

1 THE 2003-04 BUDGET DEVELOPMENT CONTEXT

Features

- The 2003-04 Budget is the first Tasmanian Budget developed within a framework based on accrual accounting principles. This represents a new system of budgeting that results in:
 - presentation of the Budget in accordance with a recognised national framework that includes all sources of funds on an accrual basis; and
 - new headline measures for presenting the Budget Outcome and Forward Estimates.
- The 2003-04 Budget also represents significant progress towards the Government's ongoing implementation of a range of economic, social and fiscal strategies. It is a Budget based on sharing the rewards: the rewards of strong financial management; and the rewards derived by taking a strategic approach to economic development.
- The key initiatives in this Budget to achieve the Government's objectives include:
 - a \$124.9 million increase in funding for recurrent services, with specific base funding increases of \$49.5 million for health, \$35.2 million for education and \$10.5 million for police and public safety;
 - the establishment of a \$107.0 million Economic and Social Infrastructure Fund to support: major projects, including natural gas, wind energy, Basslink, water developments and an optic fibre network; and tourism and other social and economic development opportunities; and
 - continued funding of \$44.0 million per annum for the cost of one of the two new Bass Straits vessels.
- Significant progress has been made towards the achievement of Fiscal Strategy targets established in the 2002-03 Budget.
- A Fiscal Surplus of \$6.9 million is budgeted for 2003-04, following a projected Fiscal Surplus of \$121.0 million in 2002-03.
- Continued improvement in the debt position of the State is projected.
- This Chapter outlines the context within which the 2003-04 Budget has been developed and highlights the major strategies, Budget drivers and initiatives the Government is pursuing to ensure Tasmania's continued economic, social and financial development.

OVERVIEW

The 2003-04 State Budget will be influential across the Tasmanian community, not only because it continues to build upon the previous five Labor Government Budgets, but also because it is delivered at a time when there is an unprecedented convergence of positive factors operating in Tasmania. It is a State Budget delivered in an economic environment where many indicators are at record levels, and in an atmosphere where the sense of confidence in Tasmania's future held by business and the community is almost palpable.

All six Budgets have been developed in accordance with the Government's Financial Plan, delivering growing economic development and improving community services. This Budget, more than any previous, clearly defines the hallmark of this Financial Plan: disciplined recurrent spending; provision for the building up of cash assets, to reduce net debt and net interest payments; and a significant provision for one-off expenditure this year through a newly established Economic and Social Infrastructure Fund (ESIF).

General Government net debt is on track to be completely eliminated by June 2008.

Importantly, this is also the first Tasmanian State Budget presented using an accrual accounting system. The move to accrual budgeting is a significant further step in the ongoing financial reform process, leading to further improvement in the presentation and content of government financial information.

The largest and most diverse set of major infrastructure projects, combined with an increasingly competitive business environment compared with the rest of Australia, are the result of major policies initiated by the Government immediately on coming to office in 1998: through the Industry Development Plan; the Fiscal Strategy; Partnership Agreements; Learning *Together*; and the Competition Index, all underpinning the Tasmania *Together* process.

All of these major policies have generated increased wealth to set a fresh scene for Tasmania at the beginning of a new century. Jobs remain the Government's number one priority, and along with meeting the increasing demands made by important government services, this is where the State's improving fortunes will be directed.

Because of positive changes to Tasmania's economic circumstances, and because the proportion of long-term unemployed jobseekers remains greater than the national average, it is timely for the State Government to intensify its efforts to optimise the impact of those services made available to jobseekers. Disadvantaged jobseekers in particular will be beneficiaries of this State Budget.

The previous five Budgets delivered an extra \$190 million in real terms to improve community services, important for both social and economic reasons. This Budget is no different. \$99 million will be provided to community services, with a huge boost again to Health.

The ESIF established in this Budget will provide funding, using a strategic approach, to further assist Tasmania's economy and social well being. A holistic approach to infrastructure development has been adopted by the State Government in the provision of ESIF funds, which will be directed to a diverse set of social projects as well as maximising opportunities around infrastructure developments.

The 2003-04 Budget not only addresses the most pressing issues for Tasmania such as unemployment, health and housing, but also maps a path to manage critical funding pressures ahead, spawned by an ageing population. This is a Budget delivered at a time in Tasmania's history when positive factors are

widely recognised across the community now, and provides financial flexibility for the future so that these opportunities can be sustained and built upon.

MAJOR 2003-04 BUDGET DRIVERS

The 2003-04 Budget has been developed within a framework based on full accrual accounting. This represents a new system of budgeting that results in:

- presentation of the Budget in accordance with a recognised national framework that includes all sources of funds on an accrual basis; and
- new headline measures for presenting the Budget Outcome and Forward Estimates.

Budgeting for the full costs of providing government services enables both Parliament and the community to ensure that the Government is living within its means and is able to deliver sustainable services in the future.

Accrual financial reporting was introduced in 1996-97. In 2001-02, departments prepared accrual estimates, which formed the basis for a consolidated accrual Budget for the General Government Sector in accordance with generally accepted accounting principles. This represented Phase 1 of the accrual budgeting implementation process. The presentation of consolidated accrual Budget estimates was a first for Tasmania and was the result of significant efforts by Treasury and departments. Phase 2 of the implementation process undertaken in 2002-03 considered conceptual and implementation issues associated with the introduction of accrual budgeting in 2003-04. The introduction of an accrual Budget in 2003-04 is the final phase of the implementation process and will provide a closer link to financial reporting and further demonstrates the Government's commitment to continuous improvement in financial management.

This reform will be embedded into the financial management framework over the next few years, with education, training and communication strategies planned for key stakeholders, to raise the level of knowledge and understanding of the new framework.

The 2003-04 Budget has also been developed and finalised based upon the Government's commitment to the implementation of a number of key strategies (eg *Tasmania Together*, the Industry Development Plan, Partnership Agreements and the Fiscal Strategy). Detailed information on the economic Budget drivers and the status of the Tasmanian economy is provided in Chapter 2 of this Budget Paper. The following sections highlight the key Government strategies, progress with these strategies and other major 2003-04 Budget drivers.

Tasmania Together – Shaping Our Future

Tasmania Together is a long-term social, economic and environmental vision that articulates where Tasmanians want to be in 2020. It was developed following the most extensive community consultation processes in Tasmania's history. It sets out 24 goals and 212 benchmarks aimed at creating a safer, fairer, more prosperous and environmentally sustainable State.

The goals and benchmarks of *Tasmania Together* provide a framework for both Government and non-government action and the targets set in the document provide a basis for measuring progress.

Progress toward achieving Tasmania *Together* benchmarks is reported regularly to Parliament by the Tasmania *Together* Progress Board to ensure that all Tasmanians are aware of how well the State is performing against the goals. The Board's first Progress Report was tabled in Parliament in August 2002.

The State Government is committed to making a significant contribution towards achieving the goals set out in Tasmania *Together*. The benchmarks underpin major Government policy initiatives including the Industry Development Plan and the State-Local Government Partnership Agreements and provide a basis for Agency planning and priority setting.

The Government's performance in implementing Tasmania *Together* is also regularly monitored and new arrangements have been established within Government to ensure that all Agencies are working together to achieve outcomes.

The Budget process has been amended to link policy and financial planning to achieve the community's objectives for the year 2020. This approach is aimed at providing a more integrated framework and incentives for Agencies to address Tasmania *Together* benchmarks.

To assist in focussing decision-making and resource allocation, the Government has identified a number of priority areas to ensure that new action or an increase in the rate or level of intensity of existing activities is taken to achieve timely progress against a number of benchmarks. Benchmarks have been identified in the following priority areas:

- Poverty;
- Community Safety;
- Education – Retention and Participation Rates;
- Meeting National Educational Benchmarks;
- Promoting Healthy Lifestyles;
- Employment;
- Population Growth;
- Promoting Cooperation between levels of Government;
- Promoting Tasmania; and
- The Environment.

Priority benchmarks are used internally by the Government to guide resource allocation decisions (for both existing and new resources) and provide a focus for the Government to identify new actions and build on achievements currently being realised.

Industry Development Plan

The Government presented its first Industry Development Plan (IDP) in November 1998, within three months of the 1998 Election. The IDP is the Government's key strategic planning document on industry development. It is a vehicle for an integrated response to the strategic priorities of government, industry and the community and is directed at maximising job creation, investment attraction, net export growth, higher value products and enhanced skills base.

The Plan's four cornerstones were all in place by the time the Government's second Budget was delivered in May 1999. Since that time, the implementation of the IDP has continued with the following major steps being taken:

- the release of the Government's document *The Way Forward* in August 1999 that responded to the range of industry audits;
- the holding of forums to brief industry and the community on the IDP and the Government's response;
- the establishment of the Centre for Research, Industry and Strategic Planning; and
- the formation of Industry Councils and development of their industry plans.

The IDPs since 1998 have focused on first halting, and then reversing, the relative economic disparity between Tasmania and the rest of Australia experienced throughout most of the 1990s. The success of the plans in achieving this aim is reflected in Tasmania's improved economic performance reported in Chapter 2 of this Budget Paper.

The 2003 plan, to be released shortly, is based on a community vision for economic development as expressed by Tasmania *Together*, and an assessment of recent economic performance. A competitive business environment and specific industry plans and partnership agreements form the foundation of the IDP.

The IDP 2003 aims to maximise opportunities for growth by placing more emphasis on export and market development, encouraging major development, capitalising on the opportunities flowing from past and current infrastructure projects and continuing to improve international competitiveness at the business environment, industry and enterprise levels.

Partnership Agreements

The Government is committed to the development of Partnership Agreements as a key mechanism for strengthening working relations with Local Government. The Government recognises that committed progressive local communities and sound local economies are fundamental to the social and economic development of the State. Hence the process for developing Partnership Agreements takes into account consultative mechanisms at the local level, encourages local input to community and economic development decisions and promotes shared responsibilities for improved targeting of service delivery.

The Government's objectives for the Partnership Agreements were outlined in its *Framework for Developing State-Local Government Partnership Agreements*, revised in October 2001. The Framework is updated periodically to reflect the dynamic nature of the Partnerships Program.

In summary, these objectives are to:

- identify opportunities to work in partnership with Local Government to progress agreed social, economic and environmental outcomes for Local Government areas; and
- ensure effective service delivery arrangements to meet the reasonable needs of all residents including, where appropriate, options to improve coordination and joint service delivery arrangements or address gaps and overlaps in service delivery.

More broadly, the State Government recognises that Partnership Agreements have a key role to play in facilitating the achievement of agreed social, economic and community development goals. In particular, they provide a vehicle to achieve the following whole-of-government strategic policy objectives:

- economic growth;
- social development; and
- environmental sustainability.

