

## **Readers Guide to the 2018-19 Budget**



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## FOREWORD

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The Reader's Guide (the Guide) to the Budget Papers has been prepared to explain the structure and content of the Budget Papers, and to assist readers in understanding and interpreting information contained in the chapters.

The Annual Budget is the Government's key policy statement and financial plan for the upcoming financial year and forward estimates period for the Territory and the territory entities.

The Budget Papers are presented on an accrual accounting basis. Accrual accounting discloses the full cost of providing government services and indicates the ability of government to deliver services into the future.

The Budget Papers are separated into the following four main parts:

- Budget Paper No. 1: Speech;
- Budget Paper No. 2: Budget in Brief;
- Budget Paper No. 3: Budget Outlook; and
- Budget Statements.

This Guide provides a brief explanation of the Budget Papers and their intended purpose.



# OVERVIEW OF THE BUDGET PAPERS

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## **Budget Paper No. 1: Speech**

The Budget Speech is delivered by the Treasurer to the Legislative Assembly and highlights the Government's Budget strategies and key features of the budget.

## **Budget Paper No. 2: Budget in Brief**

This Budget Paper presents a summary of the overall budgetary position together with information on the Government's expenditure and investment priorities in key service delivery areas.

## **Budget Paper No. 3: Budget Outlook**

This Budget Paper summarises the budget and forward estimates for the General Government Sector, the Public Trading Enterprises Sector and the Total Territory Government. Details of the projected budget results are provided, as well as background information on the development of the budget, including economic conditions and federal financial relations.

It also provides details of new policy initiatives made by the Government for the budget year, as well as an overview of the Territory's Infrastructure Investment Program.

## **Budget Statements**

The Budget Statements contain information on each directorate and agency, including descriptions of functions, and roles and responsibilities, together with major strategic priorities.

All of the Budget Papers are prepared in accordance with the principles of the standards issued by the Australian Accounting Standards Board, including the application of accrual based accounting. Accrual accounting presents the full cost of providing government services and indicates the ability of the Government to deliver sustainable services into the future.

## **Statements of Intent**

The Statements of Intent are developed in the context of a four year forward planning horizon which, as far as practicable, is incorporated into an authority's strategic and business planning process.

All Statements of Intent are prepared in accordance with the legislative requirements of the *Financial Management Act 1996*. The Statements of Intent include information about an Authority's:

- purpose;
- nature and scope of activities;
- performance measures and targets;
- employment profile;
- monitoring and reporting arrangements; and
- financial arrangements.

Under current legislation, two ACT Government authorities are required to prepare Statements of Intent:

- ACT Building and Construction Industry Training Fund Authority; and
- ACT Long Service Leave Authority.

# **BUDGET PAPER NO. 3**

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## **Content of Budget Paper No. 3**

Budget Paper No. 3 summarises the Budget and forward estimates for the General Government Sector, the Public Trading Enterprise Sector and the Total Territory Government. Details of the projected Budget results and financial position are provided, as is background information on the development of the Budget.

Budget Paper No. 3 also contains information relating to the economic position and outlook of the Territory, fiscal projections, provides detail on the new expense, capital and revenue initiatives, and developments in key areas of reform. There is also an overview of the Territory's Infrastructure Investment Program and details of the Capital Works Program for the Budget year.

Budget Paper No. 3 contains the following chapters:

### **Economic Performance, Outlook and Strategy**

Provides an overview of the expected economic conditions and outlook for the Territory.

### **Fiscal Strategy**

Details the context within which the Budget has been formulated and provides an overview of the Budget. This chapter also summarises the Government's financial objectives and key measures, and outlines how the Government proposes to meet those objectives in the context of the Budget.

Provides details of the projected Budget and financial results. Summaries of prior year Budget movements are included, along with identifying the major risks faced by the Territory in the upcoming Budget year.

### **New Initiatives**

Provides details of new initiatives included in the 2018-19 Budget.

### **Expenses**

Provides details of the General Government Sector expenses for the upcoming financial year and factors impacting the budget year and the forward estimates.

### **Infrastructure and Capital**

Provides an overview of the Territory's Infrastructure Investment Program, as well as land supply and the land release program. It also includes information about the Territory's infrastructure and capital works program.

## **Revenue**

Provides details of the General Government Sector revenues for the upcoming financial year and factors impacting the budget year and the forward estimates. It also includes information on the Territory's taxation reforms.

## **Federal Financial Relations**

Details are provided in relation to federal financial relations and the estimated amounts the Territory expects to receive from the Commonwealth Government in the budget year and forward estimates period.

## **Asset and Liability Management**

Provides information on the material components of the Territory's Balance Sheet including net debt and net financial liabilities, superannuation and management of financial assets and liabilities.

## **General Government Sector Harmonised Financial Statements**

Provides full financial statements for the General Government Sector.

## **Appendices**

The appendices include information in relation to: ACT Government structure; the accounting treatment for Public Private Partnerships; the Loose-fill Asbestos Insulation Eradication Scheme; budget consultation; various capital works tables; consolidated financial statements for Public Trading Enterprises and Total Territory; a history of key budget aggregates; the Safer Families update; the statement of risks; the statement of sensitivity of budget estimates; and whole of government staffing.

Please note that a number of appendices that were previously published as part of Budget Paper No.3 are now available online.

