



# Guide to the Budget

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A guide to the Budget Papers  
and the Budget process

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## Useful 2012-13 Budget and Government Websites

<a href="http://www.treasury.tas.gov.au">www.treasury.tas.gov.au</a>	Contains all Budget Papers and provides information on major Departmental initiatives, activities and publications.
<a href="http://www.media.tas.gov.au">www.media.tas.gov.au</a>	Contains the Government's Budget related media releases.
<a href="http://www.tas.gov.au">www.tas.gov.au</a>	Provides links to the Websites of a wide range of Tasmanian public and private sector organisations.
<a href="http://www.service.tas.gov.au">www.service.tas.gov.au</a>	Provides a comprehensive entry point to Government services in Tasmania.
<a href="http://www.tasmaniatogether.com.au">www.tasmaniatogether.com.au</a>	Provides detailed information on Tasmania <i>Together</i> , including the current status of this initiative.

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# 1 INTRODUCTION

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## PURPOSE

This document is designed to provide readers with an understanding of the structure and content of the Budget Papers and an explanation of the Budget framework and process. The document consists of three parts:

### Part 1 - Budget Papers

- Section 2 provides an overview of the Budget Papers, and describes the changes to the presentation of information in the 2012-13 Budget Papers since last year's Budget;
- Section 3 describes the content of Budget Paper No 1 *The Budget*, and illustrates the major whole-of-government financial statements;
- Section 4 describes the content of Budget Paper No 2 *Government Services*, and illustrates the Output statements and departmental budgeted financial statements;

### Part 2 - Budget Framework

- Section 5 describes the structure and composition of the Tasmanian Public Sector, including the General Government Sector, the Public Non-Financial Corporations Sector and the Public Financial Corporations Sector;
- Section 6 outlines the 2012-13 Budget framework, including the implications of Australian Accounting Standards and the Uniform Presentation Framework, and explains the Output Methodology, the Budget development cycle and the ongoing monitoring and review of the Budget;
- Section 7 explains the Public Account, including the Consolidated Fund and the Special Deposits and Trust Fund;
- Section 8 explains the financial relationship between the State and Australian Government;

### Part 3 - Supporting Information

- Section 9 identifies other financial publications that are prepared to provide an update on the Government's financial position;
- Section 10 identifies other sources of economic and financial management information that are relevant to Tasmania; and
- Section 11 provides a glossary of the budget and financial terms referred to in the Budget Papers.



# PART 1: BUDGET PAPERS

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# 2 THE BUDGET PAPERS

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## THE BUDGET AND BUDGET PAPERS

The Budget is the financial plan developed by the Government for the coming financial year. The Budget Papers set out the Government's plans for the Tasmanian General Government Sector and for each specific entity included within the Sector.

Other information presented simultaneously to Parliament includes the Government's total revenues and expenses, financial assets and liabilities, the cost and funding of Outputs, infrastructure investment, financial relations with the Australian Government, the operations and performance of departments and some Statutory authorities, and the economic outlook and underlying financial trends.

The following documents currently form the Budget Papers package.

### Consolidated Fund Appropriation Bills, Nos 1 and 2

The annual Consolidated Fund Appropriation Bills are the mechanisms to appropriate funds from the Consolidated Fund for the ongoing activities of government. The Consolidated Fund Appropriation Bills provide authority for the expenditure of funds from the Consolidated Fund on Recurrent Services and Works and Services, on a Ministerial portfolio basis, for each department, for the coming Budget year.

Consolidated Fund Appropriation Bill No 1 appropriates funds to general government departments, such as the Department of Health and Human Services and the Department of Education, whilst Consolidated Fund Appropriation Bill No 2 appropriates funds to independent agencies, such as Parliamentary agencies, the Office of the Governor and the Office of the Ombudsman.

Funds are also appropriated for specific purposes through other Acts of Parliament. Funds appropriated in this way are called Reserved by Law funding.

### Budget Speech

This document provides the full text of the Treasurer's Second Reading Speech for the Consolidated Fund Appropriation Bills, which is delivered in the House of Assembly. The Speech explains the Government's economic and financial strategy and outlines key Budget initiatives for the forthcoming Budget year.

### Budget Paper No 1 *The Budget*

Budget Paper No 1 includes information that explains the context in which the Budget has been developed. It focuses on the financial position of the Tasmanian General Government Sector and provides information on the major strategies of the Government for the coming financial year. Budget Paper No 1 also contains:

- information on the Tasmanian economy and its performance;
- a detailed estimate of revenue and expenses for the coming financial year 2012-13 and for the Forward Estimates period (each of the following three financial years 2013-14 to 2015-16);

- a revised estimate of the revenue and expenses outcome for the current financial year 2011-12;
- an estimate of the State's assets and liabilities for the coming financial year and Forward Estimates period; and
- financial information prepared in accordance with the Uniform Presentation Framework using the Government Finance Statistics framework.

A more detailed examination of Budget Paper No 1 is provided in Section 3 of this document.

## Budget Paper No 2 *Government Services*

Budget Paper No 2 provides the basis for Parliament's detailed review of the Appropriation Bills. It reports on each agency within the General Government Sector, and provides information on the Outputs delivered by agencies on behalf of the Government.

A more detailed examination of Budget Paper No 2 is provided in Section 4 of this document.

## Other Documents Distributed with the Budget Papers

A number of other documents may be distributed with the Budget Papers. These documents include fact sheets that provide a summary of information on major Government initiatives.

# 3 BUDGET PAPER NO 1

## *THE BUDGET*

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### CONTENTS OF BUDGET PAPER NO 1

Budget Paper No 1 *The Budget* includes information that explains the context in which the Budget has been developed. It focuses on the financial position of the Tasmanian General Government Sector (GGS) and provides information on the financial implications of the major strategies the Government will implement over the Budget and Forward Estimates period.

Budget Paper No 1 also contains:

- information on the Tasmanian economy and its performance;
- a detailed estimate of revenue and expenses for the coming financial year 2012-13 and for the Forward Estimates period (each of the following three financial years 2013-14 to 2015-16);
- a revised estimate of the revenue and expenses outcome for the current financial year 2011-12; and
- an estimate of the State's assets and liabilities for the coming financial year and Forward Estimates period.

### BUDGET FINANCIAL STATEMENTS

Budget Paper No 1 presents the GGS financial statements as follows:

- the Income Statement, Balance Sheet, and Cash Flow Statement (Appendix 1 Uniform Government Reporting);
- the Policy and Parameter Statement (Appendix 2 Policy and Parameter Statement); and
- the Balance Sheet (Chapter 6 Assets and Liabilities).

This Section provides an explanation of the financial statements and illustrates the features of each statement.

# Income Statement

The Income Statement presents information on revenue and expenses. This Statement is designed to capture the composition of revenues, expenses and the net cost of government activities within a financial year. It shows the full cost of resources consumed by the government in achieving its objectives, and how these costs are met from various revenue sources.

The Income Statement reports two major Fiscal Strategy measures: the Net Operating Balance and the Fiscal Balance, and two sustainability measures: the Operating Result and the Comprehensive Result.

## *Net Operating Balance*

The Net Operating Balance is a measure of the ongoing sustainability of the operations of government. It indicates whether the government is generating enough revenue to cover the cost of its operations. A Net Operating Surplus indicates that a government has sufficient revenue to fund its operations and contribute to an increase in its asset base.

## *Fiscal Balance*

The Fiscal Balance indicates whether a sufficient surplus is being generated by the operations of government to fund its capital expenditure needs. It is determined as the difference between General Government revenue over expenses, after allowing for the net addition to non-financial assets such as buildings and infrastructure.

## *Operating Result*

The Operating Result is similar to the Net Operating Balance in that it is a measure of the sustainability of the operations of government. However, this measure includes movements in asset and liability balances that result from movements in market values rather than as a result of government operations. These gains or losses on assets or liabilities are "unrealised" and are not available to fund government operations.

## *Comprehensive Result*

The Comprehensive Result represents the total change in value of the GGS during a year arising from revenues, expenses and movements in the valuation of assets and liabilities. As such, the Comprehensive Result is equivalent to the total increase or decrease in Net Assets during the year.

The Comprehensive Result is similar to the Operating Result in that it includes unrealised movements in the value of assets and liabilities that impact on net assets. These movements are not available to fund operations and do not arise as a result of government decisions.

Diagram 3.1 provides an example GGS Income Statement.

The GGS Income Statement is presented in Appendix 1 of Budget Paper No 1 *The Budget*.

Diagram 3.1: Income Statement<sup>1</sup>

	2011-12	2012-13	2013-14	2014-15	2015-16
	Budget	Budget	Forward Estimate	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m
<b>Revenue from Transactions</b> ←					
Grants		2 855.1			
Taxation		906.7			
Sales of Goods and Services		391.5			
Fines and Regulatory Fees		89.6			
Interest Income		25.8			
Dividend, Tax and Rate Equivalent Income		218.2			
Other Revenue		130.9			
		<b>4 617.8</b>			
<b>Less Expenses from Transactions</b> ←					
Employee Expenses		1 991.5			
Superannuation		229.9			
Depreciation		264.7			
Supplies and Consumables		961.5			
Nominal Superannuation Interest Expense		228.8			
Borrowing Costs		14.5			
Grant Expenses		1004.5			
Other Expenses		36.3			
		<b>4 731.6</b>			
<b>Equals NET OPERATING BALANCE</b> ←		<b>(113.8)</b>			
<b>Plus Other Economic Flows - Included in Operating Result</b>					
Gain/(Loss) on Sale of Non-Financial Assets		4.7			
Movement in Investments in GBEs and SOCs		316.5			
Other Gains/(Losses)		(5.4)			
		<b>315.7</b>			
<b>Equals Operating Result</b> ←		<b>202.0</b>			
<b>Plus Other Economic Flows - Other Movements in Equity</b>					
Revaluations of Non-Financial Assets		237.5			
Other Non-Owner Movements in Equity		(133.6)			
		<b>103.8</b>			
<b>Equals Comprehensive Result</b> ←		<b>305.8</b>			

These items reflect the various sources of revenue received by the Government. Grants largely reflect revenue from the Australian Government, whilst Taxation reflects State taxes.

These items reflect the various expenditure items incurred by the Government. Employee Expenses is the largest single expenditure item.

The Net Operating Balance is a measure of the on-going sustainability of the operations of government. It is calculated as revenue less expenses from transactions.

The Operating Result is another measure of the sustainability of the operations of government. This measure includes the impact of movements in specific asset and liability balances.

The Comprehensive Result represents all changes in the value of the GGS, that is, the total increase or decrease in Net Assets during a financial year.

Diagram 3.1: Income Statement<sup>1</sup> (continued)

	2011-12	2012-13	2013-14	2014-15	2015-16
	Budget	Budget	Forward Estimate	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m
<b>KEY FISCAL AGGREGATES</b>					
<b>NET OPERATING BALANCE</b>		(113.8)			
<b>Less Net Acquisition of Non-Financial Assets</b>					
Purchase of Non-Financial Assets		551.0			
Less Sale of Non-Financial Assets		41.5			
Less Depreciation		264.7			
		<u>244.7</u>			
<b>Equals FISCAL BALANCE – SURPLUS/(DEFICIT)</b>		<u><u>(358.5)</u></u>			

The Fiscal Balance is a key Fiscal Strategy measure indicating whether a sufficient surplus is being generated to fund the Government's capital expenditure.

Note:

1. This table is for illustrative purposes only and does not reflect actual financial data.

## Policy and Parameter Statement

The Policy and Parameter Statement (PPS) is a reconciliation of the major movements in the Net Operating Balance between two points in time. The PPS is presented in Appendix 2 of the Budget Paper No 1 *The Budget* and reconciles the major movements between the 2012-13 Forward Estimates reported in the 2011-12 Budget Papers and the current 2012-13 Budget and Forward Estimates.

### *Policy Decision*

A policy decision reflects a specific decision by the Government that has an impact on the Budget and Forward Estimates and is related to a new policy or represents a change in the Government's existing policy position.

### *Parameter Adjustment*

Parameter adjustments reflect changes to the Budget and Forward Estimates due to the economic environment, a department's operating environment or the timing of a transaction. Parameter adjustments will reflect the impact of demand, cost variations in department service delivery and changes in accounting policies.

Diagram 3.2 provides an example of the GGS PPS.

Diagram 3.2: Policy and Parameter Statement<sup>1</sup>

	2011-12 Estimated Outcome \$m	2012-13 Budget \$m	2013-14 Forward Estimate \$m	2014-15 Forward Estimate \$m	2015-16 Forward Estimate \$m
<b>Forward Estimates (Net Operating Balance) as per the 2011-12 Budget</b> (A)		(82.0)			
<b>Forward Estimates (Fiscal Balance) as per the 2011-12 Budget</b> (B)		(197.1)			
<b>REVENUE</b>					
<b>Policy Decisions</b>	These items reflect policy decisions by government that have a Revenue impact on the Budget and Forward Estimates.				
Taxation Policy		13.7			
Other Policy Decisions		25.3			
<b>Total Policy Decisions</b>		<b>39.0</b>			
<b>Parameter Adjustments</b>	These items reflect parameter adjustments impacting on Revenue for the Budget and Forward Estimates.				
Taxation		(21.1)			
Dividend, Tax and Rate Equivalent Income		25.5			
Interest Income		(20.4)			
<b>Total Parameter Adjustments</b>		<b>(16.0)</b>			
<b>TOTAL REVENUE VARIATIONS</b> (C)		<b>23.0</b>			
<b>EXPENSES</b>					
<b>Policy Decisions</b>	These items reflect policy decisions by government that have an Expense impact on the Budget and Forward Estimates.				
Budget Priorities		(152.5)			
Other Policy Decisions		132.5			
<b>Total Policy Decisions</b>		<b>(20.0)</b>			
<b>Parameter Adjustments</b>	These items reflect a parameter adjustment impacting on Expenses for the Budget and Forward Estimates.				
Agency Expenditure		74.3			
Depreciation		0.5			
<b>Total Parameter Adjustments</b>		<b>74.8</b>			
<b>TOTAL EXPENSE VARIATIONS</b> (D)		<b>54.8</b>			
<b>NET OPERATING BALANCE</b>		<b>(113.8)</b>			
	Net Operating Balance is equal to A + C - D.				

Diagram 3.2: Policy and Parameter Statement<sup>1</sup> (continued)

	2011-12 Estimated Outcome	2012-13 Budget Estimate	2013-14 Forward Estimate	2014-15 Forward Estimate	2015-16 Forward Estimate
<b>Less NET ACQUISITION OF NON-FINANCIAL ASSETS</b>					
<b>Purchases of Non-Financial Assets</b>					
<b>Policy Decisions</b>					
Revised Capital Expenditure Cash Flows		(26.1)			
<b>Total Policy Decisions</b>		(26.1)			
<b>Parameter Adjustments</b>					
Movement in Agency Capital Expenditure		(159.8)			
<b>Total Parameter Adjustments</b>		(159.8)			
<b>Total Purchases of Non-Financial Assets</b>					
Variations (E)		133.7			
<b>Less Sale of Non-Financial Assets</b>					
Variations (F)		4.5			
<b>Less Depreciation Variations</b>					
(G)		(0.5)			
<b>TOTAL NET ACQUISITION OF NON-FINANCIAL ASSETS VARIATIONS</b>					
(H)		129.6			
<b>FISCAL BALANCE</b>					
		(358.5)			

These items reflect policy decisions by government impacting on Non-Financial Assets for the Budget and Forward Estimates.

These items reflect a parameter adjustment impacting on Non-Financial Assets for the Budget and Forward Estimates.

Net Acquisition/(Disposal) of Non-Financial Assets is equal to E - F - G.

Fiscal Balance is equal to B + C - D - H.

Note:

1. This table is for illustrative purposes only and does not reflect actual financial data.

## Balance Sheet

The Balance Sheet is a financial snap-shot of assets and liabilities taken at the end of the financial year (30 June) and discloses the resources over which the government maintains control. By providing information on the type of assets and liabilities held by the government, the statement shows the government's financial position at that point in time.

The major Balance Sheet indicators are Net Debt, Net Financial Liabilities, Net Financial Worth and Net Worth.

### *Net Debt*

Net Debt is a measure used to help judge the overall strength of the Government's fiscal position. Net Debt comprises a stock of selected gross financial liabilities less selected financial assets.

### *Net Financial Liabilities*

Net Financial Liabilities comprises total liabilities less financial assets, excluding equity investments in government businesses. This is a broader measure than Net Debt, as it incorporates other liabilities such as superannuation.

### *Net Financial Worth*

Net Financial Worth is calculated as financial assets minus liabilities. This measure is broader than Net Debt, as it incorporates provisions made (such as superannuation, but not depreciation and bad debts) as well as ownership of equity.

### *Net Worth*

Net Worth is calculated as total assets (both financial and non-financial) minus total liabilities, shares, and other contributed capital. Net Worth incorporates non-financial assets such as land and other infrastructure assets, which may be sold and used to repay debt. It also incorporates certain financial assets and liabilities not captured by the Net Debt measure, most notably, accrued employee superannuation liabilities, ownership of equities, debtors and creditors.

Diagram 3.3 provides an example of the GGS Balance Sheet.

