

4 REVENUE AND EXPENSE ESTIMATES, 2006-07

<i>Features</i>
<ul style="list-style-type: none">• The Net Operating Result is estimated to be a deficit of \$90.5 million in 2006-07.• The Fiscal Balance is estimated to be a deficit of \$84.5 million in 2006-07.• The Underlying Fiscal Balance is estimated to be a surplus of \$30.7 million in 2006-07.• Total revenue is estimated to be \$3 531.7 million in 2006-07, an increase of \$119.4 million or 3.5 per cent on 2005-06 budgeted revenue of \$3 412.3 million.• Total expenses are expected to be \$3 622.1 million in 2006-07, an increase of \$238.5 million or 7.0 per cent over 2005-06 budgeted expenses of \$3 383.6 million.

INTRODUCTION

This Chapter provides detailed information on the major categories of revenues and expenses within the General Government Sector. Details of the components of the net acquisition of non-financial assets and the impact on the Government's headline Budget measure, the Fiscal Balance, are also provided.

OPERATING STATEMENT

The Operating Statement is designed to capture the composition of revenues and expenses and the net cost of the General Government Sector's activities within a fiscal year. Table 4.1 details the General Government Sector Operating Statement for 2005-06 and 2006-07.

Table 4.1: Operating Statement, 2005-06 and 2006-07

	2005-06 Budget Estimate	2006-07 Budget Estimate	Variation
	\$'000	\$'000	%
Revenue			
Grants and Subsidies ¹	2 204 222	2 253 404	2.2
Taxation Revenue	668 870	727 958	8.8
Sales of Goods and Services	272 895	295 542	8.2
Interest Income	45 551	32 668	(28.3)
Dividend, Tax and Rate Equivalent Income	158 158	146 869	(7.2)
Other Revenue	62 644	75 223	20.0
Total Revenue	3 412 340	3 531 664	3.5
Expenses			
Depreciation	175 902	195 779	11.3
Employee Expenses	1 586 450	1 715 379	8.1
Other Operating Expenses	839 135	887 170	5.7
Nominal Superannuation Interest Expense	173 132	157 589	(9.0)
Other Interest Expense	26 651	22 889	(14.2)
Grants and Transfers ¹	582 332	643 324	10.4
Total Expenses	3 383 602	3 622 130	7.0
NET OPERATING RESULT	28 738	(90 466)	(414.8)
Less			
Net acquisition of non-financial assets			
Purchase of new non-financial assets	266 225	262 132	(1.6)
less Sale of non-financial assets	56 102	72 333	28.9
less Depreciation	175 902	195 779	11.3
Total	34 221	(5 980)	(117.5)
FISCAL BALANCE - SURPLUS/(DEFICIT)	(5 483)	(84 486)	....

Note:

1. The 2005-06 Budget has been adjusted to recognise the receipt of funding of \$8.2 million in late 2004-05 from the Australian Government for the Mt Lyell Rehabilitation Project. This adjustment was necessary to enable the transfer of that amount from the Department of Primary Industries and Water to the Department of Tourism, Arts and the Environment in 2005-06 to reflect the impact of the *State Service (Restructuring) Order 2006*.

Net Operating Result

In 2006-07, the Net Operating Result is estimated to be a deficit of \$90.5 million. The 2006-07 Net Operating Result reflects expenditure that will be incurred to implement the Government's 2006 Election commitments and other 2006-07 Budget initiatives. Further information on this expenditure is provided in this Chapter.

Fiscal Balance

In 2006-07, the Fiscal Balance is estimated to be a \$84.5 million deficit. Like the Net Operating Result, the 2006-07 Fiscal Deficit also reflects the significant level of expenditure that will be incurred to implement the Government's 2006 Election commitments and other 2006-07 Budget initiatives.

Although slightly lower than the capital expenditure of \$266.2 million budgeted in 2005-06, capital expenditure will continue to remain high in 2006-07 at \$262.1 million. The major elements of the capital expenditure include:

- \$33.8 million for the Government's 2006 Election commitments for physical assets such as schools, roads and jetties;
- \$21.3 million from the Economic and Social Infrastructure Fund for items such as hospital equipment and tourism infrastructure;
- \$17.2 million for redeveloping the Royal Hobart Hospital;
- \$11.4 million from the Better Roads Fund; and
- additional State funded Capital Investment Program expenditure of \$6.5 million.

Further information on Infrastructure Investment is provided in Chapter 7 of this Budget Paper.

As stated in the Government's new Fiscal Strategy, the Government is committed to maintaining the Fiscal Balance in surplus, on average, over a four-year rolling period. As the Forward Estimates presented in Chapter 9 of this Budget Paper reveal, the 2006-07 Fiscal Deficit is consistent with the Government's Fiscal Strategy.

