

BASIS OF 2002-03 BUDGET AND FORWARD ESTIMATES

Administrative Arrangement Orders (AAO)

Significant Administrative Arrangement amendments were made during 2001-02 as a result of the change of Government, with further changes made on 1 July 2002 for the formation of the creation of the new department. These amendments affected the composition of departments and Ministerial Responsibility. Financial statements presented in the revised 2002-03 Budget Papers reflect the current composition, as outlined in the Structure of the ACT Government and Classification of ACT Entities chapters.

The AAO of 14 November 2001, established Mr Jon Stanhope as the Chief Minister for the ACT following the change of Government. A subsequent AAO, effective from 1 July 2002, established the new Department of Disability, Housing and Community Services. The revised Ministerial portfolio arrangements are summarised below:

Mr Jon Stanhope	- Chief Minister - Attorney-General - Minister for Health - Minister for Community Affairs - Minister for Women
Mr Ted Quinlan	- Deputy Chief Minister - Treasurer - Minister for Economic Development, Business and Tourism - Minister for Sport, Racing and Gaming - Minister for Police, Emergency Services and Corrections
Mr Bill Wood	- Minister for Urban Services - Minister for Disability, Housing and Community Services - Minister for the Arts
Mr Simon Corbell	- Minister for Education, Youth and Family Services - Minister for Industrial Relations - Minister for Planning

As part of the revised Ministerial arrangements, several departmental responsibility changes also occurred, as summarised below. Changes resulting from the AAO of 14 November 2001 transferred responsibilities for:

1. Sport and Recreation from the Department of Education, Youth and Family Services to the Chief Minister's Department;
2. Aquatic Centres and Sportsgrounds from the Department of Education, Youth and Family Services to the Department of Urban Services;
3. Canberra Connect from Chief Minister's Department to the Department of Urban Services;
4. ACT Housing and associated policy functions from the Department of Health and Community Care to the Department of Urban Services;
5. Arts and Cultural Services from the Chief Minister's Department to the Department of Urban Services;

6. Procurement Services from the Department of Urban Services to the Department of Treasury;
7. Youth Justice from the Department of Justice and Community Safety to the Department of Education, Youth and Family Services;
8. Economic Policy from the Chief Minister's Department to the Department of Treasury;
9. Industrial Relations Policy and Regulatory reform (excluding Water and Electricity) from the Department of Urban Services to the Chief Minister's Department;
10. Industrial Relations Policy and Regulatory reform (Water and Electricity only) from the Department of Urban Services to the Department of Treasury;
11. Essential Services Consumer Council from the Department of Urban Services to the Department of Justice and Community Safety; and
12. Economic Policy (Cooperative Legislation) from the Department of Treasury to the Department of Justice and Community Safety.

Changes resulting from the AAO of 1 July 2002 transferred responsibilities for:

1. ACT Housing and associated policy functions from the Department of Urban Services to the Department of Disability, Housing and Community Services
2. Office of Disability from the Department of Health and Community Care to the Department of Disability, Housing and Community Services;
3. Disability Services from ACT Community Care to the Department of Disability, Housing and Community Services;
4. Supported Accommodation Assistance Program (SAAP) from the Department of Education, Youth and Family Services to the Department of Disability, Housing and Community Services;
5. Child Health and Development Services (CHADS) other than specialist pre-school education (eg. language pre-school and autism early intervention units and playgroups) from the Department of Education, Youth and Family Services to the Department of Disability, Housing and Community Services; and
6. General community services including support of peak bodies, concessions and community facilities.

Changes to the Presentation of Financial Statements

The most significant changes to occur in the presentation of the financial statements since the previous Budget include: the discontinuance of the capital charge (as highlighted below); and the amalgamation of the appropriation for injection for operation into the Net Cost of Outputs (GPO).

Capital Charge	2001-02 Est. Outc.	2002-03 Budget	2003-04 Estimate	2004-05 Estimate	2005-06 Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
CMD - Removal of capital charge	0	- 131	- 131	- 131	- 131
DHCC - Removal of capital charge	0	- 92	- 92	- 92	- 92
DUS - Removal of capital charge	0	-2 667	-2 667	-2 667	-2 667
JACS - Removal of capital charge	0	- 690	- 690	- 690	- 690
DEYFS - Removal of capital charge	0	-10 268	-10 268	-10 268	-10 268
Total Removal of Capital Charge	0	-13 848	-13 848	-13 848	-13 848

Other presentational changes include:

Budget Paper No. 3

- rearrangement of Budget Paper No. 3 to provide an improved-organisation of financial information;
- expansion of the existing “Revenue and Forward Estimates” chapter to include trends and influences across the forward years;
- the inclusion of a new “Expenses and Forward Estimates” chapter, including trends across the forward estimates and details of factors affecting expenditure levels;
- the inclusion of a new “Financial Position” chapter, providing further detail on the Territory’s financial position relating to liquidity, long-term liabilities and assets;
- a separate and specific chapter for the “Budgeted Financial Statements”;
- the inclusion of a new “Risk Management” chapter addressing issues relating to the management of the Territory’s fiscal risks, including insurable and economic risk and contingent liabilities;
- an expansion of the “Taxes, Fees and Fines” section, through an appendices to the Budget Paper, providing detailed discussion of taxation items; and
- the new Government’s plan is at Part 2, called ‘Shaping Canberra’s Future’, providing a broad statement of Government priorities.

Budget Paper No. 4

An additional section has been incorporated in each Departmental chapter providing detail on the “Budgeted Financial Results” for the Department. This section aims to improve accountability of Chief Executives who are responsible under *Section 31 of the FMA* for achievement of financial results. Chief Executives are accountable to achieving these targets, within generally accepted materiality limits measures.

The 2001-02 Estimated Outcome

The 2001-02 estimated outcome figures have been updated to include the effect of the 2000-01 audited outcome and the known impacts on 2001-02 during budget preparation.

Sector Split

The Government Finance Statistics (GFS) sector split is retained and presentations are included for the General Government (GGS), Public Trading Enterprise (PTE) 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 2002-03 Budget papers. Definitions of terms are given in Appendix F - *Glossary and Abbreviations*.

Accrual Concepts

As with the 2001-02 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 a statement of financial performance, statement of financial position and cash flow statement. It captures the financial performance (statement of financial performance), changes in net financial position and components of that position (statement of financial position) and 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 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

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 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 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 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

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.

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.

Repayable loans to agencies are 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.

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 Statement of Financial Performance;
- 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 Statement of Financial Performance.

Key Accounting Treatments by Schedule:

Budgeted Statement of Financial Performance

- 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 management of funding for capital works.

Funding for capital works is mostly centrally managed within the Territory, with the Government as owner of net assets for departments making decisions regarding new capital works. Funding for new capital works is generally provided by the Government to departments in the year of acquisition of the new assets.

Depreciation is the accounting process for allocating the cost of using assets over the useful life of the assets. As departments are fully funded for the acquisition of assets at the time of acquiring the assets, further funding for depreciation is not provided to

departments. At the end of the useful life for assets, the Government as owner will make decisions regarding the future asset needs for the Territory.

As a result of departments not needing, or receiving funding for depreciation, the operating result for some departments will be a deficit.

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, the difference between employee expenses on the statement of financial performance and employee related payments on the statement of cash flows would show up as a change in employee entitlement liability on the balance sheet from one year to the next.

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.

2001-02 Comparative Figures

The projected 2001-02 results are presented in these Budget Papers on the same basis as they will appear in the 2001-02 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 2001-02 year, the relevant agencies are to 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%