# BUDGET STATEMENTS

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## Budget Statement Presentation

The Budget Statements will be presented in eight 'portfolio' booklets, consistent with the following table:

Booklet	Contents
Group A	ACT Executive Auditor-General Electoral Commissioner Office of the Legislative Assembly
Group B	Chief Minister, Treasury and Economic Development Directorate ACT Compulsory Third-Party Insurance Regulator ACT Gambling and Racing Commission ACT Insurance Authority Canberra Institute of Technology (CIT) CIT Solutions Pty Ltd Cultural Facilities Corporation Icon Water Limited Independent Competition and Regulatory Commission Lifetime Care and Support Fund Superannuation Provision Account Territory Banking Account
Group C	Health Directorate ACT Local Hospital Network
Group D	Justice and Community Safety Directorate Legal Aid ACT Public Trustee and Guardian for the ACT
Group E	Environment, Planning and Sustainable Development Directorate City Renewal Authority Suburban Land Agency
Group F	Education Directorate
Group G	Community Services Directorate Housing ACT
Group H	Transport Canberra and City Services Directorate ACTION ACT Public Cemeteries Authority

## **Budget Statement Sections**

The *Financial Management Amendment Act 2015* (the Amendment Act) was passed on 30 September 2015, giving rise to a number of changes to the presentation of Budget Statements and Statements of Intent (SOIs). These modifications were designed to streamline and improve Budget Paper clarity, including removing instances of duplication between documents.

As a result of these changes, only two territory entities are now required to produce 'standalone' SOI documents: the Long Service Leave Authority; and the Building and Construction Industry Training Fund Authority. For all other Authorities which produce Statements of Intent, their SOIs may be found in one of the eight portfolio booklets as per the table on the previous page.

## **Budget Statement Structure**

The following is intended to provide a brief summary of the information that is found in the various sections of the Budget Statements.

### **Purpose**

This section provides a brief overview of a Territory entity's key service delivery responsibilities, intentions for the coming year, and long-term goals for the Territory entity.

### **Priorities for the Year**

This section provides a brief overview of key strategies and operational priorities for the upcoming financial year for the Territory entity. It takes into account any new initiatives and capital investment.

### **Estimated Employment Levels**

This section provides Territory entity projected staffing numbers for the upcoming financial year, with the prior year budgeted numbers and estimated outcome for the current financial year for the Territory entity. Employment levels are represented in terms of Full-Time Equivalent numbers, which is a measure of labour resources employed in the delivery of services to the community.

## Strategic Objectives and Indicators

Strategic objectives and indicators are part of a Territory entity’s performance information framework. They contribute to measuring the Territory entity’s (and, through it, the Government’s) performance against longer-term strategic objectives and outcomes which impact upon the community. Territory entities are accountable for performance against these indicators, although it is acknowledged that there may be external factors that can influence the achievement of particular targets. Strategic objectives and indicators are not subject to audit.

Provided below is a generic example of a strategic indicator. The example is not intended to align exactly with the actual indicators presented in the Budget Statements, and is for illustration purposes only.

### Example 1

Example Directorate

Strategic Objective 1:

Description of the strategic objective.

	Budget Year Estimate No.	Fwd Year 1 Estimate No.	Fwd Year 2 Estimate No.	Fwd Year 3 Estimate No.
Example description of outcome	3,000	3,100	3,200	3,300

This is the outcome the Government has set to be delivered.

Indicator of objective.

Measure set to reach strategic outcome.

## Outputs and Output Classes

Outputs are defined as identifiable goods and services delivered by a Territory entity for the benefit of the community. The Government measures the cost of providing goods and/or services to the community in order to achieve policy objectives or outcomes. Outputs are grouped together into similar categories called output classes.

This section identifies and describes the outputs provided by the Territory entity and provides the cost of the outputs compared to the appropriations received by the Territory entity in relation to the output class. Example 2 provides an example of an output class by Territory entity. Territory entities may have more than one output class.

### Example 2

#### Output Class 1: enter name here

Table 1: Output Class 1: enter name

	2017-18 Est. Outcome \$'000	2018-19 Budget \$'000
Total Cost		
Controlled Recurrent Payments		

  

This is the name of an output class within the territory entity portfolio.

This is the Output delivered by the Territory entity within the output class.

This is the estimate of the final outcome at the end of the current financial year.

This item reflects the cost of outputs within an output class. (This amount can be greater than the Government payment where the Territory entity provides some of its own funding or the output is provided on a full or part cost recovery basis).

This item reflects the amount of funding for the output class.

## Output Descriptions

Output descriptions are also provided in the Budget Statements to provide readers with more information in relation to the outputs and services provided by the Territory entity.

## Accountability Indicators

Accountability indicators form another part of a Territory entity's performance information framework. They are designed to help measure a Territory entity's success in delivering its outputs (goods and/or services). Accountability indicators correspond to Territory entity output classes and specified outputs. They often take the form of a target level of achievement against an indicator (as per Example 3 below). Territory entities are audited on their achievement against their accountability indicators.



### Example 3

#### Accountability Indicators

##### Output Class 1: Example Name

*Output 1.1: Example Name*

**Table 1: Accountability Indicators Output 1.1**

	2017-18 Targets	2017-18 Est. Outcome	2018-19 Targets
Example subheading			
a. example text			
b. example text			

## Changes to Appropriations

An appropriation is the maximum amount of public money authorised by the ACT Legislative Assembly under a legislative authority for transfer from the Territory Banking Account to a directorate, Territory authority or a Territory-owned corporation.