Underlying Fiscal Balance

Due to strong economic growth, General Government Sector revenues in recent years have been higher than anticipated and have resulted in above Budget Cash and Fiscal Surpluses. Significant funds from these surpluses have been allocated to Special Capital Investment Funds, such as the Economic and Social Infrastructure Fund and the Royal Hobart Redevelopment Fund, to enable the Government to invest in the State's social and economic infrastructure over the short to medium-term, while maintaining recurrent services.

The 2005-06 and 2006-07 Budgets include significant capital expenditure from Special Capital Investment Funds. This is evident in expenditure on the Purchase of New Non-Financial Assets in the 2006-07 Budget Operating Statement. This once-off capital expenditure through Special Capital Investment Funds leads to a reduction in the Fiscal Surplus for the current period.

Table 4.2 adjusts the 2005-06 Budget and 2006-07 Budget Fiscal Balance to reflect the Underlying Fiscal Balance, by removing the timing impact of these once-off capital expenditures. The resulting 2006-07 Budget Underlying Fiscal Balance is a surplus of \$30.7 million.

Table 4.2: Underlying Fiscal Balance, 2005-06 and 2006-07

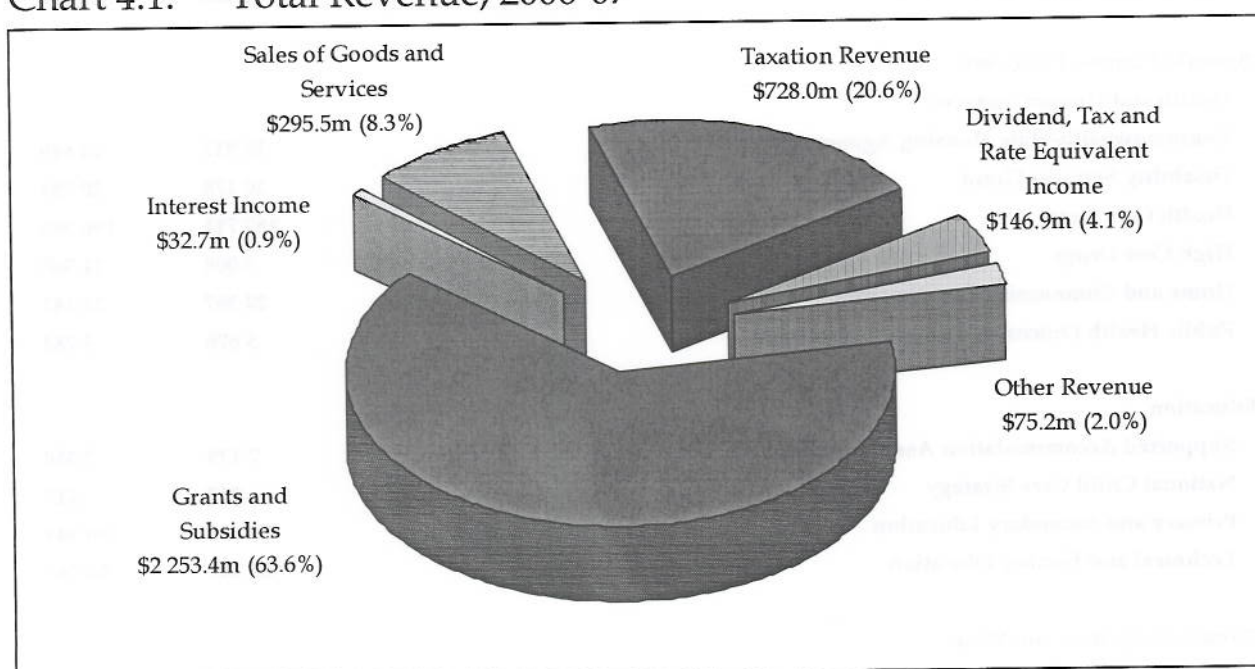
	2005-06 Budget \$'000	2006-07 Budget \$'000
FISCAL BALANCE - SURPLUS/(DEFICIT)	(5 483)	(84 486)
Add Special Capital Investment Funds Expenditure	49 969	115 144
UNDERLYING FISCAL BALANCE - SURPLUS	44 486	30 658

REVENUE

Total revenue is estimated to be \$3 531.7 million in 2006-07, an increase of \$119.4 million or 3.5 per cent on the 2005-06 Budget estimate of \$3 412.3 million.

Chart 4.1 shows the estimated total revenue in 2006-07 and a percentage breakdown of the revenue categories.

