



BUDGETING BASICS

October 2003

Accounting Branch
Dept of Treasury

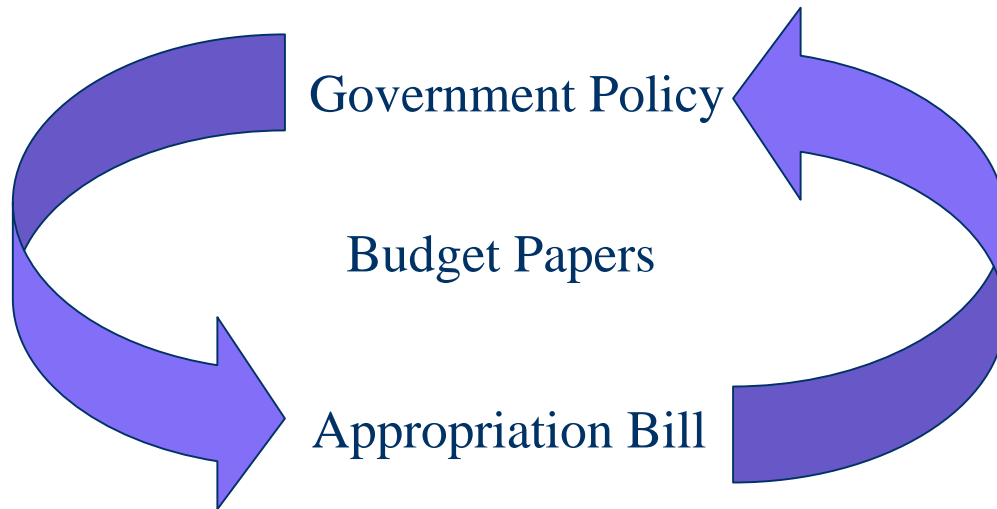
Session Overview

- ACT Budget Cycle
- Budget Papers
- Appropriations
- Morning Tea
- Budget Bases and Adjustments to Bases
- Indexation
- Lunch

Session Overview – (cont)

- New Initiatives
- Output Class/Outputs
- Afternoon Tea
- Capital Works
- Quality Assurance Processes
- Questions

ACT Budget Cycle



ACT Budget Cycle

- Who has responsibility for running of the Territory?
 - Section 37 of the ACT Self-Government Act 1988 advises that the Executive has responsibility for governing of the Territory.
 - The Executive is comprised of the Chief Minister and Ministers appointed by the Chief Minister.

ACT Budget Cycle – (cont)

- Cabinet has the same composition as the Executive and makes key budget decisions.
- Section 22 of the ACT Self-Government Act 1988 advises that the Legislative Assembly has the power to make laws.
- End result of the Budget process is an appropriation bill which the Legislative Assembly needs to review, debate and vote on.

ACT Budget Cycle – (cont)

- What is difference between a bill and an act?
- Budget Papers exist to support the annual Appropriation Bill.
- Can be multiple appropriation bills during a year.
- Legislative Assembly does not vote on the budget, but rather an appropriation bill.
- Treasurer presents the appropriation bill to the Legislative Assembly.

ACT Budget Cycle – (cont)

- Treasury has role of coordination of the budget process and budget papers' preparation, and monitoring of information to be included in budget.
- Agencies have role of developing budgets to reflect Government policy intent and which are consistent with any overall budget parameters set by Government.

ACT Budget Cycle – (cont)

- For departments, Government has the two key roles of ‘funder’ and ‘owner’.
- ‘Funder’ role means that Government is the main source of funding.
- ‘Owner’ role means that Government is the owner of net assets and plays a key role in major decisions impacting the net assets position eg major assets purchases or disposals.

ACT Budget Cycle – (cont)

- Ownership intentions are expressed by departments in ‘Ownership Agreements’ which are signed by CEO and the Treasurer.
- A similar agreement is prepared by Territory Authorities and is called a ‘Statement of Intent’ which is also required to be signed by the CEO and Treasurer.
- Budget date can be whenever Government decides, often toward beginning of May.