Partnership Agreements will also have a role in facilitating the achievement of agreed social, environmental, economic and community development benchmarks identified in *Tasmania Together*, the 20 year plan to drive the strategic direction of the State. As far as possible, all schedules in Partnership Agreements are now linked to a specific *Tasmania Together* benchmark.

The pilot phase of the program was launched in December 1998, commencing with the negotiation of a bilateral Partnership Agreement with the Circular Head Council, which was signed on 1 June 1999. The pilot phase concluded with the signing of a bilateral Partnership Agreement with the Launceston City Council on 10 December 1999. Partnership Agreements have since been commenced with councils in every region of the State.

Bilateral Partnership Agreements have been signed with Circular Head, Launceston City, Glenorchy City, Flinders, Hobart City, Kingborough, King Island, George Town, Glamorgan-Spring Bay, West Coast, Central Highlands, Derwent Valley and Break O'Day Councils. Negotiations have either commenced or are well advanced with Meander Valley, Latrobe, Dorset, Devonport City, Northern Midlands and West Tamar Councils. Regional Partnership Agreements provide the parties with the opportunity to look broadly at issues that extend beyond the boundaries of a single council.

Every council in the State is currently involved in one of three regional Partnership Agreements. Eight northern councils are engaged in the Northern Tasmanian Regional Development Board Agreement, which was signed in July 2001. Nine north western councils are involved in the Cradle Coast Authority Partnership Agreement, signed in October 2001. The 12 southern councils are involved in the development of the Southern Tasmanian Councils Partnership Agreement, to be completed in the near future.

In addition, the Premier's Local Government Council (PLGC) was established in 2000 as a forum for high-level discussions with councils on issues of statewide significance. The Council meets three-four times a year, in both the north and south of the State. The Council is chaired by the Premier and comprises the eight elected council representatives who make up the General Management Committee of the Local Government Association of Tasmania (LGAT). An Officials Committee with a membership of State and Local Government officers supports the Council. Statewide Partnership Agreements are negotiated through the PLGC. These involve all councils and the State Government and are signed by the President of the LGAT on behalf of the councils.

Three statewide Partnership Agreements on waste management, simplifying planning schemes and communications and consultation between the two spheres of government have been developed under the PLGC. Work on these Partnership Agreements has now entered the implementation phase.

Further information regarding Partnership Agreements and the Local Government sector is provided in Chapter 13 of this Budget Paper.

Competitive Business Environment

A competitive business environment is a critical driver of economic growth for any jurisdiction. Tasmania's business environment is very competitive compared with the rest of Australia. To create an increasingly competitive business environment, the Government has adopted a strategic approach that has four components:

- measuring and addressing cost aspects impacting on competition;
- promoting business enterprise development;
- reducing regulation and eliminating unnecessary regulation; and
- securing major infrastructure developments.

Competition Index

To measure and address cost aspects impacting on competition, the Government introduced the Competition Index in 2000. The Competition Index is now an annual document that objectively compares business and industry sector costs and constraints in Tasmania with other States. The independent consulting firm, KPMG, has assessed the methodology used by in the Competition Index as objective and appropriate.

The Competition Index provides the essential measurement necessary to focus government, business and the community on those competitive areas where the State may be weak and which should be addressed, and those areas where Tasmania is strong and which should be maintained. This type of detailed analysis is unique in Australia.

There is a diverse range of cost aspects impacting on business, of which tax on business is one. For a productive discussion to occur about business costs, it is important the debate is broader than just payroll tax. However, isolating both payroll tax and overall taxation severity in the business cost debate still highlights Tasmania's competitive business environment as shown in the tables below.

Table 1.1: Payroll tax rates effective from 1 July 2003 (using average Australian wages)

No of Employees	Tas	Qld	WA	Vic	SA	NSW	NT	ACT
m/rate=6.1%	\$	\$	\$	\$	\$	\$	\$	\$
50	47 348	59 293	62 172	64 901	72 701	71 172	74 731	36 730
75	101 827	115 856	115 758	111 788	123 340	124 758	130 996	97 907
100	156 306	169 689	169 344	158 676	173 978	178 344	187 261	159 084
200	374 223	339 378	383 688	346 227	376 533	392 688	412 322	403 794
300	592 139	509 067	598 032	533 778	579 088	607 032	637 384	648 503
500	1 027 972	848 445	1 026 720	908 880	984 199	1 035 720	1 087 506	1 137 922

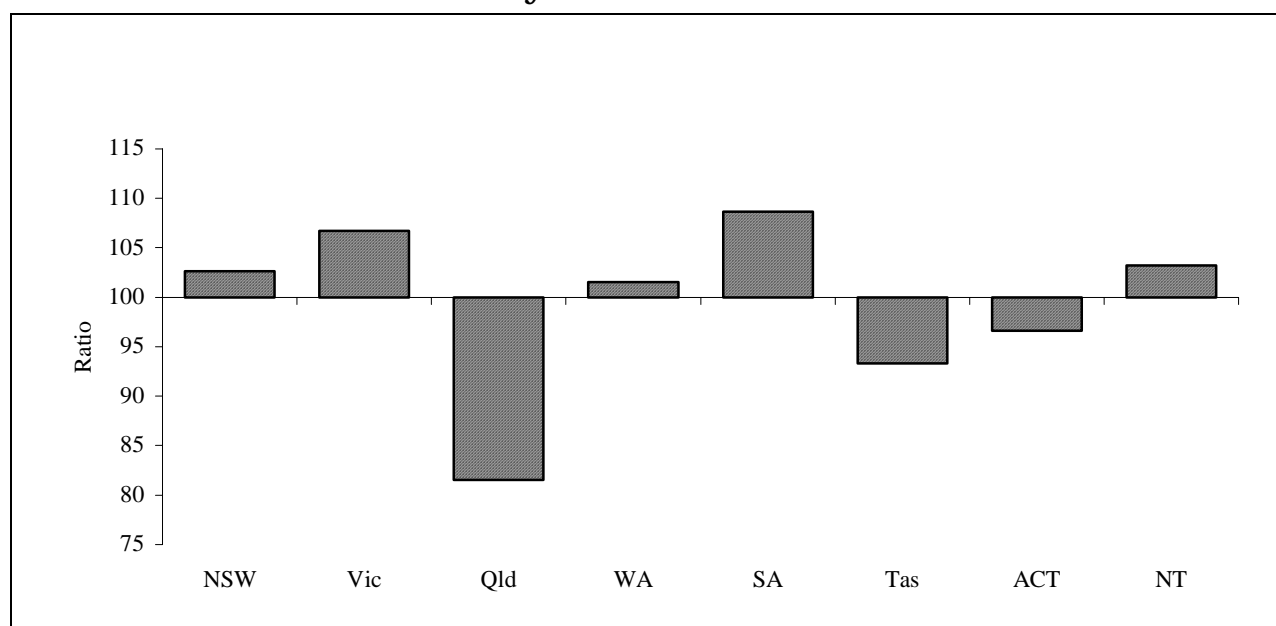
The effective payroll tax paid by business takes into account the threshold above which payroll tax is paid, and the marginal rate that is applied over the threshold. For the purpose of determining the effective rate of payroll tax, average Australian wages are used.

In terms of payroll tax paid in Tasmania, for businesses employing up to 200 employees, which represents 99 per cent of businesses in the State, the effective rate of payroll tax is below the average of all States.

Overall taxation severity is assessed annually by the independent Commonwealth Grants Commission. Overall taxation severity includes payroll tax, land tax, stamp duty on conveyances, financial transaction taxes, insurance taxation, and vehicle registration fees and taxes.

According to the Commonwealth Grants Commission, Tasmania has the lowest taxation severity outside Queensland. In 1996, Tasmania was ranked second-last. Chart 1.1 illustrates the taxation severity of states and territories in 2001-02.

Chart 1.1: Taxation Severity 2001-02



Although Tasmania is clearly highly competitive in terms of business taxation, there are many other important costs impacting on business that need to be monitored and addressed by the Government. The Competition Index shows Tasmania performs very well on some business cost components, while on other components it performs poorly. The aim of the Government in this regard is to maintain those business cost components where the State performs well, and address those components that can be improved.

For example, in terms of direct business costs, which include wages, payroll tax, workers' compensation, superannuation and fringe benefits tax, Tasmania performs best of all States. The components of labour skills are training and formal qualifications, which shows Tasmania performing poorly in qualifications. This result has occurred in part due to the State's industry sector representation, but importantly the result is due to unmet demand for university places. Currently, the University of Tasmania is short around 600 places to meet demand, and both the University and the Government are strongly lobbying the Commonwealth to address this problem.

Tasmania's energy market has been isolated and reliant on electricity. These constraints are being addressed through the major infrastructure projects commenced or about to commence, which include the diversification of the energy market to include natural gas to business and households and, through Basslink, to open the energy market to competition through connection to the National Electricity Market.

Currently, the cost of energy in the State has been kept at a relatively high level primarily through its dependence on bottled gas.

Table 1.2 summarises the rankings of states against the Competition Index in 2002. The next competition Index will be released in the later half of 2003.

Table 1.2: Summary of Ranking of States - 2002

	NSW	Vic	Qld	SA	WA	Tas	2001 Index Tas
Cost-Based Indices							
Direct Labour Costs	6	5	3	2	4	1	1
Labour Skills	5	2	3	4	1	6	5
Training	6	5	3	4	2	1	2
Qualifications	1	1	4	4	3	6	6
Labour Turnover	6	3	4	2	4	1	1
Industrial Disputes	5	6	3	1	4	2	1
Land and Accommodation	6	3	5	2	4	1	1
Taxation Severity	3	4	1	6	5	2	n.a.
Energy Cost Index	1	3	2	4	5	6	6
Electricity	1	5	3	4	6	2	3
Reliability	1	2	5	3	4	6	5
Fuel	3	2	1	4	4	6	6
Gas	2	1	4	3	5	6	6
Surface Freight Cost Index	3	5	1	2	4	6	6
Air Freight Cost Index	2	1	4	3	6	5	5
Air Travel Cost Index	1	1	4	3	6	5	4
Access to Ports Index	5	4	6	3	2	1	1
Port Charges Index	6	5	2	3	4	1	1
Planning Index	3	n.a.	n.a.	n.a.	2	1	n.a.
Forestry Endowment Index	3	4	2	5	6	1	1
Mineral Resource Endowment	3	6	2	5	4	1	1
Proximity to Markets Index	1	2	3	4	5	6	6

Business Enterprise Development

To ensure all growth opportunities for local business are maximised, the Industry Development Plan provides a broad range of enterprise development programs to business which tactically improve Tasmania's chances of grasping growing export and import replacement trade. As part of the Industry Development Plan, Industry Audits were carried out across the State in 1999, which identified a number of issues as constraints to Tasmanian business growth and competitiveness. Issues such as access to finance, networking between complementary business to create greater levels of scale and scope, trade and marketing assistance, and promoting entrepreneurship and innovative ideas are all now encapsulated in industry-based programs.

