APPENDIX A

BASIS OF 2009-10 BUDGET AND FORWARD ESTIMATES

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There are a number of important concepts that are used in the preparation of the 2009-10 Budget Papers. This appendix provides detail to help understand these concepts. Further definitions can be found in the Glossary at Appendix G.

The 2008-09 Estimated Outcome

The 2008-09 estimated outcome figures have been updated to include the effect of the 2007-08 audited outcome, the Second Appropriation, the Third Appropriation 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 consideration of the 2009-10 Budget is also included. Definitions of these sectors can be found in the Glossary at Appendix G.

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 2008, 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.

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 agency's 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 Government grants and the collection of taxes, fees and fines for the Territory. Departmental and Territorial activities are separately appropriated.

The split of Departmental 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 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 the effectiveness of departmental performance in the delivery of outcomes. 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 Banking Account on a regular basis.

The 2009-10 Budget was developed using the same arrangements applying to cash management practices that were implemented in the 2006-07 Budget. A key aspect of the arrangements is the requirement for departments to return cash surplus to their needs back to Government. As departments no longer hold surplus cash, departments will generally not have a need to invest surplus funds with the Territory Banking Account. 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, 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 own 'payment for outputs' or 'user charge' revenues.

Capital Injections

Capital injections are used to increase the capital base of an agency. A capital 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 (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 departmental 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 departments, Territory authorities and TOCs.

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 department 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 reflects recent accounting standard developments in whole of government reporting in Australia that align financial reporting with the Government Finance Statistics format used in the Uniform Presentation Framework. 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 Net Operating Balance is calculated as the difference between revenue and expenses. 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 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 our Net Operating Balance and our Operating Result are significant land sales and 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.

GFS/GAAP Harmonisation and Financial Statement Presentation for Whole of Government reporting

As part of the GFS/Generally Accepted Accounting Principles (GAAP) harmonisation project, the AASB has issued, 'AASB 1049*, Whole of Government and General Government Sector Financial Reporting'*. The 2009-10 Budget presents a single set of harmonised financial statements that meet the requirements of both AASB and the Uniform Presentation Framework (UPF).

Format of Agency Financial Statements

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

- Operating Statement;
- Balance Sheet;
- Cash Flow Statement;
- Statement of Changes in Equity;
- Statement of Income and Expenses on Behalf of the Territory;
- Statement of Assets and Liabilities on Behalf of the Territory;
- Budgeted Statement of Cash Flows on Behalf of the Territory;
- Statement of Changes in Equity 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 departmental items. Departmental items are those associated with the delivery of outputs and transacted through agency operating bank accounts.

- Interpreting the projected Operating Result:

  Some departments budget 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 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 department and the Territory.

  As a result of agencies not receiving recurrent funding for depreciation, the operating result for some departments 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 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.

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 department. The types of changes in equity include movements in capital injections and distribution, 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 department 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 departmentally 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 department and instead are administered by the department 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.

2008-09 Comparative Figures

The projected 2008-09 results for agencies are presented in the Budget Papers on the same basis as they will appear in the 2008-09 financial statements, which is consistent with GAAP 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 2008-09 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%.