ACT Budget Cycle – (cont)

- Section 5 of FMA requires that first Appropriation Bill be introduced to the Assembly in first 3 months of financial year.
- An early May budget provides time for the appropriation bill to be reviewed debated and voted on before the end of June. This enables agencies to have certainty on budget levels from the beginning of the financial year.

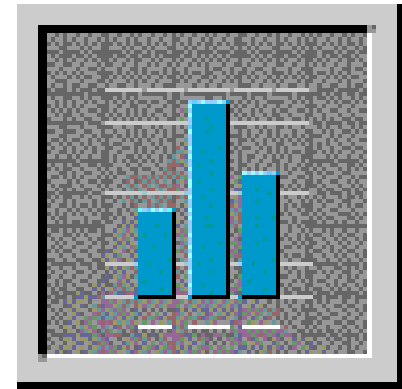
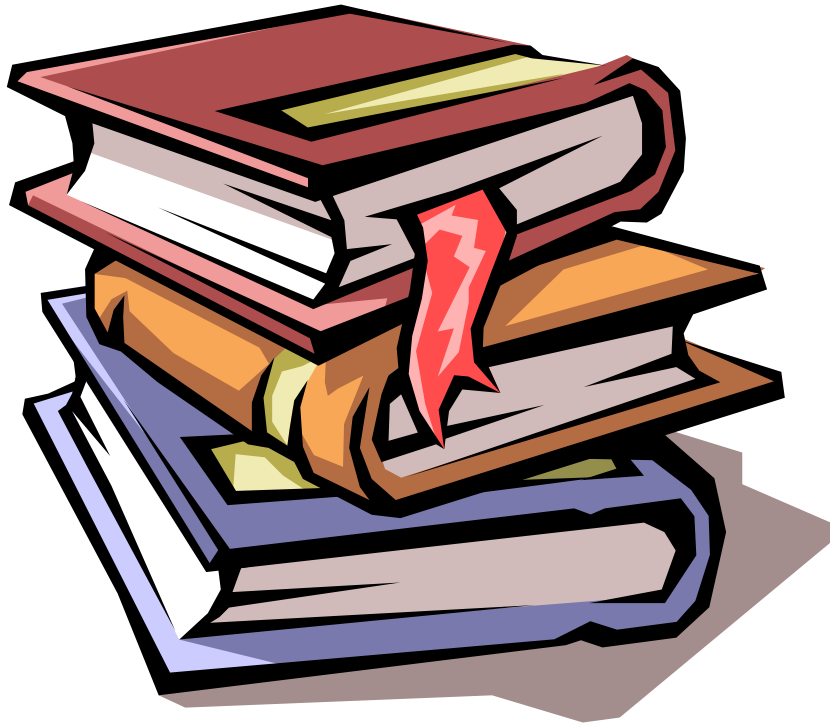
ACT Budget Cycle – (cont)

- Prior to debate of the appropriation bill, the Legislative Assembly will refer the bill to the Estimates Committee for review. Estimates Committee provides a report back to the Legislative Assembly.
- What happens if an Appropriation Act has not been passed before the end of a financial year? Where does Government get funding to operate in the next financial year?

ACT Budget Cycle – (cont)

- ‘Supply Period’ provisions commence.
- Section 7 of FMA enables automatic access to funds for next financial year. Cannot exceed half of previous year appropriations and must be for same purpose as previous year appropriations. Cannot commence new initiatives.

Budget Papers



Budget Papers

- The ACT Budget is usually presented in 4 Budget Papers:
 - Budget Paper 1 – Speech
 - Budget Paper 2 – Budget at a Glance
 - Budget Paper 3 – Budget Overview
 - Budget Paper 4 – Budget Estimates

www.treasury.act.gov.au/budget

Budget Paper 1 - Speech

- Treasurer's speech to the Legislative Assembly
- Highlights the Government's Budget strategies
- Highlights key features of the Budget
- Political speech

Budget Paper 2 – Budget at a Glance

- Aims to give community / media an overview
- Summary of overall budgetary position:
 - What the aggregate position is over 4 years
 - Where Government revenue comes from
 - Taxes, fees and fines
 - What the money delivers to the ACT community

