

# **Overview of the Financial Management Act (1996)**

Department of Treasury  
October 2007



# Overview

- Overview of Financial Management Framework
- Overview of Financial Management Act 1996
- Financial Management Act Guidelines
- Appropriation Act

# Financial Management Framework

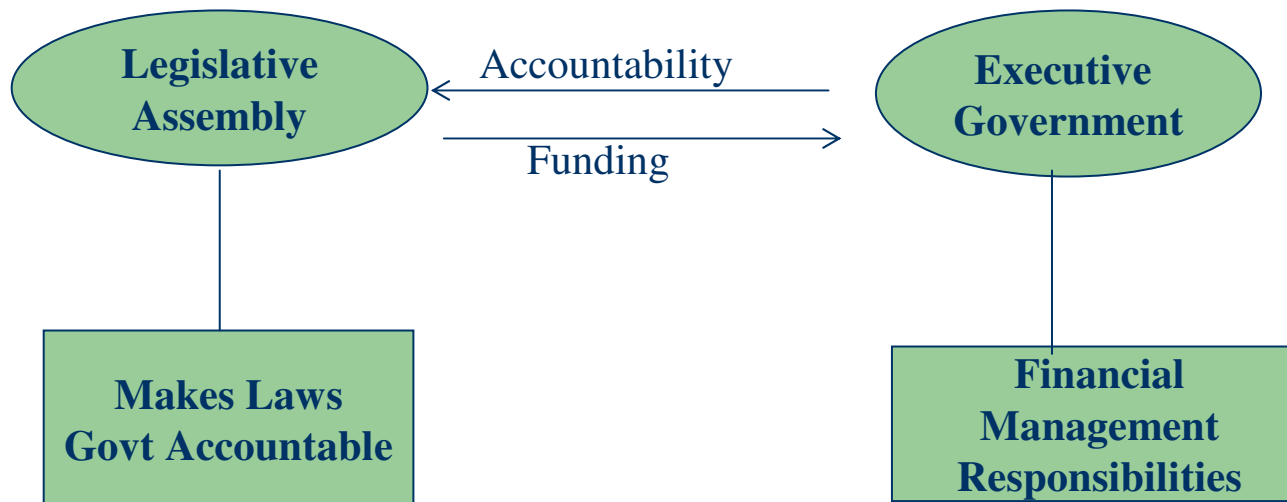
**Australian Capital Territory  
(Self-Government) Act 1988**

**Financial Management  
Act 1996**

**Territory Owned  
Corporations Act 1990**

**Accounting Standards**

# ACT (Self-Government Act) 1988



# ACT (Self-Government Act) 1988

<b>Self Govt Act</b>	<b>FMA</b>
<ul style="list-style-type: none"><li>● No public money of the Territory shall be issued, spent or invested except as authorised by enactment</li></ul>	<ul style="list-style-type: none"><li>● Budget management</li><li>● Financial reports</li><li>● CE responsibilities</li><li>● Banking, investment &amp; borrowing</li><li>● Territory authorities reporting &amp; governance</li></ul>

# Financial Management Act 1996

- Commonly referred to as the FMA
- It is cornerstone of financial management of the ACT
- It sets the legislative framework within which the Government can operate in governing the Territory

# FMA – Continued

- Act is split into 10 parts plus a dictionary
- Will start by discussing the first 4 parts
  - Part 1: Preliminary
  - Part 2: Budget management
  - Part 3: Financial reports
  - Part 4: Financial management responsibilities of chief executives of departments

# Part 1: Preliminary

- Largely technical provisions
- Act subject to Territory Superannuation Provision Protection Act
- Dictionary at end of Act – Defines FMA terms
- Excludes Territory authorities
- Legislative Assembly Secretariat

## Part 2: Budget management

- Split into two sections
  - Appropriations and budgets
  - Budget reviews and pre-election updates
- Will concentrate on appropriations and budgets

# When can the Government make a payment which is not covered by an appropriation?

- A: When authorised by the Treasurer
- B: Never
- C: When authorised by the Minister
- D: Whenever the need arrives

# Answer

B: Never!

