APPENDIX A

BASIS OF 2011-12 BUDGET AND FORWARD ESTIMATES

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There are a number of important concepts used in the preparation of the 2011-12 Budget Papers. This appendix provides detail to help understand these concepts. Further information and definitions can be found in the Reader's Guide and Glossary.

Administrative Arrangements

The 2011-12 Budget reflects a number of key administrative changes that will occur in the 2011-12 financial year.

New Administrative Arrangements

The ACT Public Service is being reconfigured as a single entity responsible for supporting the Government across a number of service delivery lines called 'directorates'.

Financial statements presented in the 2011-12 Budget Papers reflect the new composition, as outlined in the Structure of the ACT Government chapter and Classification of ACT Entities in the Appendix of Budget Paper 3.

The single agency model will formally commence on 1 July 2011, with the nine directorates reporting to the Head of the Public Service. Each directorate will be headed by a Director-General. The Head of the Service will also serve as the Director-General of the Chief Minister's Directorate.

The new directorates are:

- Chief Minister's;
- Territory and Municipal Services;
- Economic Development;
- Treasury;
- Health;
- Education and Training;
- Justice and Community Safety;
- Sustainable Development; and
- Community Services.

The most significant changes relate to the creation of the Economic Development and Sustainable Development Directorates.

As part of the revised Administrative Arrangements, several responsibility changes also occurred, as summarised below:

1. Business Support, Skills and Economic Development, Events, Tourism and *Live in Canberra* from the Chief Minister's Directorate to the Economic Development Directorate;

2. Sport and Recreation, and Territory Venues from the Territory and Municipal Services Directorate to the Economic Development Directorate;

3. Exhibition Park Corporation now resides under the Economic Development Directorate, but remains its own financial reporting entity;

4. Gaming and Racing now resides under the Economic Development Directorate, but remains its own financial reporting entity;

5. Gaming and Racing Policy from the Treasury Directorate to the Economic Development Directorate;

6. Shared Services now resides under the Treasury Directorate, but remains its own financial reporting entity;

7. Territory Record's Office from the Territory and Municipal Services Directorate to Shared Services within the Treasury Directorate;

8. Transport Regulation and Licensing, Road Safety, Driver and Vehicle Licensing Policy from the Territory and Municipal Services Directorate to the Justice and Community Safety Directorate;

9. Land and Property Services (excluding Government Accommodation) to the Economic Development Directorate (including the Coordinator-General function);

10. Government Accommodation and Property Services from the Economic Development Directorate to the Territory and Municipal Services Directorate;

11. ACT Planning and Land Authority to the Sustainable Development Directorate;

12. Department of the Environment, Climate Change, Energy and Water to the Sustainable Development Directorate;

13. Government Architect and the Heritage Unit from the Chief Minister's Directorate to the Sustainable Development Directorate; and

14. Transport Planning and Support and the Conservator of Flora and Fauna from the Territory and Municipal Services Directorate to the Sustainable Development Directorate.

Changes of Budget Paper Presentation

Budget Paper No. 4

There have been two minor presentational changes to Budget Paper No. 4 including:

- the section previously titled ‘Objectives’ is now entitled ‘Purpose’; and
- the Strategic Indicators section in relevant agency chapters now includes references to both Strategic Objectives and Strategic Indicators.

  Strategic Objectives – outline the effect or difference the agency aims to make in the community in the short to medium term.

  Strategic Indicators – outline the measurement of an agency’s achievement in meeting the strategic objectives through assessing the progress of outcomes on the community. The intention is to track an agency’s performance in meeting the Government’s priorities and long-term goals.

Presentation of Financial Statements

There have been no presentation changes to financial statements since the previous Budget.

The 2010-11 Estimated Outcome

The 2010-11 estimated outcome figures have been updated to include the effect of the 2009-10 audited outcome and other impacts identified during the preparation of the Budget.

Sector Split

The Government Finance Statistics (GFS) sector classification is used for the presentation of consolidated financial statements. Consolidated statements are provided for the General Government Sector (GGS) and Public Trading Enterprise (PTE) Sector. A Total Territory consolidation of the 2011-12 Budget is also included. Definitions of these sectors can be found in the Glossary.

Accrual Concepts

All budget estimates are calculated on an accrual basis. Amounts have been prepared in full compliance with standards issued by the Australian Accounting Standards Board (AASB) which applied from 1 January 2010, and are compliant with requirements of International Financial Reporting Standards.

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

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

Controlled/Territorial Separation of Disclosure

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

Controlled activities are those related to the delivery of agreed outputs of directorates and other agencies 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 directorate/agency in delivering the agreed outputs can be seen.

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

Controlled and Territorial activities are separately appropriated.

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

The separate recording of these Territorial items allows readers to focus on the expenses, revenues, assets and liabilities involved in the delivery of outputs to establish the effectiveness of directorates' performance in the delivery of outcomes. Director-Generals 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 Banking Account on a regular basis.