Following the completion of the Industry Audits, eight Industry Councils were established as a conduit between government and industry and to formulate specific industry-sector plans. Through this process, the Industry Development Plan continues to develop, guided and driven by industry stakeholders.

Business enterprise development delivered through industry-based programs is provided by the Department of Economic Development, the Department of Primary Industries, Water and Environment, the Department of Infrastructure, Energy and Resources, and the Department of Tourism, Parks, Heritage and the Arts.

According to the Australian National Organisation Study (AusNOS) undertaken in 2002, the rate of access to assistance from government programs by business is around 20 per cent higher in Tasmania than the next best performing State (Table 1.3). Over 80 per cent of organisations that had received assistance from government programs claimed that this assistance helped a great deal or somewhat, indicating the importance placed by local business on government programs providing assistance to improve performance and competitiveness. Industry-based programs provided by government are obviously very important to business, and the interaction between government and business in that regard is higher in Tasmania than any other jurisdiction.

Table 1.3: Assistance from any Government Program by State

	STATE							
	NSW	Vic	Qld	SA	WA	Tas	NT	ACT
Yes (%)	35.9	47.3	41.1	53.3	40.9	69.2	50.0	52.6
No (%)	64.1	52.7	58.9	46.7	59.1	30.8	50.0	47.4
Total (No)	153	131	158	45	44	26	12	19

Reducing Regulation or Eliminating Unnecessary Regulation

Unnecessary regulation that constrains business activity is being stripped away by the Government. The Government has in place a comprehensive program to ensure only relevant legislation and regulation remain or are placed on the statute books. Using the principles of National Competition Policy, the Government has put in place a mechanism to review all existing legislation for anti-competitive features and, unless a strong public benefit test shows those features are in the public's best interest, they are removed.

In five years, 134 Acts have been removed or repealed. Complementing this process is a gatekeeper assessment of all new legislation. The repeal of unnecessary legislation will continue in conjunction with the *Subordinate Legislation Act 1992*. The Government's commitment to reducing and eliminating unnecessary government regulation was recently demonstrated through the successful delivery of legislation to open-up shop trading hours.

Securing Major Infrastructure Projects

The largest and most diverse range of major infrastructure projects in the State's history has been secured. In just over four years, \$2 billion of major infrastructure projects that include natural gas, wind energy, Basslink, an optic fibre network, the two high-speed ferries plying Bass Strait and water developments to boost agricultural production, have commenced or are about to commence.

Major infrastructure projects not only generate employment and economic activity directly in the construction phase, but also deliver indirect opportunities for new major projects, new or expanded business, and underpin increased competitiveness.

The \$400 million gas pipeline has been completed by Duke Energy, as has the \$50 million first-stage conversion of the Bell Bay power station. The \$200 million reticulation of gas to homes and businesses will commence in the first half of 2003. With the rollout of natural gas comes the opportunity to use the open trenches for the establishment of an optic fibre network. Worth in excess of \$100 million, Tasmania's high-speed, broadband telecommunications network will not only be unique in Australia, but will make the State one of the few jurisdictions in the world with a comprehensive optic fibre network.

The introduction of natural gas will provide competition in the energy market, and will also allow some manufacturers to diversify their products where a gas flame is required. The establishment of the optic fibre network will provide new options for homes and businesses and create competition in the telecommunications market.

A \$200 million wind energy project has commenced at Woolnorth and another \$270 million project at Heemskirk on the West Coast is to be approved. Now that Basslink has been approved, there is the opportunity for \$1 billion worth of wind energy projects over the next ten years.

Indicative of how infrastructure projects not only create employment and economic activity in the construction phase, Danish wind turbine manufacturer, Vestas, has committed to a \$50 million plant to produce nacelles for windmills. Vestas has also flagged the possibility of a much more substantial investment in Tasmania to manufacture the windmill blades for the Asia Pacific region.

The \$500 million Basslink project, which will allow the State to sell its surplus energy to the National Electricity Market (NEM) via a cable across Bass Strait, has commenced. The entry of Tasmania into the NEM brings with it around 60 per cent of the nation's renewable energy certificates. An optic fibre cable will be laid across Bass Strait with Basslink, supporting competition in telecommunications.

The Government has provided \$290 million for two high-speed, monohull ferries, which commenced service across Bass Strait in September 2002. The introduction of the two ferries has doubled the capacity for both passengers and freight, and has the capability of doubling that capacity again when demand necessitates double crossings within a 24-hour period by each ferry. The introduction of the two new ferries has brought record tourist numbers, creating increased demand for local goods and services. The introduction of the two new ferries has also brought, for Tasmanian businesses, unprecedented access to interstate markets.

The Government's approach to creating a more competitive business environment has been strategic and comprehensive, using the measurement of Tasmania's relative performance compared with other jurisdictions as a yardstick, and recognising the unique qualities possessed by the State.

Fiscal Strategy

A credible and achievable medium-term Fiscal Strategy is an essential component of prudent contemporary financial management practice. It represents not only an effective planning tool for the Government, but also provides clear signals to financial markets, the business sector and the community of the Government's direction in financial management. A Fiscal Strategy also provides a framework for the Government to demonstrate to credit rating agencies the financial focus of the Government, any identified issues or problems and how these will be addressed.

The Fiscal Strategy

Having achieved all of the targets established in the previous Fiscal Strategy some two years ahead of schedule, the Government developed a new Fiscal Strategy in 2002. The current Fiscal Strategy builds on the significant achievements of the previous Fiscal Strategy and focuses on continuing the Government's record of strong financial management.

The Fiscal Strategy supports the Government's priority initiatives such as *Tasmania Together*, the Industry Development Plan and Partnership Agreements by delivering quantifiable benefits to the community in the form of improved service provision, tax cuts and infrastructure development. Key elements of the Fiscal Strategy include ongoing Budget surpluses, the elimination of General Government Net Debt and net interest payments, a significant reduction in Total State Sector Net Debt and the elimination of the Government's unfunded superannuation liability within a reasonable time frame.

The current Fiscal Strategy extends for a period of six years, and commenced in 2002-03. Extending the period of the Fiscal Strategy to six years represents an appropriate medium-term timeframe in which to set Tasmania's fiscal goals. The conclusion of the current Fiscal Strategy will also coincide with major achievements such as the elimination of General Government Sector Net Debt.

The principles and targets, which form the basis of the Fiscal Strategy, are outlined in detail below.

Budget Position

Principle - *To strengthen the State's financial position, the State Budget will be managed in surplus on a long-term sustainable basis to achieve the Government's net debt targets.*

Target - *The annual General Government Sector Budget will be maintained in surplus; and*
- The General Government Sector cash surplus will be sufficient to achieve the Government's established net debt targets.

The annual Budget outcome is a vital factor in the long-term management of the State's finances. In the absence of asset sales being directed towards debt reduction and additional financial assets, the only means of achieving a significant reduction in net debt is through the achievement of ongoing surpluses. In order for the net debt targets established as part of the Fiscal Strategy to be achieved, it is necessary that the targeted levels of Budget surpluses be achieved.

Debt and Liability Reduction

Principles - *The debt and liability burden on the Tasmanian community will be further reduced.*

Targets - *General Government Sector Net Debt will be below \$450 million by June 2005;*
- General Government Sector Net Debt will be eliminated by June 2008;
- General Government Sector Net Interest Costs will be zero by June 2008;
- Total State Sector Net Debt will be below \$1 000 million by June 2008;
- The State's unfunded superannuation liability will be extinguished within 15 years (that is, by June 2018); and
- Net Financial Liabilities for the General Government Sector will be eliminated within 14 years (that is, by June 2017).

Achieving a reduction in the level of net debt is a critical factor in the achievement of further improvements in the State's financial position while also reducing the pressure on the annual Budget from increases in interest rates. A reduction in the level of debt is also of great importance due to the strong focus rating agencies place on the liability side of the State's Balance Sheet.

In addition to these significant benefits, the reduced interest costs associated with debt reduction also mean that savings are generated which can then be applied to major Government initiatives such as tax cuts, improved services to the community and increased spending on public infrastructure. This has been a significant factor in the increased funding which the Government has been able to apply in recent Budgets to a range of services and initiatives. Chart 1.2 details the estimated reduction in net debt in the Total State and General Government Sectors. The small temporary rise in Total State Sector Net Debt in 2001-02 is due to the purchase of the two vessels for the Bass Strait service.

