

2.1 BUDGET AND FINANCIAL PROJECTIONS

2007-08 Budget Net Operating Balance and the Forward Estimates

This chapter provides a summary of the 2007-08 Budget and forward estimates for the General Government Sector. Table 2.1.1 below provides the Net Operating Balance for the 2006-07 forecast outcome, and 2007-08 Budget and the forward years.

Table 2.1.1
GFS Budget Operating Deficit / Surplus

	2006-07 \$'m	2007-08 \$'m	2008-09 \$'m	2009-10 \$'m	2010-11 \$'m
GFS Revenue	2,838.3	3,039.3	3,095.5	3,236.3	3,392.4
GFS Expenses	2,867.3	3,025.8	3,152.2	3,291.0	3,421.2
GFS Net Operating Balance (UPF Statements)	-29.0	13.5	-56.7	-54.7	-28.7
Expected Long Term Capital Gains on Superannuation Investments	68.2	89.5	108.3	119.0	130.2
Net Operating Balance	39.3	103.0	51.6	64.3	101.5

Numbers may not add due to rounding.

Over the past several years, the Territory has recorded large GFS deficits, while achieving operating surpluses under the AAS measure. This is because land sales revenue, a uniquely large revenue source for the ACT, is not included in the GFS measure. Likewise, unexpected changes in the value of superannuation investments are excluded in the GFS measure.

In order to reduce the Budget's reliance on land revenues, and its exposure to stock market movements, the Government made major structural adjustments to the basis of its Budget in 2006-07. These reforms included both revenue and expenditure measures.

The Government now expects to deliver a surplus net operating balance in 2006-07, and maintain the surplus in 2007-08 and across the forward estimates. The relatively stronger operating surplus in 2007-08 reflects the impact of higher taxation, dividend and other revenue associated with accelerating the land development program.

Together with the net operating balance, the other economic flows as identified in Table 2.1.2 below, are combined to arrive at the AAS operating result.

Table 2.1.2
Reconciliation between the Net Operating Balance and the AAS Operating Result

	2006-07 \$'m	2007-08 \$'m	2008-09 \$'m	2009-10 \$'m	2010-11 \$'m
Net Operating Balance	39.3	103.0	51.6	64.3	101.5
<i>Other Economic Flows – included in the Operating Result</i>					
Net Gain on Sale of Non-Financial Assets	-10.9	0.1	0.1	0.1	0.1
Net Gain on Financial Assets/Liabilities at Fair Value	102.8	0.0	0.0	0.0	0.0
Land Revenue (accrual revenue)	71.5	189.7	121.0	107.4	119.4
Bad Debts Written Off	-2.5	-1.4	-1.5	-1.5	-1.5
AAS Operating Result	200.2	291.3	171.2	170.3	219.4

The negative net gain on sale of non-financial assets represents the decrease in net assets associated with the transfer of the Workers' Compensation Supplementation Fund to the Nominal Insurer, reflecting one of the Administrative Arrangement Orders included in the 2006-07 Budget, and a technical adjustment for the removal of financial estimates for Rhodium Asset Solutions, given the Government's decision to proceed to sale.

In accordance with the AAS framework, superannuation gains are reported as revenues, and hence have a direct impact on the estimated AAS operating result, while the net operating balance continues to recognise a 7.5 per cent return on superannuation investments in 2006-07, despite the actual return on investments significantly exceeding a 7.5 per cent return in the current year.

The return on superannuation investments in excess of 7.5 per cent is reflected as a gain on financial assets or liabilities at fair value.

The land revenue included in other economic flows represents the sale of the Gungaharra Homestead and the value of land sales to the Land Development Agency by the Department of Territory and Municipal Services in relation to the Government's land development program.

Bad debts written off are also excluded from the net operating balance (as they are not a mutually agreed transaction), although they are included in the AAS operating result.

Australian Accounting Standard Results

The following table provides the 2007-08 Budget and forward estimates on an Australian Accounting Standards basis.

Table 2.1.3
AAS Budget Operating Deficit / Surplus

	2006-07 \$'m	2007-08 \$'m	2008-09 \$'m	2009-10 \$'m	2010-11 \$'m
AAS Revenue	3,074.0	3,312.1	3,319.2	3,457.7	3,637.8
AAS Expenses	2,873.8	3,020.8	3,148.0	3,287.4	3,418.3
AAS Operating Result	200.2	291.3	171.2	170.3	219.4

The forecast outcome for 2006-07 is a surplus of \$200.2 million compared to the original budget estimate of a deficit of \$16.4 million.

As well as improvements also recorded in the Net Operating Balance, the significant investment gains above original budget estimates for the Superannuation Provision Account have contributed to the improvement in the AAS Operating Result.

GFS/GAAP Harmonisation and Financial Statement Presentation

In 2006-07, the ACT adopted Government Finance Statistics (GFS) as the headline budget reporting measure. In 2007-08, the Government has further refined the presentation of its financial statements as an intermediary step prior to implementing harmonised GFS/GAAP (Generally Accepted Accounting Principles) financial statements. This harmonisation project aims to achieve a single set of Government reports that are auditable and comparable between jurisdictions.

As part of the harmonisation project, the Australian Accounting Standards Board has issued a new standard requiring the preparation of the separate financial report for the General Government Sector, applicable from 1 July 2008. In line with other jurisdictions, the Territory will not be early adopting the harmonised standard in 2007-08, as:

- changes are yet to be made to the Whole of Government financial reporting standard and Uniform Presentation Framework to align with the new harmonised format; and
- a reasonable lead-time is required to prepare for additional information requirements.

For comparability purposes this chapter also provides a reconciliation between the different measures.

Although the ACT is not adopting the new harmonised standard early, the financial statement presentation has been changed to align, where possible within existing accounting standards, with the new harmonised format. This move by the Government recognises future changes are imminent and will reduce the effort required to implement the harmonised standard when required.

Further information regarding the revised Whole of Government financial statement presentation is provided in Budget Paper No. 4, Appendix A – Basis of the 2007-08 Budget and Forward Estimates.