



AUSTRALIAN CAPITAL TERRITORY

BUDGET

2004 – 2005



SUPPLEMENTARY PAPER
FRAMEWORK FOR FUTURE BUDGET PRESENTATION
DISCUSSION PAPER

*Presented on 4 May 2004 by Ted Quinlan MLA
Treasurer of the Australian Capital Territory*



building our city
building our community

ACT Government

Guide to the Budget Papers

Structure and content of the 2004-2005 Budget Papers

The 2004-2005 Budget is presented in four budget papers.

PAPER N° 1

SPEECH

The Treasurer's speech to the Legislative Assembly highlights the Government's Budget strategies and key features of the Budget.

PAPER N° 2

BUDGET AT A GLANCE

A summary of the overall budgetary position together with information on the Government's expenditure in key service delivery areas. It provides cross references to other budget papers to assist readers in locating details of specific budget measures.

PAPER N° 3

BUDGET OVERVIEW

Summarises the 2004-2005 Budget and forward estimates for the general government sector, the public trading enterprise sector and the total Territory Government. Details of the projected 2004-2005 Budget results are provided, as well as background information on the development of the 2004-2005 Budget, including consultations with the community, economic conditions, and intergovernmental financial relations.

The *Appropriation Bill 2004-2005* is appended.

PAPER N° 4

BUDGET ESTIMATES

Information on each department and their respective output classes, including descriptions of functions, roles and responsibilities, together with major strategic highlights. Full accrual financial information is provided for the general government sector as well as details of the Territory's public trading enterprises.

SUPPLEMENTARY PAPER

FRAMEWORK FOR FUTURE BUDGET PRESENTATION DISCUSSION PAPER

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Purpose of the Paper

The Government launched its sustainability policy *People Place Prosperity: a policy for sustainability in the ACT* on 27 March 2003.

Through the policy, the Government committed to sustainability principles that will be incorporated into its systems and operations, and to:

- embedding sustainability within its decision-making processes;
- promoting sustainability to the wider community;
- developing partnerships for sustainability with the ACT community; and
- developing indicators and reporting regularly on progress.

Triple Bottom Line reporting has often been discussed in the context of *Sustainability* and sustainable development.

The Budget is the major annual policy statement of the Government, which reflects its resource allocation priorities in addressing emerging demands and achieving policy objectives. It is therefore important that Budget Papers reflect sustainability principles, facilitate an understanding of the resource allocation decisions and the underlying objectives, and provide a framework of measures and targets against which progress could be measured both on an annual basis and on the longer time horizon.

While there would be little debate about this as a principle, implementation of *Triple Bottom Line* raises a number of complexities.

The purpose of this Paper is to initiate a discussion, and consultation process that would assist in the development of a framework to be incorporated into future Budget Papers that is relevant to the needs of the community and key stakeholders.

A key element of *Triple Bottom Line* or Sustainability is the involvement of stakeholders. The consultation will inform the presentation of future Budget papers, however, incorporation of *Triple Bottom Line* in the Budget Papers involves a shift in process at various levels of government.

The Paper also provides the impact of proposed changes in International Accounting Standards on government financial reporting. The adoption of this standard is intended as part of the solution to harmonise Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) financial reporting.

It is expected that the standard, which will possibly be issued in June 2005, will be adopted from 1 July 2005.

The change seeks to improve disclosure, recognising that a 'bottom-line' is not always necessarily a useful measure of a government's performance. This can be due to large revenue and expenditure amounts, particularly those relating to periods outside the financial year, for example, large changes in asset valuations, or revaluations of superannuation liabilities due to past occurrences and assumptions on future events such as length of life.

A 'bottom line' is also not the only measure in which the stakeholders would be interested. It will, however, take a significant change for stakeholders and particularly, decision makers as in general there is a tendency to focus on a single headline measure. *Triple Bottom Line* requires the use of a multitude of headline measures.

The issues highlighted in this Paper are by no means exhaustive. The Paper suggests an outline of the framework and provides an example. This again is by no means definitive. This is the start of an ambitious project.

Further issues would emerge through consultation, as indeed their possible solutions. The Paper should therefore be viewed as a first step in what is considered to be a major reform.

Part 1: Triple Bottom Line in Budget Papers

SUMMARY

In general, the *Sustainability* principles recognise the broader context of all economic activity encompassing and impacting on social and environmental well-being. The term *Triple Bottom Line* is sometimes viewed in the context of reporting, however, in the broader context, it refers to a philosophy that may guide the overall performance of organisations.

There is no single, specific, or agreed definition of *Triple Bottom Line*, however, it is generally used interchangeably with *Sustainability*.

In its broad sense, which is consistent with the sustainability policy adopted by the Government, *Triple Bottom Line* involves a significant change in agencies' operations, Government and Cabinet's decision making and processes, and budget presentation and reporting. It may even involve changes in the way the agencies are organised.

Apart from the possible changes in internal organisation and management, perhaps the most significant change is the way the Government communicates with the community and stakeholders in its services and operations. This not only includes the content of the information, but how that information is presented and made meaningful to the needs of the community. In principle, such information should serve multiple purposes – reflecting objectives, setting targets, assisting in the evaluation of alternatives to achieve the goals most effectively, allocating resources to competing needs, evaluating performance in service delivery and accountability for public money – in summary, an integrated performance management framework.

Defining a “perfect” set of performance measures is impossible, not only due to the competing needs of the users, but the inherent tensions in the uses of such a set.

As an example, a focus on accountability may reduce the flexibility required on line items in order to ensure the most efficient delivery of outputs. Similarly, a focus on managerial efficiency may reduce the emphasis on effectiveness, as managerial efficiency is mainly concerned with the process of work, rather than the purpose of work. Similar tensions exist in relation to the long time horizons of strategic objectives and the short-term imperatives to respond to emerging demands.

Inevitably, there will need to be trade-offs between the various perspectives of a budget, or the set of performance measures will become too large, unmanageable and costly to report on. Such a large set is also likely to lose its relevance, and alienate the end users and stakeholders.

Usually, *Triple Bottom Line* portrays an image of additional bottom line metrics in financial accounting. This should not be taken literally, as it is a philosophy to decision making,

management and performance assessment that stresses the importance and interdependence of economic, social and environmental well-being.

In the budget context, it does not relate to the presentation of the financial statements, but the performance statements and measures. The financial statements are therefore proposed to remain unchanged.

Changes to performance statements will depend on the trade-offs mentioned above, and the stakeholders' perspectives. Nevertheless, its general characteristics would be, a small set of measures that maintains accountability at the agency level, highlights cross-agency objectives and delineates responsibilities, and identifies the whole of government objectives to provide a context for resource allocation.

