
Management Discussion and Analysis for Example Department, for the Financial Year Ended 30 June 2007

General Overview

Objectives

The Department's primary objective is to deliver a range of cost effective community services to the population of the Territory. These include:

- public transport;
- waste management;
- libraries;
- land information, national parks and nature reserves; and
- the provision and maintenance of major infrastructure such as roads, streetlights and stormwater.

Changes in Administrative Structure

Due to the Administrative Arrangement Orders of 15 May 2007, the Department gained the following functions:

- *Waste Policy from the Department of XYZ* - The waste briefing function was transferred and consequently the Waste Analysis Section is now responsible for providing strategic advice and policy development to the Government on issues relating to waste and waste management; and
- *Environment from the Department of ABC* – The environment function is responsible for the development of policy frameworks and providing advice on the management and protection of the environment.

Risk Management

The Department's management has identified the following potential risks that may influence the future financial position of the Department:

- the age profile of the Department's workforce indicates a significant number of employees will retire within the next decade. The Department also risks possible skill deterioration in the workforce. The Department is reviewing its workforce plan to address this issue; and
- the Department is a major collector of revenues in the Territory. Due to the increasing use of e-commerce to facilitate revenue collection, the Department is exposed to the possibility of escalating Internet fraud. The Department will upgrade its encryption software next financial year to minimise this risk.

Departmental Financial Performance

The following financial information is based on audited Financial Reports for 2005-06 and 2006-07, and the forward estimates contained in the 2006-2007 Budget Paper Number 4.

Total Net Cost of Services

	Actual 2005-06 \$m	Amended Budget ¹ 2006-07 \$m	Actual 2006-07 \$m	Forward Estimate 2007-08 \$m	Forward Estimate 2008-09 \$m	Forward Estimate 2009-10 \$m
Total Expenditure	356.0	360.9	382.6	346.5	364.4	375.3
Total Own Source Revenue	48.9	21.5	52.7	45.5	46.8	48.2
Net Cost of Services	307.1	339.4	329.9	301.0	317.6	327.1

Comparison to Budget

The Department's net cost of services for 2006-07 of **\$329.9 million** was **\$9.5million** or **3 per cent** lower than the amended 2006-07 Budget (refer to Attachment B), reflecting a combination of factors including:

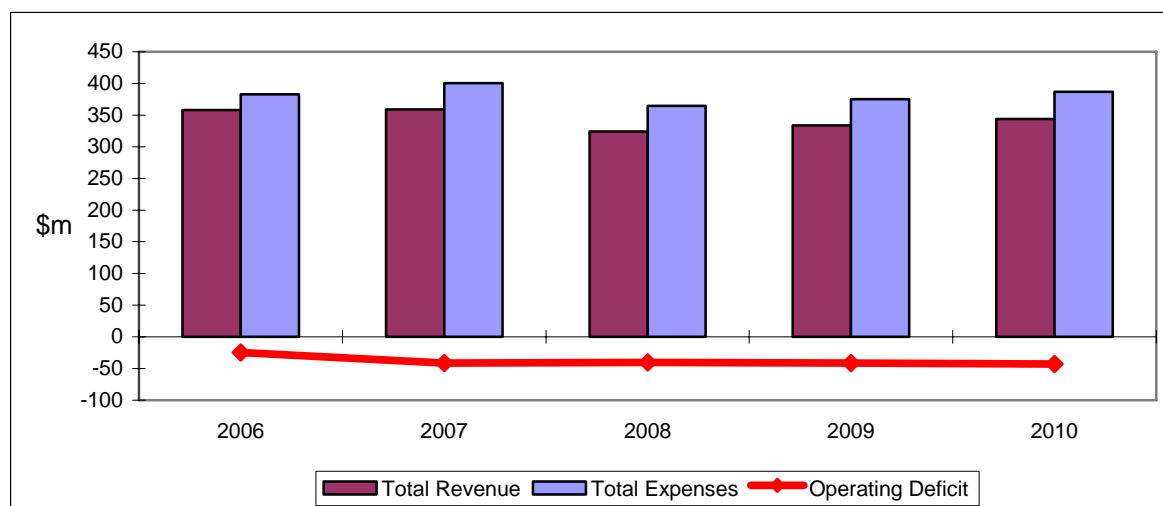
- increases in expenditure resulting from AAOs (**\$24 million**); offset by
- an overall decrease in expenditure (after AAOs) (**\$2.3million**); and
- unbudgeted increases in;
 - non-appropriated revenue (**\$17.2 million**), largely resulting from an increase in user charges; and
 - various gains (**\$14 million**), due to contributions of assets and donations.