Chart 4.1: Total Revenue, 2006-07



The single most important source of revenue for the State is Grants and Subsidies. Grants and Subsidies consist primarily of revenues from the Australian Government, through a range of General and Specific Purpose Payments, and these will account for 63.6 per cent of the State's revenue in 2006-07. The remainder of the State's revenue comes from own sources, including Taxation Revenue (20.6 per cent), Sales of Goods and Services (8.3 per cent), Dividend, Tax and Rate Equivalent Income (4.1 per cent), Interest Income (0.9 per cent) and Other Revenue (2.0 per cent).

Grants and Subsidies

Grants and Subsidies for 2006-07 is estimated to be \$2 253.4 million, an increase of \$49.2 million or 2.2 per cent on the 2005-06 Budget estimate of \$2 204.2 million. Detailed information on Grants and Subsidies is provided in Table 4.3.

Table 4.3: Grants and Subsidies, 2005-06 and 2006-07

	2005-06 Budget \$'000	2006-07 Budget \$'000
Recurrent Revenue		
General Purpose Payments		
GST Revenue	1 498 500	1 557 300
National Competition Policy Payments	18 900	....
Total General Purpose Payments	1 517 400	1 557 300
Specific Purpose Payments		
Health and Human Services		
Commonwealth-State Housing Agreement	18 913	21 849
Disability Services Grant	20 178	20 754
Health Care Grant	187 711	196 396
High Cost Drugs	9 008	11 505
Home and Community Care Program	20 307	22 142
Public Health Outcomes Funding Agreement	5 676	5 784
Education		
Supported Accommodation Assistance Program	7 179	7 354
National Child Care Strategy	217	217
Primary and Secondary Education	58 019	60 944
Technical and Further Education	25 159	26 765
Primary Industries and Water		
World Heritage Area	3 400	3 400
Police and Emergency Management		
Natural Disasters Organisations	222	228
Finance-General		
Assistance for Concessions	6 258	6 449
Grant to the State for Local Government	52 787	54 632
Tasmanian Community Forest Agreement	45 200	....
Total Specific Purpose Payments	460 234	438 419
Total Recurrent Revenue	1 977 634	1 995 719

Table 4.3: Grants and Subsidies, 2005-06 and 2006-07 (continued)

	2005-06 Budget \$'000	2006-07 Budget \$'000
Capital Revenue		
Specific Purpose Payments		
Health and Human Services		
Housing	5 969	3 275
Education		
Primary and Secondary Education	6 889	7 501
Technical and Further Education	4 695	4 420
Infrastructure, Energy and Resources		
National Highway System	25 100	37 726
Total Capital Revenue	42 653	52 922
Other Grants and Subsidies ¹	183 935	204 763
TOTAL GRANTS AND SUBSIDIES	2 204 222	2 253 404

Note:

1. Other Grants and Subsidies primarily relates to payments to the State for on-passing to other bodies including non-government organisations.

Recurrent Revenue

Recurrent revenue from the Australian Government is estimated to total \$1 995.7 million, an increase of \$18.1 million or 0.9 per cent above the 2005-06 Budget estimate of \$1 977.6 million. This revenue is paid directly into the Consolidated Fund and consists of GST Revenue, National Competition Payments (to be discontinued from 2006-07) and Specific Purpose Payments.

General Purpose Revenue

GST Revenue is anticipated to be \$1 557.3 million in 2006-07, an increase of \$58.8 million or 3.9 per cent above the 2005-06 Budget estimate of \$1 498.5 million. The increase is due to growth in the size of the GST Revenue pool, offset by a decline in the State's share of the national population and a small decrease in Tasmania's relative need for Commonwealth financial assistance, as assessed by the Commonwealth Grants Commission (CGC).

While Tasmania's General Purpose Payments (GPPs) will increase in total as a consequence of growing GST revenue, it should be noted that, in real per capita terms, Tasmania's GST revenue is forecast to grow by only 1.8 per cent in 2006-07. The benefit to the State is also partially offset in 2006-07 by the loss of a valuable source of general purpose revenue, in the form of National Competition Policy (NCP) payments. With the Australian Government unilaterally deciding to discontinue NCP payments beyond 2005-06, revenue from the GST will be the only General Purpose Payment received by Tasmania in 2006-07.

Specific Purpose Payments

Specific Purpose Payments are anticipated to be \$438.4 million, a decrease of \$21.8 million or 4.7 per cent below the 2005-06 Budget estimate of \$460.2 million. The primary reason for the decrease relates to the treatment of the Australian Government contribution to the Tasmanian Community Forest Agreement Fund. In 2005-06, the Australian Government's contribution to the Fund of \$45.2 million was paid into the Consolidated Fund and reflected under Specific Purpose Payments. However, in 2006-07, the Australian Government's contribution of \$38.0 million will be paid directly into the Tasmanian Community Forest Agreement Fund held in the Special Deposits and Trust Fund and reflected as a payment into the Other Grants and Subsidies revenue category. This change is partially offset by additional funding from the Australian Government for the following grants:

- Commonwealth-State Housing Agreement (\$2.9 million);
- Health Care (\$8.7 million);
- Home and Community Care Program (\$1.8 million);
- High Cost Drugs (\$2.5 million);
- Primary and Secondary Education (\$2.9 million);
- Technical and Further Education (\$1.6 million); and
- Grant to the State for Local Government (\$1.8 million).