The 2011-12 Budget was developed using the same arrangements applying to cash management practices in previous budgets. A key aspect of the arrangements is the requirement for directorates to return cash surplus to their needs back to Government. As directorates no longer hold surplus cash, directorates will generally not have a need to invest surplus funds with the Territory Banking Account. The 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, named the 'Territory Banking Account', which is administered and reported as a Territorial activity.

Outputs Basis of Budget Management

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

Appropriation Types

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

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.

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

Capital Injections

Capital injections are used to increase the capital base of an agency, and may be used to:

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

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

Expenses on Behalf of the Territory (EBT)

This category represents Territorial (administered) expenses, which the Government appropriates for 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.

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

Format of the Territory's Budget Financial Statements

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

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

Eliminations of internal trading are necessary in order to accurately reflect the interaction between each budget or reporting entity and other external entities. Failure to eliminate these transactions results in double counting, resulting in an inflated level of activity of the entity in relation to other external entities. On the balance sheet, failure to eliminate internal trading will result in an incorrect level of payables, receivables, investments and borrowings. This includes, for instance, the level of debt owed by the Territory. Internal debt created by one 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 GGS and PTEs. The appropriate eliminations are also made in reporting these sectors, firstly within the sector (that is intra-GGS and intra-PTE eliminations) and secondly between the two sectors (that is between the GGS and PTE sectors).

Financial Statement Presentation

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

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

- The whole of government Operating Statement classifies transactions as either revenue, expenses or other economic flows.
  - Revenue and expenses result from mutually agreed transactions between two parties.
  - Other Economic Flows result from changes in the volume or value of assets or liabilities resulting from revaluations, net gains on the sale of assets or liabilities and non-mutual bad debts written off.
- The UPF Net Operating Balance is a GFS concept that is calculated as the difference between revenue and expenses result from transactions. This is a good indicator of the underlying reality of a government's financial performance. The measure recognises that operating budgets cannot be sustained indefinitely by asset sales and unexpected investment windfalls.
- The Headline Net Operating Balance is the UPF Net Operating Balance plus expected long term superannuation investment earnings. This measure is used to allow for appropriate comparison between the ACT and other jurisdictions and is necessary due to the differing structure for managing superannuation liabilities in the ACT compared to that of other jurisdictions.
- The Operating Result recognises the change in a government's net worth as a result of both transactions and other economic flows, excluding those reflected directly in equity.
  - For the Territory, the key differences between the UPF Net Operating Balance and the Operating Result are significant land sales, net gains on the sale of non financial assets and net gains on financial assets held to fund future superannuation payments.
- The whole of government Balance Sheet is presented on a liquidity basis rather than the more traditional current/non current classifications.

Format of Agency Financial Statements

As indicated, Controlled and Territorial activities are presented in separate schedules. Each agency has provided (where appropriate) an:

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

For each Output Class:

Where there is more than one Output Class for the agency the following is provided (where applicable) on:

- Operating Statement; and
- Notes to the Output Class Statements.

Key Accounting Treatments by Schedule

Operating Statement

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

- Interpreting the projected Operating Result:

  Some agencies budget for an operating deficit, while others project a surplus or break-even position. A deficit result is mostly attributable to the impact of depreciation resulting from the process used for funding capital works. Funding of capital works is generally centrally managed within the Territory. Funding for new capital works is generally provided by the Government to agencies as a capital injection in the year of acquisition of the new assets.

  Depreciation is the accounting process for allocating the cost of asset usage over the useful life of the assets. Generally, agencies are fully funded for the acquisition of assets at the time of acquiring the assets, thus further funding for depreciation is not provided. At the end of the useful life for assets, the Government will make decisions regarding the future asset needs of the agency and the Territory.

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

Balance Sheet

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

Cash Flow Statement

The items appearing on this statement are only those associated with the delivery of outputs by the agency. Trust monies 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.

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 agency and are therefore controlled by the agency. The types of changes in equity include movements in capital injections and distributions, and increases or decreases in net assets due to administrative restructure.

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 an agency has no discretion in applying them to an alternative use. Income such as taxes, fees and fines are required to be transferred to the Territory Banking Account. The directorate has no discretion over the use of territorial income collected.

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

Statement of Assets and Liabilities on Behalf of the Territory

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

Budgeted Statement of Cash Flows on Behalf of the Territory

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

Statement of Changes in Equity on Behalf of the Territory

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

2010-11 Comparative Figures

The projected 2010-11 results for agencies are presented in the Budget Papers on the same basis as they will appear in the 2010-11 financial statements, which is consistent with Generally Accepted Accounting Principles and the AASBs.

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 during the 2010-11 financial 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 where they are material.

Rounding

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

Notations

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

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