# The Golden Rule

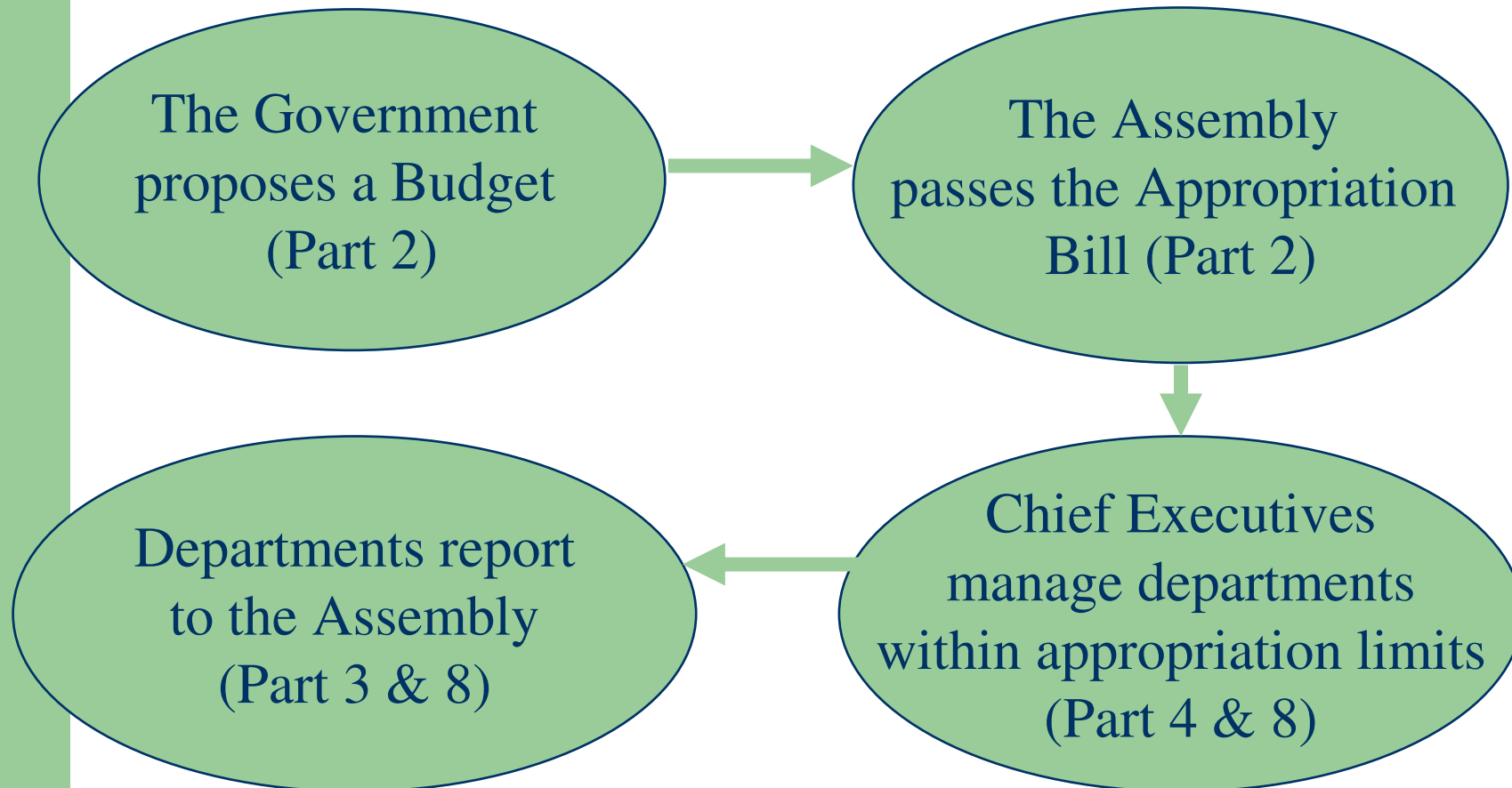
No payment of public money shall  
be made otherwise than in  
accordance with an appropriation

# Definition of Public Money

Means all money received by the Territory, including the proceeds of all loans raised on behalf of the Territory, but does not include –

- money held by the Territory as trust money
- money received by a territory-owned corporation
- money received by a territory authority

# How does Government receive appropriations



# Appropriations Act

- Government Payment for Outputs (GPO)
- Capital Injection
- Expenses on behalf of the Territory (EBT)

# Specifying the appropriations

- Appropriations Act
  - Gross appropriations
  - Net appropriations
- Standing appropriations

# Departmental vs Territorial Appropriations

- Applicable to Departments only
  - Not applicable to Territorial Authorities and TOCs as not considered public money
- Departmental
  - GPO
  - Net Appropriation
- Territorial
  - EBT
  - Gross Appropriation

# The Budget

## Budget papers (s10)

- Proposed budget for the Territory
- Proposed budget for each department
- Proposed budget for each Territory Authority and TOC