Capital Revenue

Specific Purpose Payments

Specific Purpose Payments are anticipated to be \$52.9 million, an increase of \$10.2 million or 23.9 per cent above the 2005-06 Budget estimate of \$42.7 million. The increase primarily relates to additional funding from the Australian Government for National Highways.

Other Grants and Subsidies

Other Grants and Subsidies is anticipated to be \$204.8 million in 2006-07, an increase of \$20.9 million or 11.4 per cent above the 2005-06 Budget estimate of \$183.9 million. A majority of Other Grants and Subsidies reflects payments made directly to agencies and not paid into the Consolidated Fund.

As described under Specific Purpose Payments, the primary reason for the increase in Other Grants and Subsidies is due to the treatment of the Australian Government's contribution of \$38.0 million to the Tasmanian Community Forest Agreement Fund. This increase is partly offset by a decrease in receipts from the Australian Government for the purpose of funding Commonwealth-State Financial Agreement Loans. All loans have now been repaid and Australian Government refinancing contributions are no longer required.

Taxation Revenue

Total Taxation Revenue for 2006-07 is anticipated to be \$728.0 million, an increase of \$59.1 million or 8.8 per cent above the 2005-06 Budget estimate of \$668.9 million.

Chart 4.2 illustrates the estimated total Taxation Revenue in 2006-07 and a percentage breakdown of the Taxation Revenue categories.

Chart 4.2: Taxation Revenue, 2006-07

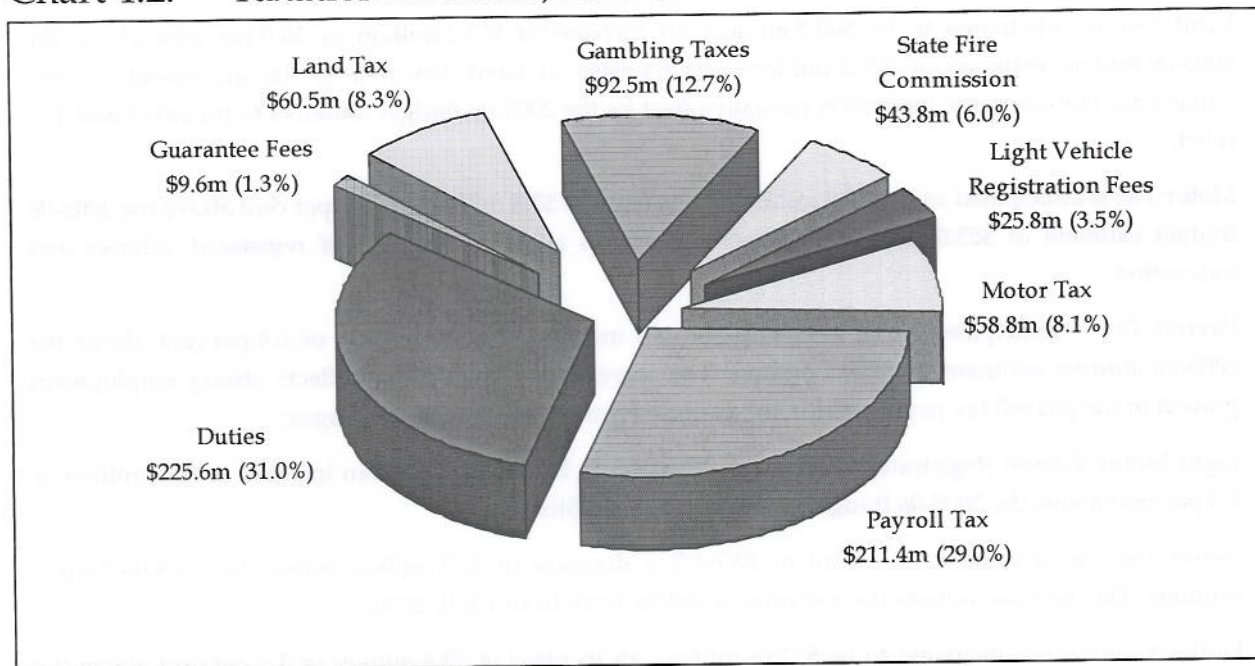


Table 4.4 provides details of the categories of Taxation revenue.

