



Tasmania

Budget Management Guidelines

September 2003

Department *of* Treasury
and Finance



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1. EXECUTIVE SUMMARY

The Budget Management Guidelines detailed in this paper provide agencies with the framework within which they must operate to ensure the successful achievement of the Government's new Fiscal Strategy.

Commencing in 2002-03, the Government's new Fiscal Strategy extends for a period of six years. Extending the period of the Fiscal Strategy to six years represents an appropriate medium-term timeframe in which to set Tasmania's fiscal goals. The period of the Fiscal Strategy also coincides with the major target of eliminating General Government Sector Net Debt by 30 June 2008. The Government's new Fiscal Strategy is detailed in Section 5 of this paper.

The Budget Management Guidelines in this paper are broadly consistent with the Guidelines issued by the Government in November 1998. However, the Guidelines have been amended to reflect the Government's new Fiscal Strategy and the implementation of the accrual budgeting framework, which is based on the principles of the Uniform Presentation Framework (UPF).

In particular, the current Guidelines now include:

- a focus on the General Government Sector as defined under UPF principles;
- a greater emphasis on the need for agencies to manage resources from both the Consolidated Fund and the Special Deposits and Trust Fund; and
- a requirement for agencies to manage a budgeted Statement of Financial Performance (Operating Statement), a Statement of Financial Position (Balance Sheet) and a Statement of Cash Flows.

The scope and application of these Guidelines is provided in Section 3, while Section 4 details each of the specific Budget Management Guidelines to be applied by agencies. A quick reference summary list of the Guidelines is provided in Section 2. A glossary of the terms used in these Guidelines and the Budget Papers is provided in Section 6.

The Budget Management Guidelines have been noted by Budget Committee and approved by Cabinet (Decision No 397 of 1 September 2003) and must be implemented by agencies from 1 July 2003.

Any queries in relation to the application and implementation of these Guidelines should be directed to your Treasury Budget Analyst.

2. BUDGET MANAGEMENT GUIDELINES SUMMARY

1. Heads of Agency must manage agency Budgets, frame agency Forward Estimates, and cost agency Outputs on the basis that indexation will not be provided for non-salary operating costs.
2. Any unforeseen reductions in the State's General Purpose Payments resulting from a lower than estimated Consumer Price Index or population outcome, may need to be passed on to agencies. Heads of Agency must ensure that adequate Budget flexibility exists within the agency's global Budget allocation to manage this possible situation.
3. Ministers must not bind the State to acceptance, renewal or variation of Specific Purpose funding agreements with the Commonwealth without the prior approval of Cabinet or Budget Committee.
4. All key Commonwealth-State Agreements require a negotiating strategy and position to be approved by Cabinet prior to the commencement of any negotiation with the Commonwealth.
5. Ministers should not consider Special Purpose Payments that have matching State funding requirements unless the relevant agency has sufficient capacity to meet such costs within its existing global Budget allocation or Forward Estimates.
6. Any reductions in Commonwealth funding to the State, through an unforeseen reduction in SPP funding, will be passed on to agencies. Heads of Agency must ensure adequate Budget flexibility exists within the agency's global Budget to accommodate such a reduction.
7. All asset management planning by agencies is to be undertaken in accordance with the approved Strategic Asset Management Framework. Strategic Asset Management Plans (SAMPs) are to be developed by agencies in accordance with the principles established in the *Strategic Asset Management Framework* and issued by Treasury in May 1997.
8. Agencies with approved SAMPs may retain 75 per cent of asset sale proceeds, provided that agencies provide a SAMP update every two years to reflect changes to agency service delivery strategies. An agency seeking to retain greater than 75 per cent of asset sale proceeds must obtain approval from the Treasurer.
9. Agencies without an approved SAMP, or agencies that fail to provide an updated SAMP within the two-year timeframe, may retain 25 per cent of asset sale proceeds. Agencies in this situation, which are seeking to retain greater than 25 per cent of asset sale proceeds, must submit a request to the Treasurer for consideration.
10. An agency must manage both its Consolidated Fund Appropriation and budgeted financial statements. The budgeted financial statements include the:
 - Statement of Financial Position;
 - Statement of Financial Performance; and
 - Statement of Cash Flows.