Diagram 3.3: Balance Sheet as at 30 June<sup>1</sup>

	2012	2013	2014	2015	2016
	Budget	Budget	Forward Estimate	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>					
<b>Financial Assets</b> ←					
Cash and Deposits		259.1			
Investments		63.0			
Equity Investment in PNFC and PFC Sectors		6 352.5			
Other Equity Investments		4.3			
Receivables		187.8			
Other Financial Assets		1 010.7			
		<b>7 877.4</b>			
<b>Non-Financial Assets</b> ←					
Land and Buildings		6 040.0			
Infrastructure		5 263.4			
Plant and Equipment		217.8			
Heritage and Cultural Assets		575.2			
Investment Property		13.8			
Intangibles		29.1			
Assets Held for Sale		20.0			
Other Non-Financial Assets		37.8			
		<b>12 197.2</b>			
<b>Total Assets</b>		<b>20 074.6</b>			
<b>Liabilities</b> ←					
Borrowings		269.1			
Superannuation		5 175.7			
Employee Entitlements		523.3			
Payables		94.7			
Other Liabilities		256.8			
<b>Total Liabilities</b>		<b>6 319.5</b>			
<b>NET ASSETS</b> ←		<b>13 755.0</b>			

These items reflect the various Financial Assets held by the Government. These assets include cash and other financial assets.

These items reflect the various Non-Financial Assets held by the Government. These assets are required by the Government to deliver services and are primarily of a physical nature with a longer-term useful life.

Liabilities reflect the Government's obligations to other parties.

Net Assets is calculated as Total Assets minus Total Liabilities.



# Cash Flow Statement

The Cash Flow Statement records the government's cash receipts and payments, outlining how the Government obtains and uses its cash. The statement categorises cash flows into operating, investing and financing activities.

Within the Cash Flow Statement, cash inflows are positive, whilst cash outflows are identified by a negative sign (parenthesis).

Diagram 3.4 provides an example of the GGS Cash Flow Statement.

Diagram 3.4: Cash Flow Statement<sup>1</sup>

	2011-12	2012-13	2013-14	2014-15	2015-16
	Budget	Budget	Forward Estimate	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m
<b>Cash Flows from Operating Activities</b>					
<b>Cash Receipts from Operating Activities</b>					
Grants Received		2 855.0			
Taxation		906.7			
Sales of Goods and Services		391.4			
Fines and Regulatory Fees		87.9			
Interest Received		25.1			
Dividend, Tax and Rate Equivalentents		218.2			
Other Receipts		303.6			
		<b>4 787.8</b>			
<b>Cash Payments for Operating Activities</b>					
Employee Entitlements		(1 964.7)			
Superannuation		(303.0)			
Supplies and Consumables		(975.6)			
Borrowing Costs		(13.9)			
Grants and Subsidies Paid		(1 004.4)			
Other Payments		(204.1)			
		<b>(4 465.7)</b>			
<b>Net Cash Flows from Operating Activities</b>		<b>322.1</b>			
<b>Cash Flows from Investing Activities</b>					
<b>Net Cash Flows from Non-Financial Assets</b>					
Purchases of Non-Financial Assets		(551.0)			
Sales of Non-Financial Assets		41.5			
		<b>(509.5)</b>			

Operating Activities are those activities that relate to the core business of the GGS.

Investing Activities are those activities that relate to the management of assets, including the sale and purchases of fixed assets such as land, buildings and plant and equipment and management of investments.

Diagram 3.4: Cash Flow Statement<sup>1</sup> (continued)

	2011-12	2012-13	2013-14	2014-15	2015-16
	Budget	Budget	Forward Estimate	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m
<b>Net Cash Flows from Financial Assets (Policy Purposes)</b>					
Equity Injections		(99.0)			
Net Advances Paid		(7.6)			
		<b>(106.6)</b>			
<b>Net Cash Flows from Investing Activities</b>					
		<b>(616.0)</b>			
<b>Net Cash Flows from Financing Activities</b>					
Net Borrowing		(14.3)			
		<b>(14.3)</b>			
<b>Net Increase/(Decrease) in Cash Held</b>					
		<b>(308.3)</b>			
Cash at Beginning of the Year		<b>567.3</b>			
Cash at End of the Year		<b>259.1</b>			
<b>KEY FISCAL AGGREGATES</b>					
Net Cash Flows from Operating Activities		322.1			
Plus Net Cash from Investments in Non-Financial Assets		(509.5)			
<b>Equals CASH SURPLUS/(DEFICIT)</b>		<b>(187.4)</b>			

Financing Activities are those activities that relate to changes in the financial assets and liabilities of the GGS.

Net Increase/(Decrease) in Cash Held is the sum of net cash flows from all operating, investing and financing activities. This measure is consistent with the movement of cash reported in the GGS Balance Sheet.

This item reflects the Cash Surplus/(Deficit) received from Operating Activities plus proceeds from the sale and purchases of Non-Financial Assets.

Note:

1. This table is for illustrative purposes only and does not reflect actual financial data.



# 4 BUDGET PAPER NO 2

## GOVERNMENT SERVICES

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### CONTENTS OF BUDGET PAPER NO 2

Budget Paper No 2 provides the basis for Parliament's detailed review of the Consolidated Fund Appropriation Bills. It reports on each entity within the GGS, and provides detailed information on the services delivered by agencies on behalf of the Government.

Budget Paper No 2 provides readers with information on:

- major initiatives;
- Output Groups and Outputs;
- infrastructure investment; and
- Budget Financial Statements (Income Statement, Balance Sheet and Cash Flow Statement).

A brief description of the information provided in each of these sections is provided below.

### Major Initiatives

This section of the chapter lists the major initiatives that will be undertaken by the department over the Budget and Forward Estimates period.

### Output Information

The Output Methodology is an approach to the management of the total public resources of the State which focuses attention on the Outputs the Government is providing to the community and whether these Outputs are having the intended effect on the Government's policy objectives.

Outputs are goods and services produced by, or on behalf of, a department and provided to customers outside that department. This section of the chapter identifies the Outputs provided by the department and the cost of these Outputs over the Budget and Forward Estimates period. The Outputs are listed by Output Group in the Revenue from Appropriation by Output.

Diagram 4.1 provides an example of a Revenue from Appropriation by Output table.

Diagram 4.1: Revenue from Appropriation by Output<sup>1</sup>

	2011-12	2012-13	2013-14	2014-15	2015-16
	Budget	Budget	Forward Estimate	Forward Estimate	Forward Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Minister for the Government Department</b>					
<b>Output Group 1 – Example One</b>					
1.1 Government Services		9 500			
1.2 Primary Government Services		10 200			
1.3 Government Population Services		5 560			
		<b>25 260</b>			
<b>Output Group 2 – Example Two</b>					
2.1 Budget and Financial Services		9 225			
2.2 Human Resource Services		4 315			
2.3 Legal Services		326			
		<b>13 866</b>			
<b>Grants and Subsidies</b>			<b>1 775</b>		
<b>Capital Investment Program</b>			<b>5 555</b>		
Recurrent Services		39 126			
Works and Services		5 555			
		<b>44 681</b>			
<b>Department of Example</b>					
Total Recurrent Services		40 901			
Total Works and Services		5 555			
		<b>46 456</b>			
<b>Reserved by Law</b>					
Example One ( <i>Example One Act 2012</i> )		420			
		<b>420</b>			
<b>Total Revenue from Appropriation</b>			<b>46 876</b>		
Controlled Revenue from Appropriation		46 376			
Administered Revenue from Appropriation		500			
		<b>46 876</b>			

Note:

1. This table is for illustrative purposes only and does not reflect actual financial data.

## Infrastructure Investment

The Capital Investment Program (CIP) and Special Capital Investment Fund (SCIF) sections of Budget Paper No 2 identify the major capital projects which will be undertaken by the department.

The CIP is funded through the Works and Services Appropriation from the Consolidated Fund, whilst the SCIF reflects funding from other sources such as the Economic and Social Infrastructure Fund and the Hospitals Capital Fund.

# BUDGET FINANCIAL STATEMENTS

Financial information presented in the 2012-13 Budget Papers for each department is prepared in accordance with the principles contained in Australian Accounting Standards.

Financial information is provided in three separate statements:

- an Income Statement;
- a Balance Sheet; and
- a Cash Flow Statement.

Transactions are separated into controlled or administered. Those transactions/balances that the department can utilise for its own purpose to satisfy its objectives are considered to be controlled. The department may have other responsibilities that it undertakes on behalf of the Government, such as the levying and collection of taxes, fines and fees, and the making of specific grants and transfer payments. Where the department is unable to make decisions regarding these transactions, they are identified as administered.

Departmental financial statements include Forward Estimate information to provide readers with a longer term focus on the department's financial performance.

Illustrative examples of the three departmental budgeted financial statements are provided below.

## Income Statement

The Income Statement reports the operating transactions undertaken by the department. The controlled and administered activities are segregated within the statement.

Operating revenue includes the Consolidated Fund Appropriation to the department, Australian Government funding and non-government funding such as the proceeds from the sale of goods and services.

Operating expenses include, on an accrual basis, employee expenses, depreciation, interest, grants paid to other parties, and other supplies and consumables.

In accordance with AASB 101 *Presentation of Financial Statements*, the Income Statement includes the Comprehensive Income measure.

Comprehensive Income measures the total change in value of the department during a fiscal year arising from operating revenue, operating expenses and both realised and unrealised movements in the valuation of assets and liabilities. Comprehensive Income is the equivalent to the total increase or decrease in Net Assets during the fiscal year.

Unrealised movements in the value of assets and liabilities that impact on Net Assets are included in the Other Movements in Equity section in the Income Statement. Items in this section include revaluations of non-financial assets and other non-owner movements in equity. These unrealised movements are not available to fund operations and do not arise as a result of government decisions.

Diagram 4.2 provides an example of a department's Income Statement.

Diagram 4.2: Income Statement<sup>1</sup>

	2011-12	2012-13	2013-14	2014-15	2015-16
	Budget	Budget	Forward Estimate	Forward Estimate	Forward Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>					
Revenue from Appropriation		303 665			
Fines and Regulatory Fees		11 294			
Interest Revenue		....			
Grants		1 069			
Sales of Goods and Services		654			
Other Revenue		1 046			
		<b>317 728</b>			
<b>Less Expenses</b>					
Employee Entitlements		35 878			
Superannuation		3 912			
Depreciation and Amortisation		99 969			
Grants and Transfer Payments		71 677			
Supplies and Consumables		51 739			
Transfer to the Consolidated Fund		....			
Other Expenses		2 653			
		<b>265 828</b>			
<b>Plus Gains/(Losses)</b>					
Gain/(Loss) on Sale of Non-Financial Assets		4			
Gain/(Loss) on Investments in GBEs and SOCs		....			
Other Gains/(Losses)		....			
		<b>4</b>			
<b>Equals OPERATING RESULT</b>		<b>51 904</b>			
<b>Plus Other Movements in Equity</b>					
Revaluations of Non-Financial Assets		132 674			
Other Non-Owner Movements in Equity		(44 496)			
		<b>88 178</b>			
<b>Equals COMPREHENSIVE INCOME</b>		<b>140 082</b>			

This item reflects Recurrent Services and Works and Services funding that is appropriated to the agency from the Consolidated Fund.

These items reflect other revenue sources collected by the agency.

These items reflect, on an accrual basis, the cost of all services delivered by the agency within a fiscal year.

This item reflects transactions or economic flows such as asset revaluations, revaluation of superannuation liabilities and gains or losses that are not accounted for under operating revenue or expenses.

This item reflects the difference between operating revenue, expenses and gains and losses.

These items reflect transactions or economic flows that are unrealised movements in the value of assets and liabilities and include revaluation of non-financial assets and other non-owner movements in equity.

This item reflects all changes in the value of the department and is equivalent to the total increase or decrease in Net Assets during a fiscal year.

Note:

1. This table is for illustrative purposes only and does not reflect actual financial data.

# Balance Sheet

The Balance Sheet is a financial snap-shot of the department taken at the end of the financial year (30 June), and includes financial assets, non-financial assets, and the extent of liabilities such as creditors, borrowings and superannuation. Assets reflect what is controlled by or owed to, the department, whilst liabilities reflect what the department owes to others.

Diagram 4.3 provides an example of a departmental Balance Sheet.

Diagram 4.3: Balance Sheet as at 30 June<sup>1</sup>

	2012	2013	2014	2015	2016
	Budget	Budget	Forward Estimate	Forward Estimate	Forward Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>					
<b>Financial Assets</b>	← These items reflect the various Financial Assets held by the department. These assets include cash and other financial assets.				
Cash and Deposits		6 589			
Receivables		1 242			
Other Financial Assets		9 260			
		<b>17 091</b>			
<b>Non-Financial Assets</b>	← This item includes assets that are required by the department to deliver services and are primarily of a physical nature with a longer-term useful life.				
Land and Buildings		72 661			
Infrastructure		5 119 209			
Plant and Equipment		22 452			
Intangibles		10 948			
Other Non-Financial Assets		....			
		<b>5 225 270</b>			
<b>Total Assets</b>		<b>5 242 361</b>			
<b>Liabilities</b>					
<b>Liabilities</b>	← This item includes amounts owing by the department to other parties including suppliers and employees.				
Employee Entitlements		11 286			
Payables		16 216			
Other Liabilities		2 219			
<b>Total Liabilities</b>		<b>29 721</b>			
<b>NET ASSETS</b>	← This item represents the difference between the department's Total Assets and Total Liabilities. Net Assets represents the agency's overall financial position at a point in time.				
<b>Equity</b>	← This item is also known as Net Assets and represents the difference between the agency's total assets and total liabilities.				
Accumulated Funds		2 869 017			
Asset Revaluation Reserve		2 343 623			
<b>Total Equity</b>		<b>5 212 640</b>			

Note:

1. This table is for illustrative purposes only and does not reflect actual financial data.

# Cash Flow Statement

The Cash Flow Statement includes all of the operating, investing and financing transactions undertaken by the department.

Operating transactions are those which relate to the core business of the department; for example the collections of taxes, the distribution of grants and the provision of goods and services. Investing transactions are those that relate to the management of assets, including the sale and purchase of fixed assets such as land, buildings, plant and equipment and management of investments and customer loans.

Financing transactions are those that relate to changes in the financial assets and liabilities of the department and generally reflect the borrowing activity of the department. Activity in this area for departments is restricted and reflects the financing activities for a few departments. Departments are not permitted to undertake borrowings, with the exceptions being Finance-General, which undertakes any borrowing activity for the Government, and the Department of Economic Development, Tourism and the Arts, which operates the Loans, Property and Equities Portfolio of Tasmania Development and Resources, a separate statutory entity managed by that Department. The Department of Health and Human Services also shows financing transactions which reflect the repayment of past borrowings under the Commonwealth-State Housing Agreement.

Within the General Government Sector, the only other entity with authority from the Treasurer to borrow is the Nominal Insurer, a statutory entity created by the *Workers Rehabilitation and Compensation Act 1988*. The Nominal Insurer was authorised by the Treasurer to undertake a single occasion borrowing to fund settlement of claims arising from the collapse of HIH Insurance Group.

The controlled and administered activities of a department are segregated within this Statement.

The Cash Flow Statement also includes the GST transactions of a department. The GST flows are shown in the controlled operating activities section on the Cash Flow Statement. In accordance with Australian Accounting Standards, GST is reflected in the Balance Sheet rather than the Income Statement.

Diagram 4.4 provides an example of a departmental Cash Flow Statement.

Diagram 4.4: Cash Flow Statement<sup>1</sup>

	2011-12	2012-13	2013-14	2014-15	2015-16
	Budget	Budget	Forward Estimate	Forward Estimate	Forward Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cash Flows from Operating Activities</b>					
<b>Cash Received</b>					
Appropriation		303 613			
Reserved by Law		52			
Fines and Regulatory Fees		11 294			
Interest Received		....			
Grants		1 069			
Sales of Goods and Services		654			
GST Receipts		10 398			
Other Receipts		1 046			
		<b>328 126</b>			
<b>Cash Paid</b>					
Employee Entitlements		(35 637)			
Superannuation		(3 912)			
Borrowing Costs		....			
Grants and Transfer Payments		(71 677)			
Supplies and Consumables		(51 739)			
GST Payments		(10 399)			
Other Payments		(2 653)			
		<b>(176 017)</b>			
<b>Net Cash Flows from Operating Activities</b>		<b>152 109</b>			
<b>Cash Flows from Investing Activities</b>					
Sales of Fixed Assets		4			
Purchase of Fixed Assets		(112 236)			
Net Purchases of investments		(44 496)			
<b>Net Cash Flows from Investing Activities</b>		<b>(156 728)</b>			
<b>Cash Flows from Financing Activities</b>					
Net Borrowings		....			
<b>Net Cash Flows from Financing Activities</b>		<b>....</b>			
<b>Net Increase/(Decrease) in Cash Held</b>		<b>(4 619)</b>			
<b>Cash at the Beginning of the Year</b>		<b>11 208</b>			
<b>Cash at the End of the Year</b>		<b>6 589</b>			

Operating Activities are those activities that relate to the core business of the agency.

Investing Activities are those activities that relate to the management of assets, including the sale and purchase of fixed assets such as land, buildings and plant and equipment and management of investments.

Net Increase/(Decrease) in Cash Held is the sum of net cash flows from all operating, investing and financing activities. This measure is consistent with the movement of cash reported in the Balance Sheet.

Note:

1. This table is for illustrative purposes only and does not reflect actual financial data.

# PART 2:

# BUDGET FRAMEWORK

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# 5 TASMANIAN PUBLIC SECTOR

## COMPOSITION OF THE TASMANIAN PUBLIC SECTOR

The Total State Government Sector comprises the General Government, the Public Non-Financial Corporation, and the Public Financial Corporation Sectors. Entities within the Tasmanian Public Sector are classified according to the nature of activities that they undertake.