Chart 1.2: Total State Sector and General Government Sector Net Debt

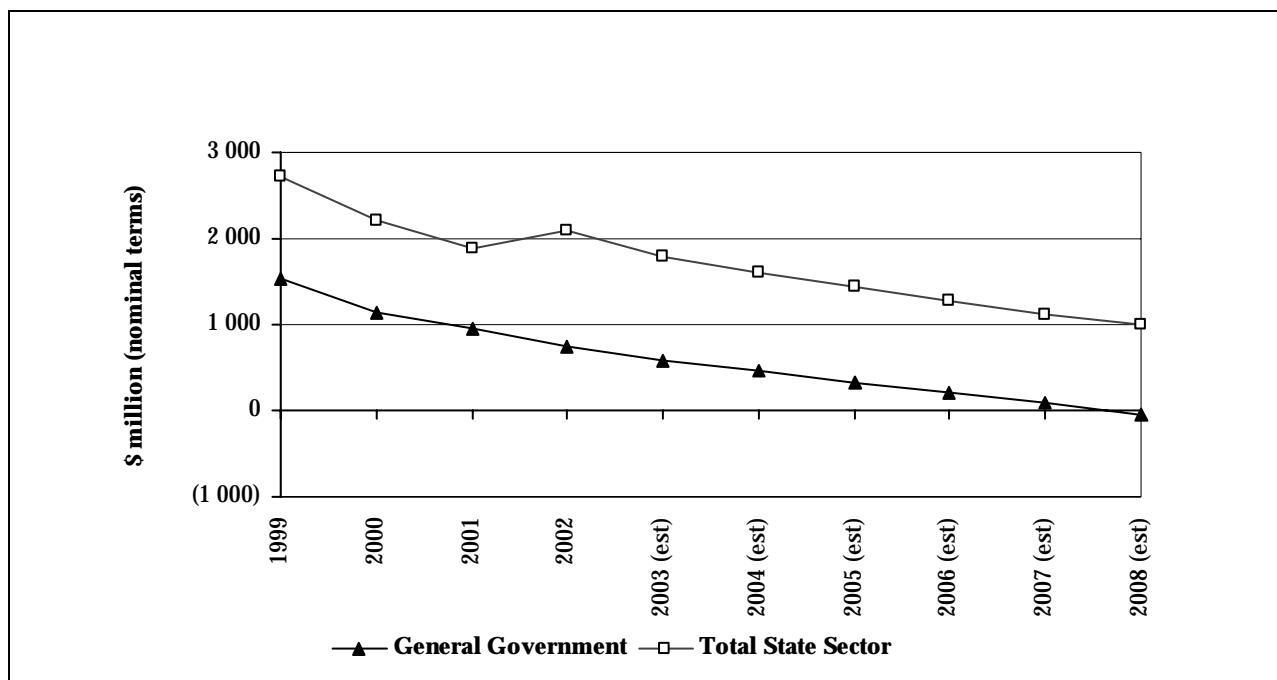
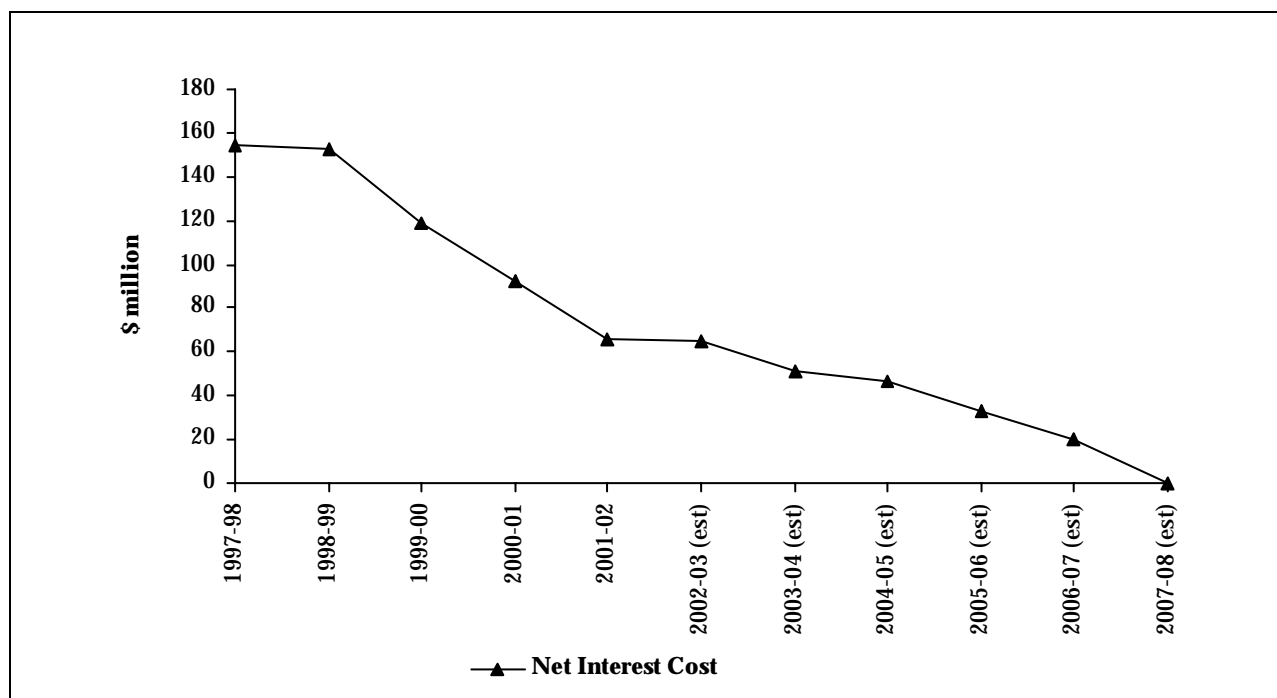


Chart 1.3 illustrates the targeted reduction in General Government Sector Net Interest Costs to zero by June 2008.

Chart 1.3: General Government Sector Net Interest Costs



Taxation Competitiveness

Principle - Maintain a competitive State tax environment.

- Targets* - Tasmania's tax severity (as measured by the Commonwealth Grants Commission) will remain below the average of all states and territories and below that of Victoria; and
- There will be no new taxes and no increase in the rate of any existing taxes.

The Government is committed to fostering an increasingly competitive business environment in Tasmania and to ensuring that Tasmania is an attractive place for people to live. These are both major factors in increasing the level of employment in Tasmania.

Through its Industry Development Plan and a range of other major strategies and initiatives, the Government has actively sought to achieve these important objectives. Foremost amongst these strategies and initiatives has been the creation of a competitive State tax environment through the implementation of State tax reform.

The principles and targets relating to taxation competitiveness established in the Fiscal Strategy will ensure that Tasmania continues to be highly competitive with the other states and territories when it comes to levels of business and other taxation.

Infrastructure Maintenance

Principle - Maintain infrastructure to support the delivery of Government services and to foster economic and industry development.

Target - The State funded component of the Capital Investment Program will be maintained in real terms.

The proper maintenance of Tasmania's public infrastructure assets and investment in new public assets is essential to the effective delivery of services to the community and to promoting growth within the State. Appropriate levels of ongoing capital expenditure also assists in reducing the likelihood and impact of significant one-off capital expenditure 'hits' on the Budget.

The focus on infrastructure maintenance as part of the Fiscal Strategy will ensure that the significant additional expenditure which has been allocated by the Government to infrastructure maintenance in recent years will be supported by the maintenance, in real terms, of the level of State funding provided in the Capital Investment Program over the next five years.

Risk Management

Principle - *Ensure that adequate mechanisms and financial provisions are in place to minimise the risks to the Tasmanian Government.*

Target - *The Tasmanian Risk Management Fund will operate on a fully funded basis and have reserves that are sufficient to meet estimated outstanding liabilities.*

While it is prudent financial management to reduce levels of net debt and unfunded superannuation liabilities and to seek to increase the level of Budget surpluses, it is also prudent financial management to seek to reduce the impact which other risks could have on the Government's overall financial position. Through the establishment of the Tasmanian Risk Management Fund in December 1998, the Government has taken important steps to reduce the potential impact of a range of risks on government agencies.

The inclusion of this principle and target in the Fiscal Strategy emphasises the importance of the Government continuing to take appropriate action in relation to minimising all risks to the Government's financial position.

Progress on the Fiscal Strategy Targets

With the move to an accrual Budget, the Fiscal Strategy measures were reviewed to assess the impact of the new framework; it was found that the measures and targets continue to be relevant and that it was not necessary to amend the strategy.

Table 1.4 below shows the current Fiscal Strategy and an assessment of the progress to those measurable targets based on Budget estimates.

Table 1.4: Fiscal Strategy Targets

Tactical target	2002-03						Assess- ment of Progress
	2001-02 Actual	Revised Estimate	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate	
Consolidated Fund to be maintained in surplus (\$ million)	4.9	5.6	4.7	5.2	5.9	8.1	✓
Maintain General Government Cash surplus sufficient to achieve the Government's Net debt Targets (\$ million)	211	173	83	124	117	135	✓
General Government net debt to be below \$450 million by June 2005 and to be eliminated by June 2008 (\$ million)	751	573	461	337	220	85	✓
General Government Net Interest Costs ¹ to be zero by June 2008 (\$ million)	66	65	52	47	33	20	✓
Total State Sector Net Debt to be below \$1 000 million by June 2008 (\$ million)	2 089	1 789	1 614	1 437	1 275	1 119	✓
State's Net Unfunded Superannuation Liability to be extinguished by June 2018 (\$ million)	1 314	1 342	1 324	1 300	1 271	1 234	✓
General Government Net Financial Liabilities be eliminated by June 2017 (\$ million)	2 557	2 529	2 495	2 442	2 390	2 315	✓
Tasmania's Tax Severity (as measured by the Commonwealth Grants Commission) to be maintained below the average of all states and below that of Victoria (Avg = 100)	Tas 93.3 Vic 106.7	n.a	n.a	n.a	n.a	n.a	✓
State-Funded component of the Capital Investment Program (Annual Appropriation) to be maintained in real terms (%)	4.6 ²	5.0 ²	3.6	3.0	3.0	3.0	✓

Sources: Department of Treasury and Finance, Commonwealth Grants Commission and the Australian Bureau of Statistics (ABS)

Notes:

1. Net Interest Costs excludes nominal interest on superannuation.
2. The State-Funded Component of the Capital Investment Program (CIP) in 2001-02 and 2002-03 does not include the CIP expenditure of approximately \$5 million in both years for the replacement of the fire damaged Reece High School.

Key: ✓ On Target, ⊕ Issues to be addressed, ✕ Remedial action required, n.a data not available

Table 1.4 shows that the Government will achieve all elements of the Fiscal Strategy, while also:

- addressing the major risks that have impacted on the management and development of the State Budget over previous years arising from past inadequate funding of health and community services and the growth in the State's unfunded superannuation liability;

- fully providing for all of the Government's insurable risks;
- providing significant additional recurrent funding to agencies for social services;
- establishing Infrastructure Funds to facilitate the improvement of Tasmania's economic and social infrastructure; and
- implementing a range of initiatives to improve the Tasmanian economy.

The Budget Position

The financial position of the State has been the subject of considerable debate for many years. Much of the focus of initiatives of successive Governments over the past decade has been on improving the State's financial position. In assessing the State's financial position, attention is focused on a range of financial factors such as the annual Budget position, the State's liabilities and the State's assets.

Historically, Governments have incurred an annual cash Budget deficit ie Government expenditure has exceeded Government revenue. This excess of expenditure over revenue is referred to as the Net Financing Requirement (NFR). A cash Budget surplus is described as a Consolidated Fund Surplus (CFS). The Budget deficit was funded by successive Governments undertaking borrowings each year which in turn increased the level of expenditure on debt servicing costs. Such a position was unsustainable in the long-term, adversely affected the State's financial position and significantly impacted on the Government's capacity to provide services to the community.

In 1990, the Field Labor Government introduced the first Fiscal Strategy to be adopted by a Tasmanian Government. Between 1990 and the election of the Bacon Government in 1998, the implementation of a number of fiscal strategies by successive Governments resulted in a significant reduction in the NFR.

