

BASIS OF 2004-05 BUDGET AND FORWARD ESTIMATES

Accounting for the January 2003 Bushfire

Relevant revenue and expenditure arising from the January 2003 bushfire have been treated as 'extraordinary items' as required under Australian Accounting Standards Board 1018. These include, extraordinary revenue provided through additional appropriations and insurance recoveries, and extraordinary expenses representing asset write-offs or write-down, and costs associated with the direct and post impact of the bushfire.

Commonwealth funding provided through the Natural Disaster Relief Arrangements (NDRA) has been recognised as Commonwealth Grant revenue. This includes \$9.2m recognised in 2002-03 and \$6m in 2003-04.

The 2003-04 Estimated Outcome

The 2003-04 estimated outcome figures have been updated to include the effect of the 2002-03 audited outcome and the known impacts on 2003-04 during budget preparation.

Sector Split

The Government Finance Statistics (GFS) sector split is retained and presentations are included for the General Government (GGS) and Public Trading Enterprise (PTE) sectors. A Total Territory summary of the overall Budget is also included.

There are several significant points that need to be understood to assist in reading the 2004-05 Budget Papers. Definitions of terms are provided in Appendix F - *Glossary and Abbreviations*.

Accrual Concepts

Consistent with the 2003-04 year, all Budget numbers are calculated using the same generally accepted accounting principles and practices (GAAP) employed for the preparation of the end of year financial statements in order to facilitate a comparison between budget and audited financial statements. Both use the same conceptual base and methodology.

An accrual model places emphasis on the matching principle of accounting, which states that all transactions relating to a financial period will be recognised in the financial reports of that period irrespective of the timing of the associated cashflow. Cash information remains useful, but needs to be supplemented with other resource and performance information in order to guide prudent decision-making and promote sound asset management.

The accrual reporting framework includes a Statement of Financial Performance, Statement of Financial Position and a Statement of Cashflow. It captures the financial performance (Statement of Financial Performance), changes in net financial position and components of

that position (Statement of Financial Position) and information on the cash position and the source and purpose of cash flows (Statement of Cashflows).

In order to match transactions to a particular period accrual accounts are used to account for differences in timing between business or operational transactions and the associated cashflow. It is the inclusion of these non-cash items that differentiates the Statement of Financial Performance from the Statement of Cashflows.

The difference between revenues (in the Statement of Financial Performance) and cash receipts (in the Statement of Cashflows) is explained by the inclusion in accrued revenues of amounts which have been earned but not yet received. Further, accrued revenue excludes any amounts that have been collected in the current year but were earned in the previous year. In addition, revenue includes non-cash transactions that have an impact on the statement of financial position, such as an increase in the value of an asset following a revaluation.

Accrued expenses (in the Statement of Financial Performance) differ from cash payments (in the Statement of Cashflows) by the inclusion of items such as employee entitlements, which are recognised as expenses; the current period, but represent an obligation to pay cash in a future period. Another difference arises through the inclusion in accrued expenses of purchases made, or obligations incurred, where the associated bill/invoice will not be paid during the current year. Further, accrued expenses exclude payments which relate to purchases or obligations incurred in the previous year, although the cash payments maybe paid in the current year. Similar to revenue, expenses include non-cash transactions, such as revaluations, and the recognition of depreciation against certain assets.

Departmental/Territorial Separation of Disclosure

A key feature of the accrual model used by the Territory is the separation of departmental activities from territorial activities. Each departmental budget distinguishes between these in its financial report.

Departmental activities are those related to the delivery of agreed outputs of departments for which there is an agreed purchase price funded by the appropriation type 'payments for outputs'. By separately reporting on these items from other activities, the performance of the department in delivering the agreed outputs can be seen.

Territorial activities are the other activities of departments, which are administered on behalf of the Territory including, administering Commonwealth grants and the collection of taxes, fees and fines for the territory, Departmental and territorial activities are separately appropriated.

The split makes accountability and performance analysis more meaningful. Territorial payments and revenues are typically determined by Government, and payment or assessment processing is handled by the Department. The amounts of payments or revenues may vary significantly without reflecting on departmental performance.

The separate recording of these territorial items allows readers to focus on the expenses, revenues, assets and liabilities involved in the delivery of outputs to establish departmental performance in effecting delivery. Chief Executives have a direct role in the level of

resources applied to, and costs incurred in, delivering outputs. Similarly they have greater control over the level of charges applying to consumers of the outputs.