### General Government Sector

The General Government Sector comprises those agencies of government, the primary function of which is to provide public services which are mainly non-market in nature, for the collective consumption by the community, or which involve the provision of income support and are financed mainly through taxes and other compulsory levies.

This sector includes government departments, other government agencies and GGS Statutory Authorities.

Table 5.1 identifies the entities within the Tasmanian General Government Sector.

**Table 5.1: The Tasmanian General Government Sector**

<b>Government Departments</b>	<b>Other Government Agencies</b>	<b>GGS Statutory Authorities</b>
Economic Development, Tourism and the Arts	House of Assembly	Inland Fisheries Service
Education	Integrity Commission	Marine and Safety Tasmania
Health and Human Services	Legislative Council	Royal Tasmanian Botanical Gardens
Infrastructure, Energy and Resources	Legislature-General	State Fire Commission
Justice	Office of the Director of Public Prosecutions	THO - South <sup>1</sup>
Police and Emergency Management	Office of the Governor	THO - North <sup>1</sup>
Premier and Cabinet (including Ministerial and Parliamentary Support)	Office of the Ombudsman	THO - North West <sup>1</sup>
Primary Industries, Parks, Water and Environment	Tasmanian Audit Office	Tasmanian Skills Institute
Treasury and Finance (including Finance-General)		The Nominal Insurer

Note:

- On 22 December 2011, the *Tasmanian Health Organisations Act 2011* received Royal Assent. The Act establishes three Tasmanian Health Organisations (THOs) as statutory authorities governed by a Governing Council, consistent with the National Health Reform Agreement. The THOs will be funded on the basis of a Service Agreement with the Department of Health and Human Services for the provision of hospital and other health services to the three Tasmanian regions.

## Government Departments

State Government departments are established by order of the Governor under the provisions of the *State Service Act 2000*, on the recommendation of the Minister responsible. Ministerial responsibility for departments is assigned under the provisions of the *Administrative Arrangements Act 1990*. Government departments are those listed in Schedule 1 of the State Service Act.

In general, departments are engaged in the provision of Outputs (goods and services) to the public, private businesses or other government bodies. Outputs may also include policy advice and the administration of regulations, grants and benefits. Departments provide Outputs in order to achieve Outcomes, which contribute to the accomplishment of the Government's policy objectives in areas such as health, education, law, public safety, the environment and community infrastructure. The Output Methodology is described in greater detail in Chapter 6 of this document.

A department is:

- established by Administrative Order; subject to Ministerial direction under the provisions of the *Public Account Act 1986*, the *Financial Management and Audit Act 1990* and the *State Service Act 2000*; and
- required to prepare annual reports to be tabled in Parliament, with financial statements to be prepared on an accrual basis, and is subject to audit by the Auditor-General. The financial statements are required to comply with the relevant Australian Accounting Standards.

Business units within departments (eg the Telecommunications Management Division of the Department of Premier and Cabinet) operate within the Public Account, but in a commercial or quasi-commercial environment with charges for services determined on a full cost recovery basis. They may also receive a funding contribution from the Consolidated Fund.

Table 5.2 illustrates the current Ministerial portfolio and departmental structure of the Tasmanian Government under the *Administrative Arrangements Order 2011*.

**Table 5.2: Structure of the Tasmanian Government**

<b>Minister</b>	<b>Portfolio</b>	<b>Department</b>
Hon Lara Giddings MP	Premier	Premier and Cabinet
	Treasurer	Treasury and Finance
	Minister for the Arts	Economic Development, Tourism and the Arts
Hon Bryan Green MP	Deputy Premier	
	Minister for Primary Industries and Water	Primary Industries, Parks, Water and Environment
	Minister for Energy and Resources	Infrastructure, Energy and Resources
	Minister for Local Government	Premier and Cabinet
	Minister for Planning	Justice
	Minister for Racing	Infrastructure, Energy and Resources
Hon David O'Byrne MP	Minister for Infrastructure	Infrastructure, Energy and Resources
	Minister for Economic Development	Economic Development, Tourism and the Arts
	Minister for Innovation, Science and Technology	Economic Development, Tourism and the Arts
	Minister for Police and Emergency Management	Police and Emergency Management
	Minister for Workplace Relations	Justice
Hon Michelle O'Byrne MP	Minister for Health	Health and Human Services
	Minister for Children	Health and Human Services/Education/Premier and Cabinet
	Minister for Sport and Recreation	Economic Development, Tourism and the Arts
Hon Nick McKim MP	Minister for Education and Skills	Education
	Minister for Corrections and Consumer Protection	Justice
	Minister for Sustainable Transport	Infrastructure Energy and Resources
Hon Cassy O'Connor MP	Minister for Human Services	Health and Human Services
	Minister for Community Development	Premier and Cabinet
	Minister for Climate Change	Premier and Cabinet
	Minister for Aboriginal Affairs	Premier and Cabinet

**Table 5.2: Structure of the Tasmanian Government (continued)**

<b>Minister</b>	<b>Portfolio</b>	<b>Department</b>
Hon Brian Wightman MP	Attorney-General	
	Minister for Justice	Justice
	Minister for Environment, Parks and Heritage	Primary Industries, Parks, Water and Environment
Hon Scott Bacon MP	Minister for Tourism	Economic Development, Tourism and the Arts
	Minister for Hospitality	Economic Development, Tourism and the Arts
	Minister for Veterans' Affairs	Premier and Cabinet

### *General Government Sector Authorities*

These Statutory Authorities are established under specific legislation, which defines the purpose of the authority and the general functions for which it is responsible.

Table 5.3 identifies the current Ministerial portfolio allocations for the GGS authorities.

**Table 5.3: General Government Sector Authorities**

<b>Statutory Authority</b>	<b>Portfolio Minister</b>	<b>Portfolio Department</b>
Inland Fisheries Service	Hon Bryan Green MP	Primary Industries, Parks, Water and Environment
Marine <i>and</i> Safety Tasmania	Hon David O'Byrne MP	Infrastructure, Energy and Resources
Royal Tasmanian Botanical Gardens	Hon Brian Wightman MP	Primary Industries, Parks, Water and Environment
State Fire Commission	Hon David O'Byrne MP	Police and Emergency Management
THO - South <sup>1</sup>	Hon Michelle O'Byrne MP	Health and Human Services
THO - North <sup>1</sup>	Hon Michelle O'Byrne MP	Health and Human Services
THO - North West <sup>1</sup>	Hon Michelle O'Byrne MP	Health and Human Services
Tasmanian Skills Institute	Hon Nick McKim MP	Education

Note:

1. On 22 December 2011, the *Tasmanian Health Organisations Act 2011* received Royal Assent. The Act establishes three Tasmanian Health Organisations (THOs) as statutory authorities governed by a Governing Council, consistent with the National Health Reform Agreement. The THOs will be funded on the basis of a Service Agreement with the Department of Health and Human Services for the provision of hospital and other health services to the three Tasmanian regions.

# Public Non-Financial Corporations Sector and Public Financial Corporations Sector

The Public Non-Financial Corporations (PNFC) Sector comprises those entities that aim to cover the majority of their expenses by revenue from the sale of goods and services and which are mainly market, non-regulatory and non-financial in nature. Generally, this sector covers Government Business Enterprises (GBEs) and State-owned Companies (SOCs). These entities have a variety of functions and responsibilities, are established in varying ways and also have different relationships with the General Government Sector. The regional Water and Sewerage Corporations, although owned by local government, are included in the PNFC Sector as a result of the classification decision of the Australian Bureau of Statistics.

The Public Financial Corporations (PFC) Sector comprises those entities that provide financial services, including a central borrowing authority (the Tasmanian Public Finance Corporation (Tascorp)) and an insurance company (Motor Accidents Insurance Board).

## *Government Business Enterprises*

These entities:

- operate outside the Public Account, principally on the basis of funds derived through their operations, and generally have no direct impact on Budget expenditure except in circumstances where they receive funding for Community Service Obligations (CSOs), or receive payment for services provided, eg third party motor vehicle insurance provided to agencies;
- may provide returns to the Consolidated Fund in the form of dividends, taxation equivalents, and guarantee fees;
- are subject to their own enabling legislation and the *Government Business Enterprises Act 1995*;
- prepare annual reports, with financial statements complying with Australian Accounting Standards which are tabled in Parliament and are subject to audit by the Auditor-General; and
- may receive CSO payments which are reported by the purchasing department as Grants and Subsidies expenditure.

The Treasurer and the relevant Portfolio Minister is responsible for overseeing all GBEs. Table 5.4 indicates the Portfolio Minister responsible for each GBE.

**Table 5.4: Government Business Enterprises**

<b>Government Business Enterprise</b>	<b>Portfolio Minister</b>	<b>Portfolio Department</b>
Forestry Tasmania	Hon Bryan Green MP	Infrastructure, Energy and Resources
Hydro Tasmania	Hon Bryan Green MP	Infrastructure, Energy and Resources
Motor Accidents Insurance Board	Hon David O'Byrne MP	Infrastructure, Energy and Resources
Port Arthur Historic Site Management Authority	Hon Brian Wightman MP	Primary Industries, Parks, Water and Environment
Tasmanian Irrigation Pty Ltd <sup>1</sup>	Hon Bryan Green MP	Primary Industries, Parks, Water and Environment
Tasmanian Public Finance Corporation	Hon Lara Giddings MP	Treasury and Finance
The Public Trustee	Hon Brian Wightman MP	Justice

Note:

1. On 1 July 2011, the Rivers and Water Supply Commission and its two subsidiaries Tasmanian Irrigation Schemes Pty Ltd and the Tasmanian Irrigation Development Board were merged into Tasmanian Irrigation Pty Ltd.

### *State-owned Companies*

State-owned Companies (SOCs) are established under specific or generic legislation that defines the purpose of the SOC and the general functions for which it is responsible. SOCs are subject to the Corporations Law with two shareholders, the Treasurer and the Portfolio Minister, holding the shares in trust for the Crown.

These entities:

- operate outside the Public Account, principally on the basis of funds derived through their operations, and have no direct impact on Budget expenditure except in circumstances where they receive funding for Community Service Activities (CSAs), changes in equity and in circumstances where they receive payment for services provided, eg electricity provided to agencies;
- provide returns to the Consolidated Fund in the form of dividends to shareholders (the State) and the payment of taxation equivalents and guarantee fees;
- are subject to specific legislation (eg TT-Line Company Pty Ltd is subject to the *TT-Line Arrangements Act 1993*) or generic enabling legislation (eg Aurora Energy Pty Ltd is subject to the *Electricity Companies Act 1997*);
- are subject to Australian Government Corporations Law;
- prepare annual reports, with financial statements complying with Australian Accounting Standards, which are tabled in Parliament and are subject to audit by an auditor appointed by the shareholders, currently the Auditor-General; and
- may receive CSA payments which are reported as Grants and Subsidies expenditure by the purchasing department.

The Treasurer is one of two Shareholder Ministers for each SOC. Table 5.5 details the other Shareholder Minister and the Portfolio Department for each SOC.

**Table 5.5: State-owned Companies<sup>1</sup>**

<b>State-owned Company</b>	<b>Shareholder Minister</b>	<b>Portfolio Department</b>
Aurora Energy Pty Ltd	Hon Bryan Green MP	Infrastructure, Energy and Resources
Metro Tasmania Pty Ltd	Hon Nick McKim MP	Infrastructure, Energy and Resources
Tasmanian Ports Corporation Pty Ltd	Hon David O'Byrne MP	Infrastructure, Energy and Resources
Tasracing Pty Ltd	Hon Bryan Green MP	Infrastructure, Energy and Resources
Tasmanian Railway Pty Ltd	Hon David O'Byrne MP	Infrastructure, Energy and Resources
Transend Networks Pty Ltd	Hon Bryan Green MP	Infrastructure, Energy and Resources
TT-Line Company Pty Ltd	Hon David O'Byrne MP	Infrastructure, Energy and Resources

Note:

1. On 1 December 2011, the Government entered into an agreement to sell TOTE Tasmania Pty Ltd to Tattsbet Limited, a wholly owned subsidiary of Tatts Group Limited.

## Other Entities

Under the Uniform Presentation Framework, the classification of the Tasmanian Public Sector includes only those transactions over which the government exercises control under its legislative or policy framework. Entities such as the Retirement Benefits Fund Board and the University of Tasmania, which owe their existence to Tasmanian legislation, are not controlled by the State Government and, as a result, are not classified within the Tasmanian State Public Sector.

These entities:

- operate outside the Public Account, on the basis of funds derived through their operations or another funding body (such as the Australian Government in the case of the University of Tasmania), and ordinarily have no impact on Budget expenditure;
- are generally subject to their own enabling legislation; and
- prepare annual reports, with financial statements complying with Australian Accounting Standards, which are tabled in Parliament and are subject to audit by the Auditor-General, depending on the provisions of the relevant governing legislation.

In relation to the University of Tasmania, the Government currently participates in joint-funded activities with the University. The activities include the Tasmanian Aquaculture and Fisheries Institute, the Tasmanian Institute of Agricultural Research and the Centre for Ore Deposit - Special Research Centre.

The Tasmanian Water and Sewerage Corporations also owe their existence to legislation and are not controlled by the State Government. However, although owned by local government these corporations are included in the PNFC sector as a result of the classification decision by the Australian Bureau of Statistics.



# 6 THE BUDGET FRAMEWORK, DEVELOPMENT AND REVIEW

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## BUDGET FRAMEWORK

The 2012-13 State Budget has been prepared in accordance with the principles of Australian Accounting Standards and, in particular, AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. The Budget details the accrued revenues and expenses, receipts, payments, assets and liabilities of the General Government Sector (GGS) in a standardised format.

AASB 1049 is based on the harmonised requirements of Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) with the aim of improving the clarity and transparency of government financial statements. GFS is an accounting framework used by the Australian Bureau of Statistics in the preparation of public statistics. These, in turn, are based on international standards set out in the International Monetary Fund's *A Manual of Government Finance Statistics* and the United Nations' *A System of National Accounts*. GAAP is represented by the Australian Accounting Standards developed by the Australian Accounting Standards Board.

The GFS classification adopts a nationally consistent format for presenting the financial transactions of governments and government trading enterprises. GFS is an accounting framework that facilitates comparison of financial performance across jurisdictions and is used by financial markets, credit rating agencies and other analysts and commentators.

The following information details the AASB 1049 framework and illustrates the transactions included under AASB 1049 for the GGS.

GGs Budget information:

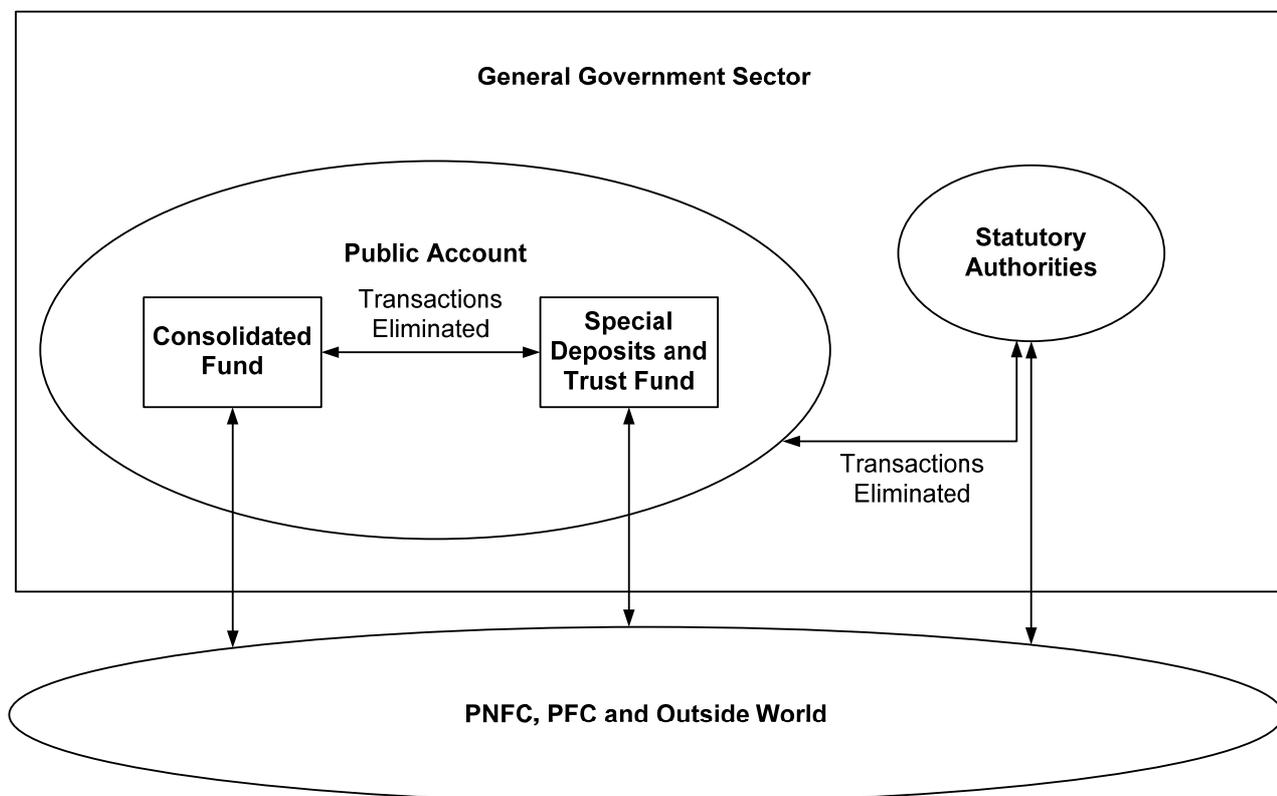
- includes the balances and transactions of both the Consolidated Fund and the Special Deposits and Trust Fund; and
- includes accrual transactions such as depreciation and nominal interest on superannuation.