Budget Paper 3 – Budget Overview

- Summary of the Budget
 - Budget Strategy and Overview
 - Economic Summary Budget:
- Shaping Canberra's Future
- Estimated Outcome
- Economic Overview
 - Economic Conditions
 - Developments in Commonwealth-State Financial Relations

Budget Paper 3 – Budget Overview (cont)

- Budget and Forward Estimates
 - Summary budget and forward estimates
 - Revenue for budget and forward estimates
 - Expenses for budget and forward estimates
 - Financial position for budget and forward estimates
 - Budget financial statements (GGS, PTE, TT)

Budget Paper 3 – Budget Overview (cont)

- Budget Initiatives
 - Summary of initiatives
 - Initiatives explained
- Management of Territory's Financial Position
 - ACT Government borrowings and gross debt
 - Investments
 - Superannuation
 - Risk management
 - Capital works

Budget Paper 3 – Budget Overview (cont)

- Budget Consultation
- The Environment
- Appendices
 - Basis of budget and forward estimates
 - Classification of ACT entities
 - Appropriation Bill
 - Government finance statistics
 - Glossary and abbreviations

Budget Paper 4 – Budget Estimates

Provides detailed information on each agency:

- Objectives

- Describe what the agency does
- Link to the Government agenda

- Budget year highlights

- Lists the strategic and operational issues to be pursued in the budget year

Budget Paper 4 – Budget Estimates (cont)

- Budgeted financial results
 - Required for departments only (s31 of FMA)
 - Lists key budgeted results, examples include
 - Operating Result
 - Current Ratio
 - Total Assets
 - Total Liabilities

Budget Paper 4 – Budget Estimates (cont)

- Budgeted financial statements
 - Financial information is uploaded from agencies' final Budget Development Applications (BDAs)
 - Both Departmental and Territorial
- Notes to the budgeted financial statements
 - Concise explanations are required for major changes in operating result or net asset position
 - Variances > 5% or \$100,000 to be explained

Budget Paper 4 – Budget Estimates (cont)

- Changes to appropriation table
 - Applies to departments
 - Appropriation table provided by Treasury
- Capital works table
 - Table provided by Treasury
- Commonwealth grants
 - Identifies major grants received from the Commonwealth

Budget Paper 4 – Budget Estimates (cont)

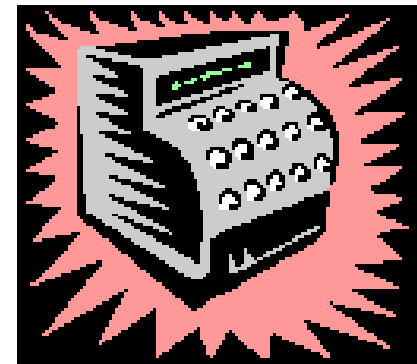
- Output Class Schedules
 - Check sum of output GPO (on output schedules) equals output class GPO on Statement of Financial Performance
 - Check total cost of outputs equals total expenses

OUTPUT CLASS

Budget Paper 4 – Budget Estimates (cont)

- Appendices
 - Basis of budget and forward estimates
 - Summary of transfers
 - Summary of terms of debt capital injection
 - Summary of outputs
 - Estimated outcomes for discontinued agencies
 - Glossary and abbreviations

Appropriations



Appropriations

- Section 58 of the ACT Self-Government Act 1988 states that no public money of the Territory shall be issued or spent except as authorised by an enactment.
- An appropriation act provides the required enactment to enable public moneys to be spent.
- Appropriations are about the provision of cash.

Appropriations – (cont)

- Appropriations are only made to departments. Any Government funding to a Territory authority needs to flow through a department.
- Often payments made from departments to authorities will be made under a 'Purchaser/Provider' arrangement.
- When can a payment by a department be made without an appropriation?

Appropriations – (cont)

- Answer: Never! No payment of public money can occur without an appropriation (S6 of FMA).
- Note that the FMA excludes from the definition of ‘public money’ any funds of a Territory authority or corporation.
- Appropriations can be made for (s8 of FMA):
 - Provision of outputs by departments
 - Capital injection
 - Payments made by a department on behalf of the Territory

Appropriations – (cont)

- Under an Appropriation Act appropriations can be either gross or net.
- Under net appropriation provisions in the FMA (s9), other sources of revenue can be used to fund payments for outputs or liabilities.
- Typically capital injections and payments to be made on behalf of the Territory are gross appropriations.