The 'Changes to Appropriation' table itemises a Territory entity's appropriation made in the prior year's budget and the current budget year. The changes include Supplementary Appropriations, parameter and technical variations, and new policy adjustments. The changes to appropriations are shown for both Controlled and Territorial appropriations for each Territory entity, for each appropriation type, as below:

**Controlled Recurrent Payment from Government:** The appropriated revenue that Territory entities receive for the delivery of goods and services.

**Payments for Expenses on Behalf of the Territory (EBT):** Territorial (administered) revenues, which the Government appropriates to Territory entities for the payment of grants, subsidies and transfer payments (refer Territorial).

**Capital Injections:** The means by which the Government injects funds into a Territory entity for purposes such as the purchase or development of assets, the payment of debt, or the increase of a Territory entity's working capital. On occasion, capital injections may be repayable, in which case the terms of these loans are outlined in the Budget Papers.

## **Summary of Agency Infrastructure Program**

Some agency Budget Statements include a summary of that agency's infrastructure program for 2018-19. This table provides details of new capital works, capital upgrades program projects, and capital works in progress.

## **Financial Statements**

Financial Statements for an agency are provided in Budget Statements to provide readers with details of an agency's financials. More information about the financial statements is provided in this document in the chapter entitled *Key Financial Concepts Underlying the Budget Papers*.

## OTHER BUDGET DOCUMENTS

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### A Sustainable Territory

This document is available online.

### Appropriation Bills

The appropriation bills for the 2018-19 Budget are:

- Appropriation Bill 2018-2019
- Appropriation (Office of the Legislative Assembly) Bill 2018-2019

These bills are available online at the ACT Legislation Register (<http://www.legislation.act.gov.au>).

It should be noted that the *Appropriation Act 2017-2018 (No. 2)* and the *Appropriation (Office of the Legislative Assembly) Bill 2017-2018 (No. 2)* provided funding for initiatives and other funding requirements contained in the 2017-18 Budget Review. Additional details may be found in the *2017-18 Supplementary Budget Papers*.

### Capital Works Program Data Base

An online database provides accessible information on the ACT Government's Capital Works Program. It contains funding details of the 2018-19 Capital Works Program as well as funding changes impacting on the 2017-18 Capital Works Program. This data is available at <http://apps.treasury.act.gov.au/budget/budget-2018-2019/capital-works-program>.



# KEY FINANCIAL CONCEPTS UNDERLYING THE BUDGET PAPERS

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## The 2017-18 Estimated Outcome

The 2017-18 estimated outcome figures have been updated to include the effect of the 2016-17 audited outcome and other impacts identified during the preparation of the Budget.

## Sector Split

The Government Finance Statistics (GFS) sector classification is used for the presentation of consolidated financial statements. Consolidated statements are provided for the General Government Sector (GGS) and the Public Trading Enterprise (PTE) Sector. Total Territory statements are also included. Definitions of these sectors can be found in the Glossary.

## Accrual Concepts

All budget estimates are calculated on an accrual basis. Amounts have been prepared in line with the principles of the standards issued by the Australian Accounting Standards Board (AASB) which applied from 1 January 2018.

In order to match transactions to a particular period, accruals are used to account for differences in timing between business or operational transactions and the associated cash flow. It is the inclusion of these non-cash items that differentiates the Operating Statement from the Cash Flow Statement.

The difference between income (in the Operating Statement) and cash receipts (in the Cash Flow Statement) is explained by the inclusion of income amounts which have been earned but not yet received. Further, accrued income excludes any amounts that have been collected in the current year but were earned in the previous year. Income includes non-cash transactions that have an impact on the Balance Sheet, such as an increase in the value of an asset following a revaluation.

Accrued expenses (in the Operating Statement) differ from cash payments (in the Cash Flow Statement) due to the inclusion of items such as employee benefits, which are recognised as expenses in 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 may be paid in the current year. Similar to income, expenses include non-cash transactions, such as revaluations, and the recognition of depreciation against certain assets.

## **Controlled/Territorial Separation of Disclosure**

A key feature of the accrual model used by the Territory is the separation of Controlled activities from Territorial activities. Each Territory entity's budget distinguishes between these in its financial statement.

Controlled activities are those related to the delivery of agreed outputs of directorates and other Territory entities for which there is agreed funding by the appropriation type 'controlled recurrent payment'. By separately reporting on these items from other activities, the performance of the directorate/Territory entity in delivering the agreed outputs can be identified.

Territorial activities are the other activities of directorates, which are administered on behalf of the Territory, including administering Commonwealth Government grants and the collection of taxes, fees and fines for the Territory. Controlled and Territorial activities are separately appropriated.

The split of Controlled and Territorial activities allows for accountability and performance analysis to be more accurate and meaningful. Territorial payments and revenues are typically determined by Government, and payment or assessment processing is handled by the relevant directorate. The amounts of payments or revenues may vary significantly without reflecting on operational performance of the directorate.

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 the effectiveness of directorates' performance in the delivery of outcomes. Directors-General 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**

Territory entities 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 territory entities is transferred to the Territory Banking Account on a regular basis.

The 2018-19 Budget was developed using the same arrangements applying to cash management practices as in previous budgets. A key aspect of the arrangements is the requirement for directorates to return cash surplus to their needs back to Government. As directorates no longer hold surplus cash, directorates will generally not have a need to invest surplus funds with the Territory Banking Account.