Comparison to 2005-06 Actual Expenditure

Total net cost of services was **\$22.8 million** or **7 per cent** higher than the 2005-06 actual result primarily due to increased grants and purchased services as discussed on page 12.

Future Trends

Figure 1: Net Cost of Services



¹ Refer to Attachment A for a reconciliation

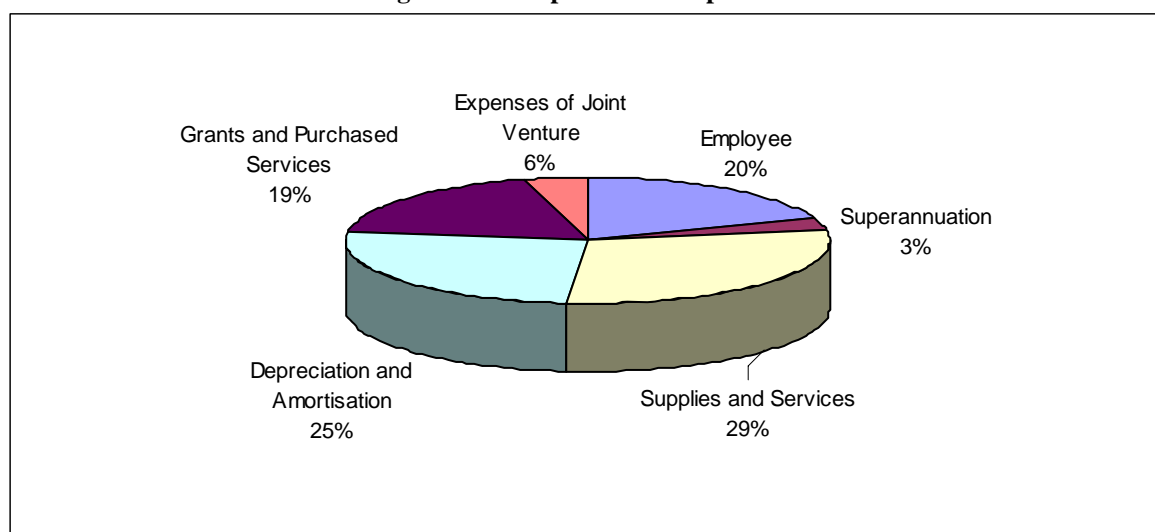
Figure 1 indicates that in 2007 the Department experienced increases in expenditure, net cost of services and own source revenue. From 2007, the Department is initially forecasting decreases in expenditure, net cost of services and own source revenue largely as a result of the expected completion of a number of initiatives. The graph also shows that from 2008 the Department is anticipating a gradual trend of increasing expenditure and net cost of services, with own source revenue remaining relatively constant.

Total Expenditure

1. Components of Expenditure

Figure 2 below indicates the components of the Department's expenditure for 2006-07 with the largest component of expenditure being supplies and services, which represents **29 per cent** of ordinary activities or **\$110.8 million**.

Figure 2 – Components of Expenditure



2. Comparison to Budget

Total expenditure of **\$382.6 million** was **\$21.7 million**, or **6 per cent** higher than the amended 2006-07 Budget of **\$360.9 million**. Due to the Administrative Arrangement Orders (AAOs) of 15 May 2007 this over expenditure was offset leaving an under-spend of **\$2.3 million**.

	2006-07
	\$m
Amended Budget ²	360.9
Add: AAOs (after supplementary appropriation)	24.0
Less: Actual Expenditure	<u>(382.6)</u>
Variance to be Explained	<u>2.3</u>

The under-spend of **\$2.3 million** predominantly relates to decreases in:

- employee costs (**\$2 million**) – due to delays in filling permanent positions for engineers, accountants and draftsmen, as a result of a competitive market for these positions;

² Refer to Attachment A for a reconciliation

- grants and purchased services (**\$2 million**) – resulting from the deferral of budget initiatives³; and
- depreciation (**\$1 million**) – due to delays associated with acquiring various assets and in completing infrastructure assets.

This above variances were partly offset by increases in:

- supplies and services (**\$2 million**) - due to the increased demand in the Department’s transport services; and
- other expenses (**\$1 million**) – resulting from the AAO transfer of Environment from Department ABC.