Bank Accounts

Agencies operate their own bank accounts and are paid on a progressive basis in accordance with the delivery of their outputs. By contrast, revenue collected on behalf of the Territory (RBT) by agencies is transferred to the Territory Bank Account on a regular basis. Certain accounting transactions are necessary to reflect real costs and revenues where there is no impact on output price to Government. The activities and interests of the Territory have been isolated in the financial records from departmental transactions through the separate recording of central Territory transactions (transactions of the Territory Bank Account). This has the effect of requiring a series of transactions to be disclosed which relate to the flows of funds between the Central Financing Unit (CFU), the custodian of the Territory Bank Account, and the departments.

These transactions and others which appear in the various schedules are explained in the latter section of this preface headed Key Accounting Treatments by Schedule.

Central Finances of the Government

The central finances of the Government are managed through a separate whole of government bank account, which is administered and reported as a territorial activity.

Outputs Basis of Budget Management

There is an explicit linkage between the outcomes desired by Government and the outputs chosen to achieve those outcomes at an agreed level of funding. The Budget structure and monitoring which will occur throughout the year targets delivery of outputs against an agreed level of funding.

Appropriation Types

The *Financial Management Act 1996* establishes three appropriation types:

Payments for Outputs

Payment for outputs is shown as revenue to the Department. It represents the level of funding agreed to be paid by Government for the delivery of a range of goods and services defined as outputs in the Budget documents. An agreed disbursement schedule is based on the output delivery pattern on a fortnightly basis. Revenue is recognised fortnightly on this basis.

The full cost of maintaining a service may be financed partly by sales to third parties defined as user charge revenues. Generally, where a service is provided to other agencies, those agencies show the receipt of that service as an input cost to their own output(s) and pay for that service with funds generated from their own 'payment for outputs' revenue.

Capital Injections

A decision of Government to increase the capital base of an agency will result in a capital injection. That injection may be used for working capital, or for the purchase or creation of assets.

Appropriation for the purpose of increasing assets held by a department on behalf of the Territory is classified as capital injection. Capital injections also provide authority for payment of funds for acquisition of Territory assets and other items not related to the capital requirements in the provision of outputs.

Repayable loans to agencies are appropriated as capital injections. These are treated effectively as working capital advances which must be repaid. They also must be disclosed by the relevant agency and the conditions under which the injection has been provided must be stated, including any requirements relating to the period over which the capital injection is to be repaid. An interest charge may be levied on the advances at a rate determined by the Government. The recipient agencies reflect these amounts as liabilities, while the CFU discloses them as investments.

Expenses on Behalf of the Territory (EBT)

This category is used to authorise the payment for items such as grants or other transfer type payments.

Capital Works

The accounting concepts of capital apply to capital works funding. In terms of budgeting, the capital works or asset acquisition program can be funded in a number of ways. Initially, a Department seeking to increase its physical asset base should examine its internal funding capability, then alternative funding sources such as debt or capital injection.

The capital works proposals are examined for their projected contribution to the Government's desired outcomes and to the delivery of outputs. A whole of life projection is required for the impact on the departmental operating results and balance sheet position. Each agency has an agreed project-costing schedule and variations from that schedule must be renegotiated directly with the Department of Treasury.

Format of the Territory Budgeted Statements

The Territory's financial interest is reflected in the consolidated budget and consolidated financial statements of all departments, Territory authorities and Territory Owned Corporations. Normal accrual accounting principles apply to the consolidation of the individual budgets into the Total Territory. Internal trading transactions between components of the whole of Territory are eliminated during the consolidation process, as are the internal trading transactions between trading elements within a Department or other entity within Government.

Eliminations of internal trading are necessary in order to accurately reflect the interaction between the particular budget or reporting entity and other external entities. Failure to eliminate these transactions results in double counting and therefore shows an inflated level of activity of the entity in relation to other external entities. On the Statement of Assets and Liabilities, failure to eliminate will result in an incorrect level of creditors, debtors, investments and borrowings.

This includes, for instance, the level of debt owed by the Territory. Internal debt created by one agency lending to another within the Territory is offset by an internal investment and has no impact on Total Territory debt.

The Total Territory consolidation is split between the Government Finance Statistics sectors of General Government and Public Trading Enterprises. The appropriate eliminations are also made in reporting these sectors, firstly within the sector (ie intra-GGS eliminations) and between sectors (ie between the GGS and PTE sectors).

Format of the Departmental Budgets

As indicated above, the departmental and territorial activities are presented in separate schedules. Each department has provided (where appropriate):

Departmental Consolidation:

- Budgeted Statement of Financial Performance;
- Budgeted Statement of Financial Position;
- Budgeted Statement of Cash Flows;
- Budgeted Statement of Revenues and Expenses on Behalf of the Territory;
- Budgeted Statement of Assets and Liabilities on Behalf of the Territory;
- Budgeted Statement of Cash Flows On Behalf of the Territory; and
- Notes to the Budget Statements.