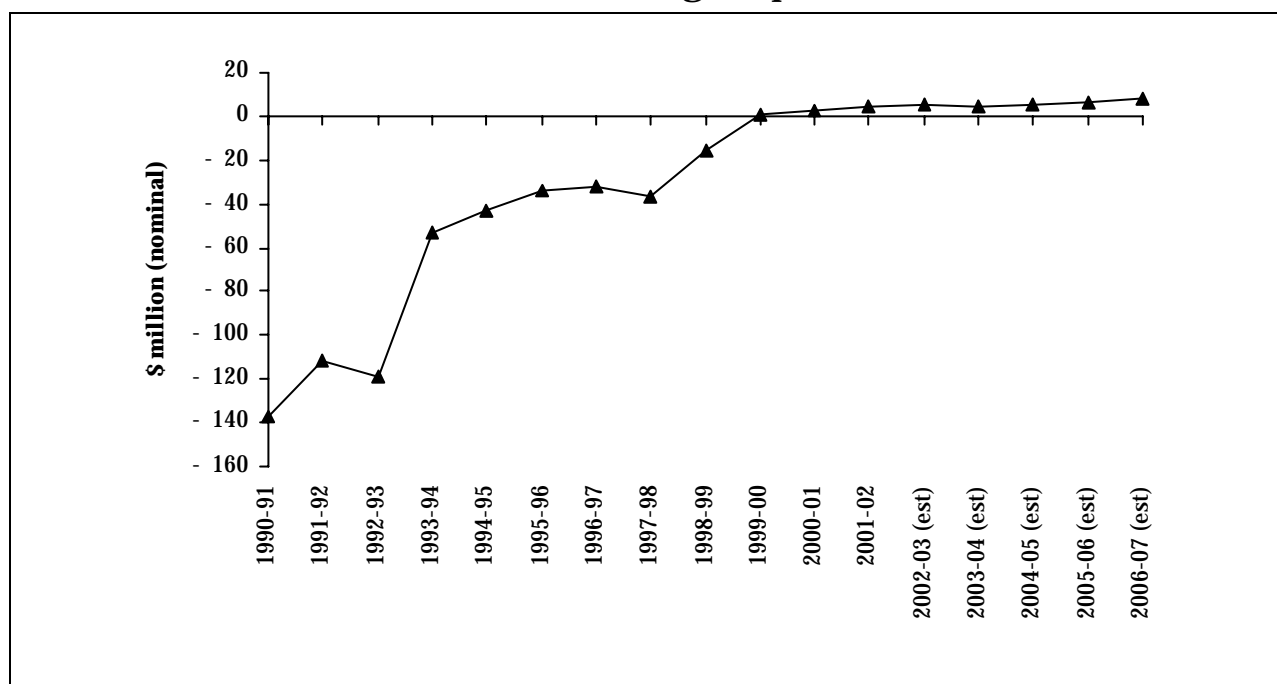
The Bacon Government introduced a new Fiscal Strategy as part of the 1998-99 Budget. Consistent with the requirements of that Fiscal Strategy, since 1999-00 the Budget deficit (NFR) has been eliminated and small, but increasing, Budget surpluses achieved. In addition, through strong financial management, all other targets under the Fiscal Strategy were achieved two years ahead of schedule. The achievement of a CFS and meeting the fiscal targets represented a significant milestone in the improvement of the financial position of the State.

Having achieved all of the targets established in the previous Fiscal Strategy some two years ahead of schedule, the Government developed the current Fiscal Strategy in 2002. Details of the Fiscal Strategy are provided earlier in this Chapter.

Chart 1.4 shows the reduction and eventual elimination of the NFR during the 1990s and the achievement of a CFS from 1999-00. The Chart also shows the projected CFS result for the next four years.

The Government's new headline accrual Budget measure, the Fiscal Surplus, is shown in Chart 1.5. Chart 1.5 shows the Fiscal Surplus for the period 2001-02 to 2006-07.

Chart 1.4: Elimination of Net Financing Requirement¹



Note:

- Figures for 2002-03 to 2006-07 are estimates only based on the Forward Estimates. The positive NFR shown in the above chart from 1999-00 onwards represents a Consolidated Fund Surplus.

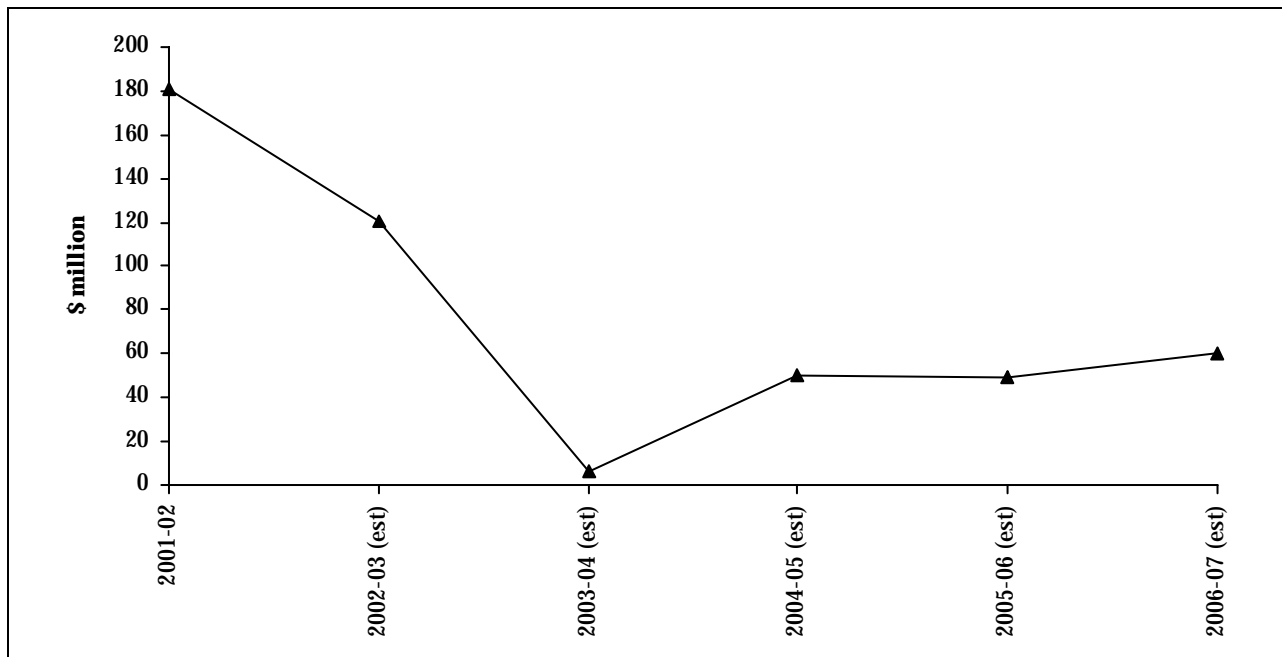
Fiscal Surplus

In 2003-04, the Fiscal Surplus is estimated to be \$6.9 million, a decrease of \$19.1 million on the 2002-03 Budget estimate of \$26.0 million.

The Fiscal Surplus outcome for 2002-03 is estimated to be \$121.0 million, an increase of \$95 million on the 2002-03 Budget estimate of \$26 million. The estimated increase is largely due to an increase in State taxation revenue and, to a lesser extent, Commonwealth revenue and lower than anticipated capital works in 2002-03. For further information on the 2002-03 Fiscal Surplus outcome, refer to Chapter 8 of this Budget Paper. This surplus has resulted in a once-off build up of funds, which will be paid into the new Economic and Social Infrastructure Fund (ESIF). The reduction in the 2003-04 Fiscal Surplus reflects increased expenditure from the ESIF and from other one-off cash reserves established in 2002-03.

The achievement of a Fiscal Surplus is in line with the Government's Fiscal Strategy and indicates that the Government is saving more than enough to finance all of its operations and capital spending. Whilst maintaining a Fiscal Surplus, the 2003-04 Budget delivers substantial Budget initiatives to support the Government's strategic approach to social and economic development.

Chart 1.5: Fiscal Surplus, 2001-02 to 2006-07



Note:

1. The reduction in the 2003-04 Fiscal Surplus reflects increased expenditure from the ESIF and from other one-off cash reserves established in 2002-03.

Assets

As at 30 June 2002, the Tasmanian State Government Sector controlled assets (on a Uniform Presentation Framework (UPF) basis) of \$14 737 million.

On an individual sector (unconsolidated) basis, this comprised:

- General Government Sector assets of \$11 018 million;
- Public Non-Financial Corporations Sector assets of \$6 383 million; and
- Public Financial Corporations Sector assets of \$5 882 million.

The General Government Sector assets at 30 June 2004 are estimated to be \$10 599 million.

The most significant estimated General Government Sector asset holdings at 30 June 2004 are in the areas of:

- cash assets (\$351 million) – this includes cash and deposits, advances paid and investments, loans and placements;
- land and fixed assets (\$5 672 million) – this includes assets such as schools, hospitals, other buildings and Crown land (including national parks and conservation areas), together with plant and equipment held by the Government for the production of goods and services, and infrastructure assets, such as roads and bridges;
- other non-financial assets (\$64 million) – this includes other assets used for the production of goods and services; and
- other non-equity assets (\$335 million) – this includes accounts receivable of \$127.6 million, income tax equivalents and dividends receivable of \$192.9 million, prepayments of \$3.8 million, accrued revenue of \$3.7 million, GST receivable of \$5.9 million, and other receivables of \$1.3 million.

Further information on the Government's assets can be found in Chapter 7 and Appendix 1 of this Budget Paper.

Liabilities

As at 30 June 2002, liabilities of the Tasmanian State Government Sector (on a UPF basis) totalled \$7 882 million.

On an individual sector (unconsolidated) basis, this comprised:

- General Government Sector liabilities of \$4 167 million;
- Public Non-Financial Corporations Sector liabilities of \$2 588 million; and
- Public Financial Corporations Sector liabilities of \$5 810 million.

The General Government Sector liabilities at 30 June 2004 are estimated to be \$3 427 million.

The level of debt which a state holds at a particular point in time, and trends in the level of debt, are significant factors in the assessment of the overall financial position of the State. These indicators provide a guide to the financial position of the state and the Government's financial performance. This in turn impacts on business confidence in investing in the state and, through assessments of the State's credit rating, it also impacts on the cost of borrowings to the State. The resulting debt servicing costs limit the level of resources available to fund the provision of community services.

As with the State's Budget position, Tasmania's relatively high debt position has been a strong focus of the Fiscal Strategies which were implemented by successive Governments during the 1990s.

Further information on the Government's liabilities can be found in Chapter 7 and Appendix 1 of this Budget Paper.