The key to achieving these characteristics and making the performance measures relevant to users is avoiding rigidity in the output structures and performance reporting. For example, performance may be relevant and meaningful over time, across agencies, or across jurisdictions. Put simply, meaningful answers to the range of questions such as, "are we getting value for money?"; "are things getting better or worse for me?"; "are we improving as a society?"; "can we continue to do this?"; and "what are we leaving for the next generation?" will not be delivered in a rigid format of information.

Finally, it is almost certain that the legislation underpinning the financial management will need to change.

The magnitude of change is significant, and incorporation of *Triple Bottom Line* in the budget therefore is a journey of incremental improvements. Its implementation needs to be, as a principle, through a consultative process with the stakeholders' needs defining the next steps in the journey.

WHAT IS TRIPLE BOTTOM LINE?

Sustainability Principles

In general, the sustainability principles recognise the broader context of all economic activity encompassing and impacting on social and environmental well-being. Any assessment of sustainability therefore takes a holistic perspective of the economic activity to¹:

- include review of the whole system as well as its parts;
- consider the well being (including the state as well as the direction and rate of change of that state) of human, ecological and economic subsystems, their component parts and the iteration between parts; and
- consider both positive and negative consequences of human activity, in a way that reflects the full costs and benefits for human and ecological systems, in monetary and non-monetary terms.

Defining Triple Bottom Line

There is no single, specific, or agreed definition of *Triple Bottom Line*.²

The term *Triple Bottom Line* (TBL) was first used by Elkington³ in the early 1980s in a very broad context.

At one end, in its widest sense, it refers to a philosophy that may guide the overall performance of organisations. In this sense, TBL is used interchangeably with *Sustainability*.

On the other end, in its narrowest sense, it refers to the approaches adopted for measuring and reporting performance incorporating impacts beyond the financial dimension.⁴

Notwithstanding the lack of precision in definition, there are a number of characteristics/principles that could be attributed to TBL, either relating to its adoption as a philosophy, or to the development of specific framework for measuring and reporting. Those are⁵:

- **broader scope and focus:** TBL is founded on a scope (of measurement, reporting and decision making) and focus that is wider than financial and economic dimensions, and

1) Bellagio Principle #2, *Assessing Sustainable Development: Principles and Practice*; International Institute for Sustainable Development; 1997.

2) See for example, *How Victorian businesses, governments, and NGOs are taking the journey towards the triple bottom line*; TBL Victoria Scoping Study; February 2002.

3) Elkington. J, *The Ecology of Tomorrow's World*; 1980.

4) *ibid*, *The triple bottom line focuses corporations not just on the economic value they add, but also on the environmental and social value they add – and destroy. At its narrowest, the term 'triple bottom line' is used as a framework for measuring and reporting corporate performance against economic, social and environmental parameters.*

5) The discussion in this Paper is mainly centered around government and its organisational structures, however, the principles are equally applicable to private sector companies, their governance and shareholders.

seeks the incorporation of social and environmental dimensions within the management framework;

- **transparency:** that governments have an obligation to be transparent about their decisions and activities, and their impacts, beyond the financial domain. In particular, social and environmental impacts, both in the immediate and in the longer term, need to be disclosed to the community;
- **accountability:** that governments should be accountable, within reasonable limits, for the resources they consume in delivering services to the community, including environmental and social resources. The accountability also extends to future generations in regards to economic, social and environmental sustainability;
- **integrated planning and operations:** achieving economic prosperity, environmental quality and social well being requires all these dimensions to be reflected in strategic planning. This in turn needs to be linked to the range of decision making, operational policy and management systems. In summary, core processes need to be engineered to recognise the multidimensional impacts of government's decisions and activities.

The above principles are not unique to TBL, and would appear in any discussion or text on sound public sector management. What is important and different, however, is the broadening in their scope, and linking it to sustainability principles.

For example, the notion of accountability in the public sector, in general, refers to the accountability for the resources – that they are used efficiently, and that they are used to deliver services for which those resources were allocated. The focus is essentially on what is consumed financially, and in a limited context, for what purpose. TBL on the other hand expands the scope of resources and impacts being considered.

The concepts of sustainability and TBL have common origins – a multidimensional and holistic view of human activities and their impacts – and have therefore been used interchangeably.

As mentioned above, however, TBL could be viewed in a narrow sense, entirely concerned with 'ex post' reporting.⁶ In this context, TBL is sometimes differentiated from sustainability.

Indeed, *prima facie*, triple bottom line portrays an image of additional bottom line metrics in financial accounting. This should not be taken literally, as TBL is a philosophy to management and performance assessment that stresses the importance and interdependence of economic, social and environmental well-being.⁷

This paper does not make a conceptual distinction between the two terms.

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- 6) While the content and focus of such a report will depend on the nature and business of the reporting entity, it could range from being a narrow identification of resources consumed, to providing a framework for assessing progress towards ecologically sustainable development.
 - 7) In any event, performance of an entity can not be neatly divided into these three dimensions, and additional dimensions such as ethics, corporate governance, labour practices etc. could be added depending upon the stakeholder interest. In this context, TBL has been referred to as a metaphor that encapsulates the management and disclosure of multi dimensional performance.

WHAT IS THE GOVERNMENT'S POSITION?

It is important to develop a clear and agreed definition for the implementation of TBL in any organisation. This would determine whether TBL is to be a measuring and reporting activity, or integrated as a philosophy in all facets of the organisation.

The Legislative Requirements

Section 11 of the *Financial Management Act 1996* sets out the requirements of the Territory's budget. Sections 11(4) (a)- (c) of the Act require that the proposed budget must be prepared taking into account:

- (a) the principles of responsible fiscal management;
- (b) the object of providing a basis for sustainable social and economic services and infrastructure fairly to all ACT residents; and
- (c) the object of ecologically sustainable development.

Section 11(6) provides the definitions as:

- ***ecologically sustainable development*** means the effective integration of economic and environmental considerations in decision-making processes achievable through implementation of the following principles:
 - the precautionary principle;
 - the inter-generational equity principle;
 - conservation of biological diversity and ecological integrity; and
 - improved valuation and pricing of environmental resources.
- ***inter-generational equity principle*** means that the present generation should ensure that the health, diversity and productivity of the environment is maintained or enhanced for the benefit of future generations.
- ***precautionary principle*** means that, if there is a threat of serious or irreversible environmental damage, a lack of full scientific certainty should not be used as a reason for postponing measures to prevent environmental degradation.

Government's Policy Commitment

The Government's sustainability policy *People Place Prosperity: a policy for sustainability in the ACT* was launched on 27 March 2003. The Government has recognised that:

- there is strong support across the community to embrace sustainability, and that the concept expresses fundamental values and principles; and
- the community wants the Government to have a leadership role, to set a direction, and to set an example.

The policy describes the sustainability principles that the Government will incorporate into its systems and operations⁸, and commits the Government to:

- embedding sustainability within its decision-making processes;
- promoting sustainability to the wider community;
- developing partnerships for sustainability with the ACT community; and
- developing indicators and reporting regularly on progress.