In relation to the ACT Local Health Network (LHN), under the National Health Reform Agreement (NHRA), the Commonwealth Government will contribute 45 per cent of growth funding for public hospital expenditure for all States and Territories based on an Activity Based Funding mechanism. Consistent with the NHRA, the ACT LHN will maintain two bank accounts to receive funding, a State Pool Account held at the Reserve Bank of Australia and a State Managed Fund Account (SMFA).

The ACT LHN will 'purchase' services from the four public hospitals and manage the State Pool Account and the SMFA to collect payments from the Commonwealth, the ACT and other jurisdictions.

## **Central Finances of the Government**

The central finances of the Government are managed through a separate whole of government bank account (the Territory Banking 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 that occurs throughout the financial year targets the delivery of outputs against an agreed level of funding.

## **Appropriation Types**

Section 8 of the *Financial Management Act 1996* establishes three types of appropriation, as set out below.

### **Controlled recurrent payments**

Controlled recurrent payments are shown as revenue to a Territory entity. It represents the level of funding provided by Government to a Territory entity to enable it to deliver a range of goods and services.

The full cost of providing a service may be financed partly by sales to third parties defined as 'user charge' revenues. Generally, where a service is provided to other Territory entities, those Territory entities 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 'controlled recurrent payment' or 'user charge' revenues.

### **Capital Injections**

Capital injections are used to increase the capital base of a Territory entity, and may be used to:

- purchase assets;
- develop assets;
- augment assets; or
- reduce liabilities.

Capital injections are issued as either equity injections or repayable loans. The latter are effectively a working capital advance which must be repaid. The Budget Papers must disclose any repayable capital injections and the conditions under which the injection is given (for example repayment timeframes, interest rate principal and interest repayments). All repayable injections are reflected in the relevant Territory entity as a liability, while the Territory Banking Account discloses them as a loans receivable.

### **Expenses on Behalf of the Territory (EBT)**

This category represents Territorial (administered) expenses, which the Government appropriates for the payment of grants, subsidies and transfer payments.

### **Capital Works**

In terms of budgeting, the capital works or asset acquisition program can be funded in a number of ways. Initially, a Territory entity seeking to increase its physical asset base should examine its internal funding capability, then alternative funding sources such as debt, capital injection or public private partnerships. Capital works activities may also include the planning of future capital works – such as feasibility studies – which may be funded through controlled recurrent payments.

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 directorate's operating results and balance sheet position.

# FORMAT OF THE TERRITORY'S BUDGET FINANCIAL STATEMENTS

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The Territory's financial interest is reflected in the consolidated budget and consolidated financial statements of all directorates, Territory authorities and Territory-Owned Corporations.

Normal accrual accounting principles apply to the consolidation of the individual Territory entity budgets into the Total Territory statements. 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 directorate or with another entity within Government.

Eliminations of internal trading are necessary in order to accurately reflect the interaction between each budget or reporting entity and other external entities. Failure to eliminate these transactions results in double counting, resulting in an inflated level of activity of the entity in relation to other external entities. On the Balance Sheet, failure to eliminate internal trading will result in an incorrect level of payables, receivables, investments and borrowings. This includes, for instance, the level of debt owed by the Territory. Internal debt created by one Territory entity lending to another within the Territory is offset by an internal receivable and has no impact on Total Territory debt.

The Total Territory consolidation is split between the GGS and PTEs. The appropriate eliminations are also made in reporting these sectors – firstly, within the sector (that is intra-GGS and intra-PTE eliminations) and secondly, between the two sectors (that is between the GGS and PTE sectors).

## Financial Statement Presentation

The format of the Territory's financial statements is different from Territory entity financial statements. The Territory's whole of government format aligns financial reporting with the Government Finance Statistics format used in the Uniform Presentation Framework (UPF). This format is considered to be a more suitable presentation for whole of government financial reporting, more informative for readers and more readily facilitates comparison with other jurisdictions.

The key differences between whole of government financial statements and Territory entity statements include:

- The whole of government Operating Statement classifies transactions as either revenue, expenses or other economic flows.
  - Revenue and expenses result from mutually agreed transactions between two parties.
  - Other economic flows result from changes in the volume or value of assets or liabilities resulting from revaluations, net gains on the sale of assets or liabilities and non-mutual bad debts written off.

- The UPF Net Operating Balance is a GFS concept that is calculated as the difference between revenue and expenses resulting from transactions. This is a good indicator of the underlying reality of a Government's financial performance. The measure recognises that operating budgets cannot be sustained indefinitely by asset sales and unexpected investment windfalls.
- The Headline Net Operating Balance is the UPF Net Operating Balance plus expected long-term superannuation investment earnings. The measure takes into account the full impact of the long-term expected earnings on assets dedicated to fund and support the accruing costs associated with servicing the Government's long-term defined superannuation obligations. Superannuation expenses will be paid over the next forty to sixty years. The Government's superannuation investments held in the Superannuation Provision Account (SPA) are to fund these future cash payments. The inclusion of the full amount of the long-term investment earnings is necessary to provide an accurate assessment of the longer-term sustainability of the budget position.
- The Operating Result recognises the change in a Government's net worth as a result of both transactions and other economic flows, excluding those reflected directly in equity.
  - For the Territory, the key differences between the UPF Net Operating Balance and the Operating Result are significant land sales, net gains on the sale of non-financial assets, and net gains on financial assets held to fund future superannuation payments.
- The Total Comprehensive Income serves as a measure of the total change in value of the Territory entity during a financial year arising from revenue, expenses and both realised and unrealised movements in the valuation of assets and liabilities. Total Comprehensive Income is the equivalent to the increase or decrease in Net Assets during the financial year.
- The Net Lending/(Borrowing) position represents the financing requirement of Government, calculated as the net operating balance less the net acquisition of non-financial assets. It also equals transactions in financial assets less transactions in liabilities. A positive result reflects a net lending position and a negative result reflects a net borrowing position.
- The whole of government Balance Sheet is presented on a liquidity basis rather than the more traditional current/non-current classifications.

