APPENDIX A

BASIS OF 2000-01 BUDGET AND FORWARD ESTIMATES

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Administrative Arrangement Orders

Two Administrative Arrangement changes during 1999-2000 affected the composition of departments. Financial Statements presented in the 2000-01 Budget Papers reflect the current composition.

The first, on 6 August 1999, established Mr Gary Humphries as the Treasurer for the ACT and established a new Administrative Unit called, the Department of Treasury and Infrastructure. The second, on 23 August 1999, provided for the transfer of Youth Justice Services from the Department of Education and Community Services to the Department of Justice and Community Safety.

The 1999-2000 Estimated Outcome

The 1999-2000 estimated outcome figures have been updated to include the effect of the 1998-99 audited outcome and some known impacts on the budget at the time of preparing the draft budget. Estimated Outcome results will be in the final budget year.

Comparative Pricing

Comparative pricing compares the price the Government actually pays for an output with how much it would pay on average for an average level of service.

Disclosure of agency performance is greatly enhanced under comparative pricing and the Government can make conscious decisions on how it seeks to achieve its outcomes.

The Department of Treasury and Infrastructure has assisted other departments to develop a comprehensive benchmarked price and negotiate with the purchaser (the Minister) a final price for delivery of goods and services. Departments will, as part of this process, develop costing and analysis systems to facilitate the assessment of a benchmarked price and identify relevant measures to benchmark against other providers. In many cases the initial benchmarks represent the best available data, however, it is an ongoing process of continual improvement that will be further refined in subsequent years.

There needs to be clear distinction between cost and price. They are not necessarily the same. The price depends on what the purchaser assesses as reasonable to pay for the outputs.

In principle, the pricing of outputs should reflect the full costs associated with the production of outputs, net of own sourced revenue, and appropriate cost attribution across outputs (efficient pricing). However, the comparative price will be based on market price, or industry benchmarks on cost of production (efficient cost).

Any loss caused by expenses being above benchmark may be financed through a cash injection for operations. This financing requires the specific agreement of Government, as the owner.

In this framework, the operating result before abnormal and extraordinary items and injection for operations reflects the assessed level of inefficiency, or excessive service provision in an agency. The injection for operations simply provides cash to an agency to maintain operations. Similarly, changes in operating result across the years will disclose the improvement or deterioration in financial performance, whereas changes in injection for operations may be driven by changes in cash requirements.

Capital Charge

A capital charge, based on the written down value of non-current assets, is applied to departments which allocates the interest expense incurred on centrally managed Government debt. This cost is included in the calculation of the price paid for outputs.

Sector Split

The Government Finance Statistics (GFS) sector split is retained and presentations are included for the General Government (GGS), Public Trading Enterprise (PTE), and Public Financial Enterprise (PFE) sectors. A Total Territory summary of the overall Budget is also included.

There are several significant points that need to be understood to assist in reading the 2000-01 Budget papers. Definitions of terms are given in Appendix G - *Glossary and Abbreviations*.

Accrual Concepts

As with the 1999-2000 year, all the Budget numbers are calculated using the same generally accepted accounting principles and practices employed in preparation of the end of year financial statements in order to facilitate a comparison between budget and audited financial statements. Both use the same conceptual base and methodology.

An accrual model takes account of the changes in all resources applied to service delivery, not just changes in cash resources. Cash information remains useful, but needs to be supplemented with other resource and performance information in order to guide prudent decision making.

The difference between accrued revenues and cash receipts is explained by the inclusion in accrued revenues of amounts, which have been earned but not yet received. Further, accrued revenue excludes any amounts that have been collected in the current year but which were earned in the previous year.

Accrued expenses differ from cash expenditure by inclusion of such items as employee entitlements, which represent a cash obligation to be incurred during a future period. A further difference arises through inclusion in accrued expenses of purchases received or obligations incurred where the bill has not been paid during the current year but will be paid in a later year, and the exclusion of payments which relate to purchases or obligations incurred in the previous year.

The accrual reporting framework includes an operating statement, statement of financial position and cash flow statement. It captures the financial performance (operating statement), changes in net financial position and components of that position (statement of financial position) and vital information on the cash position and the source and purpose of cash flows (cash flow statement).

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 an agreed purchase price funded 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 (for example, administering a Commonwealth grant). Departmental and territorial activities are separately appropriated.

The split 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 Department. The amounts of the payment 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 output.

Bank Accounts

Agencies operate their own bank accounts and are paid on a progressive basis in accordance with the delivery their of outputs. By contrast, revenue collected on behalf of the Territory (RBT’s) by agencies is transferred to the Territory Bank Account on a regular basis. Certain accounting transactions are necessary to reflect real costs and revenues where there is no impact on output price to Government. The activities and interests of the Territory have been isolated in the financial records from departmental transactions through the separate recording of central Territory transactions (transactions of the Territory Bank Account). This has the effect of requiring a series of transactions to be disclosed which relate to the flows of funds between the Central Financing Unit (CFU) and the departments.

These transactions and others which appear in the various schedules are explained in the latter section of this preface headed *Key Accounting Treatments by Schedule.*

Central Finances of the Government

The central finances of the Government are managed through a separate whole of government bank 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 price. The Budget structure and monitoring which will occur throughout the year targets delivery of outputs against agreed prices.