# The Territory's Budget

- Section 11 of the FMA
- Prepared in a form that assists comparison
- Budget year + the next 3 financial years
- Budget to take into account
  - Principles of responsible fiscal management
  - Sustainable social and economic services and infrastructure fairly to all residents
  - Ecologically sustainable development

# Departmental Budgets

- Section 12 of FMA
- Financial statements required by guidelines
- Statement of outputs and classes of outputs along with performance criteria
- Notes on how repayable capital injections will be repaid
- Comparison budget year and 3 forward years

# Territory Authorities' & TOCs Budgets

Section 12A of the FMA requires:

- Financial statements
- Facilitates comparison
- 3 forward years
- For prescribed authorities a statement of outputs and class of outputs along with performance criteria

In addition Part 8 of the FMA require Territory Authorities to prepare a Statements of Intent.

## Question

What happens if the Appropriation Bill is not passed by 1 July?

- A: Appropriation Bills are always passed by 1 July
- B: Territory stops activity until received
- C: 'Supply' provisions of the FMA commence
- D: Ministers may authorise individual payments

## Answer

- C - Section 7 of the FMA is triggered
- Allows an automatic 'supply' of money if Appropriation Act is not passed by 1 July

# Supply period

- Allows for half the appropriation allowed last year in Appropriation Acts
- Restricted to purposes identified last year
- Cannot fund new initiatives
- Ends when Appropriation Act is passed

# Who can vary budgets during the year?

- A: The Legislative Assembly
- B: The Treasurer
- C: The Executive
- D: All of the above

# Answer

- D - All of the above

# Variations to appropriations

- Supplementary appropriations
- Transfers
- Commonwealth Grants
- Treasurer's Advance
- Access to standing appropriation
- Roll Forwards

# Supplementary appropriation

- Provide for additional appropriation through the financial year
- No limits apply
- Supplementary budget papers
- Process

# Transfers of appropriation

- Transfers of functions (s16)
- Transfers between appropriations (s14)
- Transfers within appropriations (s15)
- Reclassifications (s15A)
- Accountability mechanisms

# Commonwealth Grants

- Variations of appropriations (S17)
  - Commonwealth Grants are territorial revenue
  - Departments receive GPO to spend this money

## Treasurer's Advance (S18)

- Unforeseen expenditure
- Limited to 1%
- Accountability mechanism

# Standing appropriations

- Payments to the Commonwealth (s17A)
- Refunds (s19)
- Payments for GST liabilities (s19A)
- Other Treasury standing appropriations

# Roll Forwards

- Section 16B of the FMA
- Allows to the Treasurer to authorise expenditure to be rolled forward to the next financial year

# Budget Review

- Prepared each financial year
- Presented to the LA by 15 February
- More commonly referred to as the mid year review
- The purpose of the budget review for a financial year is to:
  - give updated information to allow the assessment of the government's financial performance against the financial policy objectives and
  - strategies set out in the financial policy objectives and strategies statement for the Territory budget for the financial year.

# Pre Election Updates

- At least 30 days before the polling day for an ordinary election, the chief executive must prepare a pre-election budget update and give it to the parliamentary counsel for notification.
- The purpose of a pre-election budget update for an election is:
  - to allow the assessment of the government's financial performance against the financial policy objectives and strategies set out in the latest financial policy objectives and strategies statement; and
  - to give the electorate an accurate picture of the Territory's financial position before the election.



**Any questions?**



# Summary on Part 2

- Golden Rule
- What is public money
- How Government receives appropriations
- GPO, EBT and Capital Injections
- Budget Papers
  - Territory, Department, Territory Authorities and TOCS
- Supply Period
- Variation to Appropriations
- Budget Review and Pre Election Updates

## Part 3 - Financial Reports

- Quarterly financial statements of the Territory (s26)
- Annual financial statements of the Territory (s22)
- Annual financial statements of departments (s27)
- Half yearly department performance reports (s30E)
- Annual department performance reports (s30A)

# Quarterly financial reporting

- The Treasurer must prepare and publish quarterly financial statements
- Must be prepared within 45 days
- Departments need to provide to Treasury
  - financial information within 8 working days
  - MD&A within 10 working days

# Annual reporting - The Territory

- These must consolidate financial statements for all departments, Territory authorities and Territory owned corporations
- The Treasurer must forward the Territory's annual financial statements to the Auditor-General within 3 months of the end of the year.

