue from discontinued operations, the Underlying Net Operating Balance was a deficit of $176m (2010-11, deficit $404m).

At the underlying level, the lower deficit was predominantly a result of a number of offsetting factors:

- increased funding from the Australian Government, $210m,
- increased Sales of goods and services, $223m, driven by higher revenue generated by electricity businesses
- combined employee costs being $34m higher due to increased salaries and wages and related on-costs, offset by savings achieved by abolishing a significant number of positions during the past two years in both the GGS and Government businesses
- higher Supplies and consumables and Other expenses, $77m, driven mainly by higher energy costs incurred by electricity businesses
- increased Borrowing costs, $50m, reflecting higher levels of borrowings
- higher Grant and subsidy expenses, $46m.

Total State Operating Result for 2011-12 was a deficit of $2.367bn, compared to a deficit of $38m in 2010-11. The large increase in this year's deficit was a result of the following offsetting factors:

- actuarial loss on superannuation liability, $1.988bn, predominantly related to an increase in the present value of defined benefit superannuation liabilities at 30 June 2012, caused by the reduction in yields on Australian government bonds during the year
- gain on sale of TOTE Tasmania, $89m, being proceeds from the sale, $104m, less the value of TOTE Tasmania's net assets at the time of sale, $15m
- Other losses, $451m, mainly due to impairment losses in the GGS, $103m, and Government businesses, including Tasmanian Irrigation, $40m, and Tasrail, $32m and fair value adjustment to derivatives by Hydro, $86m.

Overall Comprehensive Result was a deficit of $1.426bn, less that the Operating deficit of $2.367bn, mainly due to:

- net revaluation increment of non-financial assets, $860m, reflecting a combined upward revaluation of infrastructure assets held by electricity businesses of $437m and GGS entities of $335m, comprising mainly roads and bridges.

KEY FISCAL AGGREGATES - DISCLOSURE OF THE STATE'S FISCAL BALANCE

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

In 2011-12, Fiscal Balance was a deficit of $319m compared to a deficit of $538m reported in the previous year. The lower Fiscal Balance deficit of $219m was due to a decrease in acquisition of non-financial assets, largely in the GGS following the gradual withdrawal of the Economic Stimulus Plan funding during 2011-12. Excluding GGS, investment by the PNFC sector in acquiring non-financial assets increased by $71m compared to 2010-11. This investment was driven predominantly by the energy businesses, followed by water corporations and Tasrail and Tasmanian Irrigation. Overall, the amount spent on investment in non-financial assets exceeded total depreciation by 56.8%.

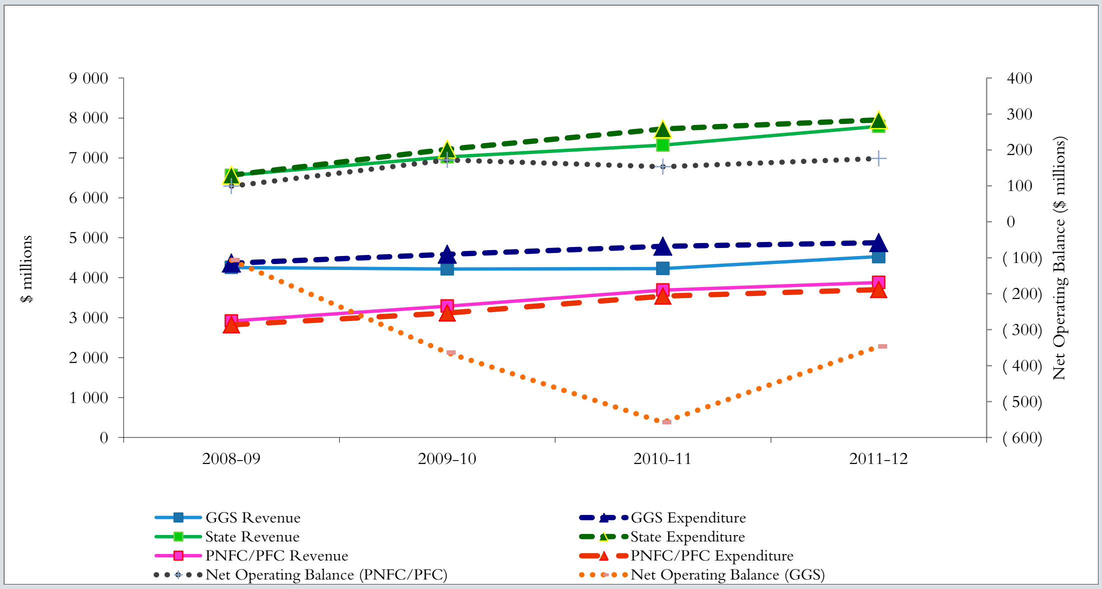
This concludes our analysis of the Statement of Comprehensive Income. However, the notes to the Statements, and this Report, include other financial information some of which is now dealt with. The observations below are aimed at further analysing components of the Total State results.