In summary, the policy adopted by the ACT Government refers to the adoption of the wider definition, and philosophy.

Government Policies Towards Sustainability

The Government has adopted a suit of policies over the past several years that would contribute to a sustainable development agenda. Those include, for example:

- ACT Greenhouse Strategy;
- No Waste by 2010;
- Sustainable Transport Plan;
- Health Action Plan;
- Children's Plan;
- Think Water, Act Water: Water Resource Strategy;
- Lowland Woodland Conservation Plan;
- Mental Health Plan; and
- 2001-02 Budget Strategy.

Broadly, these policies are to give effect to the principles of sustainable development, aimed at reducing the environmental impacts, conserving natural resources of the ACT community, improving the social well-being of the general community and in particular, select target groups, and sound financial management to ensure economic well-being.

In a number of cases, such policies are supported by operational and management plans.

Integrating TBL/Sustainability into Decision Making

The policy notes the major decision-making areas include business planning and corporate plans, the Cabinet process, capital works, grants, procurement, and land release and development processes.

The most efficient way to begin the transition towards sustainability is to target key areas of decision-making. Those making decisions about the development of new policies, planning,

8) The ACT Government's sustainability policy can be accessed at www.sustainability.act.gov.au.

procurement and allocation of resources are in the best position to influence progress towards sustainability. The Government therefore committed that:

- responsibility for incorporating sustainability into ACT Government policies, procedures and day-to-day operations will rest with those in the best position to make decisions; and
- policies and procedures that influence and support key decision-making points within government will incorporate consideration of sustainability.

The Government has committed to further work to develop an evaluative framework within which decisions could be made.

TBL/Sustainability Reporting in the ACT

Elements of TBL reporting exist in the ACT government reports.⁹ For example, the *State of the Territory Report* (1999 and 2000) have been structured around four interlinking themes – people, community, economy and the environment.

Each of the themes had associated goals aimed at improving the quality of life of all Canberrans. The goals were:

- assist Canberrans to be self reliant, well educated and healthy;
- promote a safe caring and clever community;
- promote and support a growing economy and dynamic business sector; and
- help maintain a sustainable environment.

The *ACT State of the Environment Report* also has elements of TBL reporting, including progress towards sustainability in the ACT and information on individual and community well-being, economic development and equity between generations.

In launching the *People Place Prosperity: a policy for sustainability in the ACT*, the Government had undertaken to report on progress towards sustainability. The ACT Sustainability Report to be released prior to the end of the financial year will measure progress in a number core dimensions of sustainability, and the ecological footprint of the Canberra community.

Integrating TBL/Sustainability in Strategic Planning

The Government has incorporated sustainability principles into the Territory's strategic planning. In March 2004, the Government released its *Canberra Plan*. Its three components, *The Social Plan*, *The Spatial Plan*, and *The Economic White Paper* provide a strategic direction for Canberra.

The strategic plans cover the three key aspects of sustainability policy, and set the long-term

9) *The 'Triple Bottom Line' in the Australian Public Sector*; Public Sector Collaborative Research Project; The Allen Consulting Group; 2002.

directions to achieve the Government's agenda of sustainable development. All three Plans identify goals, actions and targets to be achieved over a period of time.

The Social Plan is a framework to guide government and community decision-making in social policy over the next 10-15 years. It identifies the changes in Canberra's social environment and the determinants of disadvantage and exclusion. It highlights the means of achieving sustained improvement in access, equity and participation for the people of the ACT.

The Plan establishes seven social priorities, to be achieved over a 10-15 year timeframe, a number of goals within each priority for achievement over 5-10 years, and shorter-term actions for the next five years.¹⁰ These include:

- increase the proportion of young people with a Year 12 certificate or equivalent to 95 per cent;
- increase the proportion of adults with a post school qualification to 70 per cent;
- reduce long term unemployment to 12.5 per cent of total unemployment;
- reduce primary homelessness to as near as possible to zero; and
- reduce income inequality as measured by Gini coefficient to average at most 0.25 over the next decade to 2013.

The Economic White Paper outlines an economic and industry policy framework to achieve sustainable growth and development. The Paper re-states the interdependence of the three Plans and the underlying principles of sustainable development and prosperity for all. The Paper identifies 47 specific actions to support these policy commitments¹¹

The Canberra Spatial Plan is the key strategic planning document for directing and managing urban growth and change with a 30-year horizon. The Plan outlines a strategic direction to achieve the social, environmental and economic sustainability of Canberra.

The key principles underpinning *The Canberra Spatial Plan* relate to containing growth within close to the city centre to reduce sprawl and protect biodiversity, sustainable transport, protection of areas of high conservation value from the impact of development, and protection and enhancement of important assets.

The Plan contains indicators for measuring progress and developing new or revised strategies.¹²

10) *The Social Plan* and its Priorities and Goals can be accessed at www.cmd.act.gov.au/socialplan/

11) A copy of the Paper and the actions can be accessed at www.business.act.gov.au.

12) A copy of *The Spatial Plan* can be accessed at www.actpla.act.gov.au/plandev.

TBL IN BUDGET PAPERS: WHAT ARE THE ISSUES?

The previous discussion highlights Government's sustainability philosophy, and the facets of its implementation in decision making and strategic planning.

Budget is a key annual policy statement from the Government confirming its resource allocation decisions in relation to services to the community. The extent that budget decisions embrace the sustainability principles, will depend upon the:

- extent to which TBL has been adopted as a philosophy by government agencies in their operational management and business planning; and
- the extent to which the whole of government and cabinet processes facilitate decisions supporting sustainable development.

As mentioned above, the Government has committed to targeting key areas of decision making to progress towards sustainability.

To a certain extent, under the output budgeting framework adopted in the Territory, a number of policies towards sustainable development and their associated performance measures have been incorporated in the budget. Successive budgets, for example, have included performance measures relating to the implementation of greenhouse strategy measures in order to achieve the longer-term target of reducing greenhouse gas emissions.

Admittedly, however, a holistic TBL framework has not been incorporated in the budget papers. This in large part has been due to the traditional purpose of the budget in the public sector, and some of the trade-offs that may be necessary in incorporating TBL, as well as, the stage of the development of TBL measurement framework.

Purpose of Budget: The Competing Aspects

In the public sector, the budget serves more than one purpose, such as control, planning, management, community participation in resource allocation etc*. In this context, it is important to recognise the purpose of the budget in the public sector, in order to incorporate TBL in budget papers effectively. A brief description of the various purposes/aspects of the budget is provided in the following:

- **Budget as a Control Instrument:** usually the constitution, or the legislation governing financial management in a jurisdiction, requires that no public money shall be spent except under an appropriation made by the law of the parliament. Appropriation Bills tabled in the Assembly provide a vehicle for debate on government expenditure proposals. In this context, budgets provide a mechanism to control what can be spent, and prevent any expenditure which would violate appropriations.

