

APPENDIX A

BASIS OF 2006-07 BUDGET AND FORWARD ESTIMATES

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Definitions of terms are provided in Appendix F - Glossary and Abbreviations.

The 2005-06 Estimated Outcome

The 2005-06 estimated outcome figures have been updated to include the effect of the 2004-05 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 therefore provided for the General Government Sector (GGS) and Public Trading Enterprise (PTE) Sector. A Total Territory consideration of the Budget is also included.

There are several significant points that need to be understood to assist in reading the 2006-07 Budget Papers.

Accrual Concepts

All budget estimates are calculated on an accrual basis. Amounts have been prepared in full compliance with the new requirements of Australian Accounting Standards (AASs) applying from 1 January 2005, compliant with requirements of the International Accounting Standards (IASs). Most changes resulting from this change were included in the 2005-06 Budget and related to superannuation, insurance and the format of financial statements.

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 Cash Flow Statements) is explained by the inclusion in accrued income of 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. In addition, 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 Statements) by 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.

Departmental/Territorial Separation of Disclosure

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

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

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

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

The separate recording of these Territorial items allows readers to focus on the expenses, revenues, assets and liabilities involved in the delivery of outputs to establish departmental performance in effecting delivery. Chief Executives have a direct role in the level of resources applied to, and costs incurred in, delivering outputs. Similarly they have greater control over the level of charges applying to consumers of the outputs.

Bank Accounts

Agencies operate their own bank accounts and are paid on a progressive basis in accordance with the delivery of their outputs. By contrast, revenue collected on behalf of the Territory (RBT) by agencies is transferred to the Territory Bank Account on a regular basis.

Changes in cash management practices are to occur from 2006-07. A key aspect of the changes will be a requirement for departments to return cash surplus to their needs back to Government on an annual basis. As departments will no longer be holding surplus cash, departments will generally not have a need to invest surplus funds with the Central Financing Unit. The changed cash management arrangements do not impact the cash operations for Territory Authorities or Territory-owned corporations (TOCs).

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 by the Central Financing Unit (CFU) and reported as a Territorial activity.

Outputs Basis of Budget Management

There is an explicit linkage between the outcomes desired by Government and the outputs chosen to achieve those outcomes at an agreed level of funding. The budget structure and

monitoring which will occur throughout the year targets delivery of outputs against an agreed level of funding.

Appropriation Types

Section 8 of the *Financial Management Act 1996* establishes three appropriation types.

Payments for Outputs

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

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

Capital Injections

Capital injections are used to increase the capital base of an agency. An injection 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 (eg. repayment timeframes, interest rate principal and interest repayments). All repayable injections are reflected in the relevant agency as a liability, while the CFU discloses them as a loans receivable.

Expenses on Behalf of the Territory (EBT)

This category represents Territorial (administered) revenues, which the Government appropriates for 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, an agency seeking to increase its physical asset base should examine its internal funding capability, then alternative funding sources such as debt or

capital injection. Capital works activities may also include the planning of future capital works, such as feasibility studies, which may be funded through payments for output.

The capital works proposals are examined for their projected contribution to the Government's desired outcomes and to the delivery of outputs. A whole of life projection is required for the impact on the departmental operating results and balance sheet position.

Format of the Territory Budgeted Statements

The Territory's financial interest is reflected in the consolidated budget and consolidated financial statements of all departments, Territory Authorities and TOCS.

Normal accrual accounting principles apply to the consolidation of the individual budgets into the Total Territory. Internal trading transactions between components of the whole of Territory are eliminated during the consolidation process, as are the internal trading transactions between trading elements within a department or with another entity within Government.

Eliminations of internal trading are necessary in order to accurately reflect the interaction between the particular budget or reporting entity and other external entities. Failure to eliminate these transactions results in double counting and therefore reflects 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 creditors, debtors, investments and borrowings. This includes, for instance, the level of debt owed by the Territory. Internal debt created by one agency lending to another within the Territory is offset by an internal receivable and has no impact on Total Territory debt.

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

Format of the Departmental Budgets

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

Budgeted Operating Statement;

Budgeted Balance Sheet;

Budgeted Cash Flow Statement;

Budgeted Statement of Changes in Equity;

Budgeted Statement of Income and Expenses on Behalf of the Territory;

Budgeted Statement of Assets and Liabilities on Behalf of the Territory;

Budgeted Cash Flow Statement On Behalf of the Territory;

Budgeted Statement of Changes in Equity on Behalf of the Territory; and
Notes to the Budget Statements.

For each Output Class:

Budgeted Operating Statement.

Key Accounting Treatments by Schedule:

Budgeted Operating Statement

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

Interpreting the projected operating result

Some departments are budgeting for an operating deficit, while others are projecting a surplus or break-even position. A deficit result is mostly attributable to the impact of depreciation and the process used for 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 departments in the year of acquisition of the new assets as a capital injection.

Depreciation is the accounting process for allocating the cost of using assets over the useful life of the assets. Generally, departments 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 department and the Territory.

As a result of departments not needing, or receiving recurrent funding for depreciation, the operating result for some departments will be a deficit. Consequently, each department's actual performance must be assessed against its projected performance, not against whether it achieved a breakeven or profit result.

User Charges – ACT Government

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

User Charges – Non ACT Government

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

Expenses

All the expenses incurred in producing outputs are recorded under different input categories (eg. employee expenses, supplies and services, depreciation). These include expenses that have not yet had a cash impact on the agency.

Budgeted Balance Sheet

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

Budgeted Cash Flow Statement

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

This statement provides a view of the operations of an agency 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.

Budgeted 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 department and are therefore controlled by the department. The types of changes in equity include movements in asset revaluation reserves, capital injections and distribution, increases or decreases in net assets due to administrative restructure, and the net effect of changes in accounting policy.

Budgeted 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 department 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 Bank Account. The department has no discretion over the use of territorial income collected. Refunds of income to third parties are made from the Territory Bank Account.

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

Budgeted Statement of Assets and Liabilities on Behalf of the Territory

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

Budgeted Cash Flow Statement On Behalf of the Territory

This statement discloses those cash flows which are administered by the department on behalf of the Territory. This reflects the total cash flows, including the transfers between the Territory Bank Account and the departmentally operated bank account, for Revenue on Behalf of the Territory (RBT) and Expenditure on Behalf of the Territory (EBT).

Budgeted 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 department and instead are administered by the department on behalf of the Territory. The types of changes in equity include movements in asset revaluation reserves, capital injection and distribution, and increases or decreases in net assets due to administrative restructure.

2005-06 Comparative Figures

The projected 2005-06 results for agencies are presented in these budget papers on the same basis as they will appear in the 2005-06 financial statements, which is consistent with Generally Accepted Accounting Principles (GAAP) and the Australian Accounting Standards.

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

Where transfers of responsibilities have occurred through the 2005-06 year, the relevant agencies reflect the impact of those transfers from the time of transfer and these are explained in variation notes in the Budget Papers.

Rounding

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

Notations

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

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