FOUR YEAR REVENUE AND EXPENDITURE ANALYSIS

Revenue and expenditure

Figure 16 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 16: Revenue and Expenditure before Other Economic Flows and Capital Funding



Source: Tasmanian Audit Office

Figure 16 shows State expenditure outstripped revenue for a fourth 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 $7.789bn (2010-11, $7.320bn). The GGS accounted for 58.1% of total State revenue in 2011-12, compared to 64.9% in 2008-09. State expenses grew to $7.951bn ($7.724bn). The GGS accounted for 61.3% of State expenditure in 2011-12, compared to 66.4% in 2008-09. Using Total State figures as the base, this indicates revenue generated by the GGS is declining at a rate faster than its ability to reduce costs. As a result, the gap between GGS Revenue and GGS Expenditure is widening although at a slower pace in 2011-12.

Much of the increase in PNFC/PFC revenue was generated by the three electricity businesses.

Net Operating Balance is a measure which removes the impact of One-off Australian Government funding for specific capital projects. Figure 16 shows that, disregarding capital funding, the GGS sector caused the consecutive negative Net Operating Balance over the past four years. The PNFC/PFC sectors returned positive Net Operating Balances in each year over the same period.

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	2011-12	2010-11	2009-10	2008-09
	$'000	$'000	$'000	$'000
Aurora Energy Pty Ltd	31 591	20 311	(30 360)	25 400
Forestry Tasmania	(101 483)	(92 233)	(379 630)	44 249
Hydro Tasmania	17 869	216 405	332 080	417 891
Metro Tasmania Pty Ltd	(421)	(73)	56	(511)
Port Arthur Historic Site Management Authority	(349)	(160)	205	1 009
Tasmanian Ports Corporation Pty Ltd	(9 352)	(30 494)	1 484	7 604
Public Trustee	224	860	(148)	950
Tasmanian Irrigation Pty Ltd [a]	(23 908)	(18 435)	1 038	1 300
TOTE Tasmania Pty Ltd [b]	0	4 448	9 917	9 768
Tasmanian Railway Pty Ltd [c]	(36 065)	(27 869)	(10 008)	0
Tasracing Pty Ltd [c]	(10 379)	(3 620)	(414)	0
Transend Networks Pty Ltd	61 690	67 470	37 022	16 571
TT-Line Company Pty Ltd	(631)	653	(11 857)	5 823
Total Profit (Loss) Before Income Tax before results of PFC entities and water corporations	**(71 214)**	**137 263**	**(50 615)**	**530 054**
Motor Accidents Insurance Board	(43 560)	69 495	101 796	(26 306)
Tasmanian Public Finance Corporation	11 237	9 604	16 219	20 659
Total Profit (Loss) Before Income Tax before results of water corporations	**(103 537)**	**216 362**	**67 400**	**524 407**
Tasmanian Water and Sewerage Corporation - Northern Region Pty Ltd	9 943	10 001	7 488	(640)
Tasmanian Water and Sewerage Corporation - North-Western Region Pty Ltd	654	2 777	1 128	(966)
Tasmanian Water and Sewerage Corporation - Southern Region Pty Ltd	17 359	18 907	17 064	(1 929)
Total Profit (Loss) Before Income Tax	**(75 581)**	**248 047**	**93 080**	**520 872**

a Previously Rivers and Water Supply Commission
b Sold on 26 March 2012
c Commenced Operations 2009-10
Source: Tasmanian Audit Office