The framework distinguishes between 'transaction flows' and 'other economic flows'. Transaction flows result directly from a mutually agreed interaction between two parties, for example, the sale of a good or service. The definition of a 'transaction flow' also includes depreciation. This recognises that in the case of depreciation the one party is acting in two roles, as owner of the asset and consumer of the services provided by the asset.

An 'other economic flow' is a change in the volume or value of an asset, or a liability, that does not result from a transaction. This includes a wide variety of events such as the revaluation of assets (holding gains or losses) arising from a change in market prices, and changes in the volume of assets that result from discoveries, depletion and destruction of assets. The impacts of all 'other economic flows' are reflected as gains or losses in the GGS Operating Statement. The combination of transaction flows and other economic flows reflects the total change in the value of the GGS.

Diagram 6.1 illustrates the transactions included under AASB 1049 for the GGS. Transactions included are only those with entities outside the GGS, with intra-sector transactions eliminated.

Diagram 6.1: Transactions included in the General Government Sector



## UNIFORM PRESENTATION FRAMEWORK

The presentation of a budget based on AASB 1049 is consistent with the Uniform Presentation Framework (UPF), which is a framework adopted by the Australian Loan Council relating to the presentation of budget and financial information across jurisdictions.

The Australian Loan Council is a Ministerial Council - comprising the Australian Government Treasurer as Chair and his/her counterparts from the states and territories. It was established in 1927 to coordinate public sector borrowings in Australia.

The primary objective of the UPF is to ensure that Australian Government, State and Territory governments provide a common 'core' of financial information in their budget papers. It is recognised that a uniform approach to the presentation of financial data will facilitate a better understanding of individual governments' budget papers and provide for comparisons of each government's financial results and projections.

Following the introduction of AASB 1049, the UPF will continue to be an important framework for ensuring comparability of financial information across jurisdictions. There are a number of areas where the UPF provides either additional information or clearer guidance on the preparation of government financial statements to that provided by AASB 1049. The UPF shall continue to apply to financial statements produced by government in budgets, mid-year budget updates and final budget outcome reports, whereas the accounting standard applies only to outcome reports.

In addition to requirements for GGS budget presentation, the UPF requires the presentation of outcomes for the Public Non-Financial Corporations Sector and the Public Financial Corporations Sector and budget estimates for the Public Non-Financial Corporations Sector.

## THE OUTPUT METHODOLOGY

The Output Methodology is an approach to the management of the total public resources of the State which focuses attention on the Outputs the Government is providing to the community and whether these Outputs are having the intended effect on the Government's policy objectives.

Outputs are goods and services produced by, or on behalf of, a department and provided to customers outside that department. The Government purchases Outputs from departments in order to achieve policy objectives, or Outcomes.

Outcomes can be segregated into Community Outcomes, Government Policy Priorities and Agency Outcomes.

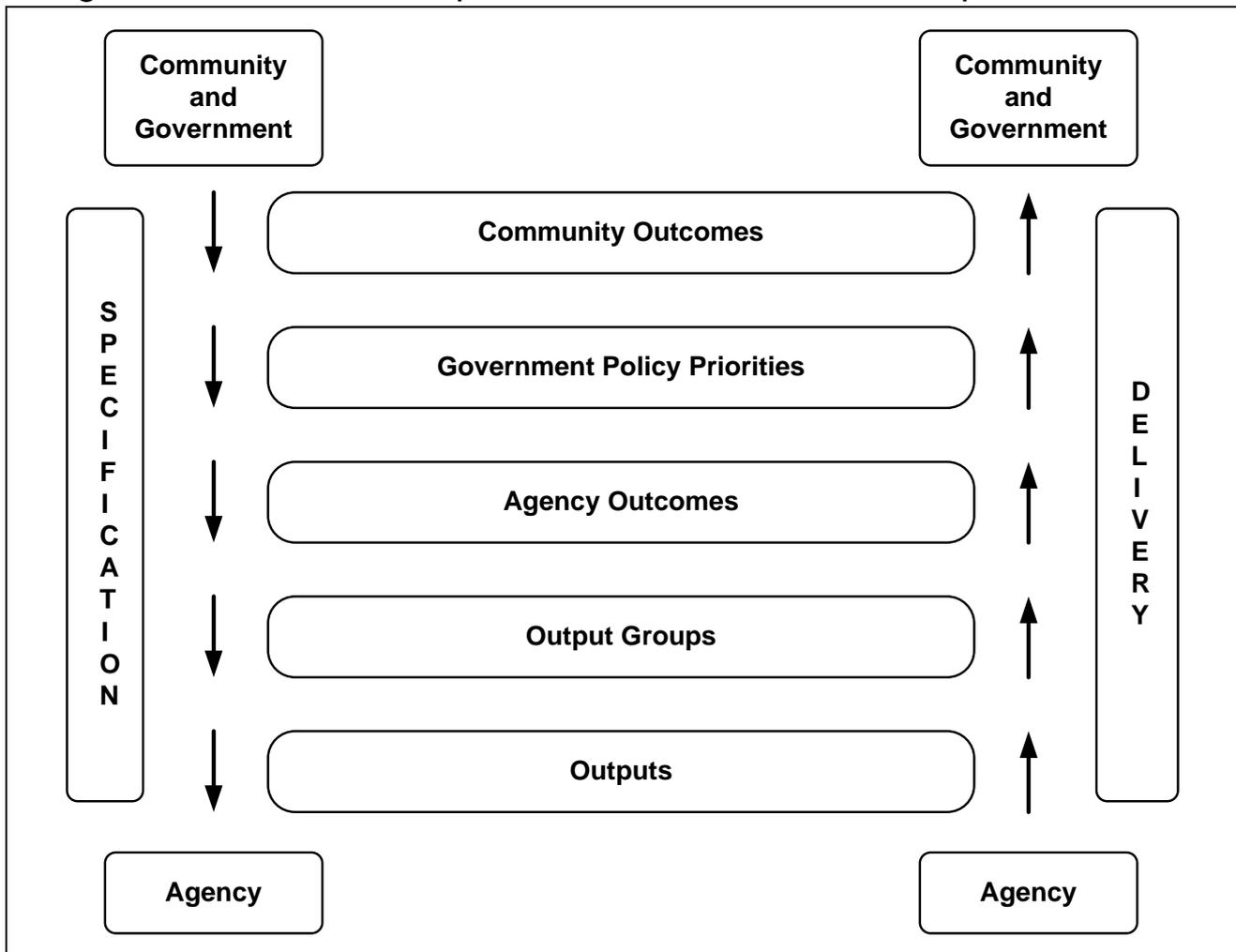
Community Outcomes are those Outcomes that are achieved over the longer term through contributions from all sectors of the Tasmanian community. Through the Tasmania *Together* process for example, the Tasmanian Government has placed a strong emphasis on the development of Community Outcomes. The related benchmarks will assist in determining the extent to which these Outcomes are achieved.

Government Policy Priorities are those policy directions that indicate a change in direction, an area of reform or a change in priority by the Government.

Agency Outcomes are those Outcomes for which an agency is accountable and which contribute to the achievement of both Government Policy Priorities and Community Outcomes.

The Outcome-Output framework is represented diagrammatically in Diagram 6.2.

Diagram 6.2: Relationship Between Outcomes and Outputs



## BUDGET DEVELOPMENT CONTEXT

The 2012-13 Budget has been developed in the context of the Government's Fiscal Strategy, which is detailed in Chapter 3 of Budget Paper No 1 *The Budget*.

### Fiscal Strategy

The *Charter of Budget Responsibility Act 2007* requires a fiscal strategy statement based on principles of sound fiscal management. The purpose of a fiscal strategy statement is to establish a benchmark for evaluating the Government's fiscal performance and increase public awareness of the fiscal policies of the Government and Opposition parties.

A fiscal strategy statement is to:

- specify the long-term objectives within which budgets will be framed;
- specify the key fiscal measures against which fiscal policy will be set and assessed;
- specify the fiscal objectives and targets for the budget year and the following three financial years; and

- identify how the fiscal objectives and strategic priorities relate to the principles of sound fiscal management.

## THE BUDGET DEVELOPMENT CYCLE

The development of the State Budget is a continuous process that consists of multiple stages. Stages that make up the Budget Development Cycle include the:

- Development of the Budget;
- Parliamentary Review of the Budget; and
- Monitoring and Review of the Budget.

Further information on these stages of the Budget Development Cycle is provided below.

## DEVELOPMENT OF THE BUDGET

The Budget Papers, presented annually to Parliament, represent the culmination of an extensive process of review and analysis of the Government's finances.

The Budget cycle is a process that commences soon after the passage of the Consolidated Fund Appropriation Acts for the forthcoming Budget year and finishes with the passage of the following year's Appropriation Acts through Parliament.

Key elements of this process include:

- major Government Policy Priorities such as key priorities announced by the Premier in the State of the State Address, Local Government Partnership Agreements and the Fiscal Strategy, which provide a framework for the development of the annual Budget;
- analysis of departmental Budget submission information by Treasury, the Department of Premier and Cabinet, Budget Committee and Cabinet;
- a review of department performance both in terms of Tasmania *Together* benchmarks and other agency-related performance indicators; and
- a focus on the medium to longer term.

A typical Budget development process is summarised below.

Departmental Forward Estimate allocations form the basis for the development of the Budget. During the Budget year, the Forward Estimates are continually reviewed by departments, Treasury and Budget Committee to ensure they reflect current circumstances and Government policy decisions.

Cabinet, based on recommendations provided by Budget Committee, determines the overall framework for the development of the Budget for the following year. At this time, Budget Committee calls for submissions from the community in relation to the Budget for the coming financial year.

Members of Budget Committee and Ministers may meet with peak community groups to discuss community submissions. Information received during this community consultation process is considered by departments during the Budget development process.

Agencies prepare Budget submissions for Budget Committee's consideration. These submissions include qualitative information such as departments' operating environment, major issues which could be expected to impact on the delivery of departments' Outputs over the forthcoming Budget year and links between Outputs/initiatives and established Outcomes. The financial information required includes detailed financial estimates for both expenditure and revenue. Departments are also required to provide performance information relating to the Outputs produced.

Based on these submissions and consideration by Budget Committee, Treasury prepares a Budget information submission for Cabinet consideration.

In finalising the Budget parameters, Cabinet takes into account the estimated result for the current year, national and State economic forecasts and a range of other factors. Important amongst these other factors are the recommendations of the Treasurers' Conference in relation to the distribution of GST revenue as required under the Intergovernmental Agreement on Federal Financial Relations. The Treasurers' Conference comprises the Treasurer of the Australian Government and the Treasurers of the states and territories. Over half of the State's total revenue is received directly from the Australian Government in the form of GST revenue and specific purpose payments. For a detailed discussion of the financial relationship between the State and the Australian Government, refer to Section 8 of this document.

Once the Budget is finalised by Cabinet, Heads of Agency are advised of the proposed Budget allocation for their department for the Budget year and Forward Estimates for the subsequent three years.

Departmental information for inclusion in Budget Paper No 2 *Government Services* is provided to Treasury by departments in late April. Treasury then prepares the Budget Papers and related documents for presentation to Parliament by the Treasurer in mid May.

## PARLIAMENTARY REVIEW OF THE BUDGET

The Parliamentary Budget debate and Estimates Committee review process, which occurs following the tabling of the Budget, provides an opportunity for detailed Parliamentary scrutiny of, and debate on, the State's economic and financial position and the Government's overall objectives.

Following the introduction of the Consolidated Fund Appropriation Bills into Parliament, the Budget is debated simultaneously in the House of Assembly and the Legislative Council. Immediately after the second reading in the House of Assembly and the adjournment of debate in the Legislative Council, both the House of Assembly and the Legislative Council undertake an Estimates Committee process to facilitate the detailed analysis of the Budget by Members of both Houses.

Estimates Committees are required to examine and report on the expenditures proposed in the Appropriation Bills. The Estimates Committee process involves members of the Committee asking Ministers wide-ranging questions on departmental budget allocations and operations. Senior departmental representatives also attend Estimates Committee hearings to provide advice to Ministers.

On the completion of hearings, each Estimates Committee prepares a report for further debate by each Estimates Committee's respective House of Parliament.

When the House of Assembly has agreed to the Bills, the third reading of the Bills takes place and the Bills are referred to the Legislative Council.

Any requests by the Legislative Council for amendments to the Bills are referred to the House of Assembly. The House of Assembly then considers whether to accept or reject any requests for amendments proposed

by the Legislative Council. If the House of Assembly rejects a request, the Legislative Council is provided with an opportunity to consider its position with regard to its request. The current Parliamentary arrangements do not provide any mechanism for resolving a deadlock between the two Houses.

Once both Houses of Parliament have passed the Bills, they are presented to the Governor for Royal Assent.

In the event that the Bills are not passed within the period covered by an existing Consolidated Fund Appropriation Act or a Consolidated Fund Supply Act (where such an Act has been required), further Consolidated Fund Supply Bills can be introduced into Parliament to provide funds for ongoing Government operations, pending the passage of the new Appropriation Acts. The Treasurer may also issue and apply such amounts as needed to meet the current and accruing requirements for the year.

## MONITORING AND REVIEW OF THE BUDGET

Once the annual Consolidated Fund Appropriation Bills have been passed by Parliament, Treasurer's Expenditure Control Authorities (TECAs) are issued to all Ministers under section 14 of the *Financial Management and Audit Act 1990* (FMAA). TECAs are, as the name suggests, an authority from the Treasurer allowing Portfolio Ministers to expend funds up to, but not exceeding, the amount appropriated in the Consolidated Fund Appropriation Acts. Ministers then authorise the responsible Head of Agency to incur expenditure not exceeding the limit of their respective TECA.

The Budget monitoring and review process is ongoing throughout the Budget year. The process is undertaken both at the departmental level by departmental management and at a whole-of-government level by Treasury.

As part of the process, departments report to Treasury in a timely manner any variation from Budget estimates. Potential variations in departmental expenditure and revenue are also identified through ongoing discussions between Treasury and departmental officers. This information is used by Treasury to manage the whole-of-government Budget on a continual basis.

By 15 February, the Treasurer publishes an estimated Budget outcome that takes into consideration departmental variations. The estimated Budget Outcome is contained within the Mid-Year Financial Report.

## REVIEW AND VARIATION OF THE BUDGET

Situations may arise during the financial year that require variations from the expenditure plans expressed in the Appropriation Acts. For example, essential unforeseen expenditures may result in the initial agency appropriation being exceeded.

The Treasurer may approve the provision of additional funding for necessary increases in expenditure on Outputs, above that appropriated by the Appropriation Acts. In these cases, the Treasurer's Reserve may be utilised to provide the additional funding.

The Treasurer's Reserve is established within the Consolidated Fund by section 11 of the *Public Account Act 1986*. This section:

- enables the Treasurer to authorise expenditure for Recurrent Services in excess of amounts appropriated by Parliament where the need for the additional expenditure is deemed to be essential to efficient financial administration and could not reasonably have been foreseen before the introduction of the Appropriation Act into the Parliament; and
- fixes an upper limit on the amount that can be applied from the Treasurer's Reserve.

The components for the calculation of the upper limit of the Treasurer's Reserve consist of:

- a standing appropriation of \$10 million – Finance-General Division: Appropriation to the Treasurer's Reserve (section 11(2)(a));
- an additional amount appropriated in the annual Appropriation Act – Finance-General Division: Treasurer's Reserve – Supplement (section 11(2)(b));
- any surplus or saving in a department's Recurrent Services appropriation which has not been utilised to fund a shortfall within that appropriation (section 11(2)(c));
- additional Australian Government funds which become available after the Budget is finalised (section 11(2)(d)); and
- additional recurrent revenue generated within the Consolidated Fund during a financial year which is in excess of the Budget estimate (section 11(2)(e)).

Funding for additional Works and Services expenditure, in excess of amounts initially appropriated, may be authorised by the Treasurer, with the approval of the Governor-in-Council, under section 12 of the Public Account Act. This section provides for approval of additional funding from the Consolidated Fund, in anticipation of appropriation by Parliament, of an amount deemed necessary in the public interest to provide for expenditure for Works and Services. New Works and Services expenditure authorised under section 12 is restricted to \$1 million in the relevant financial year.

Any authorised changes to a department's appropriation are implemented through the issuing of a revised TECA to the Minister.

Finally, in cases of emergency, the FMAA provides an authority for additional expenditure from the Consolidated Fund, subject to the Treasurer obtaining a supporting report by the Auditor-General and the approval of the Governor-in-Council.

All expenditure in excess of appropriation is tabled in Parliament on a quarterly basis in accordance with section 19 of the Public Account Act. In addition, the total excess expenditure for a financial year is presented in the Treasurer's Annual Financial Statements. In some years, a supplementary Appropriation Bill has been presented to Parliament to appropriate additional available funds for specific community and infrastructure development purposes that were not foreseen at the time of the original Budget.

# PARLIAMENTARY REVIEW

Parliament, through the establishment of Committees, also conducts ongoing detailed analysis of the Government's finances and other issues. These Committees may be established by statute, as is the case with the Public Accounts and Public Works Standing Committees, or through a vote of one or both Houses of Parliament. Examples of the latter are the Select Committees into Working Arrangements of Parliament, Industrial Relations and Community Development.