Net Debt

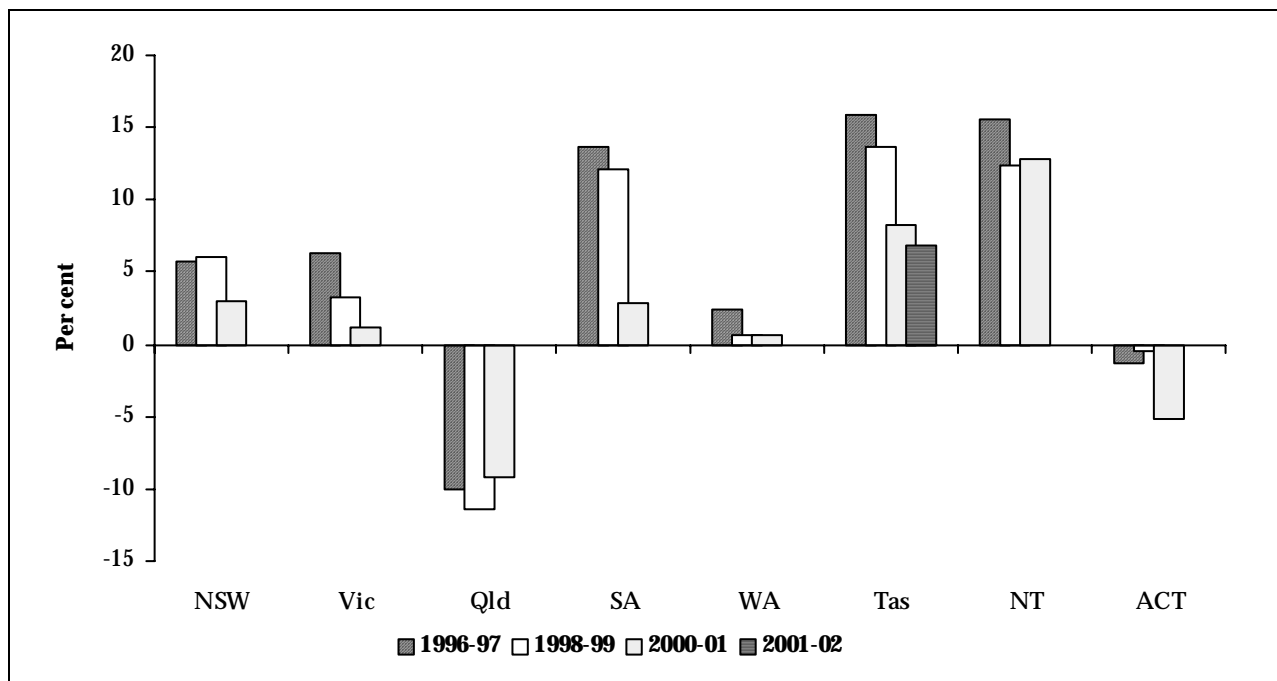
The standard measure to assess the State Government's indebtedness is Net Debt as defined by the Uniform Presentation Framework (see Chapter 3 and Appendix 1 of this Budget Paper).

The estimated Total State Government Sector Net Debt at 30 June 2004 is (in nominal terms) \$1 614 million. This represents a decline, in nominal terms, of 10 per cent from the 30 June 2003 estimate of \$1 789 million. In real terms, a decrease in Total State Government Sector Net Debt of 57 per cent or \$2 183 million has been achieved since the peak Net Debt level of \$3 797 million at 30 June 1994. The substantial progress in reducing debt has been endorsed by Ratings Agencies, as underscored by Standard and Poor's confirmation of Tasmania's AA rating and upgrading the outlook from 'stable' to 'positive' in October 2002. Moody's Investor Services (Moody's) has assigned Tasmania an Aa2 rating. However, in November 2002 Moody's provided an encouraging indication that an upgrade to Aa1 is likely when it assigned Tasmania a positive outlook.

Chart 1.6 shows that Tasmania's General Government Sector Net Debt as a proportion of Gross State Product (GSP) has been comparable with South Australia and the Northern Territory, but significantly higher than New South Wales, Victoria, Queensland, Western Australia and the Australian Capital Territory (ACT). The Chart shows a significant decrease in Net Debt as a proportion of GSP for South Australia in 2000-01 as a result of the long-term lease of its electricity assets. However, unlike Victoria and South Australia, Tasmania has retained its electricity businesses in public ownership. These businesses make significant annual contributions to Tasmania's Budget position. There has also been a steady decrease,

over the five years to 2000-01, in Net Debt levels as a proportion of GSP for all other states and territories, with the exception of Queensland.

Chart 1.6: General Government Sector Net Debt as a percentage of GSP¹



Sources: *Government Financial Estimates, Australia 2000-01*, ABS Cat No 5501.0; *Australian National Accounts: State Accounts, 2000-01*, ABS Cat No 5220.0.

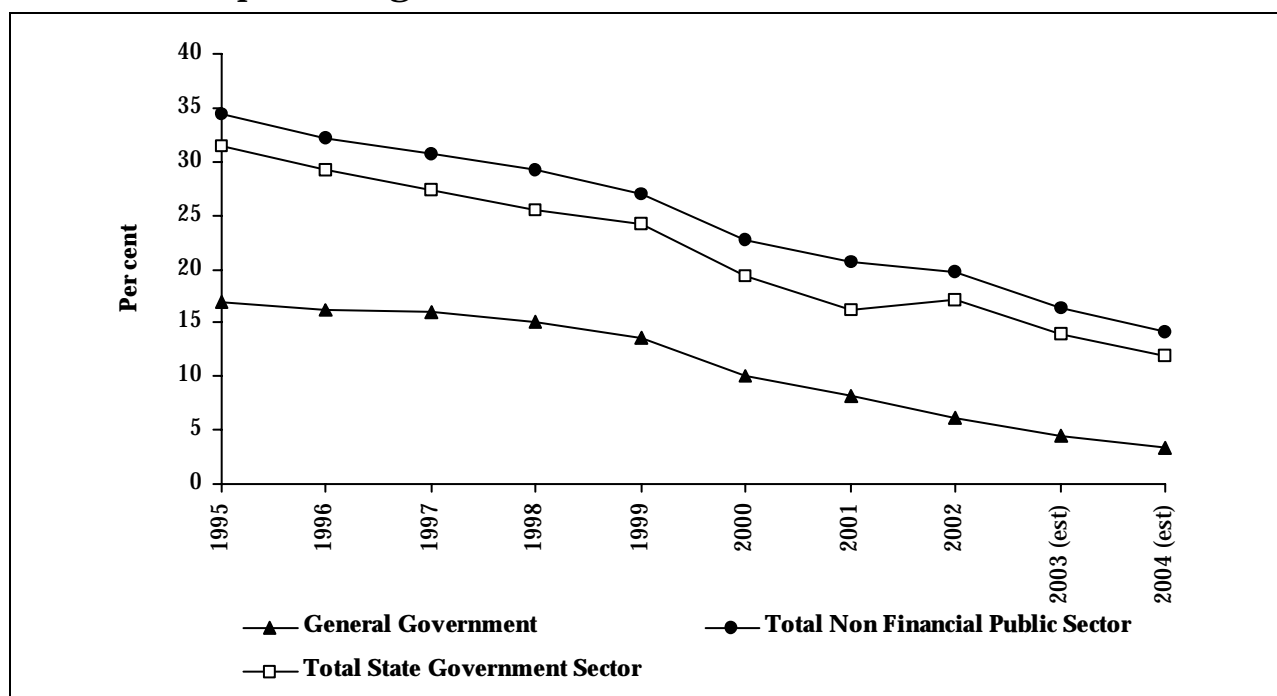
Note:

1. The 2001-02 figure for Tasmania is an estimate only. Outcomes for other states are unable to be calculated until debt information is published by the Australian Bureau of Statistics in its 2001-02 Government Financial Statistics publication Cat No 5512.0.

GFS Cash Surplus/(Deficit)

Chart 1.7 emphasises the substantial improvement in the level of Tasmania's Total State Government Sector Net Debt, as a percentage of GSP, which has occurred since June 1998.

Chart 1.7: Tasmania Total State Government Sector Net Debt as a percentage of GDP



The acquisition of two vessels by the TT-Line in 2001-02 resulted in a temporary increase in Total State Sector Net Debt as at 30 June 2002, after which there is a projected substantial decrease in net debt, consistent with the Government's Fiscal Strategy. It is estimated that despite the purchase, Total State Sector Net Debt at June 2003 will be less than it was at June 2001. In terms of the Government's overall debt strategy, the purchases will have no impact on the stated financial target of eliminating General Government Sector Net Debt by 2007-08.

Net Worth

The Net Worth of Tasmania is represented by the difference between the level of the State's assets and its liabilities. The net assets of the Total State Government Sector, as at 30 June 2002, totalled \$6 855 million. Further details of the State's Net Worth are provided in Chapter 7 of this Budget Paper.

Superannuation

The Government's unfunded superannuation liability is a significant component of Tasmania's overall liabilities. Prior to 1994, the Government's liability for the vast majority of public servants was met on an emerging cost basis, that is when the public servant retired. In 1994, a Superannuation Provision Account (SPA) was established in the Special Deposits and Trust Fund in order to accumulate funds over time to offset the unfunded superannuation liability associated with the Retirement Benefits Fund (RBF) scheme.

Agencies are required to pay into the SPA an annual amount determined by the Treasurer, currently 11 per cent of the salary of each public servant who is a member of the RBF defined benefit scheme. The employer share of emerging RBF pensions and lump sum benefits payable to, or in respect of, former public servants of those agencies that contribute to the SPA is then reimbursed to the Retirement Benefits Fund Board from that Account. The balance of the SPA as at 30 April 2003 was \$557.3 million, which is \$136.3 million more than at 30 June 2002 (\$421.0 million).

It should be noted that while the agency contributions into the SPA relate to service after 1 July 1994, the payments made from that Account often relate to the service of employees before that date. This is the reason why annual contributions into the SPA from Finance-General are required.

In 1999, the Government made significant superannuation reforms, closing the defined benefit scheme to new entrants and establishing a fully funded, and hence fully portable, superannuation scheme for new entrants and those current employees who were not members of the RBF defined benefit scheme. This reform, which had been introduced into most other states a few years earlier in respect of public servants, went further than in all other jurisdictions in that it was also applied to the State's parliamentary and judicial superannuation arrangements.