3. Comparison to 2005-06 Actual Expenditure

Total expenditure was **\$26.6 million**, or **7 per cent** higher than the 2005-06 actual result. The increase reflects a combination of factors including increased expenditure in:

- grants and purchased services of **\$9.4 million** due to the increase in:
 - payments to service providers (**\$6.6 million**) resulting from the Department having additional responsibility for management and development of land; and
 - capital grants (**\$2.4 million**) due to a new grant program;
- other expenses of **\$8.6 million** reflecting increased restoration costs (**\$3.6 million**), restructuring expenses (**\$1.7 million**) and assets donated to a third party (**\$1.1 million**);
- depreciation and amortisation of **\$3.5 million** due to the necessary replacement of ageing plant and equipment; and
- supplies and services expenses of **\$2.7 million** largely due to an increase in legal expenses resulting from litigation associated with the leakage of contaminated waste material.

4. Future Trends

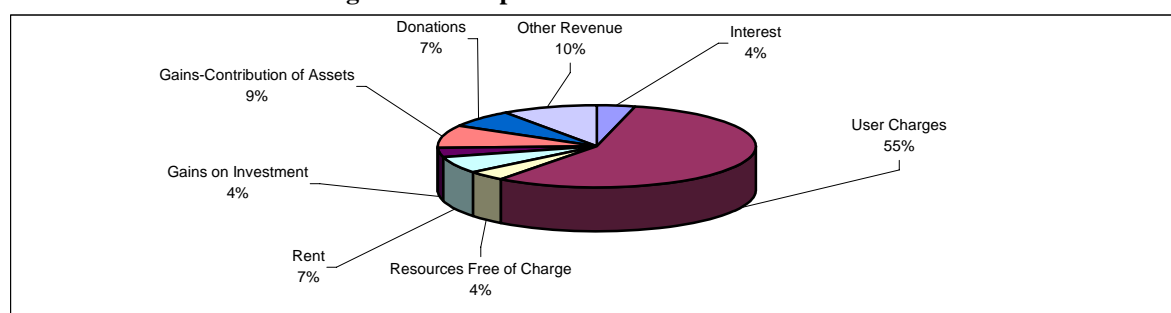
Expenditure is budgeted to decrease in 2007-08 by **\$36.1 million** due to the completion of a number of initiatives, which will see a significant decrease in suppliers and service expenditure.

Total Own Source Revenue

1. Components of Own Source Revenue

Figure 3 below indicates that for the financial year ended 30 June 2007, the Department received **55 per cent** of its total own source revenue of **\$29.7 million** from user charges.

Figure 3 – Components of Own Source Revenue



³ Departments are to provide details of the relevant initiatives

2. Comparison to Budget

Revenue

Non-appropriated revenue for the year ending 30 June 2007 was **\$38.7 million**, which was **\$17.2 million** higher than the original 2006-07 Budget of **\$21.5 million**. This favourable variance is due to higher than anticipated:

- user charges of **\$9 million** due to an increase in consumer demand for the Department's goods and services;
- other revenue of **\$5 million** attributable to a combination of increases in rent and dividends received;
- resources received free of charge of **\$2 million**; and
- interest of **\$1 million** due to cash balances being larger than expected as a result of delayed capital works.

Gains

Income from gains for the year ending 30 June 2007 was **\$14 million**. This was a **100 per cent** increase on the original 2006-07 Budget. The favourable variance was primarily attributable to unbudgeted gains arising from contribution of assets (**\$5 million**), donations (**\$4 million**), investments (**\$2 million**), and forgiveness of liability (**\$1 million**).

3. Comparison to 2005-06 Actual Income

Revenue

Non-appropriated revenue was **\$5.6 million**, or **17 per cent** higher than the 2005-06 actual result of **\$33.1 million**. The result reflects increases in user charges (**\$3 million**), resources free of charge (**\$1 million**), and interest revenue (**\$1 million**).

Gains

Income from gains was **\$1.8 million**, or **11 per cent** lower than the 2005-06 actual result of **\$15.8 million**. The result is largely due to decreases in gains arising from donations (**\$1.3 million**).

4. Future Trends

Total own source revenue for 2006-07 and for forward years is budgeted to increase by indexation. For 2007-08, this increase is projected to be **\$9 million**.