## Key Accounting Treatments by Schedule

### Operating Statement

The items appearing on this statement are only controlled items. Controlled items are those associated with the delivery of outputs and transacted through Territory entity operating bank accounts.

Interpreting the projected Operating Result:

- Some Territory entities budget for an operating deficit, while others project a surplus or break-even position. A deficit result is mostly attributable to the impact of depreciation resulting from the process used for funding capital works. Funding of capital works is generally centrally managed within the Territory. Funding for new capital works is generally provided by the Government to Territory entities as a capital injection in the year of acquisition of the new assets.
- Depreciation is the accounting process for allocating the cost of asset usage over the useful life of the assets. Generally, agencies are fully funded for the acquisition of assets at the time of acquiring the assets, thus further funding for depreciation is not provided. At the end of the useful life for assets, the Government will make decisions regarding the future asset needs of the Territory entity and the Territory.
- As a result of Territory entities not receiving recurrent funding for depreciation, the operating result for some agencies will be a deficit. Consequently, each Territory entity's actual performance must be assessed against its projected performance, not against whether it achieved a breakeven or surplus result.

### Balance Sheet

The items appearing on this statement are only those associated with the delivery of outputs by the Territory entity and summarise the balances of controlled assets and liabilities estimated at the end of the financial year of the Territory entity. Trust monies and Territorial (administered) items are excluded.

### Statement of Changes in Equity

The items included in the Statement of Changes in Equity are only associated with the delivery of outputs by the Territory entity and are therefore controlled by the Territory entity. The types of changes in equity include movements in capital injections and distributions, and increases or decreases in net assets due to administrative restructures.

### Cash Flow Statement

The items appearing on this statement are only those associated with the delivery of outputs by the Territory entity. Trust monies and Territorial (administered) items are excluded.

This statement provides a view of the operations of a Territory entity 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.

### **Statement of Income and Expenses on Behalf of the Territory**

Expenses on this statement are those which are administered on behalf of the Territory and over which a Territory entity has no discretion in applying them to an alternative use. Income such as taxes, fees and fines are required to be transferred to the Territory Banking Account. The directorate has no discretion over the use of territorial income collected.

Income includes amounts received from Government to pay for Territorial expenses. The income amounts transferred to the Territory Banking Account are shown as transfer expenses in this statement.

### **Statement of Assets and Liabilities on Behalf of the Territory**

This statement discloses those assets and liabilities which are administered by the Territory entity on behalf of the Territory and over which the Territory entity has limited discretion regarding resource deployment or alternative use.

### **Statement of Changes in Equity on Behalf of the Territory**

The items included in the Statement of Changes in Equity on Behalf of the Territory are not associated with the delivery of outputs by the directorate and instead are administered by the directorate on behalf of the Territory. The types of changes in equity include movements in capital injection and distribution, and increases or decreases in net assets due to administrative restructures.

### **Statement of Cash Flows on Behalf of the Territory**

This statement discloses those cash flows which are administered by the Territory entity on behalf of the Territory. This reflects the total cash flows – including the transfers between the Territory Banking Account and the Territory entity operated bank account – for RBT and EBT.

## **2017-18 Comparative Figures**

The projected 2018-19 results for Territory entities are presented in the Budget Papers on the same basis as they will appear in the 2017-18 financial statements, which is consistent with Generally Accepted Accounting Principles (GAAP) and the AASBs.

Subsections 27(2) and 63(2) of the *Financial Management Act 1996* require the preparation of financial statements for Territory entities to be in accordance with GAAP and for their presentation to facilitate comparison with the Budget presentation.

Where transfers of responsibilities have occurred during the 2017-18 financial year, the relevant Territory entities reflect the impact of those transfers from the time of transfer and these are explained in variation notes in the Budget Papers where they are material.

## **Rounding**

Due to the rounding of decimal places, the sum of the figures in the financial tables presented in the Budget Papers may not balance.

## **Notations**

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

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



## DETAILED FINANCIAL STATEMENT ANALYSIS

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Financial information presented in the Budget Papers and Budget Statements for each Territory entity is prepared in accordance with the principles contained in Australian Accounting Standards. Territory entity financial statements include forward estimate information to provide readers with a longer-term focus on the Territory entity's financial performance and financial position.

Controlled and Territorial (administered) activities are presented in separate schedules. Each Territory entity provides (where appropriate) an:

- Operating Statement;
- Balance Sheet;
- Statement of Changes in Equity;
- Cash Flow Statement;
- Statement of Income and Expenses on Behalf of the Territory;
- Statement of Assets and Liabilities on Behalf of the Territory;
- Statement of Changes in Equity on Behalf of the Territory;
- Budgeted Statement of Cash Flows on Behalf of the Territory; and
- Notes to the Budget Statements.

Where there is more than one Output Class for the Territory entity, an Operating Statement is provided (where applicable).

The Notes to the Budget Statements provide explanations for material variations between the estimated outcome and the original budget. Variation explanations are provided for all statements with the exception of the Cash Flow Statement and the Budgeted Statement of Cash Flows on Behalf of the Territory.