In dollar terms, the three electricity businesses generated the most profits in 2011-12 and were the stronger performing Government businesses over the past four years. This was despite Hydro showing a significant decline in its results this year. In 2010-11, Hydro recognised a gain on its investment in R40s, $23m, and fair value gain on derivatives, $94m. In 2011-12, fair value movement on derivatives resulted in a loss of $86m. Forestry's results over the past three years were significantly affected by the downturn in the forest industry. MAIB recorded negative underwriting results and lower investment returns, which along with much higher claims expenses, led to this year's loss.

Water corporations were shown separately because returns are made to local government councils, not the State.

Staffing Levels in Government Businesses

Table 8 details staffing level in Government businesses.

Table 8: FTEs in Government Businesses

PNFC/PFC	FTEs at 30 June 2012	FTEs at 30 June 2011	FTEs at 30 June 2010	FTEs at 30 June 2009
Aurora Energy Pty Ltd	991	1 235	1 353	1 231
Forestry Tasmania	349	386	468	483
Hydro-Electric Corporation	947	884	914	873
Metro Tasmania Pty Ltd	380	391	388	377
Motor Accidents Insurance Board	36	35	37	37
Port Arthur Historic Site Management Authority	86	88	87	90
Public Trustee	52	49	52	49
Tasmanian Irrigation Pty Ltd	37	40	32	21
Tasmanian Ports Corporation Pty Ltd	228	240	238	238
Tasmanian Public Finance Corporation	16	16	16	15
Tasmanian Railway Pty Ltd [a]	248	210	170	-
Tasracing Pty Ltd [a]	67	63	61	-
Transend Networks Pty Ltd	262	270	276	245
TT-Line Company Pty Ltd	441	448	464	474
Total FTEs excluding water corporations and TOTE	**4 140**	**4 354**	**4 556**	**4 132**
Tasmanian Water and Sewerage Corporation - Northern Region Pty Ltd [a]	185	184	166	-
Tasmanian Water and Sewerage Corporation - North-West Region Pty Ltd [a]	169	166	162	-
Tasmanian Water and Sewerage Corporation - Southern Region Pty Ltd [a]	**390**	**388**	**383**	**-**
Tasmanian Water and Sewerage Corporation - Common Services Pty Ltd [a]	61	68	78	6
Total FTEs excluding TOTE	**4 945**	**5 160**	**5 345**	**4 138**
TOTE Tasmania Pty Ltd [b]	0	122	97	104

a Commenced operations on 1 July 2009
b Sold on 26 March 2012
Source: Tasmanian Audit Office

Table 8 shows a reduction in staffing levels in Government businesses, excluding water corporations and TOTE, which was sold during the year, of 380 FTEs between June 2010 and June 2012. The decrease reflected changes implemented by PNFC/PFC sector entities to their cost structures in response to weaker economic growth. The largest reduction in staff levels over the past three years occurred at Aurora, 362 FTEs, and Forestry, 119 FTEs. Offsetting this were higher FTEs at Tasrail, 78, due to an extensive capital program being undertaken by the company.