Appropriation Types

The *Financial Management Act 1996* establishes three appropriation types:

Payments for Outputs

Payment for Outputs is shown, when earned, as revenue to the Department. It represents the price agreed to be paid by Government for the delivery of a range of goods and services defined as outputs in the Budget documents. An agreed disbursement schedule is based on the output delivery pattern on a fortnightly basis. Revenue, to the extent earned, is recognised fortnightly on this basis.

The price has been determined using comparative pricing, where possible. This compares the price the Government is prepared to pay for an output benchmarked against other providers and representing best practice.

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’ revenue.

Capital Injections (including Injection for Operations)

A decision of Government to increase the capital base of an agency will result in a capital injection. That injection may be used for working capital, or for the purchase or creation of assets.

An injection on the operating statement may also be provided, recognising any cash shortfalls caused by expenses being above a benchmarked price, as set by the comparative pricing methodology. Appropriation for the purpose of increasing assets held by a department on behalf of the Territory is classified as capital injection. Capital injections also provide authority for payment of funds for acquisition of Territory assets and other items not related to the capital requirements in the provision of outputs.

A number of repayable loans to agencies have been appropriated as capital injections. These are treated effectively as working capital advances which must be repaid. They also must be disclosed by the relevant agency and the conditions under which the injection has been provided must be stated, including any requirements relating to the period over which the capital injection is to be repaid. An interest charge may be levied on the advances at a rate determined by the Government. The recipient agencies reflect these amounts as liabilities while the CFU discloses them as investments.

Expenses on Behalf of the Territory (EBT)

This category is used to authorise the payment for items such as grants or other transfer type payments.

Capital Works

The accounting concepts of capital apply to capital works funding. In terms of budgeting, the capital works or asset acquisition program can be funded in a number of ways. Initially, a Department seeking to increase its physical asset base should examine its internal funding capability, then alternative funding sources such as debt or capital injection.

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. Each agency has an agreed project costing schedule and variations from that schedule must be renegotiated directly with the Department of Treasury and Infrastructure.

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 Territory Owned Corporations. 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 other 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 shows an inflated level of activity of the entity in relation to other external entities. On the Statement of Assets and Liabilities failure to eliminate 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 investment and has no impact on Total Territory debt.

The Total Territory consolidation is split between the Government Finance Statistics 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 between 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):

Departmental Consolidation:

- Budgeted Operating Statement;
- Budgeted Statement of Financial Position;
- Budgeted Statement of Cash Flows;
- Budgeted Statement of Revenues and Expenses on Behalf of the Territory;
- Budgeted Statement of Assets and Liabilities on Behalf of the Territory;
- Budgeted Statement of Cash Flows On Behalf of the Territory; and
- Notes to the Budget Statements.

For Each Output Class:

- Budgeted Operating Statement.

Key Accounting Treatments by Schedule:

- Interpreting the Projected Operating Result

  Some departments are budgeting for an operating loss, while others are projecting a profit or a break even result. The loss or break even position is explained by the fact that the price the Government is paying for outputs in some agencies is less than the projected cost of providing the outputs.

The operating result for an agency discloses the inefficiency, ie the amount of resources required to produce an output is high, and/or the depreciation expense associated with large asset holdings. Injection for operations provides agencies with sufficient cash to maintain operations, while they take action to address above average cost structures.

Each department's actual performance must be assessed against its projected performance and not against whether it achieved a breakeven or profit result.

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

- 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-government entities is shown separately.

- Interest Revenue

  Departments are able to retain interest earned on their cash balances or investments.

- Expenses

  All the expenses incurred in producing outputs are recorded under the categories listed. These include expenses which have not yet had a cash impact on the department, eg. some of the employee expenses and some administrative expenses (such as depreciation).

Budgeted Statement of Financial Position

The items appearing on this statement are only those associated with the delivery of outputs by the department and summarise the budgeted financial position of the department. Trust moneys and territorial items are excluded.

Budgeted Statement of Cash Flows

The items appearing on this statement are only those associated with the delivery of outputs by the department. Trust moneys and territorial items are excluded.

This statement provides a view of the operations of the department 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. For example, a difference between employee expenses and employee related payments would show up as a change in employee entitlement liability.

Budgeted Statement of Revenues and Expenses on Behalf of the Territory

Expenses on this statement are those which are administered and over which the Department has no discretion as far as alternative use is concerned. Revenues 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 revenues collected. Refunds of revenue are obtained from the Territory Bank Account for reimbursement after transfer.

Revenues include amounts received from Government to pay for expenses. Similarly the revenue amounts transferred to the Territory Bank Account are shown as expenses in this statement.

Budgeted Statement of Assets and Liabilities on Behalf of the Territory

This statement discloses those items which are administered by the department and over which the department has limited discretion as to resource deployment or alternative use.

Budgeted Statement of Cash Flows On Behalf of the Territory

This statement discloses those cashflows which are only administered by the department.

This reflects the total cashflows, including the transfers between the Territory Bank Account and the departmentally operated Revenue on Behalf of the Territory (RBT) and Expenditure on Behalf of the Territory (EBT) accounts.

1999-2000 Comparative Figures

The projected 1999-2000 results are presented in these Budget Papers on the same basis as they will appear in the 1999-2000 financial statements, which is consistent with generally accepted accounting principles and the Australian Accounting Standards.

Subsection 27(2) of the *Financial Management Act 1996* requires the preparation of financial statements to be in accordance with 'generally accepted accounting practices' and for their presentation to facilitate comparison with the Budget presentation.

Where transfers of responsibilities have occurred through the 1999-2000 year, the relevant agencies reflect those transfers from the time of transfer and these are explained in variation explanations 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%