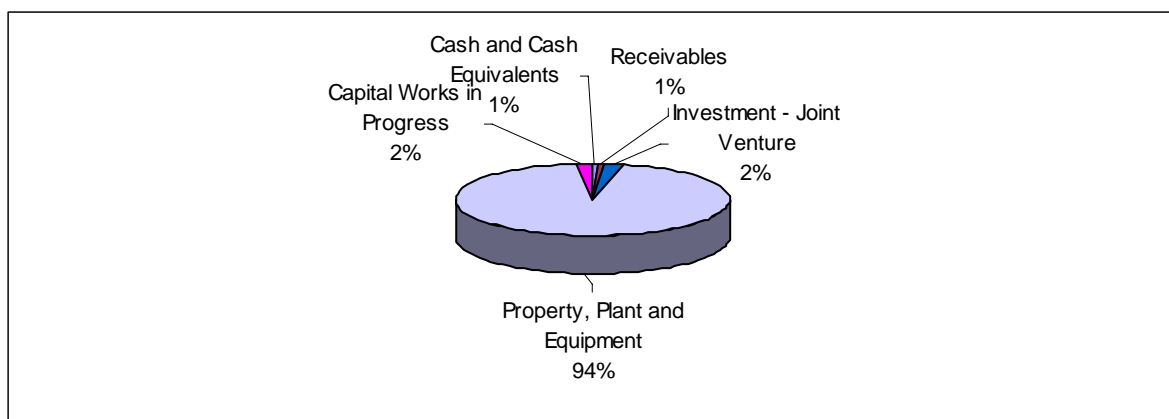
Departmental Financial Position

Total Assets

1. Components of Total Assets

Figure 3 below indicates that for the financial year ended 30 June 2007, the Department held **94 per cent** of its assets in Property, Plant and Equipment.

Figure 3 – Total Assets as at 30 June 2007



2. Comparison to Budget

The total asset position as at 30 June 2007 is **\$3,899.3 million**, **\$27.1 million** lower than the amended 2006-07 Budget of **\$3,926.4 million**. Due to the Administrative Arrangement Orders (AAOs) of 15 May 2007 and other asset transfers this variance is increased to **\$47.8 million**.

	2006-07
	\$m
Amended Budget - Total Assets	3,926.4
<i>Plus Impacts of Structural Changes</i>	
Add: AAOs	16.9
Add: Other Assets Transfers	<u>3.8</u>
	3,947.1
Less: Actual – Total Assets	<u>(3,899.3)</u>
Variance to be Explained	<u>47.8</u>

The variance reflects delays associated with acquiring various assets and in completing infrastructure assets (**\$81 million**). This result is partially offset by increases in capital works in progress (**\$34 million**).

3. Comparison to 2005-06 Actuals

The Department's total asset position is **\$9.7 million** higher than the 2005-06 actual result of **\$3,889.6 million** largely due to increases in:

- capital works in progress (**\$16.3 million**), predominantly made up of infrastructure works;
- receivables (**\$11.2 million**), reflecting a large number of services being provided by the Department late in the reporting period; and
- the joint venture investment (**\$10.8 million**).

Offset by:

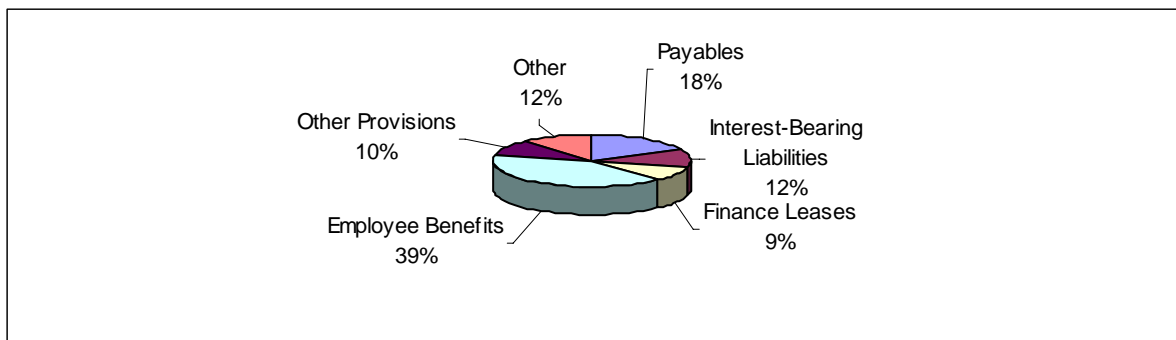
- return of cash (**\$9.5 million**) to Government under the new cash management regime; and

- an overall reduction in property, plant and equipment (**\$19.1 million**). This result reflects the net impact of additions, acquisitions, revaluation increments and depreciation.