STATEMENT OF FINANCIAL POSITION

	2012	2011	2010	2009
	$m	$m	$m	$m
Assets				
Financial Assets				
Cash and deposits [a]	244	139	147	325
Investments [b 1]	4 199	5 096	3 303	4 595
Equity investments [c 2]	132	136	243	243
Receivables [d]	942	691	517	590
Other financial assets [e 3]	1 081	795	826	841
Total Financial Assets [f]	**6 598**	**6 857**	**5 036**	**6 594**
Non-financial Assets				
Land and buildings	6 373	6 248	5 501	5 302
Infrastructure	14 220	13 573	14 168	11 849
Plant and equipment	430	453	430	381
Heritage and cultural assets	450	442	553	447
Biological assets	148	232	319	385
Investment property	27	28	29	29
Goodwill	51	55	55	55
Intangible assets	109	128	105	90
Assets held for sale	142	33	32	20
Other	158	168	149	128
Total Non-Financial Assets	**22 108**	**21 360**	**21 341**	**18 686**
Total Assets	**28 706**	**28 217**	**26 377**	**25 280**
Liabilities				
Borrowings [g]	5 644	6 544	4 411	5 327
Superannuation	7 748	5 600	5 497	4 585
Employee entitlements	635	593	567	544
Payables	501	404	282	425
Other liabilities	3 112	2 583	2 555	2 749
Total Liabilities [h]	**17 640**	**15 724**	**13 312**	**13 630**
Net Assets	**11 066**	**12 493**	**13 065**	**11 650**
Equity				
Accumulated surpluses	5 830	8 103	8 012	6 382
Asset revaluation reserves	5 260	4 400	5 078	5 290
Other reserves	(24)	(11)	(25)	(22)
Equity	**11 066**	**12 492**	**13 065**	**11 650**
Net Worth	**11 066**	**12 492**	**13 065**	**11 650**
Net Financial Worth (f-h)	**(11 042)**	**(8 867)**	**(8 276)**	**(7 036)**
Net Financial Liabilities (h-f)	**11 042**	**8 867**	**8 276**	**7 037**
Net Debt (a+b-g)	**(1 201)**	**(1 309)**	**962**	**407**

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 $1.426bn from $12.492bn to $11.066bn during 2011-12. This comprised the Comprehensive Result. The corresponding decrease in Net Assets was primarily due to an increase in Superannuation liability, $2.148bn, partly offset by higher values for Infrastructure assets, $647m. The decrease in Borrowings, $900m, was largely offset by lower Investments, $897m as a result of a change in the structure of the portfolio assets held by the PFC Sector.

The increase in Receivables was partly due to the recognition of future asbestos compensation levies receivable by the Government, $131m. Offsetting this increase was a provision for future asbestos compensation claims, $137m, included in Other liabilities. During the year, Government set up the Asbestos Compensation Scheme, which is funded through a levy on insurance premiums. The estimated value of future claims approximates the amount of levies receivable due to the fact that all expenditure incurred by the Asbestos Compensation Scheme can be recovered through the levy.

Other liabilities increased by $529m, partly due to the provision for future asbestos compensation claims, $137m, higher provision for outstanding and unreported claims in MAIB, $122m, and increased value of obligations under derivative contracts, $339m. Offsetting the increase in derivative payables was an increase in derivative receivables, $341m, included in Other financial assets.

DEFINED BENEFIT SUPERANNUATION OBLIGATION

A number of PNFC/PFC entities have current and former employees who are members of the RBF Contributory Scheme, which is a closed defined benefit superannuation scheme. As the scheme is partially funded, these entities, and ultimately the State, are responsible for meeting obligations of the scheme as they relate to their employees. Currently, employers meet 75% of the cost of benefits paid and the remaining 25% is funded by the RBF Board from its assets. The percentage of the employers' share of benefit payments and contribution rates are reviewed at each triennial actuarial investigation. The next review is due in 2012-13. Table 9 provides details of defined benefit superannuation obligation, value of plan assets and net liability of individual GGS, PNFC and PFC entities who have members in the State's defined benefit schemes.