11. Treasury will provide:
 - the Treasurer with a monthly State of the Budget Report outlining the status of the Budget; and
 - Budget Committee with regular status reports of the Budget and, where appropriate, with options for addressing emerging variations from Budget.
12. Agencies must provide Treasury with advice of any variations to revenue and expenditure estimates by no later than the fourth working day of each month. These variations should be entered into the Budget Management System (BMS).
13. All submissions with a financial impact are to be considered by both Budget Committee and Cabinet.
14. Subject to Guideline 15, submissions to Cabinet or Budget Committee for funding of new expenditure initiatives should only be considered during the annual Budget development process, in order to ensure they are assessed against the range of competing Budget priorities and in the context of the prevailing Budget task
15. Cabinet or Budget Committee may:
 - consider new expenditure initiatives outside the annual Budget process if offsetting savings have been identified within the Outputs for which the relevant Minister is responsible; or
 - give in-principle support to a new expenditure initiative during the course of the year, with confirmation of that support, as well as agreement on funding source, required during the annual Budget development process.
16. Changes to revenue or expenditure, as well as fund transfers, that only have a single impact on the current Budget require the necessary approval as outlined in the following table.

Within Year Transactions	Approval Required
1. Additional Expenditure (RAF required) A Consolidated Fund RAF of less than 0.5 per cent of a Minister's total discretionary Output costs (including Capital Investment Program but excluding Administrative Payments) is unlikely to be approved by the Treasurer	Minister and Treasurer
2. Additional Reserved By Law Expenditure (no RAF required)	No Approval Required
3. Application of Additional Receipts to Expenditure	
3.1 Asset Sale Proceeds	Treasurer
3.2 Commonwealth Receipts	Minister
3.3 Non-Government Sources of Funds	Head of Agency
3.4 Reimbursements	Head of Agency

Within Year Transactions	Approval Required
4. Changes to Consolidated Fund Revenues	No Approval Required
5. Fund Transfers	
5.1 Transfers of Funds between Output Groups - less than or equal to 20 per cent of lowest Output Group total involved - greater than 20 per cent of lowest Output Group total involved	Head of Agency Treasurer
5.2 Transfers of Funds between Outputs within an Output Group - less than or equal to 20 per cent of lowest Output total involved - greater than 20 per cent of lowest Output total involved	Head of Agency Minister
5.4 Transfer of Funds between Outputs and Administered Payments	Minister and Treasurer
5.5 Transfer of Funds between Administered Payments	Minister and Treasurer
5.6 Transfer of Funds between CIP Outputs – refer to section 10(3) of the Public Account Act	Treasurer

17. In addition to the approval requirements outlined above, agencies are required to notify Treasury of the relevant change as soon as possible and provide a copy of the required approval.
18. Agencies are required to seek the Treasurer's approval, after the relevant Minister's endorsement, for all variations to revenue and expenditure, as well as fund transfers, that have an impact on future years (including those that also have current year affects).

3. OVERVIEW

3.1. Background

The purpose of the Budget Management Guidelines is to ensure that the Budget is both developed and managed to best achieve the Government's policy objectives, within the overall budgetary parameters determined by the Government.

Key elements of the new Fiscal Strategy include ongoing Budget surpluses, the elimination of General Government Net Debt and net interest payments, a significant reduction in Total State Sector Net Debt by 30 June 2008 and the elimination of the Government's unfunded superannuation liability by 30 June 2018.