For Each Output Class:

- Budgeted Statement of Financial Performance.

Key Accounting Treatments by Schedule:

Budgeted Statement of Financial Performance

- Interpreting the Projected Operating Result

Some departments are budgeting for an operating deficit, while others are projecting a surplus or break-even position. A deficit result is mostly attributable to the impact of depreciation and the process used for management of funding for capital works.

Funding for capital works is mostly centrally managed within the Territory, with the Government as owner of net assets for departments making decisions regarding new capital works. Funding for new capital works is generally provided by the Government to departments in the year of acquisition of the new assets.

Depreciation is the accounting process for allocating the cost of using assets over the useful life of the assets. As departments are fully funded for the acquisition of assets at the time of acquiring the assets, further funding for depreciation is not provided to departments. At the end of the useful life for assets, the Government as owner will make decisions regarding the future asset needs of the Territory.

As a result of departments not needing, or receiving funding for depreciation, the operating result for some departments will be a deficit.

Each department's actual performance must be assessed against its projected performance, not against whether it achieved a breakeven or profit result.

The items appearing on this statement are only departmental items. Departmental items are those associated with the delivery of outputs and transacted through the departments' operating bank accounts.

- User Charges – ACT Government

Where services are provided to other government agencies at a price, the revenue is able to be retained. This is disclosed separately from revenue from non-government clients because it is useful to understand the extent of internal trading as opposed to revenue raised from services to the community.

- User Charges – Non ACT Government

Revenue from services provided to non-ACT government entities is shown separately.

- Interest Revenue

Departments are able to retain interest earned on their investments.

- Expenses

All the expenses incurred in producing outputs are recorded under the categories listed. These include expenses, which have not yet had a cash impact on the department, eg. some of the employee expenses and some administrative expenses (such as depreciation).

Budgeted Statement of Financial Position

The items appearing on this statement are only those associated with the delivery of outputs by the department and summarise the budgeted financial position of the department. Trust moneys and territorial items are excluded.

Budgeted Statement of Cash Flows

The items appearing on this statement are only those associated with the delivery of outputs by the department. Trust moneys and territorial items are excluded.

This statement provides a view of the operations of the department from a cash flow perspective. Items appearing on this statement disclose the cash flow effect of the activities appearing on the other two main statements. For example, the difference between employee expenses on the statement of financial performance and employee related payments on the statement of cash flows would appear as a change in an employee entitlement liability on the statement of financial performance.

Budgeted Statement of Revenues and Expenses on Behalf of the Territory

Expenses on this statement are those which are administered, and over which the Department has no discretion as far as alternative use is concerned. Revenues such as taxes, fees and fines are required to be transferred to the Territory Bank Account. The department has no discretion over the use of revenues collected. Refunds of revenue to the third parties are obtained from the Territory Bank Account for reimbursement after payments have been made.

Revenues include amounts received from Government to pay for expenses. Similarly, the revenue amounts transferred to the Territory Bank Account are shown as expenses in this statement.

Budgeted Statement of Assets and Liabilities on Behalf of the Territory

This statement discloses those items which are administered by the department and over which the department has limited discretion as to resource deployment or alternative use.

Budgeted Statement of Cash Flows On Behalf of the Territory

This statement discloses those cashflows which are only administered by the department.

This reflects the total cashflows, including the transfers between the Territory Bank Account and the departmentally operated Revenue on Behalf of the Territory (RBT) and Expenditure on Behalf of the Territory (EBT) accounts.

2003-04 Comparative Figures

The projected 2003-04 results are presented in these Budget Papers on the same basis as they will appear in the 2003-04 financial statements, which is consistent with generally accepted accounting principles and the Australian Accounting Standards.

Subsection 27(2) of the Financial Management Act 1996 requires the preparation of financial statements to be in accordance with 'generally accepted accounting practices' and for their presentation to facilitate comparison with the Budget presentation.

Where transfers of responsibilities have occurred through the 2003-04 year, the relevant agencies are to reflect those transfers from the time of transfer and these are explained in variation explanations in the Budget Papers.

Rounding

The financial tables presented in the Budget papers may not add correctly due to rounding of decimal places.

Notations

The following notations are used in the variation column of the agency financial tables:

- nil
- .. not zero, but rounds to zero
- # the calculated variation is greater than 999%