Appropriations – (cont)

- Standing appropriations exist where the FMA enables certain payments to be made without there needing to be a specific appropriation eg repayments of borrowings, act of grace payments.

Appropriations – (cont)

- S18 of the FMA advises that an amount of up to 1% of the budget for a financial year can be appropriated for Treasurer's Advance.
- Treasurer's Advance funding is appropriated in Appropriation Bill 1 as a separate appropriation line.
- Expenditure from the Treasurer's Advance requires approval of the Treasurer and has the purpose of providing flexibility to Government.

Appropriations – (cont)

- Appropriation Bill 1 relates to the annual budget and is tabled on Budget Day.
 - Copy of Appropriation Bill 1 is included toward the end of Budget Paper No. 3.
- The Treasurer must provide the Budget Papers to the Assembly immediately after the presentation of the Appropriation Bill 1 (s10 of the FMA)

Appropriations – (cont)

- How long do appropriations last?
 - Appropriation Acts are for a financial year only. At end of that period all appropriations lapse (s7 of the FMA).
- Section 34B of the FMA allows unspent funds in departmental bank accounts to be used in subsequent financial years for the same purpose as the funds were originally appropriated.

Appropriations – (cont)

- Supplementary appropriation bills can be used during the year (S13 of the FMA) for the provision of additional funding during the year.
- Supplementary appropriation bills do not require preparation of formal budget papers.
- Sections 14 to 17 of the FMA enable the variation of appropriations eg for transfers between appropriations, transfers between departments or as a result of variations to Commonwealth grants.

MORNING TEA



Budget Bases and Adjustments to Bases



Budget Bases and Adjustments to Bases

- Prior to budget process commencing, a recurrent budget base already exists for the next budget year and the following three years (forward or outyears).
- Capital works budget determined each year.
- Annual Budget process focusses on new budget initiatives not included in the base, and necessary changes the base eg changes in economic parameters or review of prior estimates.

Budget Bases and Adjustments to Bases – (cont)

- Budget adjustments are processed through the Budget Development Application (BDA).
- BDA entries will either be adjustments to base amounts already existing, or inclusion of new amounts not included in the base.
- At the beginning of the budget process it is important to review the base amounts for the next budget year and outyears to determine the reasonableness of base amounts.

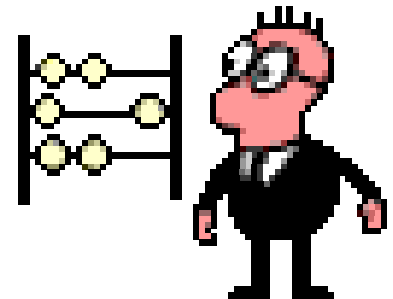
Budget Bases and Adjustments to Bases – (cont)

- BDA transaction lists for prior years can be obtained from FABM.
- Need to review trends or unusual movements and ensure that valid reasons exist for them.
- Prior to commencing the budget process it is important to have reconciled reasons for movements on all financial statements lines for each year.

Budget Bases and Adjustments to Bases – (cont)

- In reviewing the reconciliation adjustments, sometimes errors to previous budget adjustments are found. These need to be discussed with your Treasury contact.

Indexation



Indexation

- Concepts
- General Rules
 - Indexation on Appropriations
 - Indexation Revenue/Expenses (other than appropriations)
- Indexation Exercise

Indexation – Concepts

- What is indexation?
 - Process updating estimates to reflect forecast economic and social conditions of the year to which they relate.
- CPI
- Why index?
 - Preserves the real value of revenue and expense items.

Indexation – Concepts (cont)

- Final outyear
 - Direct copy of the third outyear, adjusted for discontinued initiatives and related expenses and revenues. [Appropriation History](#)
 - It is usually the final outyear that is the only forward estimate that needs to have full indexation added.