The need for preventive control, especially when it is governed by legislation, translates into measures of inputs consumed and the modalities of that consumption. By default, those measures remain narrow and linked to an agency's sphere of direct control.

*) *Public Power and Public Administration*; Wilensky P; 1986.

- **Budget as a Planning Instrument:** traditionally, budgeting is a short term process, done on an annual basis. Its use as a long term planning mechanism has been somewhat limited. This perspective seeks to increase the coverage of the budget, and incorporate multi-year effects of initiatives and programs. Increased coverage has been largely concerned with bringing the off-budget activities back to budget, and integration of capital and recurrent budget to assist in more rational planning. A multi-year approach could increase the flexibility of decision making as decisions on the reallocation of resources for the immediate year ahead are difficult. On the other hand, it reduces flexibility to respond to emerging demands.
- **Budget as a Management Instrument:** For some, of principal concern is the establishment of a budgetary system which promotes efficiency and accountability. In this perspective, budget provides a framework and sets basic parameters within which agencies deliver.

The building blocks of such a budget will still be outputs but at organisational unit level, for example, discrete units of stock managed or throughput. In essence, the budget is more concerned with the 'process of work' rather than the 'purpose of work'.¹³ Its information requirements are performance measures which set out targets on unit costs. This form of budgeting provides flexibility on line item expenditure to achieve the most efficient delivery of outputs, and focuses on accountability. Outputs are defined as activities of organisational units, which may be different from the outputs to the community.

- **Budget as a Resource Allocation Tool:** This perspective emerges from the view that resource allocations should be made in terms of public policy objectives rather than inputs required to fund departmental operations.

This view seeks to assist the exercise of choice among government activities, and has been the impetus for significant budget reform. The focus in this case is to reflect what the government priorities are in the departmental activities and operations. Program budgeting with stated objectives has been the hallmark of this perspective. Attempts have been made to establish criteria for the evaluation (and achievement) of those objectives by defining outcomes for the community, and establishing performance measures.

Traditional government budgets are an aggregation of line items such as wages, consultants' costs, administrative expenses etc. The budget process involves making increments, or some times decrements, to the previous year's expenditure on line items.

The main criticism of line item budgets, and incremental budgeting, has been their focus on what is consumed rather than the purpose for which the money is spent. Across Australia, the budget reforms in the last decade have sought to remedy these shortcomings through

13) *The Road to PPB: Stages of Public Reform*; Schick A; Public Administration Review, 26 (1966).

the introduction of output/outcome based budgeting, and vesting greater flexibility in line agencies. This increase in flexibility has also been matched by an increase in accountability and responsibility for line agencies.

In the main, the reforms have sought to focus on what is being produced, rather than the process of production. In general, however, legislatures have maintained an interest in the traditional line items.

It is also noteworthy that there are some inherent tensions between the various aspects of the budget. Budget reform usually enhances one aspect of the budget at the expense of some other aspect. For example, enhancing planning perspective of the budget would mean an increased focus on cross-agency objectives and outcomes, which may decrease emphasis on management perspective which is primarily concerned with individual agency performance and accountability. Similarly, an emphasis on managerial flexibility and efficiency will require a diminution in the control aspect of the budget.

Notwithstanding these difficulties, there have been significant reforms of various aspects of budgets, particularly at the state government level. Increasing demand for government services particularly, health, education and infrastructure has been a motivation to incorporate long term planning considerations into budgeting. Economic uncertainties have in fact been an impetus to plan ahead in order to achieve some predictability.

Challenges for Incorporating TBL in Budget Papers

The above discussion highlights the two key challenges for incorporating TBL in Budget Papers:

- expanding the scope to social and environmental dimensions while maintaining control and accountability; and
- linking the long term strategic planning to the short term budget horizon.

Both of these then translate into the need for a set of performance measures that provide a framework for setting objectives, decision making, resource allocation, accountability and performance assessment.

These are discussed in the following, with some practical options to resolve the inherent tensions.

Reconciling the Various Aspects

Reconciling the various aspects of budget has not been easy. In the ACT, for example, while the reforms aimed at making the performance measures meaningful and relevant to all the stakeholders¹⁴, with the needs of the stakeholders being significantly diverse, it has been difficult to define a manageable set of measures relevant to all stakeholders. Successive reports by the Auditor-General have raised concerns in relation to their relevance to the stakeholders.¹⁵

14) *Outputs and Output Classes*, Guidance Paper No. 2; ACT Treasury; 1998.

15) See for example, *Financial Audits with Years Ending to 30 June 2002*; ACT Auditor-General; Report No. 7; 2002.

Reconciling the imperatives of strategic planning and budgeting have been likewise quite difficult.

The emphasis of performance measures has generally been on budget as a management tool.¹⁶ Forward estimates are provided at the aggregated level, and in some cases, for costs of outputs. However, volume information is not included in the budget statements. The financial forward estimates are prepared on a 'no policy change basis', which maintains some flexibility for government response on an annual basis.

The reliability of forward estimates as a reflection of the true cost of demand for services has remained limited, as government initiatives are as much about meeting demand, as about managing demand in the context of increasingly constrained resources.

Reconciling these aspects will inevitably involve trade-offs between the various aspects, otherwise the set of performance measures is likely to become too large, and difficult to manage. The burden in effort and cost to maintain and report on such a large set may outweigh the benefits. It is also quite likely that such a broad set of measures may lose its relevance for some or all of the users.

Expanding the Scope While Maintaining Accountability

Government services and activities are organised around its departments and agencies, which in principle should remain accountable for the resources they utilise and the services they deliver. Incorporation of TBL, however, requires indicators that span whole of government, outcomes that may be the responsibility of the Government, and goals progress towards which could only be measured over the span of several Governments.

In principle, for Budget Papers TBL measures and targets should relate to the activities of government and its departments. However, outcomes planning and measurement involves a perspective beyond the traditional organisational structures to widen accountability to the community in the pursuit of sustainable development.

The notion of the whole of government under TBL changes significantly from the traditional interaction between agencies on the margins to core activities and shared responsibilities.

Notwithstanding the above complexities, it is possible to clearly define the organisational boundaries and the associated accountabilities in relation to TBL measures. Performance statements could reflect the various spheres of direct control, influence and impact, by separately identifying measures:

- for which the agency is directly responsible and accountable;
- which reflect its long term goals;
- towards which it contributes along with other agencies;
- which may act as a 'coarse grained filter' for service delivery, or markers of progress; and
- those that serve the purpose of being informative to community on its overall state.

16) It should be noted, however, that where specific strategies or plans have been developed (for example, the Greenhouse Strategy), their implementation has been included as a performance measure. The focus, however, has still remained on the unit of output, rather than on measuring the effectiveness of the particular strategy or plan.

As an example, in relation to the Department of Health, the performance measures for which it is directly responsible could be *cost per casemix adjusted patient separation and hospital re-admission rate*. Similarly, in relation to public health programs, it will be directly accountable for the efficiency with which such programs are delivered.