The new Fiscal Strategy consists of a number of principles and targets. These principles and targets relate to a range of financial management issues including the State's financial position, debt levels, taxation competitiveness, infrastructure maintenance and risk management. Details of the new Fiscal Strategy principles and targets are provided in section 5 of these Guidelines. It is these principles and targets that form the basis of the Budget Management Guidelines.

3.2. Scope and Application of Guidelines

The Budget Management Guidelines apply to those agencies listed in Schedules 1 and 2 of the *Financial Management and Audit Act 1990*. At the time of issuing these Guidelines, the agencies listed in these Schedules were:

- Department of Economic Development
- Department of Education
- Department of Health and Human Services
- House of Assembly
- Department of Infrastructure, Energy and Resources
- Department of Justice and Industrial Relations
- Legislative Council
- Legislature-General
- Office of the Governor
- Department of Police and Public Safety
- Department of Premier and Cabinet
- Department of Primary Industries, Water and Environment
- Tasmanian Audit Office

- Department of Tourism, Parks, Heritage and the Arts
- Department of Treasury and Finance

In addition to those agencies identified in Schedules 1 and 2 of the Financial Management and Audit Act, Guidelines 10 and 12 also apply to those entities classified under UPF principles as General Government entities. At the time of preparing the Guidelines, these entities were:

- Inland Fisheries Service
- Marine *and* Safety Tasmania
- Royal Tasmanian Botanical Gardens
- State Fire Commission
- TAFE Tasmania
- The Nominal Insurer

3.3. Roles and Responsibilities

The key participants in the development and management of the State Budget include the Budget Committee, Ministers, the Treasurer, Treasury and Heads of Agency. The main roles and responsibilities of these key participants is outlined below:

3.3.1. Budget Committee

Budget Committee's primary function is to oversight the preparation and monitoring of the State Budget and to make recommendations to Cabinet on whole-of-Government Budget issues, agency Budgets and strategies as well as major capital projects.

3.3.2. Ministers

The main roles and responsibilities of Ministers, in relation to the Budget process, are to:

- maintain an ongoing awareness of the Budget situation, and Budget issues, affecting their portfolio agencies;
- maintain a whole-of-Government awareness of the Budget situation and to maintain Budget discipline within their portfolio agencies;
- provide Budget Committee and Cabinet with early advice of emerging issues affecting the Budgets and Forward Estimates of their portfolio agencies;
- ensure that agency corporate plans have regard to the Government's new Fiscal Strategy;
- ensure that funding agreements with the Commonwealth do not include additional funding or resource commitments from the State; and
- manage to their portfolio agencies' Treasurer's Expenditure Control Authority (TECA), within year and Forward Estimates and budgeted financial statements (Statement of Financial Position, Statement of Financial Performance and Statement of Cash Flows).

3.3.3. Treasurer

The major roles and responsibilities of the Treasurer are to:

- chair Budget Committee;
- ensure a whole-of-Government awareness of the Budget situation and to maintain Budget discipline across Government; and
- discharge the statutory responsibilities provided under the *Public Account Act 1986* and the *Financial Management and Audit Act 1990*.

3.3.4. Department of Treasury and Finance

The major roles and responsibilities of Treasury are to:

- actively monitor the progress of the current Budget and Forward Estimates;
- actively manage the Budget development and management processes;
- ensure that effective systems are in place to support Budget management and reporting requirements; and
- provide the Treasurer, Budget Committee and Cabinet with regular and ad hoc reports on the state of the Budget, emerging issues and options for addressing emerging issues.

3.3.5. Heads of Agency

The main roles and responsibilities of Heads of Agency are to:

- ensure their agencies maintain Budget discipline;
- provide their Minister, the Treasurer and Budget Committee with early advice on emerging Budget issues;
- provide regular and timely advice to Treasury to enable effective monitoring of the individual agency and whole of Government Budget situation;
- ensure that agency corporate planning has regard to Budget and Forward Estimate allocations and the Government's new Fiscal Strategy;
- provide information required for the development of the Budget and analysis of agency activities in a timely manner;
- discharge the statutory responsibilities provided under the Financial Management and Audit Act; and
- manage to the Department's TECA, within year and Forward Estimates and budgeted financial statements (Statement of Financial Position, Statement of Financial Performance and Statement of Cash Flows).