Table 9: Net Defined benefit superannuation liabilities

	2012			2011		
	Defined benefit obligation $'000	Scheme assets $'000	Deficit/ (Surplus) $'000	Defined benefit obligation $'000	Scheme assets $'000	Deficit/ (Surplus) $'000
Aurora Energy Pty Ltd	121 562	20 076	101 486	107 998	22 737	85 261
Forestry Tasmania	197 907	31 971	165 936	154 723	32 269	122 454
Hydro-Electric Corporation	477 671	69 522	408 149	393 427	73 708	319 719
Metro Tasmania Pty Ltd	30 546	4 687	25 859	24 292	4 898	19 394
Motor Accidents Insurance Board	5 537	613	4 924	3 852	547	3 305
Port Arthur Historic Site Management Authority	9 064	1 136	7 928	6 985	1 121	5 864
Public Trustee	16 946	2 463	14 483	12 669	2 353	10 316
Tasmanian Irrigation Pty Ltd	469	74	395	412	85	327
Tasracing Pty Ltd	2 429	264	2 165	3 614	357	3 257
Transend Network Pty Ltd	80 796	13 572	67 224	59 943	13 297	46 646
TT Line Company Pty Ltd	8 241	1 099	7 142	5 670	1 020	4 650
Total PNFC/PFC Sector before water corporations	**951 168**	**145 477**	**805 691**	**773 585**	**152 392**	**621 193**
Tasmanian Water and Sewerage Corporation - Northern Region Pty Ltd	4 423	607	3 816	3 673	666	3 007
Tasmanian Water and Sewerage Corporation - North-Western Region Pty Ltd	1 189	164	1 025	1 086	208	878
Tasmanian Water and Sewerage Corporation - Southern Region Pty Ltd	7 937	1 140	6 797	6 530	1 195	5 335
Tasmanian Water and Sewerage Corporation - Common Services Pty Ltd	687	89	598	462	123	339
Total PNFC/PFC Sector	**965 404**	**147 477**	**817 927**	**785 336**	**154 584**	**630 752**
Finance-General	8 169 234	1 352 015	6 817 219	6 240 374	1 348 775	4 891 599
Finance-General - Judges Scheme	46 703	-	46 703	35 382	-	35 382
Housing Tasmania	17 402	-	17 402	12 468	-	12 468
Parliamentary Superannuation Fund	26 028	4 306	21 722	21 823 549	4 528 084	17 295 465
Parliamentary Retirement Benefits Fund	6 285	3 820	2 465	5 257 687	3 145 391	2 112 296
State Fire Commission	25 703	17 543	8 160	24 668	20 860	3 808
Tasmania Ambulance Service	50 901	39 075	11 826	40 658	37 481	3 177
Total GGS Sector	**8 342 256**	**1 416 759**	**6 925 497**	**33 434 786**	**9 080 591**	**24 354 195**

Source: Tasmanian Audit Office

As shown in Table 9, the GGS sector accounts for the majority of the defined benefit liability. Both the GGS and PNFC/PFC sectors now meet the emerging cost associated with the defined benefit schemes, as and when it arises. Table 10 details the expected nominal cash outflows required to meet the emerging cost of superannuation benefits payable to members as estimated at 30 June 2012.

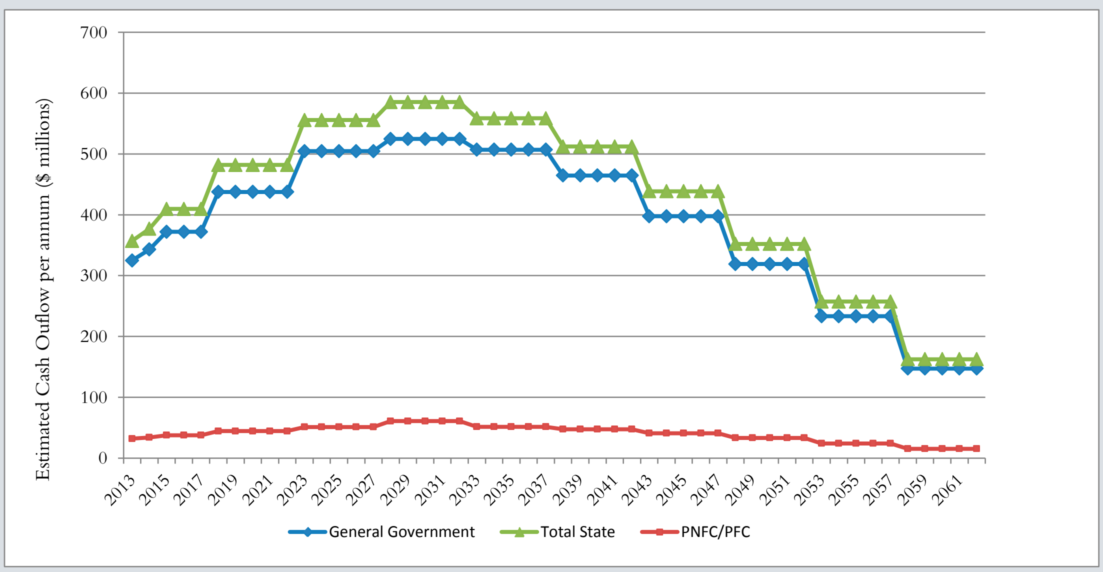
Table 10: Undiscounted Defined Benefit Superannuation Cash Outflows by Total State and PNFC/PFC Sector