Table 4.4: Taxation Revenue, 2005-06 and 2006-07

	2005-06 Budget \$'000	2006-07 Budget \$'000
Land Tax	38 313	60 520
Motor Taxation	52 961	58 841
Payroll Tax	198 680	211 430
Motor Vehicle Taxes and Fees	23 798	25 775
Financial Transaction Taxes		
Debits Duties	2 500	....
Duties	221 818	225 568
Gambling Taxes		
Betting Exchange Taxes and Levies	....	12 860
Casino Tax and Licence Fees	59 388	56 181
Lottery Tax	22 818	23 401
Receipts from GBEs, SOCs and State Authorities		
Guarantee Fees	7 602	9 564
State Fire Commission Revenue	40 992	43 818
TOTAL TAXATION REVENUE	668 870	727 958

The major elements of Taxation Revenue for the 2006-07 Budget are discussed below.

- Land Tax is anticipated to be \$60.5 million, an increase of \$22.2 million or 58.0 per cent above the 2005-06 Budget estimate of \$38.3 million. The increase in Land Tax reflects the movement in land valuations. However, the increase is partially offset by the 2005-06 Budget initiative to provide Land Tax relief;
- Motor Tax is anticipated to be \$58.8 million, an increase of \$5.8 million or 11.1 per cent above the 2005-06 Budget estimate of \$53.0 million. The increase reflects a greater number of registered vehicles and indexation;
- Payroll Tax is anticipated to be \$211.4 million, an increase of \$12.7 million or 6.4 per cent above the 2005-06 Budget estimate of \$198.7 million. The increase in Payroll Tax reflects strong employment growth in the payroll tax paying sector and expected growth in salaries and wages;
- Light Motor Vehicle Registration Fees are anticipated to be \$25.8 million, an increase of \$2.0 million or 8.3 per cent above the 2005-06 Budget estimate of \$23.8 million;
- Debits Duty is anticipated to be nil in 2006-07, a decrease of \$2.5 million below the 2005-06 Budget estimate. The decrease reflects the abolition of Debits Duty from 1 July 2006;
- Duties revenue is anticipated to be \$225.6 million, an increase of \$3.8 million or 1.7 per cent above the 2005-06 Budget estimate of \$221.8 million. The increase is due to a rise in conveyance duties, partially offset by the Government's decision to cut mortgage duty by half on 1 July 2006;
- Gambling Tax is anticipated to be \$92.4 million, an increase of \$10.2 million or 12.5 per cent above the 2005-06 Budget estimate of \$82.2 million. This is due to an increase in Betting Exchange Taxes and Levies as a result of the Tasmanian Gaming Commission issuing Betfair Australia a licence in January 2006 for the operation of a betting exchange agency;
- Guarantees Fee Receipts from Government Business Enterprises, State-owned Companies and State Authorities are estimated to be \$9.6 million, an increase of \$2.0 million or 25.8 per cent above the 2005-06 Budget estimate of \$7.6 million. The movement in Guarantee Fees is due to an increase in the guarantee fee rate; and
- State Fire Commission revenue represents the revenue raised by the State Fire Commission under the *Fire Services Act 1979*. In 2006-07, it is anticipated revenue raised by the Commission will be \$43.8 million, an increase of \$2.8 million, or 6.9 per cent above the 2005-06 Budget estimate of \$41.0 million.

Sale of Goods and Services

Revenue from Sales of Goods and Services is estimated to be \$295.5 million in 2006-07, an increase of \$22.6 million or 8.2 per cent above the 2005-06 Budget of \$272.9 million. Table 4.5 provides a breakdown of Revenue from Sale of Goods and Services.

Table 4.5: Sale of Goods and Services, 2005-06 and 2006-07¹

	2005-06 Budget \$'000	2006-07 Budget \$'000
Departmental Fees and Recoveries		
Education	643	659
Health and Human Services	16	16
Infrastructure, Energy and Resources	7 829	8 781
Justice and Industrial Relations	9 741	9 395
Police and Emergency Management	306	612
Premier and Cabinet	2	2
Primary Industries and Water ²	25 973	30 257
Tourism, Arts and the Environment ³	385	....
Treasury and Finance	699	602
Total Departmental Fees and Recoveries	45 594	50 324
Other Sales of Goods and Services ³	227 301	245 218
TOTAL SALES OF GOODS AND SERVICES	272 895	295 542

Notes:

1. The information provided in this section will differ from the Sale of Goods and Services for each agency in Budget Paper 2 *Operations of Government Departments 2006-07* due to the elimination of inter-agency transactions in the consolidation process.
2. The increase in Primary Industries and Water largely reflects additional fees associated with quarantine and bio-security recoveries.
3. The decrease in Tourism, Arts and the Environment Departmental Fees and Recoveries reflects the commencement of a revenue retention agreement for all Parks and Wildlife Service user charges. These fees will now be included in Other Sales of Goods and Services.