Indexation – General Rules

- Indexation on Appropriations
 - 1.3% safety net increase in salaries
 - CPI increase for the component covering administrative expenses (supplies and services)
 - GPO and EBT are indexed at a composite rate based on salaries to non-salaries ratio
 - Capital injections are not indexed

Indexation – General Rules (cont)

- Indexation Revenue/Expenses (other than appropriations)
 - User charges – adjust for change in CPI
 - C'wealth grants – C'wealth factor
 - Interest received – average investment balance and interest rate
 - Salaries – indexation based on safety net adjustment of 1.3% and cases considered for higher EBA adjustments

Indexation – General Rules (cont)

- Indexation Revenue/Expenses (other than appropriations) – (cont)
 - Depreciation – no adjustment
 - Interest expense – credit terms
 - All other items - CPI

Indexation - Exercise

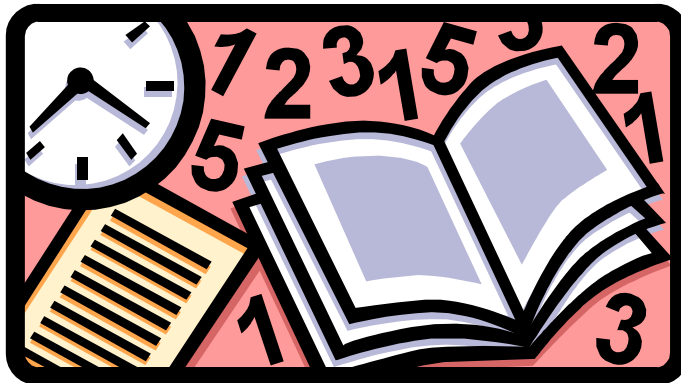
- Statement of Financial Performance
- Indexation on Appropriations
- Indexation Exercise

LUNCH



New Initiatives

Budget Initiatives



New Initiatives

- Significance of initiatives
- Timing in budget cycle
- Information required
- Quality checking
- “IT” initiatives
- Exercise

New Initiatives – (cont)

- Significance of initiatives
 - Proposals put to Government involving a cost in order to derive a benefit consistent with government objectives.
- Timing in budget cycle
 - Generally prepared by agencies 5 to 6 months before the Budget.

New Initiatives – (cont)

- Timing in budget cycle – (cont)

3 Nov 03	IT Business Cases due with ACTIM
6 Nov 03	Business Cases and Summary Listings due with Treasury
21 Nov 03	Treasury provides feedback to agencies
27 Nov 03	Revised Business Cases due
8-17 Dec 03	ERC Working Group to discuss proposals with agencies
16 Feb 04	Cabinet/ERC initial consideration
16 Mar 04	Cabinet/ERC final consideration

New Initiatives – Information Required

- Description of proposal
- Justification of proposal
 - Needs Analysis
 - Alignment to outcomes and policies
 - Links to existing programs
 - Cost-benefit analysis

New Initiatives – Information Required (cont)

- Justification of proposal (cont)
 - Cross agency links
 - Funding
 - Other background information
- Performance measures
- Inter-agency impacts

New Initiatives – Information Required (cont)

- Impact on women
- Legislative requirement
- Timing
- Costings
 - Costing assumptions
 - Funding
 - Contact officer

New Initiatives – (cont)

- Quality checking
 - Review Business Cases
- “IT” initiatives
 - IMB undertakes initial IT bid review process
 - Copy of “IT” proposals to be provided to Treasury
- New initiatives - Exercise