# Annual Reporting - Departments

- Departments must prepare annual financial statements 'as soon as practical'
  - Treasury memo's outline the dates due
- Generally accepted accounting practice
- Must 'facilitate comparison' with the budget
- Must include financial statements and statement of performance for output classes

# Half Yearly Department Performance Reports

- Ministers for their departments to present to LA the performance report 30 days after 31 Dec (30 Jan)
- Progress report of delivery of outputs
- Material variations from performance to criteria to be explained
  - 10% is considered material
  - Between 5% and 10% if considered significant

# Annual Department Performance Reports

- Provide the performance report as soon as practical after the year end
- Compare actual performance in providing each class of outputs to the budget
- State the extent to which the output performance criteria set out in the budget was met
- Material variances to be explained > 10%

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**Any questions?**

# What are Chief Executives responsible for?

- A: Spending within appropriations
- B: Operations consistent with the budget
- C: Efficient and effective financial management
- D: All of the above

# Answer

- D (of course)

# Part 4 - Financial Management

## Responsibilities of Chief Executives of Departments

- Section 31
- CE accountable to Minister for 'efficient and effective financial management'
- Spending within appropriations
- As far as practicable, that the department's operations for a financial year are consistent with and comparable to the department's proposed budget for the year.
- Compliance with FMA and FMG

# Chief Executive responsibilities (cont)

- Proper accounts and records (GAAP)
- Adequate control over assets
- Adequate control over incurring liabilities
- Explanations of material differences between the actual results of the department for the year and the budget for the department for the year
- Chief Executive Financial Instructions



**Any questions?**



## End Parts 1 to 4

- Morning Tea

# **Financial Management Act 1996**

Parts 5 to 10



# Part 5 Banking and Investment

## Important Points:

- S34 (1) enables departments to operate more than one bank account
- S34(3) requires banking to be transacted with the Territory's banker
- S34(7) prohibits the opening and operation of bank accounts other than in accordance with the FMA

## Part 5 Banking and Investment (Cont)

- S34(B) enables unspent moneys at the end of a financial year to be used in the next year for the same purposes as the funds were originally appropriated.
- S35 deals with the payment of public money into bank accounts. Requires banking of all moneys received.
- S38 addresses how the Territory can invest funds held in the Territory Banking Account.

## Part 6 Borrowing and Guarantees

Sections 39 to 42 place tight controls around the ability of the Territory to borrow. These are:

- Borrowings are to be in accordance with an act eg FMA (S39)
- Authorities restricted to only being able to borrow in accordance with the FMA, with enabling legislation not providing sufficient authority (S41)
- Borrowings by Territory authorities to be approved in writing by the Treasurer (S42)

## Part 7 Trust Money

- S49 requires trust money to be accounted for separately from public money.
- S53 enables the investment of trust funds under the same restrictions applying to the Trustee Act 1925.
- S53A specifies how unclaimed trust moneys are to be administered.

## Part 8 Territory Authorities

Contains provisions similar to those in earlier parts of the FMA for departments. Significant differences are:

- S55 - has some different responsibilities for authority CEOs compared with departmental CEOs eg 3a and 3c (authorisation of expenses & payments)
- S56 - specifies the responsibilities of a governing board (if there is one)
- S58 - Authorities may directly invest surplus funds
- S59 – Treasurer can approve an overdraft facility which doesn't require appropriation
- S61 - requirement to prepare Statements of Intent

## Part 9 Governance of Territory Authorities

- As the name indicates it outlines the governance of territory authorities
- Section 78 Appointment of governing board members

# Part 10 Miscellaneous

## Section 130 Act of Grace Payments

- S130(1) - only the Treasurer can authorise payments.
- S130(7) - the payments require no further appropriation of funds.
- S130(8)-(10) - details of payments to be disclosed in the notes to the financial statements, except for the identity of the payee.

## Part 10 Miscellaneous

### S131 Waiver of debts

- S131(1) - only the Treasurer can approve the waiver of debts
- S131(3) - waivers of debts to be reported in the notes to the financial statements

## Part 10 Miscellaneous

### Section 133 FMA Guidelines

- S133(1) allows the Treasurer to make financial management guidelines under the FMA
- S133(2) requires that a financial management guideline be a disallowable instrument

# Final Questions?



# Summary

- The FMA is the most significant source of financial instructions for the ACT
- Golden Rule – No payment of public monies unless in accordance with appropriation
- Appropriations Act is supported by budgets and statements of intent
- Appropriations can be varied
- The FMG provides more detail from the Treasurer in meeting the requirements of the FMA

## Useful Information

FMA - <http://www.legislation.act.gov.au>

FMG - <http://www.legislation.act.gov.au>

FMA Explained -

<http://www.treasury.act.gov.au/accounting>