Sale of Goods and Services consists of:

- patient fees collected by the Department of Health and Human Services;
- rental revenue received by Housing Tasmania;
- revenue collected from student fees and levies by the Department of Education and TAFE Tasmania and revenue collected from training services provided by TAFE Tasmania;
- driver licence revenues collected by the Department of Infrastructure, Energy and Resources;
- revenue earned by prison industries and revenue collected for various other services provided by the Department of Justice including fees for Registry of Births, Deaths and Marriages; and
- revenue collected for abalone licences and Land Titles Office fees by the Department of Primary Industries and Water.

The increase in Other Sale of Goods and Services is due to:

- additional abalone revenue of \$2.1 million;
- additional rental revenue on Crown Land properties of \$6.6 million; and

- a number of receipts collected by the Department of Health and Human Services within its Special Deposits and Trust Fund accounts.

Interest Income

Interest Income is estimated to be \$32.7 million in 2006-07, a decrease of \$12.9 million or 28.3 per cent below the 2005-06 Budget estimate of \$45.6 million.

Table 4.6: Interest Income, 2005-06 and 2006-07

	2005-06 Budget \$'000	2006-07 Budget \$'000
Recoveries of State Debt Charges - Interest	290	510
Other Interest Income	45 261	32 158
TOTAL INTEREST INCOME	45 551	32 668

Recoveries of State Debt Charges – Interest

Interest is estimated to be \$510 000, an increase of \$220 000 or 75.9 per cent above the 2005-06 Budget of \$290 000. The increase in revenue is due to the transfer of borrowings, and the associated interest revenue, under the *Financial Agreement Act 1927* (Commonwealth), from the Australian Government to the State, during 2005-06.

Other Interest Income

Other Interest Income is estimated to be \$32.2 million, a decrease of \$13.1 million or 28.9 per cent below the 2005-06 Budget estimate of \$45.3 million. The decrease is primarily due to a decrease in the level of cash held in the Public Account and higher forecast interest rates.

Dividend, Tax Equivalent and Rate Equivalent Income

Dividend, Tax and Rate Equivalent Income is estimated to be \$146.9 million in 2006-07, a decrease of \$11.3 million or 7.2 per cent from the Budget estimate of \$158.2 million in 2005-06. The decrease is attributable to lower returns from Government Business Enterprises and State-owned Companies in the form of Ordinary and Special Dividends, partly offset by higher Tax Equivalents and Rate Equivalents. Table 4.7 provides a breakdown of Dividend, Tax and Rate Equivalent Income.

Table 4.7: Dividend, Tax Equivalent and Rate Equivalent Income, 2005-06 and 2006-07

	2005-06 Budget	2006-07 Budget
	\$'000	\$'000
Dividends	80 071	69 709
Special Dividends	8 000	....
Taxation Equivalents	67 108	73 070
Rates Equivalents	2 979	4 090
TOTAL DIVIDEND AND TAX EQUIVALENT INCOME	158 158	146 869

Dividends

In 2006-07, Dividends are estimated to be \$69.7 million, a decrease of \$10.4 million or 13.0 per cent from the 2005-06 Budget estimate of \$80.1 million. The decrease in estimated Dividends in 2006-07 is primarily the result of lower returns from:

- Forestry Tasmania of \$3.5 million, reflecting a decrease in demand for its export woodchips, and a proposed reduction in its Dividend payout ratio;
- Hydro Tasmania of \$10.8 million, due to higher operating costs associated with the cost of gas used at Bell Bay Power Station and a change in Hydro Tasmania's Dividend policy; and
- the Tasmanian Public Finance Corporation of \$5.6 million, due to a change in its dividend policy and the timing of Tax Equivalent payments, to address the introduction of Australian Equivalents to International Financial Reporting Standards, specifically mark-to-market accounting, and the implementation of capital structure review findings.

The decrease in the Dividends from the Government Businesses identified above are partly offset by an increase of \$10.0 million in Dividends from the Motor Accidents Insurance Board due to increased investment revenue and lower claims expenses in 2005-06.

Special Dividends

Hydro Tasmania will not return a Special Dividend in 2006-07, as a consequence of the final stage of the phasing out of this form of return to Government.

Tax Equivalents

In 2006-07, Tax Equivalents are estimated to be \$73.1 million, an increase of \$6.0 million or 8.9 per cent from the 2005-06 estimate of \$67.1 million. The increase in Tax Equivalent receipts in 2006-07 reflects higher returns from:

- the Motor Accidents Insurance Board of \$20.0 million, due to the extinguishment of its carried forward tax losses and the anticipated continuation of higher revenue returns in 2006-07; and

- the Tasmanian Public Finance Corporation, due to a change in its dividend policy and timing of Tax Equivalent payments, to address the introduction of Australian Equivalents to International Financial Reporting Standards, specifically mark-to-market accounting.