	Total State	**PNFC/PFC**
	2012	2012
	$m	$m
No later than 1 year	357	32
Later than 1 year and no later than 2 years	377	34
Later than 2 years and no later than 5 years	1 229	113
Later than 5 years and no later than 10 years	2 410	222
Later than 10 years and no later than 15 years	2 779	256
Later than 15 years and no later than 20 years	2 927	304
Later than 20 years and no later than 25 years	2 793	258
Later than 25 years and no later than 30 years	2 561	238
Later than 30 years and no later than 35 years	2 193	205
Later than 35 years and no later than 40 years	1 761	166
Later than 40 years and no later than 45 years	1 287	121
Later than 45 years and no later than 50 years	813	77
Undiscounted defined benefit obligation	**21 486**	**2 026**

Source: Treasurer's Annual Financial Report and Tasmanian Audit Office

The estimated cash outflows represent the total cost of benefits payable. The estimates do not take into account the current arrangement where 25% of pension costs and lump sum payments are met by the RBF Board from investments proceeds. Figure 17 presents this information in a timeline.

Figure 17: Undiscounted Defined Benefit Superannuation Cash Outflows (2013 – 2062)



Source: Tasmanian Audit Office

Figure 17 shows the costs of meeting defined benefit pensions and lump sum payments will peak approximately between fifteen to twenty years from now at around $585m per annum. However, the analysis indicates that superannuation payments will start increasing significantly much sooner. In five years from 2012–13, the payments are estimated to increase by 34.3%. Higher superannuation payments by the PNFC/PFC sector will impact on annual profits and subsequently returns to the Government.

Actuary Peer Review

As previously mentioned, valuation of the superannuation defined benefit liability involves complex calculations and assumptions carried out by the State Actuary. There is risk involved in making these calculations and assumptions. To address this risk we engaged an independent expert to review the work of the State Actuary.

Our expert was satisfied that the data, assumptions and methodology used were reasonable and concluded that:

- the source of data used is relevant and appropriate for the purpose of the valuation
- the assumptions and methodology used are consistent with the relevant accounting and professional standards and have been determined in a manner consistent with prior periods
- the assumptions are consistent with industry practice
- the method and calculations applied are appropriate.

The expert also examined the cash flow modelling of superannuation payments and the sensitivity analysis of the defined benefit superannuation liability to changes in the discount rate presented in the note to the GGS and Total State Financial Statements. The expert concluded that both the expected cash flows and sensitivity analysis are reasonable.