The following Committees are of particular importance to the Budget review process.

## The Parliamentary Standing Committee of Public Accounts

The Public Accounts Committee is established under the *Public Accounts Committee Act 1970*. The role of the Committee is to inquire into, consider and report to the Parliament on any matter referred to the Committee by either House of Parliament relating to the management, administration or use of public sector finances or the accounts of any public authority or other organisation controlled by the State or in which the State has an interest. The Committee may inquire into, consider and report to the Parliament on any matter arising in connection with public sector finances that the Committee considers appropriate and any matter referred to the Committee by the Auditor-General.

## The Parliamentary Standing Committee on Public Works

The Public Works Committee is established under the *Public Works Committee Act 1914*. The Committee comprises members from both Houses of Parliament and reports on proposals for public works costing in excess of \$5 million. The Committee is provided with plans, specifications and other material relating to the works and may summon witnesses if necessary. The Committee reports back to Parliament on its findings. Public works costing less than \$5 million may, by resolution, be referred to the Committee. The process by which projects are to be referred to the Committee is detailed at Treasury's purchasing website <http://www.purchasing.tas.gov.au>.

## Government Businesses Scrutiny Committees

The House of Assembly and Legislative Council have established Government Business Scrutiny Committees to inquire into the operations of selected GBEs, SOCs and State authorities. These committees are held annually and generally commence in December each year.

In December 2011, these committees inquired into the operations of Aurora Energy Pty Ltd, Tasmanian Railway Pty Ltd, Tasmanian Irrigation Pty Ltd, Forestry Tasmania, Metro Tasmania Pty Ltd, Tasracing Pty Ltd, Hydro Tasmania, Transend Networks Pty Ltd, The Public Trustee, TT-Line Company Pty Ltd and the Tasmanian Ports Corporation Pty Ltd.

In addition, a House of Assembly Select Committee investigated the role and future viability of TOTE Tasmania and the Legislative Council Sessional Committee Government Administration A considered the financial performances of both Forestry Tasmania and Tasracing Pty Ltd.

## Legislative Council Sessional Committees

In 2010, Government Administration Committees A and B were established by resolution of the Legislative Council. The operations of these Committees are governed by Sessional Orders agreed to by the Council. Both Administration Committees comprise no less than five members each and the objective of such Committees is to inquire into and report on any matter relating to:

- any Bill or other matter referred to it by the Council;
- the administration, processes, practices and conduct of any department, agency, Government Business Enterprise, State-owned Company or other entity including entities established under the *Water and Sewerage Corporations Act 2008*; and
- the administration, processes, practices and conduct of any other entity including those entities in which local government has an interest.

# 7 THE PUBLIC ACCOUNT

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The General Government Sector's financial operations are conducted through the Public Account, established under the authority of the *Public Account Act 1986*. The Public Account comprises two separate Funds, the Consolidated Fund and the Special Deposits and Trust Fund.

## THE CONSOLIDATED FUND

The Consolidated Fund is the source of funding for appropriations and Reserved by Law payments.

Consolidated Fund appropriations are provided for two types of expenditure, Recurrent Services, and Works and Services.

Recurrent Services funding is provided by Parliament to meet the cost of the ordinary annual services of the Government. The major expenses are salaries and other departmental operating costs including building services and maintenance, minor works and furniture and equipment purchases. Reserved by Law funds are also made available to departments on a recurrent basis, where there is a legislative requirement for funding to be provided for specific purposes without the necessity for annual appropriation through a Consolidated Fund Appropriation Act. Examples of Reserved by Law expenditure include interest payments on debt, funding for the salary of the Auditor-General and pensions payable under the *Judges' Contributory Pensions Act 1968*.

Consolidated Fund expenditure is further classified as being either Output Expenditure or Grants and Subsidies as follows:

- Output expenditure can be reallocated by a department to other approved purposes and initiatives within the limits of Budget allocation principles. A department has the discretion to apply funds within the Output and, subject to specific restrictions imposed by the Treasurer, may transfer funds from that Output to another of the department's Outputs. While this is the case, Heads of Agency remain responsible for the provision of the agreed level and range of Outputs purchased by the Government. In relation to Works and Services and Reserved by Law funding, departments do not have the discretion to transfer these funds to another Output; and
- Grants and Subsidies expenditure relate to payments or concessions made by the Government to individuals, groups or organisations. Grants and Subsidies expenditure do not represent Outputs of a department, rather it is the administration of these payments that represents an Output of a particular department. Levels of individual Grants and Subsidies expenditure are determined by the Government, having regard to particular policy objectives. These payments are non-discretionary in that a department does not have the discretion to either alter the level of Grants and Subsidies expenditure from that agreed by the Government, or to transfer the funds to Outputs. Examples of Grants and Subsidies expenditure are the funds provided by the Government to private operators, through the Department of Infrastructure, Energy and Resources, for student transport services and the funding provided by the Australian Government to non-government schools, through the Department of Education.

## *Works and Services*

Works and Services funding is provided to meet construction costs and the purchase and maintenance of major capital assets such as roads, public housing, schools and hospitals. Works and Services expenditure is provided under the Capital Investment Program (CIP), incorporating the Building, Roads and Housing Programs. The CIP links investment by the Government in capital and maintenance projects with the corporate and asset management plans of departments and specific Government policy objectives.

## *Consolidated Fund Revenue*

Under the Public Account Act, unless specifically excluded as provided by that Act or any other Act, all revenue of the State is to be credited to the Consolidated Fund. The Consolidated Fund receives funds from a number of sources, including receipts from:

- the Australian Government for general recurrent purposes such as GST Revenue;
- the Australian Government for specific purposes such as Healthcare, School Education, Skills and Workforce Development, Disability Services and Housing;
- the Australian Government for National Partnership Agreements such as Early Childhood Education, Social Housing and Homelessness;
- State Taxation, the major items being Payroll Tax, Duties, Casino related taxes and Licence Fees;
- payments by Government Business Enterprises and State-owned Companies such as dividends, tax equivalents and guarantee fees;
- Departmental Fees and Recoveries such as Land Titles Office fees, drivers licence fees and vehicle registration fees; and
- Resource Rents and Royalties, the major item being mineral royalties.

## *Consolidated Fund Expenditure*

Funds may only be expended from the Consolidated Fund under the authority of an Act of Parliament. These Acts are:

- the annual Consolidated Fund Appropriation Acts and any subsequent Appropriation Act. These Acts are central to the Budget and authorise over 90 per cent of all funding from the Consolidated Fund; and
- other Acts authorising specific items such as the payment of salaries for the Judiciary and Parliamentarians. These appropriations are 'standing items' because they do not need to be passed by Parliament each year. They are referred to as Reserved by Law payments.

Funds also may be appropriated by a Supply Act.

Sections 13 and 14 of the Financial Management and Audit Act provide that money may not be drawn from the Consolidated Fund unless under a Treasurer's Expenditure Control Authority, which may be issued to the appropriate Minister. The Minister may then delegate the expenditure authority to the relevant Head of Agency.

## *Consolidated Fund Surplus/Deficit*

The excess of Consolidated Fund receipts over the expenditure of these funds (net of loan repayments) is the Consolidated Fund Surplus (CFS). A CFS represents funds that are available for the retirement of debt or the accumulation of financial assets. A Consolidated Fund Deficit indicates that Consolidated Fund expenditure exceeds receipts in the Fund.

# THE SPECIAL DEPOSITS AND TRUST FUND

The Public Account Act provides the Treasurer with the authority to establish specific accounts within the Special Deposits and Trust Fund (SDTF) and to prescribe the purpose for which they may be used and to attach conditions to their operation.

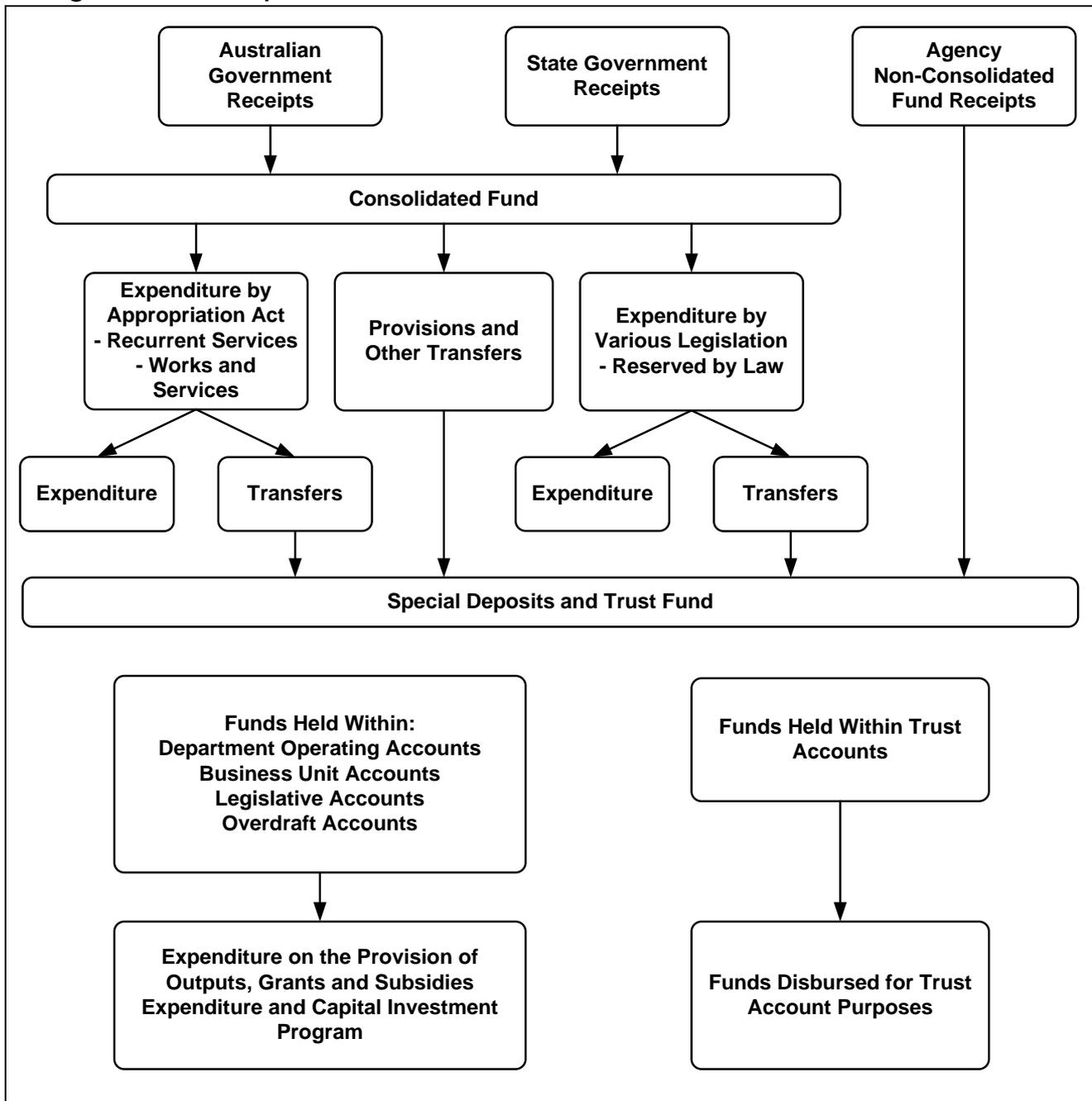
Accounts within the SDTF are classified as Department Operating Accounts, Business Unit Accounts, Legislative Accounts, Trust Accounts or Overdraft Accounts as follows:

- Department Operating Accounts record most transactions including funds appropriated from the Consolidated Fund and departmental revenue that is approved to be retained by the agency;
- Business Unit Accounts are established for commercial and quasi-commercial activities of government departments. These activities are usually funded from income generated by the Business Unit, on a full cost recovery basis, although some Business Units may receive a contribution from the Consolidated Fund. Examples of Business Units are the Office of the Valuer-General and the Tasmanian Audit Office;
- Legislative Accounts have been created where an Act requires a specific account to be established in the SDTF to record transactions associated with a specific purpose. An example of this type of account is the Crown Lands Administration Fund;
- Trust Accounts are accounts in which funds are held by the Government on behalf of a third party. These funds are not available to the Government to spend for its own purposes. Examples of Trust Accounts are the Jim Bacon Foundation Account and the Supreme Court Suitors Fund Deposit Account; and
- Overdraft Accounts have been established in the SDTF to enable the Government to use cash generated from the SDTF as a temporary source of finance. An example of an Overdraft Account is the Government Car Fleet Account that is used for the purchase of government vehicles.

Details of transactions and balances of accounts in the SDTF are contained in the Treasurer's Annual Financial Statements and departmental Annual Reports.

Diagram 7.1 summarises the operation of the Public Account.

Diagram 7.1: Operation of the Public Account



# 8 COMMONWEALTH-STATE FINANCIAL RELATIONS

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## REVENUE TRANSFERS

Revenue transfers from the Australian Government are a vital source of revenue for states. These transfers are required to address the significant imbalance between the respective revenue raising powers and expenditure responsibilities of the Australian, state and territory governments (hereafter referred to as the states). The need for such revenue transfers and principles governing their distribution is outlined in further detail below in the Vertical Fiscal Imbalance (VFI) and Horizontal Fiscal Equalisation (HFE) sections.

From 1 January 2009, the *Intergovernmental Agreement on Federal Financial Relations* (IGA) came into operation, following endorsement by the Council of Australian Governments (COAG). The IGA provides a framework for revenue transfers from the Australian Government to the states, these transfers fall into two categories:

- General Purpose Payments (GPP), which are 'untied' payments that can be used at the state's discretion. The GST distribution will be the only GPP received by Tasmania in 2012-13; and
- conditional (tied) funding in the form of Specific Purpose Payments (SPPs), National Partnership Payments (NPPs) and National Health Reform (NHR) funding which must be spent for purposes as agreed with the Australian Government.

## GENERAL PURPOSE PAYMENTS

In accordance with the IGA, the states currently receive all GST revenue collected by the Australian Government as GPPs. The states reimburse the Australian Government for GST administration costs. The GST collections are distributed among the states according to the Commonwealth Grants Commission's (CGC) methodology.

Under the CGC methodology, Tasmania's share of GST revenue, like all states, is based on its share of the national population, adjusted by a weighting factor known as the GST relativity, which reflects the State's assessed need for financial assistance. Each year, the CGC determines the relativities for each state, in accordance with the principle of HFE. Apart from population and the GST relativity, the amount of GST paid to Tasmania is also affected by the size of the GST pool. This is largely driven by the performance of the national economy, particularly consumption of taxable goods and services, and dwelling investment.

## PAYMENTS FOR SPECIFIC PURPOSES

Payments for Specific Purposes are grants from the Australian Government to the states for specific activities. Under the IGA, from 1 July 2012, there will be three types of Payments for Specific Purposes:

- SPPs that provide ongoing funding to the states for service delivery in the core areas of education, housing, skills and workforce development, and disability services;
- NPPs to support the delivery of specific outcomes or projects and/or facilitate the implementation or reward the delivery of national reforms; and
- NHR funding which funds the provision of hospital services.

Note that a distinction is also made between Payments for Specific Purposes:

- 'to' the State, that support specific areas of State responsibility, which includes NHR funding and all the SPPs apart from the non-government schools component of the school education SPP; and
- channelled 'through' the state, primarily to local governments and non-government schools.

## Specific Purpose Payments

SPPs are grants for specific purposes. From 1 July 2012, Tasmania will receive the following SPPs:

- National Schools SPP, as per the National Education Agreement;
- National Skills and Workforce Development SPP, as per the National Skills and Workforce Development Agreement. This supports the states' responsibilities for vocational education and training;
- National Disability SPP, as per the National Disability Agreement; and
- National Affordable Housing SPP, as per the National Affordable Housing Agreement.

The National Schools SPP includes non-government school funding. This is 'partitioned' so that it continues to be passed through states onto non-government schools.

States and territories are required to spend the funding received under each SPP in the relevant sector, but have the flexibility to allocate funds within that sector to meet agreed objectives. SPPs align with National Agreements. The National Agreements embody objectives and outcomes for both state governments and the Australian Government.

In November 2008, COAG agreed that the distribution of the SPP payments would transition to equal per capita (EPC) shares to each state over a period of five years, commencing in 2010-11. In past years, Tasmania has received a share of total SPPs greater than an EPC share. However, while Tasmania's share of SPP funding will decrease as a result of the transition to an EPC distribution, the State will not be disadvantaged overall. This is because the CGC's equalisation process takes into account each state's share of SPP funding when calculating its GST revenue needs. Effectively, where a state receives a share of Australian Government payments above an EPC share, its assessed GST revenue is reduced by an amount equivalent to that difference, and vice versa.

Therefore, the SPP funding that Tasmania loses as a result of the transition to an EPC distribution will be offset by additional GST revenue to the State, increasing the mix of GPPs relative to Payments for Specific Purposes. Further explanation of how SPPs and NPPs are treated by the CGC is provided below in the section entitled *Commonwealth Grants Commission Assessments and the Treatment of Specific Purpose Payments and National Partnership Payments*.

## National Partnerships

National Partnerships (NP) are time limited agreements to support the delivery of specific outcomes or projects and/or facilitate the implementation or reward the delivery of national reforms. There are three types of NPPs that may be made to states, these are:

- project payments – to support the delivery of projects of national importance (including for example new infrastructure projects);
- facilitation payments – to assist a state undertake priority reforms and pursue continuous improvement in service delivery; and
- reward payments – to reward states which deliver reform progress or continuous improvement in service delivery.