The increases in Tax Equivalents identified above are offset by decreased returns from:

- Aurora Energy Pty Ltd of \$4.4 million, which principally reflects an increase in its depreciation and interest expenses from large capital expenditure commitments;
- Forestry Tasmania of \$3.3 million, due to the decrease in demand for export woodchips, and the deductibility of the tree plantations it is required to establish under the Tasmanian Community Forest Agreement; and
- Hydro Tasmania of \$10.8 million, due to higher operating costs associated with the cost of gas used at Bell Bay Power Station.

Rate Equivalents

Rate Equivalents were introduced in 2004-05 as part of the State and Local Government Financial Reform package to ensure competitive neutrality on Crown Land occupied by Hydro Tasmania, which is exempt from Local Government Rates.

In 2006-07, Rate Equivalents are estimated to be \$4.1 million, an increase of \$1.1 million on the 2005-06 estimate of \$3.0 million. This reflects an expected increase in the rates of those municipalities in which Hydro Tasmania holds generation assets.

Further information on returns from Government Business Enterprises and State-owned Companies is provided in Appendix 2 of this Budget Paper.

Other Revenue

Other Revenue is anticipated to be \$75.2 million, an increase of \$12.6 million or 20.1 per cent above the 2005-06 Budget estimate of \$62.6 million. Table 4.8 provides a breakdown of Other Revenue.

Table 4.8: Other Revenue, 2005-06 and 2006-07

	2005-06 Budget	2006-07 Budget
	\$'000	\$'000
Mineral Royalties	14 000	20 000
Regional Water Authority Licence Fees	1 911	1 911
Storage of Explosives and Inflammable Liquids Fees	5	5
Fines, Fees and Charges	25 179	35 330
Stamp Duties - Instalment Payments	....	50
Other	21 549	17 927
TOTAL OTHER REVENUE	62 644	75 223

The reasons for the increase in Other Revenue relate to:

- additional Mineral Royalties (\$6.0 million) reflecting higher commodity prices on the world market for mineral resources;
- Rail Infrastructure Fees from the Tasmanian rail infrastructure network following its transfer to the State from Pacific National (\$2.0 million); and
- additional fees received by the Department of Police and Emergency Management for various policing activities (\$1.3 million).

The increase in Stamp Duties – Instalment Payments (\$50 000) is due to the extension of the first homebuyer duty concession and duty refund that has made the first home buyer duty loan scheme redundant. Although no new duty loans are expected, a small amount of revenue from repayments is expected. The decrease in Other revenue and increase in Fines, Fees and Charges also reflects a reclassification of revenue between the two categories to more accurately reflect the type of revenue item.

EXPENSES

Total expenses are anticipated to be \$3 622.1 million, an increase of \$238.5 million or 7.0 per cent above the 2005-06 budgeted expenses of \$3 383.6 million.

Depreciation

Depreciation in 2006-07 is anticipated to be \$195.8 million, an increase of \$19.9 million or 11.3 per cent above the 2005-06 Budget estimate of \$175.9 million. The additional Depreciation expense is due to the Department of Health and Human Services and the Department of Tourism, Arts and the Environment revaluing their assets as a result of the implementation of the Australian Equivalents to International Financial Reporting Standards.

Employee Expenses

Employee Expenses in 2006-07 are anticipated to be \$1 715.4 million, an increase of \$128.9 million or 8.1 per cent above the 2005-06 budgeted estimate of \$1 586.5 million. The increase in Employee Expenses reflects increases in the wage agreements for teachers, police officers, nurses, ambulance officers, custodial officers, legal practitioners and salaried medical practitioners.

The significant factors contributing to the increase in Employee Expenses include:

- \$68.2 million provided to the Department of Health and Human Services for: salaried medical practitioners (\$6.5 million); the Government's 2006 Election commitments, including more ambulance officers (\$1.5 million), nurse educators (\$3.0 million), additional dentists (\$2.0 million), and more staff at the Royal Hobart Hospital (\$15.0 million); the ongoing impact of 2005-06 Budget initiatives; and salary indexation;
- \$13.7 million to the Department of Police and Emergency Management for the Government's 2006 Election commitments (\$1.0 million); the continued impact of the 2005-06 Budget initiative to employ an additional 48 police officers; and the ongoing impact of the wage agreements for police;

- \$22.5 million for the Department of Education for the Government's 2006 Election commitments (\$6.8 million), and the ongoing impact of the 2005-06 Budget initiatives and the Teachers Nexus agreement;
- \$5.5 million for the Department of Justice to meet the additional costs associated with the Custodial Officers' Agreement 2005 (\$5.1 million);
- \$3.8 million for the Department of Primary Industries and Water to meet the Government's 2006 Election commitments; and
- the ongoing impact of the State Service Wage Agreement.