4. BUDGET MANAGEMENT GUIDELINES

The Budget Management Guidelines are divided into two parts. These parts consist of:

- the Budget development process (Section 4.1.); and
- within year Budget management (Section 4.2.).

4.1. Budget Development Process

The Budget development process involves the formulation of the next State Budget. This stage essentially involves Budget Committee and Cabinet making judgements concerning the Outputs (goods and services) the Government wishes to purchase from agencies in order to achieve policy objectives.

Decisions concerning the most appropriate Outputs to purchase are assisted by advice from the responsible Minister. Ministers, based on the advice received from their agency, largely determine the method of Output production. This process raises a number of issues that are addressed in the following guidelines.

4.1.1. Supplementation and Indexation

- (1) Heads of Agency must manage agency Budgets, frame agency Forward Estimates, and cost agency Outputs on the basis that indexation will not be provided for non-salary operating costs.**

Agency Consolidated Fund Budgets will be supplemented for Award wage and salary increases approved by the Public Sector Wages Issues Sub-Committee of Cabinet, but limited to the extent identified in the financial analysis provided to the Sub-Committee. Wage and salary indexation will apply to wages and salaries funded from Consolidated Fund Appropriations. Supplementation will not be provided for wages or salaries funded from non-Consolidated Fund sources.

To assist the Government in meeting the targets contained in the Fiscal Strategy, Heads of Agency must budget on the basis that indexation will not be provided for non-salary related input costs.

In relation to Administered Payments, the funding for these expenditure items is determined each year by the Government as part of the Budget development process. Indexation is not generally provided for Administered Payments.

It should be noted that where an agency transfers funds between salary and non-salary related expenditure, adjustments will be made to that agency's Budget to reflect the different indexation treatment of these expenditure categories.

4.1.2. General Purpose Payments (GPPs)

- (2) Any unforeseen reductions in the State's General Purpose Payments resulting from a lower than estimated Consumer Price Index or population outcome, may need to be passed on to agencies. Heads of Agency must ensure that adequate Budget flexibility exists within the agency's global Budget allocation to manage this possible situation.**

Adverse variation between the Commonwealth Budget-time estimate and the actual Consumer Price Index (CPI) and population outcomes, for determining the State's GPPs, will be passed on to the State through a reduced grant. Given the Government's Fiscal Strategy, any reduction in the GPP resulting from a reduced CPI or population outcome may need to be passed on to agencies. Agencies will, therefore, need to ensure that adequate Budget flexibility exists within the agency's global Budget allocation to manage this possible situation.

4.1.3. Specific Purpose Payments (SPPs)

- (3) Ministers must not bind the State to acceptance, renewal or variation of Specific Purpose funding agreements with the Commonwealth without the prior approval of Cabinet or Budget Committee.**
- (4) All key Commonwealth-State Agreements require a negotiating strategy and position to be approved by Cabinet prior to the commencement of any negotiation with the Commonwealth.**
- (5) Ministers should not consider Special Purpose Payments that have matching State funding requirements unless the relevant agency has sufficient capacity to meet such costs within its existing global Budget allocation or Forward Estimates.**
- (6) Any reductions in Commonwealth funding to the State, through an unforeseen reduction in SPP funding, will be passed on to agencies. Heads of Agency must ensure adequate Budget flexibility exists within the agency's global Budget to accommodate such a reduction.**

SPPs are payments made by the Commonwealth to or through the States and Territories (States) for policy purposes related to particular functional activities.