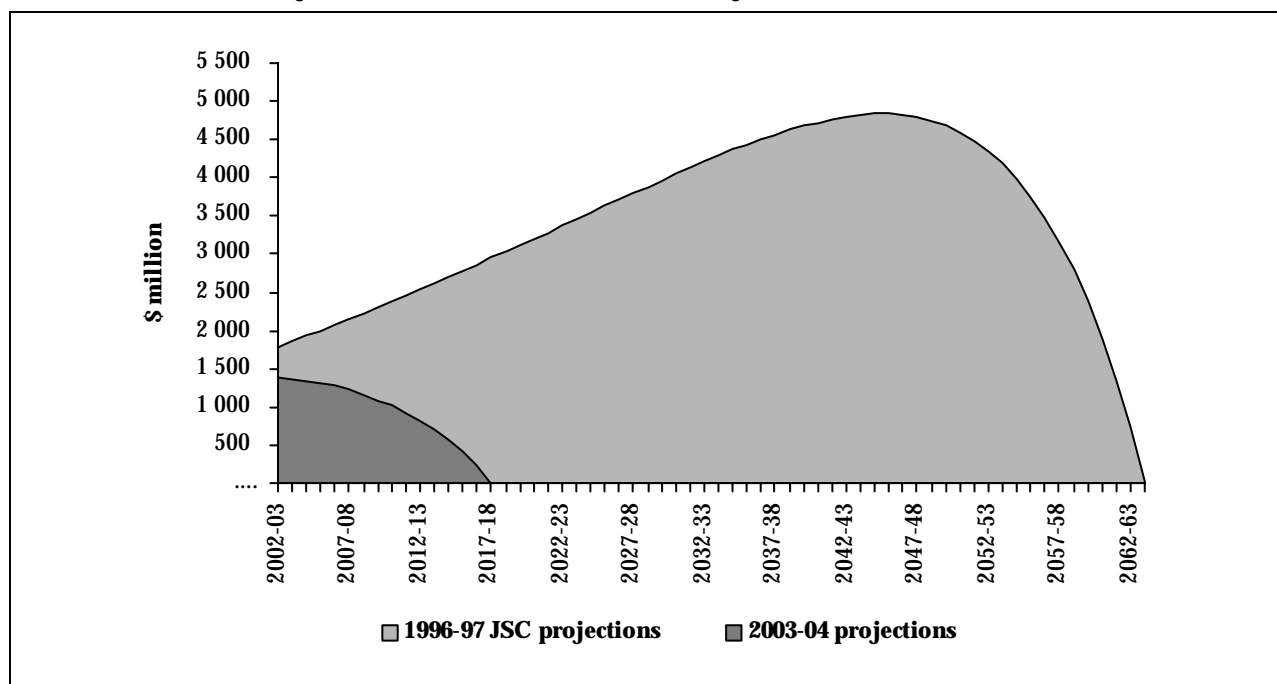
The effect of these changes is that all new public servants appointed after 15 May 1999, all new members of Parliament elected after 1 July 1999 and all new judges and Solicitors-General appointed after 1 July 1999 are now members of fully funded superannuation schemes. As at 31 December 2002, over 63 per cent of all Tasmanian public sector employees are now members of fully funded superannuation schemes. This percentage will clearly increase over time, as members of the closed defined benefit schemes exit. These developments ensured that the Government met its Fiscal Strategy commitment that the accruing superannuation liabilities of all new public sector employees would be fully funded on and from 1 July 1999.

The purpose of the 1999 reforms was to ensure that the State's unfunded superannuation liability was firstly capped and then eventually eliminated over a reasonable time period. In the first instance, the reforms capped the unfunded liability in the sense that no new employees would add to that liability. It was accepted, however, that the unfunded liability would continue to increase in nominal terms for a number of years (as salaries increased, members worked additional years of service and so on), but that eventually it will disappear as membership of the closed schemes declines.

Notwithstanding the minor increase in the unfunded liability of the RBF scheme as at 30 June 2002, in nominal terms, the most recent advice from the State Actuary confirms that the State's net unfunded liability is expected to be eliminated by June 2018. That is, at that date, the balance of the SPA is forecast to exceed the RBF net liabilities.

The most recent estimates of the State's future net unfunded liability are also shown in Chart 1.8. On the most recent economic, financial and demographic assumptions, and on current and planned funding efforts, the State Actuary has estimated that this net unfunded liability will be eliminated within 15 years. Had the Labor Government not taken the decision to close the unfunded RBF defined benefit scheme in mid-1999 and increase provisions to meet the emerging costs of the RBF defined benefit scheme, the State would be facing a crippling superannuation liability over future decades, which would have put increasing and unsustainable pressure on the General Government Sector Budget.

Chart 1.8: Projected Unfunded Liability



Source: Department of Treasury and Finance

Further information on superannuation is provided on Chapter 7 of this Budget Paper.

INFRASTRUCTURE AND MAJOR PROJECTS

Promotion of infrastructure and major project development is a key feature of the Government's strategic approach to the Tasmanian economy.

Major infrastructure like natural gas, wind energy, optic fibre, Basslink and water developments are not only important in terms of jobs in the construction phase, but because of the contribution they make to a more competitive business environment and the many indirect opportunities that arise because of the very nature of the infrastructure.

For decades, Governments of all persuasions in all States have provided substantial funds to promote industry development. Every State has an industry development agency of some description, resourced by significant budget funds to carry on the day-to-day operations and policy development, as well as significant funds to develop and maximise economic opportunities. The issue therefore is not about whether Governments provide funds, but whether they are wisely spent and whether the Government is accountable for the spending.

Tasmania is no different.

The 2003-04 Budget provides for the facilitation of direct and indirect opportunities arising from infrastructure and major projects through a new fund: the Economic and Social Infrastructure Fund (ESIF).

The ESIF is complemented by specific funding to the Department of Economic Development (DED) to manage issues affecting the securing of major projects and promoting enterprise development. In addition, a number of other government agencies and business enterprises involved with energy and infrastructure

devote considerable expenditures to infrastructure developments, which have economic as well as social and community consequences.

Every dollar committed to pursue industry development is accounted for through a range of publicly available processes, the most significant of which is reporting and accountability through the annual State Budget process.

The Bacon Government has worked strategically to deliver the largest and most diverse range of infrastructure developments in the State's history.

The range of infrastructure developments includes natural gas, wind energy, Basslink, and optic fibre, transport and tourism capacity through the two new monohull ferries, and increased agricultural capacity through the State's water infrastructure plan.

Through its industry development resources, both human and financial, the Government will ensure the direct and indirect opportunities arising from infrastructure developments are achieved and maximised. The consultative arrangement with stakeholders structured into the Industry Development Plan, specifically with Industry Councils and through Partnership Agreements, will effectively identify these opportunities.

Harnessing these opportunities is the Government's number one priority and its biggest challenge.

Securing Infrastructure and Major Projects – Direct and Indirect Opportunities

Significant human resources through government agencies and financial resources from the ESIF will be tactically provided to ensure further infrastructure and major projects are secured. Funding provided to secure infrastructure and major projects is detailed in Chapter 4 of Budget Paper No 2 *Operations of Government Departments 2003-04*.

Natural Gas – Direct Opportunity

Natural gas infrastructure includes:

- \$400 million pipeline constructed by Duke Energy across Bass Strait;
- \$200 million reticulated pipeline constructed by Powerco; and
- \$50 million - \$100 million conversion of Bell Bay power station from oil to gas.

The State Government provided significant human resources and accepted a limited contingent liability on the sale of gas through the pipeline as a part of the \$400 million project and \$50 million - \$100 million upgrade of Bell Bay power station by Duke Energy.

In terms of the \$200 million reticulated pipeline being controlled by Powerco, the Government's intention is for as much as possible of the ongoing project to be funded by the private sector. However, the State Government has agreed to provide funds to achieve an optimum rollout into the future. Stage one of the gas distribution rollout by Powerco has seen an injection of \$8 million from the Government to ensure the gas backbone is extended to major industrial customers and provides the basis for further reticulation.

Further Government funds, in the event that this is required, will be fully budgeted for. In situations like this, the Government considers not only the financial returns from providing such funds, but also the economic outcome of the application of such funds.

Natural Gas – Indirect Opportunities and Major Projects

The rollout of natural gas will deliver indirect opportunities to Tasmanian homes and businesses.

For both homes and businesses, the competition natural gas brings to the energy market in Tasmania will immediately deliver lower prices to those currently using bottled gas, and will make gas competitive with electricity.

Tasmania has a well established and diverse manufacturing base. A significant proportion of these businesses, previously constrained by not having reticulated natural gas available, will have the opportunity to diversify their manufacturing base and/or lower production costs.

Complementing Tasmania's competitive business environment, it is anticipated the widespread reticulation of natural gas will also enable the promotion of a more diverse manufacturing base in the State.

Optic Fibre – Direct Opportunity

Natural gas reticulation has provided Tasmania with the opportunity to reticulate optic fibre in the gas trenches to the businesses and households being supplied with gas.

This opportunity is presented because trenching represents a significant proportion of the costs involved in establishing optic fibre infrastructure.

The State Government has ensured that it remains in control of three critically important components of telecommunications infrastructure. Those components are:

- the optic fibre to be laid with Basslink connecting Tasmania to the mainland;
- the optic fibre that has been laid with the Duke gas backbone; and
- the option to access the trenches and install conduit and optic fibre as the Powerco reticulation of gas continues to homes and businesses across the State.

The private sector will be integrally involved in bringing these three components together in the development of a competitive telecommunications market in Tasmania for the first time ever. The development of this project will create jobs and significant private sector investment in the construction phase and in the management of the asset and delivery of telecommunications services on completion.

Optic Fibre – Indirect Opportunity

By developing the roll out of optic fibre through natural gas reticulation, the State will be one of the few jurisdictions in Australia that enjoys access to a genuinely competitive telecommunications market. In having an independently owned telecommunication infrastructure in competition to the dominant market player, Tasmanian businesses, homes and educational facilities can expect to see:

- competition in the provision of standard telecommunication services;
- access to more innovative telecommunications applications that provide solutions to Tasmanian specific issues such as a disbursed population; and
- advanced research activities looking to exploit the opportunities that will emerge by having a highly connected community.

Just as the delivery of natural gas and the more competitive energy market it will deliver in Tasmania will create opportunities for industry development, so too will the provision of a competitive telecommunications market provide opportunities for emerging and future industries to flourish.

Tasmania's Information Technology sector has seen 100 per cent growth over the last four years, but as recognised in the Government's 1999 ITC Industry Audit, one of the major constraints to continued growth in this and the Financial Services sectors is access to low cost telecommunications. The development of a competitive telecommunications market enable these key sectors to grow and it will also be a major attraction for innovative technology companies in determining where they establish development and service offices.

Through this development, Tasmanian communities will get access to improved online and digital services and will be better able to access online educational services, creating further lifelong learning opportunities. Opportunities for Tasmanian education institutions to export online education products and services will also increase.

Wind Energy – Direct Opportunity

Wind energy development is being progressed entirely through the private sector, with Hydro Tasmania managing this approach in accordance with discussion and input from the State Government through the two Shareholders Ministers.

Tasmania has some of the world's best sites suitable for the generation of wind energy, and the Tasmanian brand is highly compatible with the generation of clean energy. \$200 million has been committed to wind energy development at Woolnorth and another \$270 million wind energy project has been proposed for Heemskirk on Tasmania's west coast. Windmill towers are constructed in Tasmania and the Danish firm, Vestas, is establishing a composite plant for the manufacture of the nacelles for windmills.