STATEMENT OF CASH FLOWS

	2011-12	2010-11	2009-10	2008-09
Cash flows from operating activities				
Cash inflows	$m	$m	$m	$m
Taxation	823	805	825	765
Sales of goods and services	3 486	3 671	3 305	2 497
Grants received	2 859	2 648	2 770	2 651
Dividend, tax and rate equivalents	34	64	31	0
Fines and regulatory fees	98	85	86	63
Interest received	229	270	140	218
Other receipts	635	594	457	511
	8 164	**8 137**	**7 614**	**6 705**
Cash outflows				
Employee entitlements	(2 443)	(2 352)	(2 321)	(2 109)
Superannuation	(411)	(367)	(355)	(303)
Supplies and consumables	(3 001)	(3 383)	(3 034)	(2 304)
Grants and subsidies paid	(882)	(819)	(812)	(703)
Borrowing costs	(446)	(289)	(301)	(319)
Other payments	(419)	(419)	(394)	(384)
	(7 602)	**(7 629)**	**(7 217)**	**(6 122)**
Net cash flows from operating activities	**562**	**508**	**397**	**583**
Cash flows from investing activities				
Net cash flows from investment in non-financial assets				
One-off Australian Government Funding	162	535	381	28
Purchases of non-financial assets	(1 040)	(1 318)	(1 324)	(1 016)
Sales of non-financial assets	128	77	109	76
	(750)	**(706)**	**(834)**	**(912)**
Net cash flows from investment in financial assets for policy purposes				
Equity injections	0	0	0	0
Proceeds on disposal of equity in TOTE	104	0	0	0
Net advances paid	1	(9)	(12)	(12)
	105	**(9)**	**(12)**	**(12)**
Net cash flows from investment in financial assets for liquidity purposes				
Net purchase of investments	623	(1 183)	151	199
	623	**(1 183)**	**151**	**199**
Net Cash flows from (used in) investing activities	**(22)**	**(1 898)**	**(695)**	**(725)**
Cash flows from financing activities				
Net borrowing	(956)	2 079	(833)	29
Other financing	(29)	(22)	16	12
Total	**(985)**	**2 057**	**(817)**	**41**
Net increase (decrease) in cash held	**(445)**	**667**	**(1 115)**	**(100)**
Cash at the beginning of the year	**2 241**	**1 574**	**2 689**	**2 789**
Cash at the end of the year	**1 796**	**2 241**	**1 574**	**2 689**
KEY FISCAL AGGREGATES				
Net cash from operating activities	**724**	**1 043**	**778**	**583**
plus distributions paid as Dividends	**(20)**	**(21)**	**(16)**	
plus Net cash from investments in non-financial assets	**(912)**	**(1 241)**	**(1 215)**	**(912)**
CASH SURPLUS/(DEFICIT)	**(208)**	**(219)**	**(453)**	**(329)**

Comment

Total State reported a Net decrease in cash held of $445m in 2011-12 compared to an increase of $667m reported the year before. Total cash on hand at 30 June 2012 was $1.796bn (2011, $2.241bn).

During 2011-12, Total State collected net $562m from operating activities, realised $104m from the sale of shares in TOTE Tasmania and $623m for investments cashed in mainly due to changes in the structure of the portfolio of assets held by the PFC Sector. At the same time, Total State invested net $750m in non-financial assets and repaid borrowings by $956m.

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 11 provides a summary of the State's capital expenditure during the four years to 30 June 2012 (based on cash outflows, not accrued expenditure).

Table 11: Capital Expenditure

	2011-12	2010-11	2009-10	2008-09
	$m	$m	$m	$m
Capital Expenditure				
General government sector	371	720	607	286
PNFCs and PFCs	669	598	717	730
Total	**1 040**	**1 318**	**1 324**	**1 016**

Source: Tasmanian Audit Office

In 2011-12, the State invested net $1.040bn (2010-11, $1.318bn) in assets, which was split 35.7% (54.6%) GGS and 64.3% (45.4%) PNFC/PFC Sector. The areas which invested most in assets in the GGS were health and housing, $141m ($229m), education, $68m ($198m), and transport, $92m ($195m). In the PNFC/PFC Sector, the businesses which invested most in assets were the three electricity businesses, combined $422m ($396m), water corporations, combined $124m ($92m), TasRail, $54m, and Tasmanian Irrigation, $19m ($23m).