Under the IGA, the Standing Council on Federal Financial Relations will make recommendations to COAG as to whether expiring NPs should be renewed or converted into existing or new SPPs or general revenue assistance.

### *Project Agreements*

A Project Agreement (PA) is a simpler form of a NP that can be used where the initiative is considered relatively low value and/or low risk. Generally PAs relate to one-off and/or smaller projects, and their focus is on straightforward program or project delivery.

## National Health Reform Funding

From 1 July 2012, Tasmania will receive National Health Reform (NHR) funding for the provision of public hospital services. This funding is governed by the terms and conditions of the NHR Agreement and replaces the National Healthcare SPP. Under this Agreement, the Australian Government will continue to pay the states base funding that is equivalent to that paid under the National Healthcare SPP until 30 June 2014. From 1 July 2014, the Australian Government will contribute 45 per cent of the efficient growth funding for public hospital services, increasing to 50 per cent from 1 July 2017.

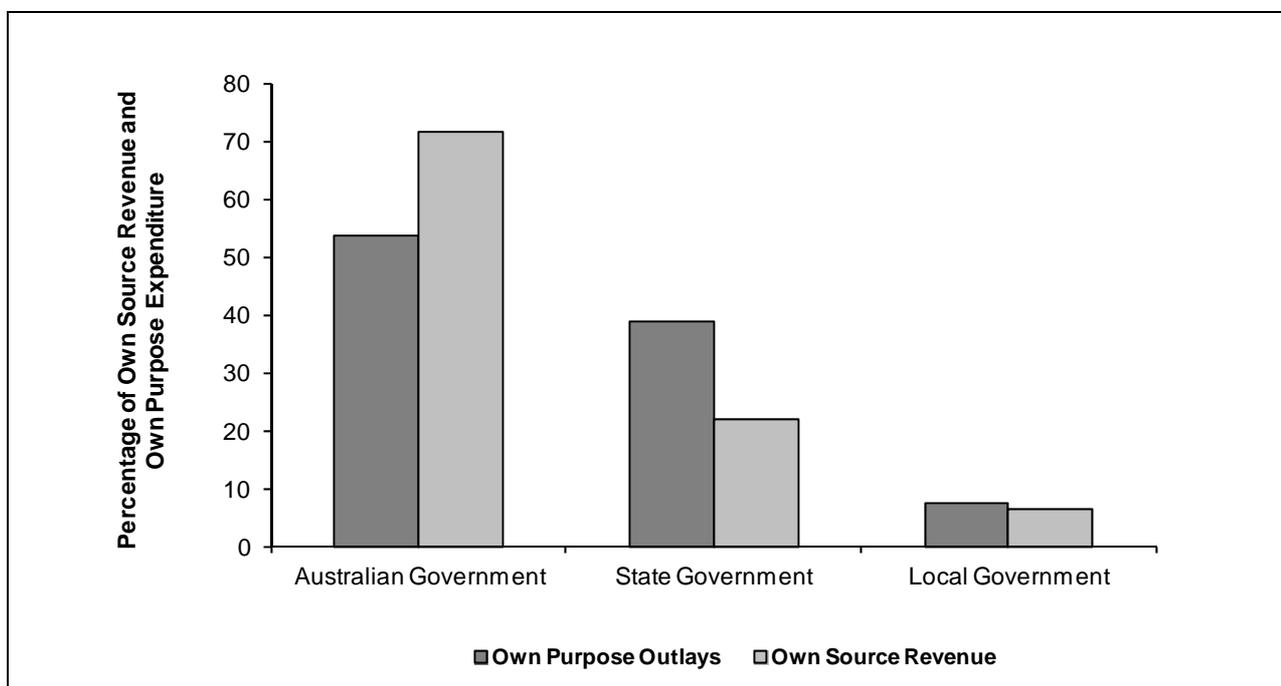
## VERTICAL FISCAL IMBALANCE

Since Federation, a financial relationship between the Australian Government and state governments has evolved in which the dominant characteristic is the fundamental imbalance between the revenue raising powers and functional responsibilities of each level of government. While the seeds of the present VFI lie in the original Constitution agreed at Federation, the practical limits to reducing this imbalance have been reinforced by Constitutional amendments and by High Court interpretations of the Constitution.

The term VFI refers to the difference between own source revenue and own purpose expenditure commitments for a level of government. This is illustrated in Chart 8.1, which compares the percentage shares of revenue and expenditure on a consolidated basis for the Australian Government, state, and local governments. It shows that, in 2011-12, the Australian Government will have raised 71.5 per cent of total (General Government) revenue (including the GST pool as Australian Government revenues), whereas its own purpose (General Government) spending will have only been 53.6 per cent of total General Government outlays. In contrast, the states' share of own source revenue will have only been 21.9 per cent,

while combined state General Government outlays will have represented 39.0 per cent of the national total. Revenues and expenditures for local government are estimated to be much more closely aligned.

**Chart 8.1: Vertical Fiscal Imbalance, 2011-12**



Source: *Government Financial Estimates 2011-12*, ABS cat no 5501.0.55.001.

As a result of VFI, there is a requirement for significant financial transfers from the Australian Government to the states on an ongoing basis. As detailed in this section, Australian Government financial assistance to the states is provided in a variety of ways.

Reforms to Commonwealth-State financial relations, which commenced under the 1999 IGA on 1 July 2000, and continued under the new IGA agreed by COAG in 2008, resulted in a substantial increase in VFI. The new IGA arrangements provide the states with a source of funds that have greater growth potential.

## HORIZONTAL FISCAL EQUALISATION

In addition to the differences that exist between the powers and responsibilities of the Australian and state governments, another fundamental characteristic of financial relations in the Australian Federation is the degree to which the fiscal capacities of the states differ. In per capita terms, there are differences between states in the cost of providing a range of common services and the financial resources available to fund them, including own source revenues and certain transfers from the Australian Government (apart from General Purpose Payments). The causes of this horizontal fiscal imbalance are complex and varied (demographic, geographic and economic to name a few). Those causes over which a state has no policy control are the explicit focus of the HFE process.

In the absence of an arrangement whereby GPPs are distributed in accordance with HFE, those states that face unduly high costs and/or a lesser ability to raise revenues, through no fault of their own, would be required to deprive their communities of the opportunity to access similar levels and standards of service than those offered elsewhere in Australia. The principle of HFE addresses this imbalance and is therefore an integral element of Commonwealth-State financial relations.

The HFE framework that is now used takes, as its starting point, the scope of state transactions and functions that are considered the normal responsibility of state governments, including all of their related recurrent expenditures and revenues, as well as their physical and financial capital investment requirements. The CGC's assessments attempt to measure the level of services each state could provide, and the amount of revenue it could raise, if it made the average Australian effort. The difference between the assessed levels of service and revenue and the Australian average determines the shares of GST revenue. It does not 'compensate' for differences attributable to policy, practice and relative inefficiency. In this way, the smaller states such as South Australia, Tasmania, the ACT and the Northern Territory, which on the whole face higher than average per capita costs and/or lower than average revenue raising abilities, are granted a greater than proportional share of general revenue assistance. This enables them to discharge their standard functions without necessarily having to impose above average revenue raising measures on their communities.

The Australian Government estimates that in 2012-13, Tasmania will receive approximately \$627 million more in GST revenue than it would if the GST revenue were distributed on an equal per capita basis. Without HFE, Tasmania would therefore be significantly disadvantaged, relative to the average fiscal circumstances of all states, because of its higher costs of providing services and lower capacity to raise revenue, both of which are unavoidable.

## THE COMMONWEALTH GRANTS COMMISSION

Established in 1933, the CGC is an independent Australian Government statutory body charged with the task of making recommendations to the Australian Treasurer, in the form of per capita relativity factors, on how GST revenue should be distributed between the states each year.

Since 1981, the basis for its recommendations has been an assessment of the relative fiscal capacities of the states. These assessments are carried out in accordance with the principle of HFE.

The CGC's assessments also provide the states with an important source of comparable data on which to assess their relative performance in the areas of expenditure efficiency and revenue raising effort.

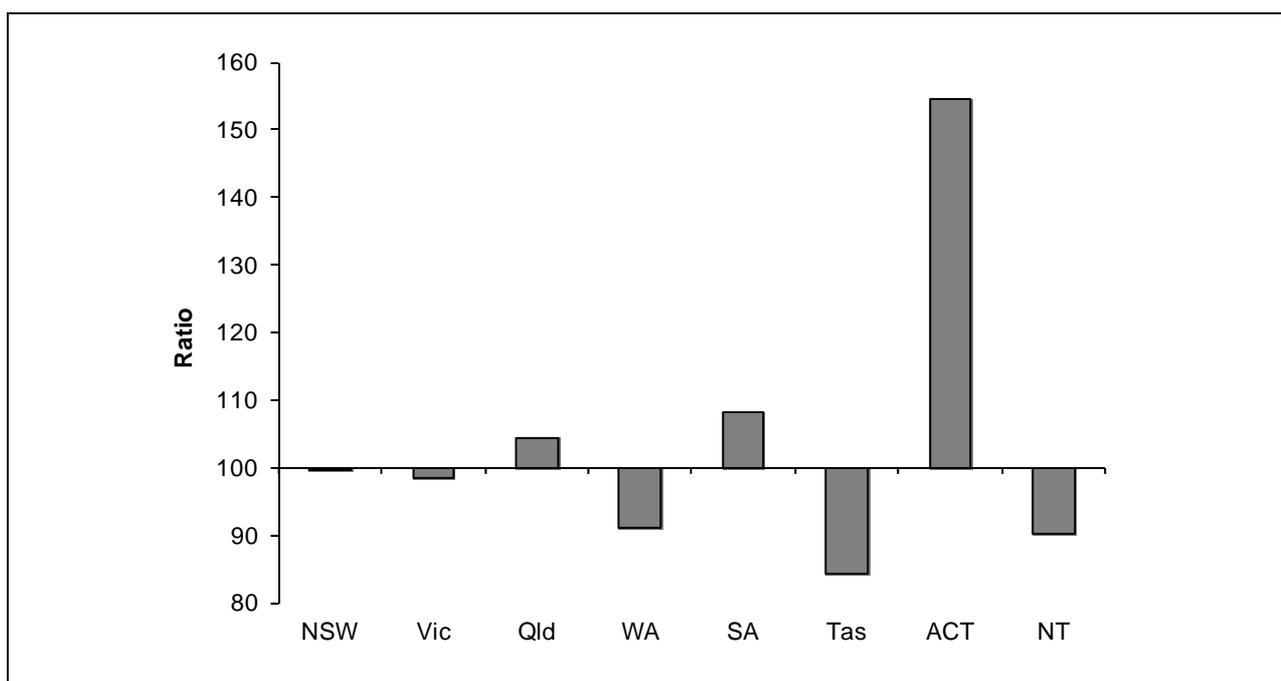
The degree to which a state exploits its available own-source revenue raising opportunities is captured by the CGC through a revenue raising effort ratio. This is expressed as a ratio of the revenue that a state actually raised from its own sources to how much it could have raised if it applied the average Australian tax (or other revenue) raising effort. The average Australian effort is effectively an average of states' tax and other revenue policies, as judged by the CGC. What a state could raise if it made the average Australian effort is based on the CGC's assessment of its relative revenue raising capacity, which takes into account the differences between states in the value of their tax bases.

This is a similar concept to tax severity except that, in addition to state taxation, revenue raising effort also includes property and mining royalties, and contributions to government from public trading enterprises.

A ratio above 100 indicates that a state is applying a revenue raising effort above the Australian average. A ratio below 100 indicates that it is making an effort below the Australian average.

Chart 8.2 shows the revenue raising effort ratio of each state for the 2010-11 financial year, the most recent year for which Commission data are available.

Chart 8.2: State Revenue Raising Effort Ratios, 2010-11



Source: *Report on GST Revenue Sharing Relativities - 2012 Update*, Commonwealth Grants Commission, Supporting Information.

The CGC also provides revenue raising effort ratios for individual revenue sources. These can be found in the CGC's *Report on GST Revenue Sharing Relativities – 2012 Update, Supporting Information* at [www.cgc.gov.au](http://www.cgc.gov.au).

Similar concepts apply to service delivery. The CGC examines the effort that states go to in providing services relative to other states, through the calculation of the level of service provision ratio. The ratio measures what a state is spending on service delivery compared to what it would need to spend (taking into account its cost advantages and disadvantages) in order to provide the Australian average level of services. The Australian average level of service is calculated by the CGC and covers all areas of state general government expenditure, including: health; education; law, order and public safety; and culture and recreation.

A ratio greater than 100 indicates that a state is providing a level of services above the Australian average. A ratio below 100 indicates a level of service provision below the Australian average.

The figures are shown graphically in Chart 8.3 for 2010-11, which is the most recent year for which Commission data are available.

Chart 8.3: State Level of Service Provision Ratios, 2010-11



Source: *Report on GST Revenue Sharing Relativities – 2012 Update*, Commonwealth Grants Commission, Supporting Information.

The CGC also publishes level of service provision ratios for each of its category expenditure assessments. These can be found in the CGC's *Report on GST Revenue Sharing Relativities – 2012 Update, Supporting Information* at [www.cgc.gov.au](http://www.cgc.gov.au).

## COMMONWEALTH GRANTS COMMISSION ASSESSMENTS AND THE TREATMENT OF SPECIFIC PURPOSE PAYMENTS AND NATIONAL PARTNERSHIP PAYMENTS

When the Australian Government funds states for particular projects or to assist with the provision of state-type services, these payments are taken into account by the CGC in assessing the relative financial needs and GST requirements of each state.

The usual outcome of Tasmania receiving a payment for a specific purpose – particularly in cases where Tasmania is the only recipient – is that nearly all of the payment is eventually 'redistributed' to other states. This is because the CGC's process assesses a state's total financial assistance needs. These needs can be met by either Australian Government payments for specific purposes or by GST revenue.

Therefore, for every dollar extra for specific purposes paid by the Australian Government, that amount is reduced in GST revenue. Hence, the receipt of a payment for a specific purpose makes no significant overall difference to the State Budget over time.

There are exceptions to this rule – a payment can be excluded from the CGC's process for various reasons – but these exceptions are uncommon.

Table 8.1 provides an example of how a \$20 million payment made only to Tasmania in 2012-13 by the Australian Government would impact on its GST revenue share in subsequent years.

**Table 8.1: Impact of an Australian Government Payment to Tasmania for a Specific Purpose**

	Payment year		CGC assessment application years		
	2012-13	2013-14	2014-15	2015-16	2016-17
	\$m	\$m	\$m	\$m	\$m
Australian Government payment (Project X)	20	....	....	....	....
GST impact	....	....	-6.5	-6.5	-6.5
<b>Cumulative Budget impact</b>	<b>+20</b>	<b>+20</b>	<b>+13.5</b>	<b>+7.0</b>	<b>+0.5</b>

Table 8.1 shows Tasmania receiving a \$20 million payment for Project X in 2012-13 from the Australian Government. The CGC's assessment process is based on three-year averages and its assessments relate to the circumstances of past years, so there is a time lag before the fiscal circumstances of 2012-13 affect GST revenue. The first time that 2012-13 will come into the CGC's assessment process will be in 2014-15. The estimated GST impact is a decrease of around \$6.5 million for each of the three years to 2016-17 after which the year 2012-13 falls out of the CGC's assessment period. By that time, however, the benefit of the original payment is estimated to have reduced to less than \$0.5 million.

The recognition of Australian Government payments to states in this way means that over the long run there are generally no 'winners' or 'losers' when the Australian Government announces funding for specific purposes for particular states or territories.

# PART 3:

## SUPPORTING INFORMATION

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# 9 OTHER FINANCIAL PUBLICATIONS

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During the year, additional financial publications are produced to provide an update on the Government's financial position.

## THE MID-YEAR FINANCIAL REPORT

The Mid-Year Financial Report is prepared in accordance with section 26 of the *Financial Management and Audit Act 1990*, which requires the publication of a financial report by 15 February each year for the prior period of six months ending 31 December.

The Mid-Year Financial Report contains:

- an update on progress against the Government's Fiscal Strategy Targets contained within the Budget Papers;
- an update of the Tasmanian economic aggregates and forecasts published in the Budget Papers;
- an Income Statement, Balance Sheet and Cash Flow Statement for the General Government Sector showing year-to-date results, and original and revised Budget estimates; and
- summarised details of receipts to and expenditure from the Consolidated Fund showing year-to-date results and original and revised Budget estimates.

## PRELIMINARY OUTCOMES REPORT

The Preliminary Outcomes Report is prepared in accordance with section 26 of the *Financial Management and Audit Act*, which requires the publication of a preliminary outcome financial report for the year ending 30 June each year by 15 August. The reported outcomes are preliminary in nature because they are produced in a short timeframe, and are based on unaudited information.

The Preliminary Outcomes Report contains:

- an update on progress against the Government's Fiscal Strategy Targets contained within the Budget Papers;
- an Income Statement, Balance Sheet and Cash Flow Statement for the General Government Sector showing the preliminary outcomes and original Budget estimates; and
- summarised details of the preliminary outcome for the Consolidated Fund.

# TREASURER'S ANNUAL FINANCIAL REPORT

The Treasurer's Annual Financial Report is prepared in accordance with section 26A of the Financial Management and Audit Act, and is required to be tabled in Parliament by 31 October each year. The report presents the final Budget outcomes, which are audited by the Auditor-General. The report contains:

- an update on progress against the Government's Fiscal Strategy Targets contained within the Budget Papers with reference to the major Tasmanian economic aggregates;
- an Income Statement, Balance Sheet and Cash Flow Statement for the General Government Sector showing outcomes and original Budget estimates;
- explanations of any significant variations between the actual results and original Budget estimates; and
- statements reporting on the transactions and balances within the Public Account for the financial year.