Illustrative examples and explanations of the financial statements follow.

## **Operating Statement**

The Operating Statement presents information on expenses and revenue, and the operating result of the Territory entity's activities in a financial year.

### **Revenue**

Revenue is generated by a Territory entity from its operating activities and mainly includes Controlled Recurrent Payments, which is the appropriation provided for the delivery of goods and services to the ACT community; it also includes user charges. Revenues are recorded at the time they are earned, rather than at the time at which the cash payment is received. Revenue amounts in the Operating Statement may therefore differ from receipts from operating activities in the Cash Flow Statement.

### **Income**

Income encompasses both revenue and gains.

### **Expenses**

Expenses are costs incurred by a Territory entity through its operating activities. Employee expenses, supplies and services, and grants are some of the common expenses incurred by Territory entities.

### **Operating Result**

The difference between income and expenses is known as the Operating Result. The Operating Result is the operating profit or loss for the period being reported.

### **Total Comprehensive Income**

Total Comprehensive Income measures the total change in value of a Territory entity during a financial year arising from income, expenses and both realised and unrealised movements in the valuation of assets and liabilities. Total Comprehensive Income is the equivalent to the total increase or decrease in Net Assets during the financial year.

Example 4 provides an example of a Territory entity's Operating Statement.

## Example 4 Operating Statement

The variance is the percentage difference between the Estimated Outcome and the Budget.

20XX-XX Budget	20XX-XX Est. Outcome \$'000	20XX-XX Budget \$'000	Var %	20XX-XX Estimate \$'000	20XX-XX Estimate \$'000	20XX-XX Estimate \$'000
Income						
Revenue						
Controlled Recurrent Payment from Government		465,771				
User Charges		16,773				
Grants from the Commonwealth		0				
Interest		1,458				
Other Revenue		18,202				
Resources Received Free of Charge		349				
Total Revenue		502,553				
Gains						
Other Gains		0				
Total Gains		0				
Total Income		502,553				
Expenses						
Employee Expenses		315,846				
Superannuation Expenses		50,214				
Supplies and Services		52,924				
Depreciation and Amortisation		45,249				
Borrowing Costs		99				
Cost of Goods Sold		0				
Grants and Purchased Services		28,307				
Other Expenses		54,245				
Total Ordinary Expenses		546,884				
Operating Result		-44,331				
Increase/(Decrease) in the Asset Revaluation Surplus						
		10				
Total Other Comprehensive Income		10				
Total Comprehensive Income		-44,321				

This is the total amount appropriated to the Territory entity to deliver goods and services and aligns with the Appropriation Act.

These items reflect other revenue sources collected by or allocated to a Territory entity.

Gains represent items other than revenue that meet the definition of income and may or may not arise in the course of the ordinary activities of a Territory entity. Gains may arise, for example, on disposal of non-current assets.

These items reflect, on an accrual basis, the cost of all services delivered by a Territory entity within a fiscal year.

This item reflects the difference between operating revenue, expenses and gains.

This item reflects the revaluation of Property, Plant and Equipment.

## **Balance Sheet**

The Balance Sheet is a financial snapshot of a Territory entity's financial position taken at the end of the financial year (30 June). It is separated into current and non-current assets and liabilities, and includes financial assets, non-financial assets, and the extent of liabilities such as creditors, borrowings and superannuation. Assets reflect what is controlled by or owed to the Territory entity, whilst liabilities reflect what the Territory entity owes to others.

By providing information on the type of assets and liabilities, this statement gives an indication of the Territory entity's financial strength.

### **Current Assets and Non-Current Assets**

Current assets are cash and other assets that are expected to be converted to cash within 12 months, such as receivables and inventories. Non-current assets are usually physical in nature with longer-term useful lives, such as land, buildings and equipment. These are utilised by Territory entities in delivering services to the community.

### **Current Liabilities and Non-Current Liabilities**

Current liabilities are usually obligations that would be met within 12 months or where the Territory entity does not have an unconditional right to defer settlement of the liability for at least 12 months, such as payables (creditors), employees' annual leave entitlements and interest expenses due but not paid. Non-current liabilities are longer term obligations, such as employees' long service leave entitlements, borrowings (debt) and superannuation.

### **Equity**

Equity represents the difference between total assets and total liabilities. Equity is also known as net assets or net worth.

## Example 5 Balance Sheet

The variance is the percentage difference between the Estimated Outcome and the Budget.

20XX-XX Budget	20XX-XX Est. Outcome	20XX-XX Budget	Var	20XX-XX Estimate	20XX-XX Estimate	20XX-XX Estimate
\$'000	\$'000	\$'000	%	\$'000	\$'000	\$'000
Current Assets						
Cash and Cash Equivalents		29,760				
Receivables		3,353				
Other Current Assets		2,608				
Total Current Assets		35,721				
Non Current Assets						
Investments		0				
Property, Plant and Equipment		1,619,955				
Intangibles		0				
Capital Works in Progress		10,375				
Total Non Current Assets		1,630,330				
TOTAL ASSETS		1,666,051				
Current Liabilities						
Payables		7,409				
Finance Leases		619				
Employee Benefits		76,745				
Other Liabilities		3,963				
Total Current Liabilities		88,736				
Non Current Liabilities						
Finance Leases		300				
Employee Benefits		4,855				
Total Non Current Liabilities		5,155				
TOTAL LIABILITIES		93,891				
NET ASSETS		1,572,160				
REPRESENTED BY FUNDS EMPLOYED						
Accumulated Funds		685,225				
Reserves		886,935				
TOTAL FUNDS EMPLOYED		1,572,160				

Assets that are either cash, or likely to be converted to cash within 12 months.