The majority of the GGS capital expenditure was funded by One-off Australian Government grants, namely those provided under the Economic Stimulus Plan. Capital spending by the GGS declined in 2011-12 as a result of the Economic Stimulus Plan being wound-down. The PNFC sector utilised cash from operations and additional borrowings to fund its capital programs. Both TasRail and Tasmanian Irrigation received equity injections from the Government to assist with capital works of $55m ($38m) and $36m ($15m), respectively.

APPENDIX 1 - ACRONYMS AND ABBREVIATIONS

AAS	Australian Accounting Standards
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
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
RBF	Retirement Benefits Fund
SDTF	Special Deposits and Trust Fund
SFCSS	State Fire Commission Superannuationed Scheme
SOC	State Owned Company
SPA	Superannuation Provision Account
TAFR	Treasurer's Annual Financial Report
TASCORP	Tasmanian Public Finance Corporation
TASSS	Tasmanian Ambulance Service Superannuation Scheme
TFIA	Tasmanian Forests Intergovernmental Agreement
UPF	Uniform Presentation Framework

APPENDIX 2 - RECENT REPORTS

TABLED		No.	TITLE
May	2011	97	Follow of special reports 69–73
May	2011		Volume 5: Other State Entities 30 June 2010 and 31 December 2010, including University of Tasmania
Jun	2011	98	Premier's Sundry Grants Program and Urban Renewal and Heritage Fund
Jun	2011	99	Bushfire management
Jun	2011		Volume 4 Part 1: Local Government Authorities and Business Units 2009–10
Jun	2011		Volume 4 Part 2: Local Government Authorities and Business Units 2009–10
Jul	2011	100	Financial and economic performance of Forestry Tasmania
Sep	No. 1 of 2011–12		Tourism Tasmania: is it effective?
Sep	No. 2 of 2011–12		Children in out of home care
Nov	No. 3 of 2011–12		Financial Statements of State Entities: Volume 1 — Analysis of the Treasurer's Annual Financial Report 2010–11
Nov	No. 4 of 2011–12		Financial Statements of State Entities: Volume 2 — Executive and Legislature, Government Departments and other General Government Sector entities 2010–11
Nov	No. 5 of 2011–12		Financial Statements of State Entities: Volume 3 — Government Business Enterprises, State Owned Companies, Water Corporations and Superannuation Funds 2010–11
Nov	No. 6 of 2011–12		Financial Statements of State Entities: Volume 4 Part I — Local Government Authorities 2010–11
Dec	No. 7 0f 2011–12		Financial Statements of State entities: Volume 5 — Other State Entities 30 June 2011 and 31 December 2010
Mar	No. 8 of 2011–12		The assessment of land-use planning applications
Jun	No. 9 of 2011–12		Financial Statements of State Entities: Volume 6 — Other State Entities 30 June 2011 and 31 December 2011
Jun	No. 10 of 2011–12		Public Trustee: Management of minor trusts
Jun	No. 11 of 2011–12		Updating the Motor Registry System
Jun	No.12 of 2011–12		Follow up of special Reports 75–81
Jul	No. 1 of 2012–13		Sale of TOTE Tasmania
Oct	No. 2 of 2012-13		TasPorts: benefits of amalgamation

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Tasmanian Audit Office

Level 4, Executive Building, 15 Murray Street, Hobart, Tasmania, 7000
Postal Address GPO Box 851, Hobart, Tasmania, 7001
Phone: 03 6226 0100 | Fax: 03 6226 0199
Email: admin@audit.tas.gov.au
Web: www.audit.tas.gov.au

Our Vision

STRIVE I LEAD I EXCEL I 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

Availability of reports

Auditor-General's reports are available from the Tasmanian Audit Office, Hobart. This report and other recent reports published by the Office can be accessed via the Office's home page. For further information please contact the Office.

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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 & Garry Moore

Phone	(03) 6226 0100	**Address**	Level 4, Executive Building
Fax	(03) 6226 0199		15 Murray Street, Hobart
email	admin@audit.tas.gov.au	**Postal Address**	GPO Box 851, Hobart 7001
Web	www.audit.tas.gov.au	**Office Hours**	9am to 5pm Monday to Friday