It will contribute to cross-agency objectives of reducing sedentary behaviour. While it may not be directly (or solely) accountable for any performance measures for this objective, inclusion of those measures would set the context for targets in relation to its direct responsibilities.



At a broader level, *increase in life expectancy or improvement in community well-being* provide a measure of progress of the community. While the Department, or indeed a single (term of) government may not be accountable for such measures, their inclusion (with relevant and meaningful information) once again provides a context for resource allocation.

In each case, the performance statement may clearly identify the primary accountability and the purpose of the measure. Such a delineation may also require (or may be assisted by) changes in the existing output structures of agencies, into outputs that are directly linked to a core set of objectives.

Linking Strategic Planning to Budget Horizon

Several major attempts have been made in the past to integrate strategic planning and budgeting. The failure of these attempts appears to be as much a function of complexity of the tasks and linkages, as interests to maintain flexibility and control, and their practicality in a political context.

For example, incorporating the planning, resource allocation and management perspectives jointly in the budget would entail stating Government objectives, costing alternative means, and establishing performance criteria to measure progress towards those objectives on an annual basis. The complexity and costs involved in undertaking these tasks prohibit such an approach.

From a Budget perspective, therefore, strategic planning involves setting broad parameters, and incorporating the impact of any issues beyond the immediate future. In this context, strategic planning provides a 'coarse filter' for consideration of initiatives and spending proposals.

Continuing with the previous example, the strategic objective of improving public health may only be used as a coarse filter for spending proposals which seek to address emerging pressures on hospital services, in an environment of limited quantum of resources.

Performance Framework

From a practical point of view, the most challenging task is to define a set of performance measures that:

- provides an assessment of the current state, and reflects long term goals (objectives);
- facilitates decisions that support progress towards those goals, including the effectiveness of the paths chosen (resource allocation);
- ensure optimum use of resources applied (managerial efficiency);
- measures progress towards those goals (performance measurement); and
- be relevant to the community, to those who make decisions, and to those who deliver services.

The development of TBL measures needs to involve extensive consultation with stakeholders in order to ensure their relevance to stakeholders, and to keep the number of performance measures small and manageable. Central agency processes are unlikely to achieve agency ownership and wider stakeholder (community) interest.

Any holistic framework needs to be relevant to the multiplicity of stakeholders, whose interests and needs may not overlap, and in some instances, may be in conflict. This has the potential to expand the set of measures to unmanageable level, which in turn would increase costs, and/or may not remain relevant.

On the other hand, there need to be enough information to justify the amount of public expenditure involved for a particular output.

Two key aspects in relation to resource allocation also need to be noted. First, it inevitably reflects a 'value framework' not readily subject to comprehensive quantitative analysis. Second, it involves placement of relative values on competing or conflicting objectives. While a framework of cost-benefit analysis, and performance targets can be adopted that reflects the relative values quantitatively, there remains an element of subjectivity.

The performance framework should not overly emphasise quantification which may be underpinned by 'value choices'. It is important that it makes the values and the relative weights transparent, which may require a departure from quantitative performance measures.

The framework will also need additional flexibility to be appropriate for the particular agency, service area, and its stakeholders. It can be difficult to match generic indicators of a whole of government framework to the circumstances and roles of specific agencies. Further, in some cases, improvement over the past may be of key interest. In others, progress towards a target, or comparison with other jurisdictions may be of interest.

Accountability Requirements

Legislative Requirements

The *Financial Management Act 1996* (the Act) outlines the minimum legislative accountabilities of the Government and its agencies.

Section 12 of the Act requires the Territory to present, in the budget papers, a statement of output classes that each department will provide during the budget year. The statement should include performance criteria that will be met by the department in providing those outputs.

Section 25A of the Act requires the Minister to prepare and distribute to Assembly members a quarterly performance report, within 45 days of the end of the quarter, for each department under his/her responsibility. The quarterly report must provide progress on the delivery of outputs and provide an explanation of any significant variations from targets.

Section 27 of the Act outlines the departments' annual reporting requirements. In their annual financial statements, departments must include a statement of performance for the year. The statement compares the department's actual performance with its budgeted statement of outputs and explains the extent to which the original budget was satisfied.

As the performance statements are defined as being part of the annual financial statements, they are subject to audit in accordance with Section 29 of the FMA. All measures are subject to audit as Budget Papers do not distinguish the relative importance of measures.

It would be preferable to maintain a degree of accountability, however, some changes to the legislation may be necessary to recognise the long time horizons associated with some performance measures, due to their specific nature which may not render them to be suitable for a legislated accountability framework. Performance measures related to strategic objectives may be unauditably annually and even unmeasurable on a quarterly basis.

Auditability and Materiality

Inclusion of performance information in budget statements that may be difficult to report on a quarterly basis, or may not be within the direct control of the department raises some obvious difficulties.

Some TBL measures may represent community aspirations the achievement of which must guide the operational management decisions. However, there may be a large set of external factors beyond the control of the agency, or indeed the public sector, that may impact on the achievement of those targets. Legislation on the other hand sets explicit accountabilities.

A further issue to consider is the lack of a mature framework for the auditing of performance measures, which may include quantitative as well as qualitative information. Unlike the financial information, the relative weight of a measure and materiality of variations in results will largely depend on the users and decision makers.

These issues are not difficult to resolve, however, it is quite likely that changes to the existing legislation would be required. It is proposed that only direct accountability measures be subject to audit. For other measures, an appropriate degree of verifiability may be imposed.

WHAT IS PROPOSED?

The above Section highlights some of the major issues associated with incorporating TBL in the Budget Papers. The issues identified, and options on addressing them are by no means comprehensive, and further issues will emerge as the Government embarks on this reform.

This Section proposes an outline of the process, and some principles to be adopted to progress this work. This should be viewed as a first step towards a complex task.

Stakeholder Involvement

Stakeholder involvement has been identified as key to TBL/Sustainability measurement to ensure effective communication and broad participation.¹⁷

It is important to involve, indeed empower the key stakeholders, to devise performance indicators that are relevant to their needs and understanding. Involvement of decision makers in the development of performance measures is also necessary.

The performance measures, and their presentation identified in this Paper, are provided as an example only. Specific performance measures will need to be developed through a consultation with general community and target groups.

Apart from the feedback on this Paper, consultation with stakeholders and broader community is proposed. The detailed process for stakeholder engagement is to recognise agencies' links and channels of communication with their stakeholders. To the extent possible, while involving central agency guidance and coordination, agency specific

17) Bellagio Principles #7 and #8 respectively.

stakeholder engagement is proposed. This does not negate the option for whole of government consultation on broad strategic matters.

Financial Statements and Reporting

Budget financial statements represent traditional line item budgeting as they provide an indication of the financial inputs and how well they are being managed.