Assets that do not fall within the definition of current assets.

This item includes amounts owing by the Territory entity to other parties, including suppliers and employees.

This item represents the difference between the Territory entity's Total Assets and Total Liabilities. Net Assets represent the Territory entity's overall financial position at a point in time.

Reserves are recognised for the increase on revaluation of non-current assets or other intended use of funds.

This is a Territory entity's contribution to the Net Worth of the Territory.

## **Cash Flow Statement**

The Cash Flow Statement is concerned with the flow of cash in and cash out of a Territory entity for the financial year. The Cash Flow Statement captures all cash receipts and cash payments that flow through the Operating Statement and Balance Sheet. Non-cash transactions, such as asset revaluations, are not captured in the Cash Flow Statement.

The Cash Flow Statement is partitioned into three segments, namely: cash flow resulting from operating activities, cash flow resulting from investing activities, and cash flow resulting from financing activities.

### **Operating Activities**

Operating activities are those which relate to the core business of the Territory entity. For example the collections of taxes, the distribution of grants, and the provision of goods and services to the community.

### **Investing Activities**

Investing activities are those that relate to the management of assets, including the sale and purchase of assets such as land, buildings, plant and equipment, management of investments and customer loans. Any profit or loss on the disposal of an asset is also recorded in the Operating Statement.

### **Financing Activities**

Financing activities relate to changes in the size and composition of the contributed capital (accumulated funds) and borrowings of the Territory entity. It includes items such as capital injections from Government, distributions to Government and repayment of finance leases/borrowings.

The net increase or decrease in cash held is simply the sum of cash receipts less cash payments for the period. Total cash at the beginning and end of the period is also shown, which matches the total of cash equivalent assets included in the Balance Sheet.

Example 6 provides an example of a Territory entity's Cash Flow Statement.

## Example 6 Cash Flow Statement

The variance is the percentage difference between the Estimated Outcome and the Budget.

20XX-XX Budget	20XX-XX Est. Outcome \$'000	20XX-XX Budget \$'000	Var %	20XX-XX Estimate \$'000	20XX-XX Estimate \$'000	20XX-XX Estimate \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Cash Receipts						
Cash from Controlled Recurrent Payment from Government		465,771				
User Chargers		16,873				
Interest Receipts		1,458				
Other Receipts		51,916				
Total Cash Received from Operating Activities		536,018				
Cash Payments						
Related to Employees		310,983				
Related to Superannuation		50,214				
Related to Supplies and Services		52,353				
Borrowing Costs		96				
Grants and Purchased Services		28,861				
Other Payments		87,727				
Total Cash Paid from Operating Activities		530,234				
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>5,784</b>				
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Cash Payments						
Purchase of Property, Plant and Equipment and Capital Works		218,236				
Total Cash Paid from Investing Activities		218,236				
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>-218,236</b>				
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Cash Receipts						
Capital Injection from Government		214,821				
Total Cash Received from Financing Activities		214,821				
Cash Payments						
Distributions to Government		688				
Repayment of Finance Lease		1,769				
Total Cash Paid from Financing Activities		2,457				
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>212,364</b>				
<b>NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>-88</b>				

This figure aligns with the Appropriation Act.

Operating activities are the principle revenue-producing activities of a territory entity and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets, and other investments not included in cash equivalents.

This figure aligns with the Appropriation Act.

Financing activities are activities that relate to changes in the size and composition of the contributed capital (accumulated funds) and borrowings of the Territory entity.

Net Increase/(Decrease) in Cash and Cash Equivalents is the sum of net cash flows from all operating, investing and financing activities. This measure is consistent with the movement of cash in the GGS Balance.

<b>20XX-XX Budget</b>	<b>20XX-XX Est. Outco me \$'000</b>	<b>20XX-XX Budget \$'000</b>	<b>Var %</b>	<b>20XX-XX Estimate \$'000</b>	<b>20XX-XX Estimate \$'000</b>	<b>20XX-XX Estimate \$'000</b>
	CASH AT THE BEGINNING OF REPORTING PERIOD	29,848				
	CASH AT THE END OF THE REPORTING PERIOD	29,760				

## Statement of Changes in Equity

The Statement of Changes in Equity shows the changes in equity between two financial years reflecting the increase or decrease in its net assets during the year. The total overall change in equity during a financial year represents the total amount of income and expenses, including gains and losses generated by an entity's activities during the year. Examples of changes in equity include movements in capital injections and distribution, asset revaluations and increases or decreases in net assets due to administrative restructures.