Output Class/Outputs

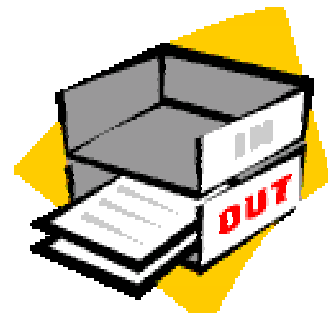
Community Outcomes

Government Policy Priorities

Agency Outcomes

Output Classes

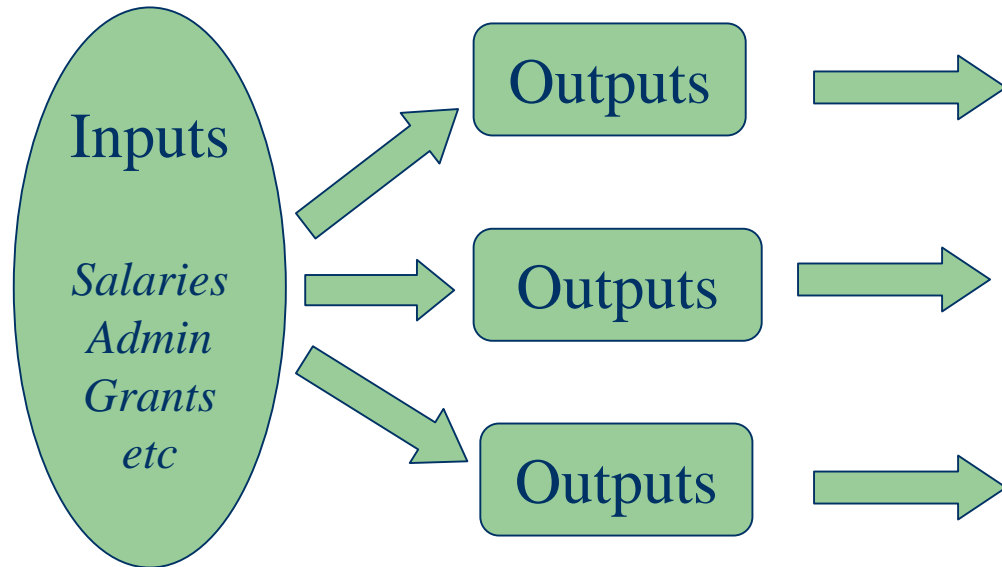
Outputs



Output Class/Outputs

- Structure of output classes and outputs
 - What are Outcomes?
 - What are Output Classes?
 - What are Outputs?
- Costing of outputs
- Performance measures

Structure of Output Class/Outputs



Outcomes are the effect on the ACT community of an output or set of outputs

Structure of Output Class/Outputs – (cont)

- What are Outcomes?
 - FMA defines Outcomes - the consequences for the community of outputs
 - The intended social and political impacts of government decisions.

Structure of Output Class/Outputs – (cont)

- What are Output Classes?
 - Outputs are grouped into classes for Legislative Assembly and performance monitoring purposes.
 - Output classes are listed in Schedule 2 of the Appropriation Act
 - Examples of ‘classes’ of outputs include, municipal services, health and community care and government school education.

Structure of Output Class/Outputs – (cont)

- What are Output Classes? (cont)
 - Example of outputs with similar characteristics that have been aggregated into an output class:

Output Class: **Housing Services**

Output 1: Public Housing Services Policy

Output 2: Community and Supported Housing

Structure of Output Class/Outputs – (cont)

- What are Outputs?
 - FMA defines Outputs - goods produced or services provided by a department or Territory authority or a person producing goods or providing services on behalf of a department or Territory authority
 - Are funded by government appropriations and other revenue sources
 - Define the services that the ACT Community receives

Structure of Output Class/Outputs – (cont)

- What are Outputs? – (cont)
 - Must be relevant to the Community
 - Must measure output delivery with performance measures that reflect Community priorities and expectations of what those outputs or services will accomplish.

Costing of Outputs

- What is Output Costing?
 - The process by which all of the resources used are allocated to outputs
 - The full cost of outputs includes all resources used (not just the cash spent) in delivering the output ie includes depreciation and corporate services

Costing of Outputs – (cont)

- Basic steps to costing an output:
 - Define the output.
 - Identify direct costs attributable to each output.
 - Apportion indirect ('overhead') costs to each output.
 - ✓ Group similar overhead costs
 - ✓ Identify the cost drivers
 - Costs can be allocated to outputs through either the accounting system (Oracle), or an offline process ie database.

Performance Measures

- Why have performance measures?
 - Information
 - Promotes accountability
 - ✓ Helps determine an agencies' success in achieving its objectives.
 - ✓ Assesses/evaluates the characteristics of products, services, processes and operations of an agency.