As discussed in previous Sections, TBL is a philosophy to decision making and performance management. Accordingly, financial statements are proposed to remain unchanged, and to be complemented by sustainability measures. This is consistent with the Global Reporting Initiative Framework which recognises that *both financial reporting and sustainability reporting serve parallel and essential functions that enrich each other.*

Performance Indicators

There is considerable literature in relation to the development of a general TBL reporting framework, and specific sustainability measures, both internationally and in Australia.^{18, 19, 20}

Performance measurement can involve vast amounts of data and qualitative information. Typically, its communication is driven by technocracy in language (for example, jargons and acronyms) and presentation (for example, complicated measures and charts).

Given this, a certain degree of skepticism and disconnectedness from the community in relation to the performance information is not unexpected.²¹ In general, the community is less interested in complex technical statistics such as a percentage variance to percentage targets, and more in questions such as, “are we getting value for money?”; “are things getting better or worse for me?”; “are we improving as a society?”; “can we continue to do this?”; and “what are we leaving for the next generation?”.

The underlying data that provides answers to these questions may be complex, however, the answers themselves should be in plain language and simple to understand.

In some cases, the traditional indicators of progress may not be meaningful or adequate. Considerable work has been undertaken in developing measures of progress and well-being.²² Use of such indicators may benefit in involving users and responding to their needs.

18) *Sustainability Reporting Guidelines*; Global Reporting Initiative; 2002.

19) *Assessing Sustainable Development: Principles in Practice*; International Institute for Sustainable Development; 1997.

20) *Triple Bottom line Reporting in Australia: A guide to Reporting Against Environmental Indicators*; Department of Environment and Heritage; 2003.

21) *Public Perceptions and Sustainability in Lancashire: Indicators, Institutions, Participation*; Macnaghten P, Grove-White R, Jacobs M and Wynne B; Centre for the Study of Environmental Change; Lancaster University; 1995.

22) See for example, *Measuring Progress: Is Life Getting Better?*; Eckersley R (Ed); CSIRO Publishing; 1998; and references therein.

In summary, users' alienation can be addressed not only by the choice of information (content), but by the way it is communicated (presentation). Both aspects are important and will be addressed as part of consultation.

While there are a range of measures which may be generally accepted as headline measures of performance in a particular area, performance indicators for TBL measurement will in general depend upon the functions of a specific agency, and interest of its stakeholders.

In the following some general principles are enunciated for adoption in the TBL reporting framework, and for developing TBL measures. These principles have been adopted from the Global Reporting Initiative.

Reporting Principles

The reporting principles can be summarised as:

- transparency, inclusiveness and auditability that will form the framework for the report;
- completeness, relevance and sustainability context should inform decisions about content report;
- accuracy, neutrality and comparability to ensure quality of the report; and
- clarity and timeliness to ensure access to the report.

Principles for Developing TBL Measures

The Global Reporting Initiative outlines a number of generally accepted principles for developing useful TBL measures, as summarised below.

The Reporting Entity Principle

Organisational boundaries should be clearly defined. This ensures that performance indicators are transparent, within the operational scope of agencies, and attribute accountability. Practically, this means that performance measures for which an agency is directly responsible should be clearly identified.

The Reporting Period Principle

Reportable impacts, events and activities should be presented in the reporting period in which they occur. This requires agencies, and government to track and monitor impacts over time, as the outcomes of many initiative are not apparent in the short term. In setting targets, therefore, appropriate time horizons need to be considered.

The Conservatism Principle

Similar to accountability, credit should only be accepted for achievements that can be directly attributed to the organisation. This is an ongoing challenge for the development of outcome measurements as there are numerous factors, outside the control of government that can influence the success of outcomes.

The Materiality Principle

Materiality in reporting is dependent on what is relevant either to reporting agencies or to their external stakeholders. This requires relevant and useful information to be collected and reported, which in most instances involves a degree of stakeholder consultation.

Environmental Inputs

The TBL framework, needs to recognise that input costs can be, and generally are, broader than the financial resources being applied. The simplest example in this regard is energy and water use in day to day operations and service delivery.

Environmental statements can serve a number of purposes, including:

- **being informative:** by highlighting the ecological footprint of the service. In such cases, the purpose would be to make transparent the environmental impact of an agency or service;
- **influence internal management:** by raising questions about the condition of assets, their use and service delivery mechanisms. As a simple example, relatively higher energy use may indicate poor condition (lower energy rating) of the buildings, or underutilisation. For any indicators to be meaningful in this regard, comparative information is necessary; and
- **influence service delivery:** at a broader level, by informing decisions on service delivery options. For example, community positions in relation to retaining an underutilised existing school or integrating with another school will be better informed by reporting on the energy use and greenhouse gas emissions from transport;
- **inform choice and resource allocation:** at a still higher level, environmental statements can inform community choice for services, and in turn, influence resource allocation decisions. For example, choice between private and public schools may be further informed by publication of environmental impacts of student travel.

The above discussion suggests two aspects of environmental statement – one reflecting the environmental inputs and footprints, and the other reflecting the efficiency and effectiveness of the use of those inputs.

In principle, it is possible to prepare a separate environmental statement. However, this approach will continue to treat environment as a separate dimension, without integrating it into the overall philosophy of output and service delivery.

It is proposed that environmental inputs be identified, similar to financial inputs, at the overall agency level. In addition, environmental impact indicators are proposed to be included in the performance statements.

OUTLINE OF POSSIBLE STRUCTURE

The proposed structure of agency Budget Paper 4 chapter has no changes for the presentation of the budget financial statements. However, there are significant changes to the performance statements.

The structure will require changes to the *Financial Management Act 1996*. A framework will also need to be developed that ensures appropriate degrees of verifiability, consistent with materiality of the measures and targets, as well as the nature of the particular measure.

The proposed structure is not definitive, and is provided as a reference for consultation and discussion. It is subject to change depending on the outcome of the consultation.

While the general structure is expected to be common to all agencies, the nature of performance measures, reporting format, time horizons etc. will be flexible, and adjusted according to the business and objectives of the specific agency.

Budget Financial Statements

<i>Statement</i>	<i>Performance Indicators</i>	<i>Horizon</i>
Statement of Financial Performance	Operating Result after Extraordinary Activities	Current Year Budget Year Forward Estimates
Statement of Financial Position	Current Ratio Total Assets Total Liabilities	Current Year Budget Year Forward Estimates
Statement of Cash Flows	Net Cash Flows	Current Year Budget Year Forward Estimates

Explanatory Notes to the Budget Statements

- Major variations in the estimated outcome;
- Major variations in appropriations and expenses for the budget year; and
- Broad planning assumptions for the forward years.

Outputs and Performance Measures

The proposed structure includes whole of government objectives, and measures defined across agencies, and performance measures directly related to the agency.

The performance measures are indicative, and could change subject to the needs expressed by the stakeholders. However, the number of performance measures is proposed to be kept small.