### Example 7 Statement of Changes in Equity

20XX-XX Budget	20XX-XX Est. Outcome \$'000	20XX-XX Budget \$'000	Var %	20XX-XX Estimate \$'000	20XX-XX Estimate \$'000	20XX-XX Estimate \$'000
Opening Equity						
Opening Accumulated Funds		716,128				
Opening Asset Revaluation Surplus		883,725				
Opening Other Reserves		3,200				
Opening Balance		1,603,053				
Comprehensive Income						
Included in Accumulated Funds:						
Operating Result for the Period		-44,331				Obtained from the Operating Statement.
Total Accumulated Funds		-44,331				
Included in Asset Revaluation Surplus:						
Increase/(Decrease) in the Asset Revaluation Surplus		10				Indicates a valuation performed on Property, Plant and Equipment to determine its fair value.
Total Asset Revaluation Surplus		10				
Included in Other Reserves:						
Increase/(Decrease) in Other Reserves		0				
Total Other Reserves		0				
Total Comprehensive Income		-44,321				
Transactions Involving Owners Affecting Accumulated Funds						
Capital Injections		14,249				Represents the capital the Government has provided to a territory entity, less any capital distributions to Government. The capital injection must be used in accordance with what was specified in the Appropriation Act.
Capital Distributions to Government		-821				
Total of Transactions Involving Owners Affecting Accumulated Funds		13,428				
Closing Equity						
Closing Accumulated Funds		685,225				Closing balance matches the totals in the Balance Sheet for Net Assets and Total Funds Employed.
Closing Asset Revaluation Surplus		883,735				
Closing Other Reserves		3,200				
Balance at End of the Reporting Period		1,572,160				

## Statement of Income and Expenses on Behalf of the Territory

Expenses on this statement are those which are administered by an entity on behalf of the Territory, and over which an entity has no discretion in applying to an alternative use. Income on this statement represents taxes, fees and fines that are collected on behalf of the Territory and transferred to the Territory Banking Account for redistribution across Government. The entity has no discretion over the use of Territorial income collected.

Payments on behalf of the Territory accounted for in Revenue include amounts received from the Government to pay for Territorial expenses. The income amounts transferred to the Territory Banking Account are shown as Transfer Expenses in this statement.

### Example 8

#### Statement of Income and Expenses on Behalf of the Territory

20XX-XX Budget	20XX-XX Est. Outcome \$'000	20XX-XX Budget \$'000	Var %	20XX-XX Estimate \$'000	20XX-XX Estimate \$'000	20XX-XX Estimate \$'000
Income						
Revenue						
Payment for Expenses on behalf of Territory		231,271				
Taxes, Fees and Fines		195				
Grants from the Commonwealth		0				
Total Revenue		231,466				
Gains		0				
Total Gains		0				
Total Income		231,466				
Expenses						
Grants and Purchased Services		231,271				
Transfer Expenses		195				
Total Ordinary Expenses		231,466				
Operating Result		0				

Generally this figure agrees with the total Payment for Expenses on Behalf of Territory in the Appropriation Act.

## Statement of Assets and Liabilities on Behalf of the Territory

This statement discloses those assets and liabilities which are administered by an entity on behalf of the Territory and over which the entity has limited discretion regarding resource deployment or alternative use.

### Example 9

#### Statement of Assets and Liabilities on Behalf of the Territory

20XX-XX Budget	20XX-XX Est. Outcome \$'000	20XX-XX Budget \$'000	Var %	20XX-XX Estimate \$'000	20XX-XX Estimate \$'000	20XX-XX Estimate \$'000
Current Assets						
Cash and Cash Equivalents		119				
Receivables		204				
Total Current Assets		323				
<b>TOTAL ASSETS</b>		<b>323</b>				
Current Liabilities						
Payables		0				
Interest Bearing Liabilities		323				
Total Current Liabilities		323				
<b>TOTAL LIABILITIES</b>		<b>323</b>				
NET ASSETS		0				
REPRESENTED BY FUNDS EMPLOYED						
<b>TOTAL FUNDS EMPLOYED</b>		<b>0</b>				

This figure aligns with the cash at the end of the reporting period in the Budgeted Statement of Cash Flows on Behalf of the Territory.

## Budgeted Statement of Cash Flows on Behalf of the Territory

This statement discloses those cash flows which are administered by an entity on behalf of the Territory. This reflects the total cash flows, including the transfers between the Territory Banking Account and an entity operated banking account, for RBT and EBT.

### Example 10

#### Budgeted Statement of Cash Flows on Behalf of the Territory

20XX-XX Budget	20XX-XX Est. Outcome \$'000	20XX-XX Budget \$'000	Var %	20XX-XX Estimate \$'000	20XX-XX Estimate \$'000	20XX-XX Estimate \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Cash Receipts						
Cash from Government for EBT		249,702				
Taxes, Fees and Fines		195				
Grants Received from the Commonwealth		0				
Other Receipts		4,653				
Total Cash Received from Operating Activities		254,550				
Cash Payments						
Grants and Purchased Services		249,702				
Territory Receipts to Government		195				
Related to Employees		0				
Other Payments		4,653				
Total Cash Paid from Operating Activities		254,550				
NET CASH FLOWS FROM OPERATING ACTIVITIES		0				
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Cash Payments						
Purchase of Property, Plant and Equipment and Capital Works		0				
Total Cash Paid from Investing Activities		0				
NET CASH FLOWS FROM INVESTING ACTIVITIES		0				
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Cash Receipts						
Capital Injection from Government		0				
Total Cash Received from Financing Activities		0				
NET CASH FLOWS FROM FINANCING ACTIVITIES		0				
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		0				
CASH AT THE BEGINNING OF REPORTING PERIOD		119				
CASH AT THE END OF THE REPORTING PERIOD		119				

Generally this figure aligns with the total Payment for Expenses on Behalf of Territory detailed in the Appropriation Act.

This figure aligns with the Appropriation Act.

This figure aligns with the amount Cash and Cash Equivalents in the Statement of Assets and Liabilities on Behalf of the Territory.