Other Operating Expenses

Other Operating Expenses in 2006-07 are anticipated to be \$887.2 million, an increase of \$48.1 million or 5.7 per cent above the 2005-06 budgeted estimate of \$839.1 million. The significant items contributing to the increase include:

- \$24.1 million for a number of the Government's 2006 Election commitments and other 2006-07 Budget initiatives;
- \$12.6 million in Finance-General for pass-through payments to the Racing Industry as a result of the introduction of a Betting Exchange; and an increase in the Tasmanian Risk Management Fund (TRMF) expenses reflecting the actuary's most recent estimates of the TRMF liabilities;
- \$7.2 million for the Department of Economic Development reflecting funding from the Economic and Social Infrastructure Fund towards Gas Infrastructure (Stage 2A) and the Launceston Silverdome;
- \$4.8 million for the Department of Justice due to prison operating costs and maintenance costs associated with the new prison;
- \$10.2 million for the Department of Infrastructure, Energy and Resources for additional maintenance and administration costs associated with the Tasmanian rail infrastructure network following its transfer to the State from Pacific National; and
- \$2.9 million for the Department of Primary Industries and Water due to an increase in the costs associated with Crown Land properties.

Nominal Superannuation Interest Expense

Nominal Superannuation Interest Expense in 2006-07 is anticipated to be \$157.6 million, a decrease of \$15.5 million or 9.0 per cent less than the 2005-06 Budget estimate of \$173.1 million. The decrease reflects the implementation of the revised methodology for calculating this expense on the basis of gross liability and gross assets, as required by the Australian Equivalents to International Financial Reporting Standards.

Other Interest Expense

Other Interest Expense in 2006-07 is anticipated to be \$22.9 million, a decrease of \$3.8 million or 14.2 per cent below the 2005-06 budgeted expense of \$26.7 million. The decrease is due to a lower interest expense payable by the Nominal Insurer. Further information on the value of General Government Sector Debt is provided in Chapter 6 of this Budget Paper.

Grants and Transfers

Grants and Transfers in 2006-07 are anticipated to be \$643.3 million, an increase of \$61.0 million or 10.4 per cent above the 2005-06 budgeted expense of \$582.3 million. Of the expenses under Grants and Transfers, \$19.2 million relate to grants paid from the Special Capital Investment Funds. This is an increase of \$9.1 million from the 2005-06 Budget estimate, of which \$6.2 million relates to the Government's 2006 Election commitments. Other grants allocated as part of the Government's 2006 Election commitments total \$11.4 million.

Other additional expenditure allocated to Grants for the 2006-07 Budget include: the Community Sector Affordable Housing program (\$6.0 million); the Non-Government Schools Grant (\$2.2 million); Community Support Levy payments (\$1.5 million); Rivers and Water Supply Commission payments for the Meander Dam (\$2.0 million); and the First Home Owner's Grant (\$1.7 million).

NET ACQUISITION OF NON-FINANCIAL ASSETS

Non-Financial Assets comprise land and fixed assets such as buildings, plant and equipment and roads that are used to facilitate the provision of services by the General Government Sector. The Net Acquisition of Non-financial Assets reflects capital acquisitions (purchases of non-financial assets less the proceeds from sales of non-financial assets) less depreciation expense.

Purchase of New Non-Financial Assets

Purchase of New Non-Financial Assets is estimated to be \$262.1 million, a decrease of \$4.1 million or 1.6 per cent below the 2005-06 Budget of \$266.2 million. Although there has been a minor decrease in capital expenditure, this will remain at a high level from 2005-06 to 2006-07. The major elements of the additional capital expenditure in the 2006-07 Budget include:

- \$33.8 million for the Government's 2006 Election commitments for physical assets such as schools, roads and jetties;
- \$21.3 million from the Economic and Social Infrastructure Fund on items such as hospital equipment and tourism infrastructure;
- \$17.2 million for redeveloping the Royal Hobart Hospital;
- \$11.4 million from the Better Roads Fund; and
- additional State funded Capital Investment Program expenditure of \$6.5 million.

Sale of Non-Financial Assets

Sale of Non-Financial Assets is estimated to be \$72.3 million, an increase of \$16.2 million or 28.9 per cent above the 2005-06 Budget estimate of \$56.1 million. The increase is due to major asset sales through the Crown Lands Administration Fund and includes the expected proceeds from the sale on non-core business assets previously held by the Hobart Ports Corporation.