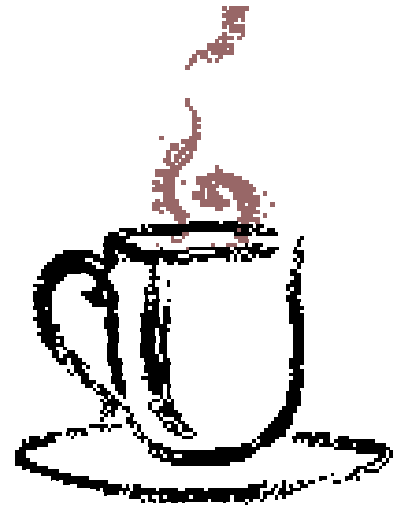
Performance Measures – (cont)

- Focus on key measures only
- Performance measure must be measurable
- Performance measures are audited

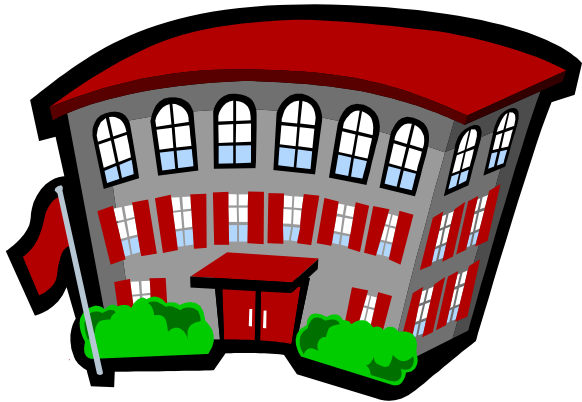
Performance Measures – (cont)

- Outputs are measured in terms of:
 - The (cost) price of the outputs – eg. cost per unit and total cost
 - The quantity of the outputs – eg. volume, level of supply
 - The quality of outputs – eg. to a pre-negotiated standard
 - The timeliness of the outputs – eg. delivery/response time