Total Liabilities

Figure 4 below indicates that the majority of the Department's liabilities relate to employee benefits (**39 per cent**) and payables (**18 per cent**).

Figure 4 – Total Liabilities as at 30 June 2007



The Department's liabilities for the year ended 30 June 2007 of **\$70.5 million**, is **\$15.3 million** lower than the amended 2006-07 Budget of **\$85.8 million** largely due to payables being lower than anticipated (**\$23.1 million**), mainly a result of delayed capital works activity. This is partially offset by higher than employee benefits being higher than expected (**\$9.7 million**) due to the transfer of employee liabilities as a result of transferred functions into the Department.

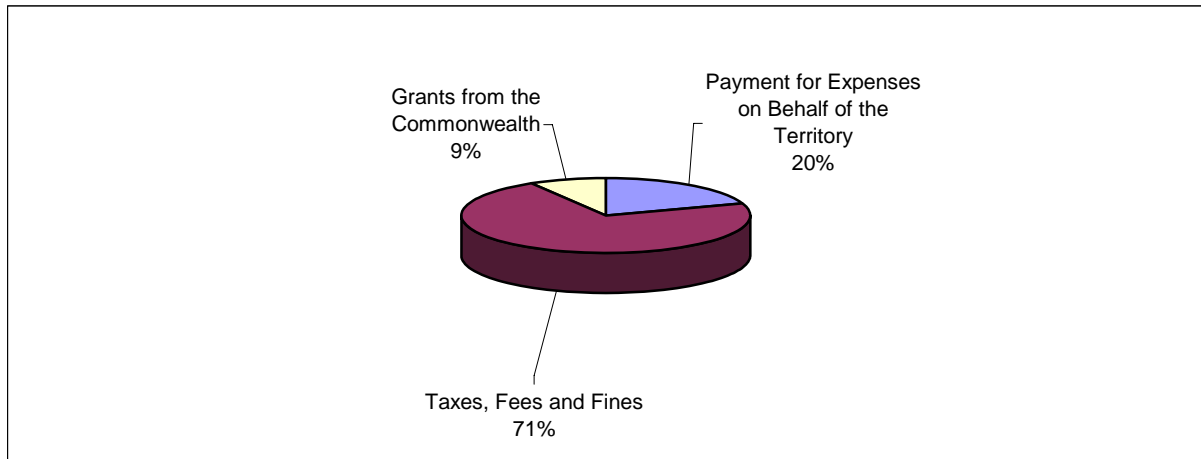
Total liabilities are **\$10.3 million** higher than the 2005-06 actual results of **\$60.2 million** due to increases in provisions for restructuring and the restoration of contaminated sites (**\$5 million**) and employee entitlements (**\$5 million**). Non-current liabilities are constant in the forward years.

Territorial Statement of Revenues and Expenses

Total Income

Figure 5 indicates that **71 per cent** of territorial income is generated from taxes, fees and fines, particularly motor vehicle registrations.

Figure 5 - Sources of Territorial Revenue



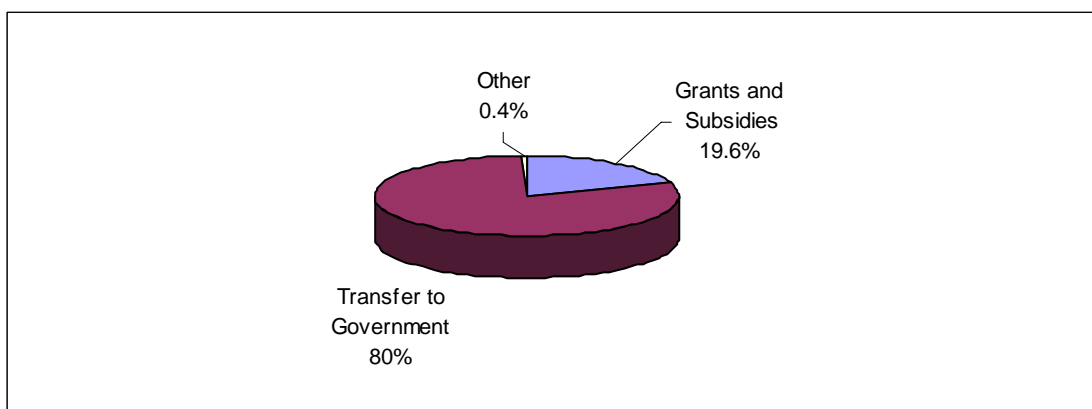
Total territorial income for the year ending 30 June 2007 was **\$155 million**, a decrease of **\$2.3 million** below the amended 2006-07 Budget. The decrease relates to a **\$16.1 million** reduction in Commonwealth funding relating to housing and transport and a **\$1.5 million** fall in payments received from the Government for expenses incurred on behalf of the Territory. This decrease was largely offset by increases in taxes, fees and fines of **\$15.3 million** relating to a significant rise in traffic and parking fines.