In addition, to harmonise the release of financial information, the report also includes the reporting requirements for Loan Council Outcomes required under the Uniform Presentation Framework (UPF). This includes information regarding the Government Finance Statistics outcomes for the Total State Sector and its component sectors and additional information regarding General Government Expenditure by purpose. Further information regarding the UPF is provided in Section 6 of this document.

## AUDITOR-GENERAL'S REPORT TO PARLIAMENT

This Report, on the audit by the Auditor-General of all Government departments and public bodies for the previous financial year, includes a five-year analysis of financial statements and discussion of any issues that arise in the current financial year. The Auditor-General's Report to Parliament must be submitted to Parliament on or before 31 December each year as required under the provisions of section 29 of the *Audit Act 2008*.

## ANNUAL REPORTS OF DEPARTMENTS, GOVERNMENT BUSINESS ENTERPRISES AND STATE-OWNED COMPANIES

All departments, State authorities, GBEs and SOCs are required to produce annual reports which include the financial statements of the entity, and those of each Board, State authority or other organisation over which they exercise control, for tabling in both Houses of Parliament by 31 October each year. This requirement is provided for under section 27 of the *Financial Management and Audit Act 1990*, section 36 of the *State Service Act 2000* for departments and section 55 of the *Government Business Enterprises Act 1995* for GBEs. The requirement for SOCs to table their financial statements in Parliament is specified within either their enabling legislation or the Constitution for each SOC.

Annual reports also include reference to significant financial outcomes of agencies and reference to economic and other factors that have affected the achievement of operational objectives. The Auditor-General's report on the financial statements is also included in the annual reports.

# 10 OTHER SOURCES OF INFORMATION

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In addition to the sources previously outlined, Treasury has published a range of documents that provide information on economic and financial management issues relevant to Tasmania. These documents can be viewed on Treasury's website at [www.treasury.tas.gov.au](http://www.treasury.tas.gov.au), together with other relevant publications released by the Department.

In addition, the following documents provide information on economic and financial management issues relevant to Tasmania.

- AASB 1049 *Whole of Government and General Government Sector Financial Reporting* is issued by the Australian Accounting Standards Board. The accounting standard is available from their website at <http://www.aasb.gov.au>.
- Australian Bureau of Statistics publications - these cover a variety of topics, including population and demographic issues and economic, industry and labour market conditions and provide nationally comparable data on Australian and state government finances.
- Australian Bureau of Statistics publication 5514.0.55.001 *Australian System of Government Finance Statistics: Concepts, Sources and Methods*.
- Australian Government Budget Papers - Australian Government Budget Paper No 3 – *Australia's Federal Relations*, provides substantial information on Australian Government payments to State Government and Local Government. Full details are available from the Budget website [www.budget.gov.au](http://www.budget.gov.au).
- Council of Australian Governments (COAG) Agreements - the COAG is the peak intergovernmental forum in Australia which initiates, develops and monitors the implementation of national policy reforms which require cooperative action by Australian governments. Details of the current Intergovernmental Agreements, National Agreements, Specific Purpose Payments and National Partnership Payments are available from the Ministerial Council for Federal Financial Relations website at [www.federalfinancialrelations.gov.au](http://www.federalfinancialrelations.gov.au).
- Commonwealth Grants Commission (CGC) Reports - the CGC is an independent body which provides advice on the distribution of general revenue assistance to the states and territories by the Australian Government. Five yearly methodological reviews of relativities are conducted and the Commission publishes annual updates of the relativities (based only on new data available). The latest details are available from the CGC website at [www.cgc.gov.au](http://www.cgc.gov.au).
- Credit Rating Agency Reports - credit rating reports are produced for Tasmania by major international rating agencies, Standard & Poor's Ratings Group and Moody's Investors Service. These reports provide a broad assessment of the State's current and projected fiscal position.
- Nation Building - *Economic Stimulus Plan* - on 3 February 2009, the Australian Government delivered a \$42 billion plan to support jobs and economic growth in response to the global recession. Details of the plan and progress reports can be located at [www.economicstimulusplan.gov.au](http://www.economicstimulusplan.gov.au).

- Australia's Future Tax System Review - this review, published in May 2010 by the Australian Government, examines Australia's tax and transfer system, including state taxes. The Review makes recommendations to position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century. This review can be located at [www.taxreview.treasury.gov.au](http://www.taxreview.treasury.gov.au).
- National Health Reform - in February 2011 all Australian governments signed a Heads of Agreement on national health reform, which modified the National Health and Hospitals Network Agreement previously signed by all governments, except Western Australia, in April 2010. The NHHNA reforms, as modified by the February 2011 Heads of Agreement, are to be consolidated in a new National Health Reform Agreement to take effect from 1 July 2011. The new National Health Reform Agreement will provide for major structural reforms to financing and governance arrangements to drive a more sustainable health system. Relevant documentation can be located at [www.yourhealth.gov.au](http://www.yourhealth.gov.au).
- Publications of a range of associations and research institutes, including the Institute of Public Administration Australia, the Institute of Public Affairs, Access Economics and the Tasmanian Chamber of Commerce and Industry.
- *Report on Government Services 2012* – this report, published in January 2012, is the sixteenth report published by the Steering Committee for the Review of Government Service Provision. The Review was established by heads of government in 1993 to develop objective and consistent data on the performance of services that are central to the wellbeing of Australians. The services covered by the Review include education, justice, emergency management, health, community services and housing. Full details of the report are available at [www.pc.gov.au/gsp/reports/rogs](http://www.pc.gov.au/gsp/reports/rogs).
- Research papers and regular publications produced by Australian Government entities, such as the Australian Government Treasury's monthly *Economic Roundup* and the monthly issue of *Trends – The Tasmanian Labour Market Review* by the Department of Education, Employment and Workplace Relations.
- Uniform Presentation Framework (UPF) – the document incorporates revisions to the UPF agreed to by the Australian Loan Council in March 2008. The UPF is available from [www.treasury.gov.au](http://www.treasury.gov.au).
- Report No 1 of the Tasmanian Auditor-General – this report, published in June 2010 in accordance with the requirements of Section 29 of the *Audit Act 2008*, reports on the audit of the financial statements of Local Government Authorities and other State entities for the year ended 30 June 2009. The report can be located at [www.audit.tas.gov.au/publication/reports](http://www.audit.tas.gov.au/publication/reports).
- Report No 2 of the Tasmanian Auditor-General – this report, published in November 2011 in accordance with the requirements of Section 29 of the *Audit Act 2008*, reports on the audit of the financial statements of Government Departments and other State entities for the year ended 30 June 2011. The report can be located at [www.audit.tas.gov.au/publication/reports](http://www.audit.tas.gov.au/publication/reports).
- Financial Performance of Government Trading Enterprises (Research Paper) – this document, published by the Productivity Commission in July 2008 is the latest in a series that originally commenced in 1991 as a wider, COAG-sponsored exercise. This report contains a consistent set of financial performance indicators for 86 government trading enterprises covering the period 2004-05 to 2006-07. This paper can be located at [www.pc.gov.au](http://www.pc.gov.au).

# 11 GLOSSARY

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## **Accrual Accounting**

Accrual accounting recognises revenues and expenses at the time they are earned or incurred, rather than when cash is received or paid.

## **Advances**

Repayable, interest-bearing loans often provided on concessional terms.

## **Appropriation**

An amount that may be expended from the Consolidated Fund under the authority of an Act of Parliament.

## **Auditor-General**

A statutory office, established under the *Audit Act 2008*, responsible for the independent review of State financial matters. The Auditor-General reports annually to Parliament on the financial statements of departments and other public bodies.

## **Australian Accounting Standards**

Financial information presented in the Budget Papers is prepared in accordance with the principles contained in Australian Accounting Standards, issued by the Australian Accounting Standards Board.

## **Benchmarking**

The process of comparing the performance of Government agencies in producing goods and services with other governments or the private sector. This process enables analysis of the effectiveness and efficiency of the production of Outputs relative to best practice in other jurisdictions and the private sector. Benchmarking assists the Government in making decisions on the level and range of Outputs purchased from departments.

## **Budget Committee**

A Cabinet Sub-Committee that is responsible for considering all Budget related matters and making appropriate recommendations to Cabinet.

## **Capital Investment Program (CIP)**

The CIP comprises major capital investment projects for all on-Budget agencies and is funded through the Works and Services section of the Consolidated Fund. The CIP was introduced to link Government investment in capital and maintenance projects with departmental corporate and asset management plans and specific Government policy objectives and Outputs. Details of projects included in the CIP are provided in Chapter 8 of Budget Paper No 1 *The Budget*.

## **Cash Accounting**

Cash accounting recognises receipts and expenditure at the time cash is received or paid.

## **Chain Volume Measures**

Whereas constant price estimates measure real changes in various economic statistics by removing the effect of rising prices through an index composed in terms of a constant base year, chain volume measures provide estimates of real change by factoring in changing price relativities from year to year. Chain volume measures are the adjustment mechanism preferred by the Australian Bureau of Statistics (ABS) for the calculation of real prices.

## **Charter of Budget Responsibility Act**

The Charter of Budget Responsibility Act provides a framework to improve fiscal policy outcomes by requiring a fiscal strategy statement based on principles of sound fiscal management; regular reports to provide for the assessment of the Government's fiscal performance; the publication of a pre-election financial outlook report; and a process for costing the election policies of parties represented in the House of Assembly.

## **Commonwealth Grants Commission**

An independent body established by the Australian Government to advise on the per capita relativities for distributing general revenue grants among the six states and two territories.

## **Commonwealth Own Purpose Expenditure (COPE)**

COPE is expenditure by the Australian Government to support its own expenditure responsibilities. In some instances these programs are delivered by the Tasmanian Government on behalf of the Australian Government (similar to purchaser provider arrangements). COPE agreements with the Australian Government are negotiated separately to Specific Purpose Payments and National Partnership Payments. The funding is included as administered revenue in each department's chapter in Budget Paper No 2 *Government Services*.

## **Community Service Activities (CSAs)**

CSAs are non-commercial activities undertaken by State-owned Companies under contract with the Government. To qualify as a CSA, the activity must meet similar identification criteria and net cost conditions as Community Service Obligations (CSOs).

## **Community Service Obligations (CSOs)**

CSOs are activities undertaken by a Government Business Enterprise (GBE) that would not be undertaken if the GBE were a commercial entity operating in the private sector. In this regard, the *Government Business Enterprises Act 1995* requires that CSOs can only be declared where the function performed, service provided, or concession allowed will result in a net cost to the GBE, is the direct result of a direction given under, or a specific requirement of, an Act of Parliament and would not be performed, provided or allowed if the GBE were a business in the private sector acting in accordance with sound commercial practice.

## **Competitive Neutrality**

Under the *Competition Principles Agreement*, which forms part of National Competition Policy, Australian governments are required to apply competitive neutrality principles to their significant business activities. Competitive neutrality aims to promote the efficient use of resources in public sector business activities by removing any competitive advantage that businesses may have solely as a result of public ownership. The Tasmanian Economic Regulator is responsible for investigating complaints regarding competitive neutrality.

## **Comprehensive Income**

See Comprehensive Result.

## **Comprehensive Result**

The Comprehensive Result represents the total change in value of the General Government Sector during a year arising from revenues, expenses and movements in the valuation of assets and liabilities. As such, the Comprehensive Result is equivalent to the total increase or decrease in net assets during the year.

The Comprehensive Result is similar to the Operating Result in that it includes unrealised movements in the value of assets and liabilities that impact on net assets. These movements are not available to fund operations and do not arise as a result of government decisions.

Comprehensive Income is the same measure as the Comprehensive Result but is used in reporting by individual General Government Sector entities.

## **Concessions**

See State Government Concessions.

## **Consolidated Fund**

The Consolidated Fund was established under the *Public Account Act 1986* to receive all taxes and the majority of other revenue received by the Government. All payments from the Consolidated Fund must be authorised by an Act of Parliament.

## **Consolidated Fund Appropriation Act**

An Act that appropriates monies from the Consolidated Fund for expenditure by the Government during the financial year.

## **Consolidated Fund Surplus/(Deficit)**

The excess of Consolidated Fund receipts over the expenditure of these funds is the Consolidated Fund Surplus. A CFS represents funds that are available for the retirement of debt or accumulation of financial assets. A Consolidated Fund Deficit indicates that Consolidated Fund expenditure exceeds receipts to the Fund.

## **Consumer Price Index (CPI)**

The CPI is a measure of quarterly changes in retail prices of a wide ranging basket of goods and services representative of consumption expenditure by households.

## **Department Operating Accounts**

Accounts within the Special Deposits and Trust Fund that record department-related transactions. These accounts record funds appropriated to departments from the Consolidated Fund and retain certain revenue that has been approved for retention by departments rather than receipt into the Consolidated Fund.

## **Economic and Social Infrastructure Fund**

The Economic and Social Infrastructure Fund was established in the 2003-04 Budget to provide funding for major economic projects and the implementation of social initiatives. Further information on the Economic and Social Infrastructure Fund is provided in Chapter 4 of Budget Paper No 2 *Government Services*.

## **Equalisation Grants**

See Fiscal Equalisation.

## **Fees**

Fees from regulatory services are levies not primarily designed to raise general revenue. They are associated with the granting of permit or privilege or for the regulation of activity. This distinguishes them from charges for services to clients and receipts from the sale of goods and services provided by public sector agencies.

## **Financial Agreement Acts 1927 and 1994**

These agreements between the Australian Government and state governments established the Loan Council and prescribed a framework for governmental borrowing and sinking fund arrangements.

## **Financial Year**

The financial year runs from 1 July in one calendar year to 30 June in the following year.

## **Fines**

Fines are civil and criminal penalties imposed on law breakers other than penalties imposed by tax authorities.

## **First Home Owner Boost Scheme**

On 14 October 2008, the Australian Government announced the First Home Owner Boost scheme. The scheme supplemented the First Home Owners scheme and applied to contracts dated between 14 October 2008 and 31 December 2009. From 14 October 2008 to 30 September 2009, first home owners who purchased an established home were provided a total grant of \$14 000 and first home owners who built a new home or purchased a newly constructed home were provided a total grant of \$21 000. From 1 October to 31 December 2009, the total grant decreased to \$10 500 for established homes and to \$14 000 for new homes. Eligibility for the First Home Owner Boost scheme ceased for home owners who entered into new contracts from 1 January 2010.

## **First Home Owners Scheme**

Under the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA), the states and territories were required to establish, administer and fund a First Home Owners scheme. The scheme was introduced on 1 July 2000 to provide first home owners a grant of \$7 000 to offset the impact of the GST on house prices.

## **Fiscal Balance**

The Fiscal Balance indicates whether a sufficient surplus is being generated by the operations of government to fund its capital expenditure needs. It is determined as the difference between General Government revenue over expenses, after allowing for the net addition to non-financial assets such as buildings and infrastructure.

## **Fiscal Capacity**

The capacity of a State to meet its financial responsibilities. It reflects the adequacy of the various tax bases available to that State, as well as the existence of any disabilities or advantages faced by that State in the provision of services and the raising of revenues.

## **Fiscal Equalisation**

Also described as horizontal fiscal equalisation, it refers to the principle of allocating financial assistance to the states and territories which, as assessed by the Commonwealth Grants Commission, is designed to provide a jurisdiction with the capacity to provide services at a standard comparable to those of the other jurisdictions on average provided it makes the average revenue raising effort.

## **Fiscal Policy**

Government policy which influences the economy through the budget by changes in tax and welfare payments and government spending.

## **Fiscal Strategy**

A fiscal strategy is a medium-term financial plan. It sets fiscal goals that form the framework for the development of annual State budgets and financial decision making. For details of the Tasmanian Government Fiscal Strategy, refer to Chapter 3 of Budget Paper 1 *The Budget*.

## **Forward Estimates**

The Forward Estimates provide a framework for budgetary decision-making in the medium-term, highlight the flow-on effects of revenue and expense measures contained in the current year's Budget, and facilitate the monitoring of achievements against existing Government strategies and objectives.

The Forward Estimates are not to be read as forecasts of expected outcomes. Future policy decisions, variations to the assumptions underlying economic parameters and external influences will all have an impact on the outcomes. In this sense, the Forward Estimates are projections of outcomes under a particular scenario, rather than forecasts.

## **Full Time Equivalents (FTEs)**

A measure of staffing levels which converts the total number of hours worked by all staff (including part time and casual staff) to an equivalent number of full-time staff.

## **Generally Accepted Accounting Principles (GAAP)**

GAAP consists of the rules and principles set in the accounting standards worldwide. In Australia, GAAP refers to Australian Accounting Standards, interpretations, guidance and policies issued by the Australian Accounting Standards Board (AASB).

## **General Government Sector**

The General Government Sector consists of government agencies where the primary function is to provide public services which are mainly non-market in nature, for the collective consumption of the community, or which involve the transfer or redistribution of income and are financed mainly through taxes and other compulsory levies. This Sector includes government departments and a number of entities that act outside the Public Account including the Inland Fisheries Service, Marine *and* Safety Tasmania, the Royal Tasmanian Botanical Gardens, the State Fire Commission, and The Tasmanian Skills Institute. The 2011-12 State Budget is based on the General Government Sector.