Basslink – Direct Opportunity

Linking Tasmania into the National Electricity Market (NEM) via a transmission cable across Bass Strait, Basslink is a \$800 million infrastructure project which has commenced. Basslink will enable surplus energy generated in Tasmania to be sold interstate, providing Australia with a significant amount of its renewable energy needs. It is estimated that around 360 direct and indirect jobs will be created in the construction stage until the end of 2005.

Basslink – Indirect Opportunity

Previously constrained by the availability of electricity to attract industry, through Basslink, Tasmania now has new energy generating industries and the capacity to provide energy to new industries interested in Tasmania's competitive business environment.

Tasmania is rich in resources, including minerals and forestry, but the downstream processing of those resources is often energy intensive. Energy provision is no longer a constraint. Local industry expansion and attraction of resource processing industries will be strategically pursued.

Bass Strait Ferries – Direct Opportunity

Access to Tasmania has been an historical constraint on the State. The introduction, at a cost of \$290 million, of the two, of the two high-speed ferries servicing Bass Strait heralds a new era for access to the State, both in terms of tourism and freight. The dual ferry service has already delivered record numbers of tourists and vehicles through increased capacity.

Bass Strait Ferries – Indirect Opportunity

Demand is the most critical driver of growth for local business. Demand in Tasmania is at historic levels, evidenced by record levels of State Final Demand which in more recent times has been growing at a rate faster than the nation. This positive economic impact is already being contributed to by the two ferries and will be supplemented into the future by the increased number of tourists they bring.

As a direct result of increased access to Tasmania, over \$300 million in private investment towards tourism infrastructure has already been committed or planned.

To maximise this positive impact through increased access to the State, significant funds from the ESIF are provided for tourism marketing, infrastructure for national parks, York Park and for Highfield House in Tasmania's northwest.

Since the new ferry service came into operation, ABS estimates of Tasmania's population have also risen markedly. Complementing the return to population growth brought about by Tasmania's economic recovery, increased access to the State provided by the two ferries already appears to be accelerating population growth.

Water Infrastructure Development – Direct Opportunity

In the 2001-02 State Budget, the Government set aside \$10 million in its Infrastructure Fund for water infrastructure. As a direct result, the Meander Dam will be the first major water infrastructure development in Tasmania for almost 20 years. The new wine industry established in the Coal River Valley arose from the Craighorne Dam, which was the last major water infrastructure development.

Similarly, the Meander Dam and ensuing water infrastructure developments will not only provide direct opportunities in the construction phase, but also generate new industries and greater levels of production. Water infrastructure development also has the direct benefit of generating hydropower, controlling environmental flows and attracting significant investment funds to Tasmania.

Water Infrastructure Development – Indirect Opportunity

Increasing and diversified agricultural production lends itself to many indirect opportunities. For example, the Coal River Valley wine growing area that arose as a result of the Craighorne Dam has become a wine route and is now a popular tourist destination. Significant investment has been placed in wine cellars and restaurants, while local small and medium sized businesses have enjoyed increased demand for their goods and services.

By increasing the volume and reliability of agricultural water supply, the indirect opportunities experienced following the establishment of the Craighorne Dam can be replicated in other areas of Tasmania.

SOCIAL POLICY INITIATIVES

The 2003-04 Budget builds on the foundation established in previous years. Funding allocations in this Budget are directed to ensuring all Tasmanians obtain just entitlements to health, education, jobs, child care, concessions, housing, community safety and protective services.

People excluded from participating in our community cannot fully contribute either in the labour market or in providing family and social support. It is for this reason that social policy is at the core of the State Budget.

In this Budget, the Government has focused on ensuring that all Tasmanians share in the rewards of an improving economy through providing funding for government services and initiatives aimed at directly assisting vulnerable children and young people, as well as members of our community who are jobless, in poor health or on low incomes.

Many people rely on government services to moderate social inequalities that otherwise prevent them from taking up the social and economic opportunities enjoyed by others. Basic government services – health, housing, education, child care, concessions, community safety - provide for immediate need and also provide the way to a secure future for families and individuals.

The 2003-04 Budget is about social priorities. It shares the rewards by providing greater equality of opportunity for Tasmanians in three main priority areas. These are:

- Better Living Standards and More Jobs;
- Our Children – Our Future; and
- Healthier and Safer Communities.

Better Living Standards and More Jobs

Tasmania's growing economy is the most important driver of jobs, delivering optimism and opportunity. However, disadvantaged jobseekers - such as the long-term unemployed, the mature aged, indigenous Tasmanians and people searching for work in rural and regional areas - face workforce participation barriers that make it harder for these groups to be lifted up on a rising tide of employment.

The Budget provides \$1.4 million for the 'Partnership to Jobs' program which will identify and seed fund community based enterprise opportunities that are job generating, innovative or entrepreneurial and suitable for disadvantaged jobseekers. This will be a true partnership working with community groups, other organisations and other levels of government to develop job creating businesses.

Money provided through the 'Partnership to Jobs' program will be used to attract funding and support from existing organisations and the Commonwealth Government.

Funding of \$10 million will also be provided over two years to create jobs in our parks.

Many Tasmanians who suffer hardship live in jobless households, the majority receive Commonwealth income security benefits whilst an increasing number are the 'working poor'. The State Government cannot influence the level of income security payments because that is a Commonwealth Government responsibility.

However, the living standards of too many Tasmanians are threatened by hardship and poverty. The Government has provided \$2.8 million to extend the electricity concession to 30 000 low income Tasmanian holders of a Health Care Card for the two winter quarters.

A further \$320 000 has been set aside to increase availability of wheelchair accessible taxis for those confined to a wheel chair, whilst \$250 000 has been allocated to establish a fund to help ensure low income people get equal access to the civil justice system.

Affordable housing is also critical in protecting the living standards of low income Tasmanian. An ageing population, significant increases in house prices, a very tight rental market and the trend towards smaller family units requiring housing, have all increased demand on public housing in Tasmania

\$3.0 million from the Economic and Social Infrastructure Fund will be combined with \$5 million from Housing Tasmania's \$30 million Capital Investment Program, providing a total of \$8 million to be used to buy homes over the next six months for Tasmanians with the most urgent housing needs. Over this period, this funding will deliver homes to around 150 Tasmanians in acute housing need.

Our Children – Our Future

All children should be given the best possible start in life and the opportunity to grow up and participate fully in our community. This not only benefits the child in later life through increased success in employment, greater productivity and improved health but also, more importantly, brings a broader benefit to the community in terms of social capital, reduced inequality and sustainable economic growth.

Every parent wants the best for their child but many families, for a wide variety of reasons, are struggling to cope with the pressures they face and need assistance in their parenting role. Funding of \$1.6 million will be provided to boost child protection, including \$1.1 million to more closely match services to demand and \$450 000 to improve the early assessment of children at risk.

Access to quality, affordable child care is important to support children's early development and increase full and part time employment opportunities for parents. Since the Commonwealth Government's withdrawal of operational and capital funding to child care centres in 1997, growing demand for child care places, coupled with a limited supply has resulted in long waiting lists in urban areas. This Budget allocates \$4.0 million over two years to assist with the costs of establishing child care facilities on school sites. This will help make available badly needed child care places in situations that will most benefit children and their parents.

Funding for the successful Managing and Retaining Secondary Students at School (MARSSS) program continues and maintains the Department of Education's capacity to improve the educational outcomes for students at risk.

\$5.3 million will be provided in the 2003–04 Budget through the Department of Education to help low income families cover the cost of schooling. This is an increase of \$1.0 million over the \$4.3 million provided as a concession under the Student Assistance Scheme in 2002–03.

Children and young people are growing up in a rapidly changing world of technology where information, communication skills and knowledge are essential to job outcomes. This Budget provides funding of \$16.7 million over four years to maintain the information and communication technology system in our schools and ensure students do not miss out.

To demonstrate the strong commitment to addressing social policy issues, the Government has established the new Social Projects Unit in the Department of Premier and Cabinet.

Answering to the new Social Policy Sub-Committee of Cabinet, the Social Projects Unit will deliver better outcomes in social policy through the targeting of coordinated efforts on specific social projects. It will work with key social policy agencies: Education; Health and Human Services; Justice and Industrial Relations and Police and Public Safety and take a leadership role in the Government's response to priority social issues.

\$1.3 million is provided as a new initiative in this Budget to establish the Unit and fund two new projects - 'At School, On Time, Ready For Work' and 'Kids In Mind'.

'At School, On Time, Ready For Work' will look at the reasons behind the non-attendance at school of as many as 6 000 children each week. Absence from school affects a student's capacity to learn and their future

prospects as well as increasing each student's immediate exposure to risk taking behaviours and offending. Poor school attendance and early school leaving are both linked to reduced life chances. There is no one single cause of school absenteeism and no one single response and this is why the Government has drawn the key agencies together in a concerted whole-of-government approach.

'Kids In Mind' supports children in families where a parent suffers from mental illness or a substance abuse problem. Not all children of parents with a mental illness will experience difficulties as a result of their parent's ill health. However, these children are at an increased risk and this project will develop and provide support to the child as well as family focused practical assistance which will help children to cope effectively with a parent's mental illness or substance abuse problem.

Healthier and Safer Communities

This Budget continues to deliver the means for building a strong health system. Additional recurrent funding of \$49.5 million has been provided to the Health and Human Services portfolio to improve health services, especially in regional areas.

The additional funding in 2003-04 will support a range of measures including the State's nurses and new pay arrangements for specialist surgeons and doctors on the North-West Coast.

\$5.6 million is provided to extend the Government's rural health rebuilding program, including works at Deloraine, Huonville, New Norfolk, Sorell, the West Coast and Tasman.

For a second year in a row, there has been a significant boost for dental services, with \$2 million this year being provided for oral health.

In addition, the Budget provides funding for renal dialysis, for services to people with a disability and for young people with acquired brain injury.

Tasmania is the safest state in Australia, and the State Government is keen to maintain this standing. We are continuing our work to make our communities even safer.

In particular, Tasmania has joined with the Commonwealth and other jurisdictions to implement a buy-back scheme for handguns. Some \$715 000 will be made available to ensure that as many handguns as possible are removed from the community.

The State has also committed more than \$3.7 million to establish and operate a state security unit as part of the national counter-terrorism project.

Just as all children must be given the best start in life through early intervention programs, the Government will not abandon those young people who at a later age face difficulties. Early intervention, whether at an early age or early on in an offending pathway, or early in the pattern of absenteeism from school, is the point where research indicates that assistance is most effective. \$2.4 million will be provided to the Ashley Youth Detention Centre to boost their efforts to help young offenders turn away from a life of crime.

Further information on the wide range of agency initiatives can be found in individual agency chapters in Budget Paper No 2 *Operations of Government Departments 2003-04*.