Objectives and Measures

<i>Objectives</i>	<i>Performance Indicators</i>	<i>TBL Measures (examples)</i>
Service Objectives To provide school education, training, care and protection services to children and young people	Service Quality Efficiency	<ul style="list-style-type: none"> •Parent Satisfaction •Literacy and numeracy rates •Cost per student
Strategic Objectives Improved Education Outcomes	Effectiveness	<ul style="list-style-type: none"> •School retention rates •Tertiary entrance rates
Social Objectives Improved Health Outcomes Improved Employment Prospects	Well being Prospects	<ul style="list-style-type: none"> •Childhood obesity rates •Smoking and drug use rates •Unemployment rate
Environmental Objectives Reduced Ecological Impact	Impact	<ul style="list-style-type: none"> •Greenhouse gas emissions per day

Targets, Reporting Formats and Time Horizons

<i>TBL Measures (examples)</i>	<i>Targets</i>	<i>Reporting Format</i>
Parent Satisfaction	% for the Budget Year	<ul style="list-style-type: none"> •Past 3 years plus Budget Year
Literacy and Numeracy Rates	% of students achieving reading, writing and numeracy benchmarks	<ul style="list-style-type: none"> •Past 3 years plus Budget Year •Medium Term Target •Inter-jurisdictional Comparison
Cost per Student	\$ per student	<ul style="list-style-type: none"> •Budget Year •Inter-jurisdictional Comparison
School Retention Rates	% of students	<ul style="list-style-type: none"> •Current Rate •Medium to Long Term Target •Inter-jurisdictional Comparison
Tertiary Entrance Rates	% of students	<ul style="list-style-type: none"> •Current Rate •Medium to Long Term Target
Childhood Obesity Rates	% of children aged under x years	<ul style="list-style-type: none"> •Current Rate •Medium to Long Term Target
Smoking and Drug Use Rates	% of students aged under x years	<ul style="list-style-type: none"> •Current Rate •Medium to Long Term Target
Unemployment Rate	%	<ul style="list-style-type: none"> •Current Rate •Medium to Long Term Target
Average Greenhouse Gas Emissions	Tonnes of CO ₂ equivalent per day	<ul style="list-style-type: none"> •Last Full Year •Long Term Target

Environmental Inputs

Environmental inputs are to be identified in the context of whole of government goals.

Asset condition and performance is proposed to be included at the Department level.

While it would be preferable to apply these measures at the output level, this would require disaggregating the Statement of Financial Position, or at least the physical assets, at the output level. This is likely to increase management and reporting costs.

Whole of Government Goals

- Reduce Energy Use: Target
- Conserve Water: Target²³
- Reduce Emissions: Target²⁴

Department Level Measures

	<i>Performance Indicators</i>	<i>Horizon</i>
Asset Condition and Performance	Proportion of Assets Rated Fair to Good Condition Energy Efficiency Rating Asset Utilisation Rate	Historic (to be developed over time) Current Year Budget Year Long Term Targets

Output Level Measures

<i>Statement</i>	<i>Performance Indicators</i>	<i>Horizon</i>
Environmental Input Costs	Total Energy Use •Electricity •Gas Total Water Use Greenhouse gas emissions •Direct Contributions •Indirect	Historic (to be developed over time) Current Year Budget Year

23) For example, from the *Water Resource Strategy*. The target relates to the whole community, however, the Government may prefer to impose a more challenging target for itself to take a lead role.

24) For example, from the *Greenhouse Strategy*. This could again be expressed as the overall target for ACT. Alternatively, it could be expressed as a proportion, attributable to government agencies, of the overall emission reduction target.

Part 2: Changes in Accounting and Harmonisation

Alternative Financial Statement Presentation

A weakness with the present financial reporting structure required by Australian Accounting Standards is the lack of transparency of some significant impacts on the operating result from the re-measurement of assets and liabilities. This has previously occurred where some changes in valuations for the superannuation liabilities, or the value of financial instruments, has significantly impacted the operating result.

This Supplementary Budget Paper presents a new format for the General Government Sector Statement of Financial Performance. The new format is based on accounting standard developments currently taking place both internationally and in Australia.

The International Accounting Standards Board (IASB) is currently undertaking a project to revise the format of the Statement of Financial Performance. Although this new format is still being finalised and will not be applicable for all reporting entities for a number of years yet, the Australian Accounting Standards Board (AASB) has indicated its intention to early adopt this revised format for government financial reporting. The early adoption is intended as part of the solution to harmonise Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) financial reporting.

The proposed new format recognises that the 'bottom-line' is not necessarily a useful number due to some large revenue and expenditure amounts appearing on the Statement of Financial Performance, related to the re-measurement of assets and liabilities. The new format provides a mechanism for the separate disclosure of revenue and expenses resulting from the re-measurement of assets and liabilities e.g. the unrealised gains / losses from changes in investment values, and changes in the value of the superannuation liability.

Under the proposed new format, government would report a net operating result before re-measurements and another net operating result after re-measurements. The main advantage for the Territory of the proposed new format is that it provides transparency of major factors impacting the operating result.

The format of the new Statement of Financial Performance and numbers appearing in the statement are illustrative only, based on the latest information available from the IASB and the AASB. The precise format and applicable accounting treatments is yet to be finalised by the standard setters.

It is anticipated that an Exposure Draft of the revised whole-of-government Australian Accounting Standard, containing the new Statement of Financial Performance format, will be released in August / September 2004. It is expected that the standard, which will possibly be issued in June 2005, will be adopted from 1 July 2005.

The government will decide during preparation of the 2005-06 Budget whether the new Statement of Financial Performance format, as contained in the Exposure Draft, will be used for whole-of-government reporting with a corresponding impact on budget document formats.

Alternative Financial Presentation for the General Government Sector Statement of Financial Position

<i>Budget as at 30/6/04 \$'000</i>		<i>Est.Outcome as at 30/6/04 \$'000</i>	<i>Planned as at 30/6/05 \$'000</i>	
	Financial Assets			
48 033	Cash	96 091	62 194	
552 439	Receivables	561 102	588 339	
1 935 498	Investments	2 051 714	2 070 884	
2 535 970	Total Financial Assets	2 708 907	2 721 417	
	Non Financial Assets			
77 116	Inventories	277 865	207 654	
5 500 554	Property, Plant and Equipment	5 838 071	6 000 894	
14 054	Intangibles	12 151	19 019	
79 827	Capital Works in Progress	106 109	136 181	
35 756	Other	80 478	27 490	
5 707 307	Total Non Financial Assets	6 314 674	6 391 238	
8 243 277	TOTAL ASSETS	9 023 581	9 112 655	*
	Liabilities			
164 298	Payables	249 416	220 476	
709 658	Interest Bearing Liabilities	673 208	678 031	
65 842	Finance Leases	93 422	88 082	
2 129 592	Employee Benefits	2 189 945	2 403 465	
3 497	Other Provisions	14 988	4 883	
66 219	Other	84 729	57 050	
3 139 106	Total Liabilities	3 305 708	3 451 987	*
5 104 171	NET ASSETS	5 717 873	5 660 668	*
	REPRESENTED BY FUNDS EMPLOYED			
4 455 450	Accumulated Funds	4 864 908	4 872 771	
648 721	Reserves	852 964	787 896	
5 104 171	TOTAL FUNDS EMPLOYED	5 717 872	5 660 667	*

Assets are now split between Financial and Non Financial Assets.