Total income was **\$9.5 million** higher than the previous year due to the rise in traffic infringements and parking fines. Income is anticipated to remain constant in the forward years until 2009-10.

Total Expenditure

Figure 6 indicates that **80 per cent** of expenses incurred on behalf of the territory relate to grants and subsidies paid to non-government bodies, mainly the Greenline Bus Authority and the Hills Development Authority.

Figure 6 - Sources of Territorial Expenses



Total expenditure was **\$155 million**, a decrease of **\$2.3 million** below the amended 2006-07 Budget. The lower expenditure largely relates to a reduction in transfers to Government of **\$1.7 million**, resulting from decreased Commonwealth Grants, combined with a decrease in grants and purchase services of **\$1.1 million**, primarily due to the Department providing a capital grant for an environmental project.

Total expenditure was **\$9.5 million** higher than the previous year due to increases in:

- transfers to Government of **\$6.6 million** resulting from an improvement in Commonwealth Grants; and
- grants and purchased services of **\$2.6 million**, due to the Department providing a capital grant for an environmental project.

Expenditure is anticipated to remain constant in the forward years until 2009-10.

Other Disclosures

Audit Qualification

[This is a hypothetical example of what to include if the Auditor-General issues a qualified opinion or a matter of emphasis.]

On 27 August 2007, the Auditor-General completed the financial audit of the Department and provided an opinion. With the exception of creditors referred to in the qualification paragraph, the Auditor-General's opinion of the Department's financial statements concluded, the statements were prepared in accordance with the *Financial Management Act 1996* and fairly represented the financial performance of the Department for the year ended 30 June 2007.

The qualification related to the value of creditors. The Auditor-General advised that the Department's processes and systems used to determine creditors and accruals at year end were not considered sufficiently robust and as a result, considered that creditors and accruals may have been incorrectly stated in the Balance Sheet. As a consequence, the Auditor-General was unable to form an opinion on the completeness of creditors brought to account in the Balance Sheet and any expenses that may have an effect on the operating result.

The Department is presently implementing improved policies and procedures for management of its creditors and accruals.

Reconciliation of Original Budget to Amended Budget⁴

	Original Budget 2007 \$m	Supplementary Appropriation No. 1 \$m	Supplementary Appropriation No. 2 \$m	Amended Budget \$m
Total Income	325.9	-	-	325.9
Total Expenditure	360.9	-	-	360.9
Total Assets	3,926.4	-	-	3,926.4
Total Liabilities	85.8			35.8

⁴ This reconciliation is only required if there has been a supplementary appropriation in the financial year.

Comparison of Net Cost of Services to Budget 2006-07

Description	Amended Budget (1) \$'000	Plus AAO Transfers \$'000	Total Funding \$'000	Less Actual \$'000	Variance to be Explained	
					\$'000	%
<i>Expenditure</i>						
Employee and Superannuation	87,192	1,500	88,692	86,233	-2,459	-2.77%
Supplies and Services	92,045	16,300	108,345	110,750	2,405	2.22%
Depreciation and Amortisation	98,089	0	98,089	97,039	-1,050	-1.07%
Grants and Purchased Services	73,665	900	74,565	72,348	-2,217	-2.97%
Other Expenses	9,946	5,300	15,246	16,228	982	6.44%
Total Expenditure	360,937	24,000	384,937	382,598	-2,339	-0.61%
<i>Own Source Revenue</i>						
User Charges	20,467		20,467	29,650	9,183	44.87%
Interest	687		687	2,070	1,383	201.31%
Resources Free of Charge	116		116	2,025	1,909	#
Gains	0		0	13,998	13,998	-
Other Revenue	238		238	4,945	4,707	#
Total Own Source Revenue	21,508		21,508	52,688	31,180	144.97%
Total Net Cost of Services	339,429	24,000	363,429	329,910	-33,519	-9.22%