AFTERNOON TEA



Capital Works

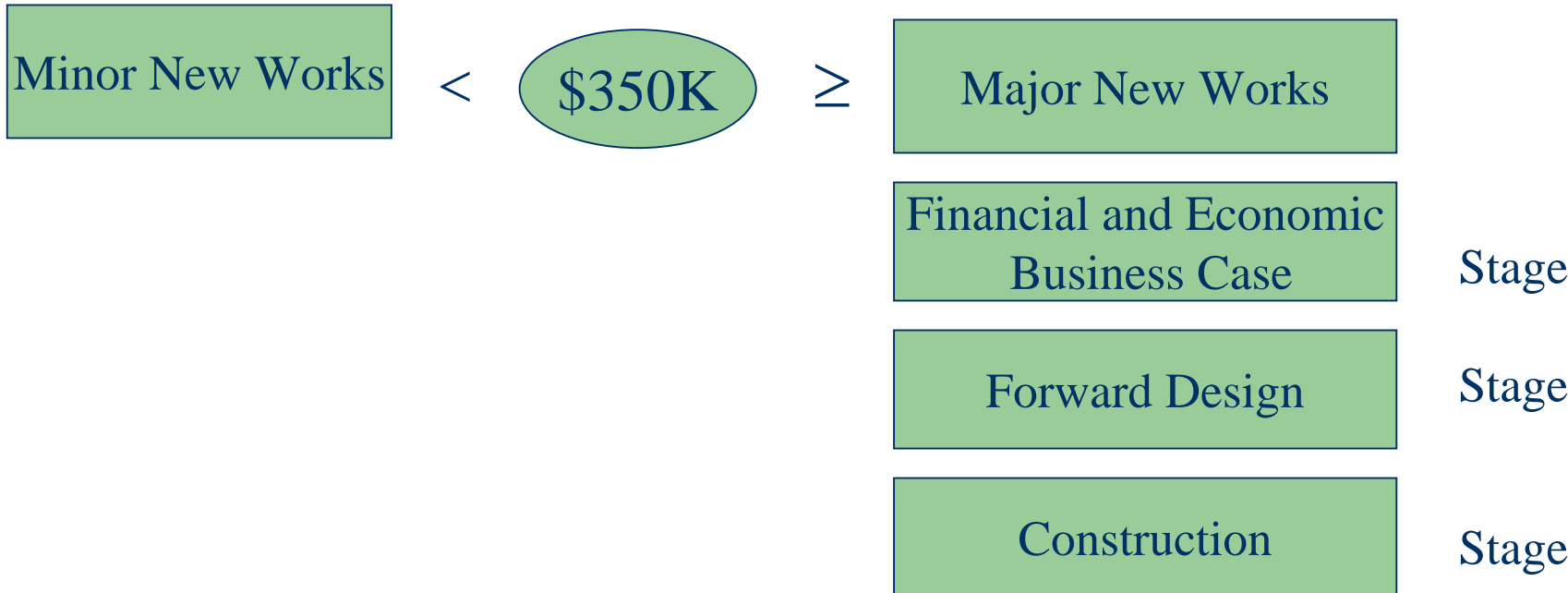


Capital Works

- Overview of the capital works process
 - Minor capital works
 - Major capital works
- All proposed capital work projects should have in-principle Ministerial agreement

Capital Works - Overview

Capital Works Approval Process



Capital Works – Minor New Works

- Individual projects with a total cost less than \$350K are classified as “**minor works.**”
- Process of approval, prepare “Minor Capital Works Proposal”. This should include:
 - Brief description of proposal
 - Completion date
 - Estimate whole-of-life cost and benefits

Capital Works – Minor New Works (cont)

- Process of approval – (cont)
 - Total cost
 - Total funding required
 - Other resource requirements – external expertise
 - Implications of not proceeding
 - Similar project(s)

Capital Works – Major Capital Works

- Capital works approval process is divided into 3 stages:
 - Financial and economic business case
 - Forward design
 - Construction

Capital Works – Financial and Economic Business Case

- Financial and economic business case
 - Executive summary
 - Brief description of proposal
 - Estimated completion date
 - Total estimated costs of proposal
 - Total funding required
 - Other resource requirements
 - Implications of not proceeding

Capital Works – Financial and Economic Business Case (cont)

- Executive summary – (cont)
 - Description of proposed business case
 - Operational need
 - Brief outline of proposed solution
 - Link solution to operational need
 - Qualitative and other factors

Capital Works – Financial and Economic Business Case (cont)

- Detailed financial and economic business case proposal
 - The Need
 - Overview of solutions to be considered
 - Links to strategic policy
 - Cost estimate of solutions to be considered
 - Attachments

Capital Works – Forward Design and Construction

- Executive summary
 - Purpose of proposal
 - Operational need
 - Brief outline of proposed solution
 - Link solution to operational need
 - Cost
 - Qualitative and other factors

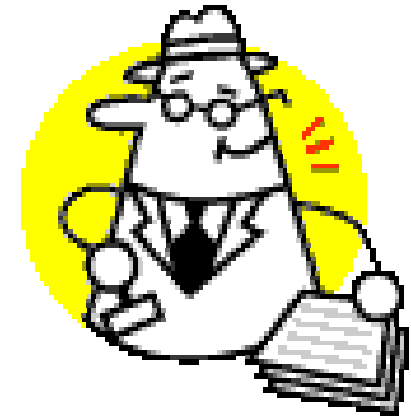
Capital Works – Forward Design and Construction (cont)

- Detailed forward design and construction proposals
 - Deliverables
 - Attachments
 - Proposal brief
 - Reassess cost/benefit analysis
 - Procurement method (for construction proposals)

Capital Works - Timetable

Task	Date
Memo released	Oct 2003
Initial proposals due	14 Nov 2003
Treasury assessment/feedback	3 Dec 2003
Agencies submit revised proposals	19 Jan 2004
Cabinet consideration of final program	1 Mar 2004

Quality Assurance Processes



Quality Assurance Processes – (cont)

- As many of the adjustments performed during the budget process are of an incremental nature, it is easy to lose the overall perspective of the absolute numbers.
- During the budget process it is useful to keep track of how the absolute numbers are changing and appearing. Can print at any time financial statements from BDA.

Quality Assurance Processes – (cont)

- Can't do any adjustments as part of this process which increase funding.
- If the net result of any adjustments made is the operating result is made worse, then need to discuss impact with Treasury liaison officer prior to doing adjustments.

Quality Assurance Processes – (cont)

- Exercises

QUESTIONS?



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