## **General Revenue Assistance**

Revenue transfers provided by the Australian Government to the states and territories, and local governments, to be used for purposes determined by the recipients. Under the Intergovernmental Agreement (IGA), general revenue assistance grants to Tasmania are currently provided in the form of GST revenue payments.

## **Goods and Services Tax (GST)**

This is a tax imposed by the Australian Government from 1 July 2000 on most goods and services provided in Australia. All of the revenue raised from this tax is distributed to the states and territories using the principle of horizontal fiscal equalisation.

## **Government Business Enterprises (GBEs)**

GBEs are entities that operate outside the Public Account, principally on the basis of funds derived through their operations. They have no impact on Budget expenditure except in circumstances where they receive funding for CSOs or payments for services provided. GBEs also may provide revenue to the Consolidated Fund as dividends to shareholders (the State) and the payment of taxation equivalents and guarantee fees. GBEs are subject to their own enabling legislation and the *Government Business Enterprises Act 1995*. GBEs prepare annual reports, which are tabled in Parliament. GBE financial statements are subject to audit by the Auditor-General.

## **Government Finance Statistics (GFS)**

GFS is the accounting framework used by the Australian Bureau of Statistics (ABS) in the preparation of public finance reports. These, in turn, are based on international standards set out in the International Monetary Fund's *A Manual of Government Finance Statistics* and the United Nations' *A System of National Accounts*. The GFS classification adopts a nationally consistent format for presenting the financial transactions of governments.

## **Governor-in-Council**

The Governor acting with the advice of the Executive Council, which consists of two or more Ministers of the Crown, presided over by the Governor.

## **Grants**

Non-repayable, non-interest bearing assistance for which no economic benefit of equal value is payable or receivable in return.

## **Grants and Subsidies Expenditure**

Grants and Subsidies Expenditure is a classification of expenditure that relates to payments or concessions made by the Government to individuals, groups or organisations. These include Community Service Obligations and Community Service Activities payments to GBEs and SOCs. These payments are determined by the Government and are non-discretionary. In relation to the Output Methodology, these payments are not strictly Outputs, but rather Government purchases the administration of these payments from departments. Details of Grants and Subsidies Expenditure are included in relevant department chapters in Budget Paper No 2.

## **Gross State Product (GSP)**

The total value added in production in the State economy in a year. Broadly, it equals the total value of goods and services produced less the cost of goods and services used in the production process.

## **GST Administration Costs**

Under the IGA, the states and territories are required to meet the costs of administering the GST. These costs are those incurred by the Australian Taxation Office in the collection of the GST.

## **GST Law**

Has the same meaning as defined in the Australian Government's *A New Tax System (Goods and Services Tax) Act 1999*.

## **Guarantee Fees**

Guarantee fees are applied to GBEs and SOCs to compensate for the lower borrowing rates that GBEs and SOCs often receive due to their Government ownership. Guarantee fees apply to effectively increase the borrowing rate that GBEs and SOCs receive up to the market borrowing rate. In line with National Competition Policy principles, guarantee fees remove any competitive advantage that a GBE or SOC may receive in terms of reduced debt costs through Government ownership.

## **Horizontal Fiscal Equalisation**

See Fiscal Equalisation.

## **Implicit Price Deflator (IPD)**

An IPD measures the changes in prices over time. The IPD for GSP is a broad measure of price change used in the State accounts that takes into account the prices of exports, investment goods and government services, as well as consumer goods (which is separately measured by the Consumer Price Index). IPD indexes are obtained by dividing a current price value by its corresponding constant price value or chain volume measure.

## **Intergovernmental Agreement on Federal Financial Relations (IGA)**

This is the agreement signed by the Australian and all state and territory Governments in 2008, which provided for major changes to Commonwealth-State financial relations. The IGA continues the previous 1999 IGA commitments with regard to the GST arrangements, as well as introducing the framework for simpler, outcomes-focused tied-funding agreements with the states. Major reform of Specific Purpose Payments, the establishment of National Agreements and National Partnerships, and the creation of performance-based accountability are the key features of the IGA.

## **Interim Fiscal Strategy**

See Fiscal Strategy.

## **Loan Council**

A body comprising the Australian, state and territory Treasurers which usually meets on an annual basis, to determine the Loan Council Allocation for the Australian Government, states and territories for the forthcoming financial year.

## **Loan Council Allocation (LCA)**

A state or territory's LCA is based on its estimated combined General Government and PNFC sector deficit, plus memorandum items. Memorandum items are other financing transactions, which for Loan Council purposes, are treated as analogous to borrowings. This measure provides an indication of the public sector's probable call on financial markets.

## **Ministerial Council for Federal Financial Relations**

Under the Intergovernmental Agreement on Federal Financial Relations (IGA), the Ministerial Council for Federal Financial Relations is established, comprising the Australian Government Treasurer and the Treasurers of the states and territories.

## **National Competition Policy (NCP)**

The principal objective of the NCP is to promote competition within the economy where it is considered to be in the public benefit. The underlying premise is that increased competition in a market leads to greater efficiency and productivity throughout the economy.

NCP encompasses a range of measures designed to promote competition including monopoly prices oversight of government businesses, competitive neutrality, structural reform of public monopolies, third party access to essential infrastructure (such as electricity, gas and rail) and legislation review.

## **National Partnership Agreement**

A National Partnership Agreement defines the objectives, outputs and performance benchmarks related to the delivery of specific projects, the facilitation of reforms or the provision of incentives to jurisdictions that deliver on national reforms or make continuous improvements in service delivery. The Australian Government provides payments to state and territories in respect to National Partnership Agreements.

There are three types of payments:

- project payments;
- facilitation payments; and
- incentive payments.

## **Net Debt**

Net Debt comprises Borrowings less the sum of cash and deposits and investments. It is a measure used to assess the overall strength of a government's fiscal position.

## **Net Financial Liabilities**

Net Financial Liabilities comprises total liabilities less financial assets, excluding equity investments in government businesses. This is a broader measure than Net Debt, as it incorporates other liabilities such as superannuation.

## **Net Financial Worth**

Net Financial Worth is calculated as financial assets minus liabilities. This measure is broader than Net Debt, as it incorporates provisions made (such as superannuation, but not depreciation and bad debts) as well as ownership of equity.

## **Net Interest Cost Ratio (NICR)**

The NICR measures the proportion of the revenue base required to meet the Government's net interest cost burden. The lower the ratio, the greater the Government's flexibility and ability to react to unexpected events.

## **Net Operating Balance**

The Net Operating Balance is the best measure of the ongoing sustainability of the ordinary operations of government. It is determined as the excess of revenue over expenses, as defined by the Uniform Presentation Framework (UPF). The Net Operating Balance excludes capital expenditure, but includes non-cash costs such as accrued employee entitlements and depreciation. By including all accruing costs, including depreciation, the Net Operating Balance encompasses the full cost of providing government services.

A Net Operating Surplus indicates that the ordinary operations of government are sustainable and that there are funds available, on an accrual basis, to increase service delivery, increase assets, or to decrease liabilities. A deficit indicates that future adjustments will be required to achieve sustainability; that one-off expenditure may have occurred to meet one-off projects or programs; and/or revenues are not sufficient to meet all expenses for the current year.

## **Net Worth**

Net Worth is calculated as total assets (both financial and non-financial) minus total liabilities, shares, and other contributed capital. Net Worth incorporates non-financial assets such as land and other infrastructure assets, which may be sold and used to repay debt. It also incorporates certain financial assets and liabilities not captured by the Net Debt measure, most notably, accrued employee superannuation liabilities, ownership of equities, debtors and creditors.

## **Nominal Terms**

Values expressed in nominal terms are actual values at a point in time and, when values in nominal terms for different goods are compared, some part of any change is likely to be due to price changes. The term is used to contrast with 'real terms'.

## **Operating Result**

The Operating Result of a department is the excess of operating revenue over operating expenses, calculated in accordance with Australian Accounting Standards. It excludes expenditure on the acquisition of capital assets, but includes non-cash expenses such as depreciation and accrued superannuation entitlements. For this reason the Net Operating Result will differ from the figure in the Cash Flow Statement.

An Operating surplus indicates that there are funds available, on an accrual basis, to increase service delivery, increase assets, or to decrease liabilities. A deficit indicates that one-off expenditure may have occurred to meet one-off projects or programs, and/or revenues are not sufficient to meet all expenses for the current year.

## **Outcomes**

There are three different levels of outcomes.

- Community Outcomes are the long-term, high level objectives sought by the Government for the benefit of the Tasmanian community. These Outcomes are at such a high level that all of the activities of the State Service, along with contributions from the non-government sector of the Tasmanian community, contribute to their achievement;
- Government Policy Priorities are those policy directions which indicate a change in direction, an area of reform or a change in priority; and
- Agency Outcomes are those Outcomes for which an agency can be held accountable, and the achievement of which contributes not only to the Government Policy Priorities but also to the Community Outcomes.

## **Output**

An identifiable good or service produced by, or on behalf of, a department and provided to customers outside the department. The Government purchases Outputs in order to achieve policy objectives or Outcomes.

## **Output Expenditure**

Expenditure over which a department has flexibility to reallocate to other Outputs within the limits of Budget allocation principles.

## **Output Methodology**

A system of operating, budgeting and reporting which focuses attention on the Government's desired policy Outcomes and the level of Outputs required to be provided by the Government in order to achieve those Outcomes.

## **Participation Rate**

The participation rate expresses the labour force as percentage of working-age population. The labour force includes those classed as unemployed but excludes those who do not want to work, those not actively looking for work, those unable to work, and those who wanted to work but were unavailable to commence within four weeks.

## **Project Agreement**

A Project Agreement is a type of National Partnership Agreement that is used to implement low value and/or low risk projects that are discrete in nature. It defines the objectives, outputs and performance benchmarks related to the delivery of a straightforward program or project. The Australian Government provides payments to state and territories in respect to Project Agreements.

## **Public Account**

The Public Account was established under the *Public Account Act 1986*. It consists of two separate Funds: the Consolidated Fund and the Special Deposits and Trust Fund.

## **Public Financial Corporations (PFC) Sector**

The PFC Sector comprises those entities that perform central bank functions or have the authority to incur financial liabilities and acquire financial assets in the market on their own account. In Tasmania, these organisations are the Tasmanian Public Finance Corporation and the Motor Accidents Insurance Board.

## **Public Non-Financial Corporation (PNFC) Sector**

The PNFC Sector comprises those entities that aim to cover the majority of their expenses by revenue from the sale of goods and services and which are mainly market, non-regulatory and non-financial in nature. This Sector covers the State's GBEs and SOCs. These entities have a variety of functions and responsibilities, are established in varying ways and also have different relationships with the Budget. The regional water and sewerage corporations, although owned by local government, are included in the PNFC Sector as a result of the classification decision of the Australian Bureau of Statistics.

## **Real Terms**

Statistics measured in real terms remove the effects of changes in prices to derive a more accurate measure of changes in value due to quantity changes over time. Such values are most commonly referred to in terms of chain volume measures (where changing price relativities are factored in from year-to-year). Except where otherwise stated, figures in the Budget documents expressed in real terms have been calculated by the ABS using ABS deflators.

## **Recurrent Services**

That part of expenditure from the Consolidated Fund which relates to the 'ordinary annual' expenditures of the Government that are incurred in the production of Outputs. The major components of expenditure are salary and administrative and operating expenses, including building services and maintenance and furniture and equipment purchases. In addition, Recurrent Services include Grants and Subsidies expenditure and Reserved by Law payments.

## **Reserved by Law Payments**

Reserved by Law payments are recurrent expenditures that are made where there is a legislative requirement for funding to be provided for specific purposes without the necessity for a separate appropriation.

## **Royalty**

A payment made for the use of publicly owned resources such as timber, water, fish, minerals or intellectual property.

## **Special Capital Investment Funds**

The Special Capital Investment Funds include the Economic and Social Infrastructure Fund (ESIF), Hospitals Capital Fund and the Urban Renewal and Heritage Fund.

## **Special Deposits and Trust Fund (SDTF)**

The SDTF was established under the *Public Account Act 1986*, and comprises separate accounts designated for specific purposes by the Treasurer.

## **Specific Purpose Payments (SPPs)**

SPPs are payments made by the Australian Government to the states and territories, generally under section 96 of the Constitution, for the purposes, and on such terms and conditions, as may be specified by the Australian Government. All SPPs of a recurrent nature are in the form of grants, while a small amount of assistance of a capital nature takes the form of advances.

## **Standing Council on Federal Financial Relations**

Under the Intergovernmental Agreement on Federal Financial Relations (IGA), the Standing Council on Federal Financial Relations is established, comprising the Australian Government Treasurer and the Treasurers of the states and territories.

## **State Capital Program**

The State Capital Program comprises the capital programs of State authorities, Government Business Enterprises, State-owned Companies and the capital expenditure programs of government departments. Details of the State Capital Program are provided in Chapter 8 of Budget Paper No 1 *The Budget*. It provides information on the whole General Government Sector capital expenditure in Tasmania.

## **State Final Demand (SFD)**

SFD is the sum of all spending on goods and services by those individuals and organisations that comprise the Tasmanian public and private sectors (excluding spending on intermediate goods which are further processed within the State). SFD therefore comprises consumption C, investment I and government consumption G.

SFD does not take into account exports. However, it does take into account the imported components of household consumption spending C, public and private investment I and Government consumption spending G.

## **State Government Concessions**

A State Government Concession is a reduction, discount, subsidy, rebate or waiver/exemption provided by a State Government agency on the value of goods or services (associated fees) to an individual, family or household based on one or more of the following eligibility criteria:

- low income;
- in recognition of age or service to the country or community; and
- special needs or disadvantages.

Eligibility is usually, but not always, linked to the production by the recipient of a specified concession card to indicate their inclusion in one of the above groups.

## **State-owned Company (SOCs)**

SOCs operate outside the Public Account, principally on the basis of funds derived through their operations. They have no impact on the Consolidated Fund except in circumstances where they receive payment for services provided by the SOC to the Government, or provide dividends, taxation equivalents or guarantee fees to the Government. SOC are subject to their own enabling legislation and the *Corporations Act 2001*. SOC prepare annual reports that are tabled in Parliament. SOC financial statements are subject to audit by the Auditor-General.

## **Statutory Authority**

Statutory authorities are each established under enabling legislation which defines the purpose for which they are established and the general functions for which they are responsible. Government Business Enterprises are a specific category of statutory authority which are subject to the *Government Business Enterprises Act 1995* in addition to their own enabling legislation.

## **Statutory Office**

A position established under an Act of Parliament, for example the office of Auditor-General.

## **Supply Act**

The purpose of a Supply Act is to appropriate funds for payments necessary for the ongoing business of the Government during the period between the first day of each financial year and the passing of the Consolidated Fund Appropriation Bills. It lapses when the Consolidated Fund Appropriation Act is passed.

## **Tasmanian Public Finance Corporation (Tascorp)**

Tascorp acts as the State's central borrowing authority for the Government and raises funds for State authorities, GBEs and SOCs. It also provides an investment facility for these entities.

## **Taxation**

A compulsory levy or impost which the Government imposes on transactions, inputs, property and certain activities for the purpose of raising revenue. A tax does not carry a specific entitlement to goods and services. Taxes do not include royalties charged for the use of State resources or fees charged for the provision of certain government goods or services.

## **Taxation Equivalents**

Taxation equivalents are tax-like payments that are required to be paid to the Tasmanian Government by GBEs and SOCs, in line with National Competition Policy principles. The Taxation equivalents are applied to ensure that GBEs and SOCs are not placed at a competitive advantage due to their exemption from Australian Government income tax.

## **Terms of Trade**

The terms of trade is a measure of the purchasing power of the economy's exports, in terms of imports. It is measured by the weighted average of a country's export prices relative to its import prices.

## **Territorial Revenue**

Revenue arising from the sale, rent or other use of Crown land or property rights.

## **Treasurer's Reserve**

An appropriation to the Treasurer to provide funds to meet expenditure which could not have been reasonably foreseen at the time of preparation of the Budget. The Treasurer's Reserve is comprised of a statutory amount of \$10 million, together with any additional amounts as provided for under section 11 of the *Public Account Act 1986*.

## **Trend**

The trend series gives the underlying movements in the data once the seasonal and irregular influences have been removed. In the case of monthly data, the trend figure for a given month is a weighted average of the seasonally adjusted data for that month and the six months before and after. In the case of the most recent six months, a slightly different method is used because data for the full six months after the month in question may not be available.

The Australian Bureau of Statistics considers that trend estimates provide the best guide to underlying movements in series and are more suitable than either the seasonally adjusted or original data for most business decisions and policy advice.

## **Uniform Presentation Framework (UPF)**

The UPF was first established by the Australian Loan Council in May 1991. The Council revised the UPF in March 2008 to take into account the development of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* by the Australian Accounting Standards Board. The primary objective of the UPF is to ensure that the Australian, state and territory governments present their budgets on a standard, comparable basis.

## **Vertical Fiscal Imbalance**

An imbalance between the expenditure responsibilities of each tier of government and the own-source revenue resources available to that tier. Australia is characterised by significant vertical fiscal imbalance, since the Australian Government raises around 71 per cent of national tax revenues but has direct responsibility for only approximately 54 per cent of all public sector outlays.

## **Works and Services**

That part of Consolidated Fund expenditure relating to the construction, purchase and maintenance of major capital assets such as roads, public housing, schools, hospitals and equipment. Works and Services expenditure is reflected in the Roads, Housing and department's Capital Investment Programs and the appropriation of funds to the Economic and Social Infrastructure Fund.