Current and Non Current Assets for each respective category are now combined. Eg, Investments include current and non-current investments

This is comparable to the traditional presentation, although, current and non-current liabilities are combined.

* These total balances are consistent with the traditional AAS31 presentation used in the current budget papers.

Alternative Financial Presentation for the General Government Sector

Statement of Financial Performance

2003-04 Budget \$'000		2003-04 Est.Outcome \$'000	2004-05 Budget \$'000
	Revenue		
723 595	Taxes Fees and Fines	838 291	840 174
175 378	User Charges - Non ACT Government	181 784	180 184
12 523	User Charges - ACT Government	13 598	17 002
1 020 852	Grants from the Commonwealth	1 046 808	1 067 193
106 417	Interest	81 663	74 359
5 942	Revenue of Associates and Joint Ventures	3 257	1 600
51 147	Dividend Revenue	773	96 721
254 916	Other Revenue	364 367	253 183
39	Resources Received free of charge	0	0
2 350 809	Total Ordinary Revenue	2 530 541	2 530 416
	Expenses		
804 128	Employee Expenses	835 222	887 073
240 562	Superannuation Expenses	282 926	269 182
508 730	Supplies and Services	522 113	582 336
164 322	Depreciation and Amortisation	154 167	162 489
45 606	Borrowing Costs	44 351	45 574
50 107	Cost of Goods Sold	61 026	38 256
410 395	Grants and Purchased Services	443 514	460 001
103 388	Other Expenses	105 612	92 801
0	Expenses of Associates and Joint Ventures	467	0
47 059	Transfer Expenses	83 072	40 932
2 374 297	Total Ordinary Expenses	2 532 470	2 578 644
-23 488	Net Operating Result Before Re-Measurements And Extraordinaries	-1 929	-48 228
0	Extraordinary Revenue	10 000	0
3 064	Extraordinary Expense	17 957	102
-26 552	Operating Result After Extraordinaries Before Re-Measurements	-9 886	-48 330
	Re-Measurements		
16 973	Amortisation of Superannuation Gain	-2 347	-2 347
-7 463	Gain/Loss on disposal of assets	1 922	-2 906
9 375	Net Revaluation of Financial Assets	57 754	61 446
0	Net Revaluation of Non-Financial Assets	45 400	0
18 885	Total Re-Measurements	102 729	56 193
-7 667	Net Operating Result After Re-Measurements	92 843	7 863

This represents a new financial measure.

It largely represents the traditional operating result but excludes revaluations ("re-measurements") in assets and liabilities. Its aim is to remove those items which may move an operating result around for which an entity may not have any direct control.

Items classified as "Re-measurements" include:

- the amortisation of the superannuation actuarial reserve
- gain and/or loss from disposal of the assets
- asset write-offs or write-downs
- revaluation balances (which cannot be brought directly to an asset reserve).

This would include items such as the recent revaluation of stormwater assets.

- Revaluation of superannuation investments which earn a market return or loss, rather than an interest or dividend return.

This is equivalent to the traditional AAS31 Operating Result, as presented in the current budget papers.

A new operating result

As discussed earlier, under the proposed new format, the Territory would report two operating results: the net operating result before re-measurements, and the net operating result after re-measurements.

The following table shows the differences between the two financial measures, using the financial estimates for the General Government Sector as presented in the 2004-05 Budget Papers.

	2003-04 Est Outcome \$'000s	2004-05 Budget \$'000s	2005-06 Estimate \$'000s	2006-05 Estimate \$'000s	2007-08 Estimate \$'000s
Operating result before re-measurements	-9 886	-48 330	-103 086	-73 350	-54 686
(a) Amortisation of Superannuation Gain	-2 347	-2 347	-2 347	-2 347	-2 347
(b) Gain/Loss on disposal of Assets	1 922	-2 906	3 144	-3 167	-3 475
(c) Net Revaluation of Financial Assets	57 754	61 446	76 409	85 944	113 877
(d) Net Revaluation of Non-Financial Assets	45 400	0	0	0	0
Total Re-Measurements	102 729	56 193	77 206	80 430	108 055
Operating result after re-measurements	92 843	7 863	-25 880	7 080	53 369

Under the proposed presentation, the 2004-05 General Government Operating result before re-measurements is a deficit of \$48.3 million.

(A) Amortisation of Superannuation Gain

The current treatment to recognise the movement in the balance of employee benefits resulting from actuarial reviews is to amortise the accumulated balance of the movements over the life of the scheme (12 years). The current estimates in the 2004-05 Budget Papers represents the amortisation of the remaining balance of the actuarial reserve.

The adoption of the international accounting standards from 1 January 2005 is expected to change the method of accounting for movements in employee benefits resulting from actuarial reviews, to bring any movement to account in the Statement of Financial Performance (rather than an adjustment to liabilities and subsequent amortisation of its balance).

In future the remaining balance of the actuarial reserve on the balance sheet and any future movements resulting from actuarial review will be shown as a net revaluation of a non-financial asset (although this represents a revaluation of a liability balance, it is presented 'net' with the revaluation of non-financial assets).

(b) Gain/Loss on disposal of assets

The difference between the sale or disposal price of an asset compared to its book value is brought to account as a gain (revenue) or loss (expense) on the Statement of Financial Performance.

The budget estimates broadly represent any difference between the value of infrastructure assets (eg stormwater) on completion of construction and the value upon transfer to ACTEW, which uses a different methodology for the recognition of value of infrastructure assets.

(c) Net Revaluation of Financial Assets

Financial Assets generally represent cash, investments and receivables.

The most significant change to the traditional presentation is the exclusion of market returns on investments held by the Superannuation Provision Account from the operating result, as this represents a revaluation or 're-measurement' of an asset. Other investment returns of the provision account, such as dividend and interest returns, are presented above the line.

The exclusion of items such as market gains on investments will mean that a fluctuating market (either positive or negative), will not impact on the operating result. For example, the downturn of the market that resulted from the global downturn after the September 11 2001 disaster would not impact on the operating result before re-measurement.

(d) Net Revaluation of Non-Financial Assets

In the 2004-05 Budget, Net Revaluation of Non-Financial Assets in the 2003-04 Estimated outcome broadly represents the recognition of the value of stormwater assets (\$58.5m), less the loss of the value of net assets of the Agents Board as the entity is now recognised as a Trust and therefore not consolidated into the Accounts of the Territory.