SPPs represent one way to meet policy objectives that have been agreed between the Commonwealth and States. While there may be some advantages to SPPs, including the provision of funding, they can impede the implementation of effective policy by State Governments, particularly where:

- administrative costs are a high proportion of the value of the grant being paid;
- detailed prescriptions provide a disincentive to innovative policy and administrative solutions in each State; and
- financial arrangements create incentives to spend money, rather than to achieve the desired policy results, and reduce Budget flexibility.

All SPPs have financial implications for the State either directly, in terms of the conditions attached to the funding, or equally as important, on the GPP through the operation of the Commonwealth Grants Commission. Funding provided through SPPs can reduce the level of GPPs the State receives, as the Commonwealth Grants Commission includes SPPs in its calculation of the State's overall revenue requirements.

Shifts in the balance of Commonwealth assistance from GPPs to SPPs reduces the State's flexibility in providing services and prevents the Government from pursuing its priorities in the most effective way. The designs of SPPs can also impact on the effectiveness of State Government services and the incentives for efficient service delivery.

It is important to recognise that, generally, there is no advantage to the State in accepting SPPs of a recurrent nature. Under the Grants Commission procedures, any benefit through SPPs is fully reflected in a reduction in the GPP. The result is a loss of budgetary flexibility and an unintended transfer of funding towards the agency in receipt of the SPP and commensurately away from other agencies.

Given the potential reduction in budgetary flexibility as a result of accepting SPPs, Ministers must not bind the State to acceptance, renewal or variation of SPP funding agreements with the Commonwealth without the prior approval of Cabinet or Budget Committee.

Further, all key Commonwealth-State Agreements require a negotiating strategy and position to be approved by Cabinet prior to the commencement of any negotiation with the Commonwealth. Key Commonwealth-State Agreements are defined as those agreements that will require the outlay of more than \$1 million of State funds, involve a significant change in Government policy, have significant cross-agency impacts, or require the State to provide matching funds.

Cabinet endorsed guidelines, entitled *Cabinet Guidelines for Negotiating Commonwealth-State Agreements*, have been developed by Treasury to assist agencies involved in negotiations with the Commonwealth to draft, renew or vary inter-governmental financial agreements. Agencies should refer to the Cabinet endorsed Guidelines when considering entering into intergovernmental financial agreements. Amongst other things, the Guidelines establish the approvals required prior to a Minister or Head of Agency agreeing to an SPP.

4.1.4. Asset Sales

- (7) All asset management planning by agencies is to be undertaken in accordance with the approved Strategic Asset Management Framework. Strategic Asset Management Plans (SAMPs) are to be developed by agencies in accordance with the principles established in the *Strategic Asset Management Framework* and issued by Treasury in May 1997.**
- (8) Agencies with approved SAMPs may retain 75 per cent of asset sale proceeds, provided that agencies provide a SAMP update every two years to reflect changes to agency service delivery strategies. An agency seeking to retain greater than 75 per cent of asset sale proceeds must obtain approval from the Treasurer.**
- (9) Agencies without an approved SAMP, or agencies that fail to provide an updated SAMP within the two-year timeframe, may retain 25 per cent of asset sale proceeds. Agencies in this situation, which are seeking to retain greater than 25 per cent of asset sale proceeds, must submit a request to the Treasurer for consideration.**

In addition to the above Guideline, there is a need to promote and update agency strategic asset management plans (SAMPs) to ensure government assets are managed effectively. The process of updating agency SAMPs will also identify those assets which are surplus to the agency's requirements and may be considered for disposal.

4.1.5. Output and other Financial and Performance Measurement Information

Request for Information by Treasury

To ensure appropriate decision-making during the Budget development process, Treasury will request from General Government Sector entities a range of information in relation to Outputs, performance measures and other financial data. Given the integral role that this information has in terms of decision-making, agencies must provide any relevant requested information within the specified timelines.

New Performance Measures

(10) An agency must manage both its Consolidated Fund Appropriation and budgeted financial statements. The budgeted financial statements are the:

- **Statement of Financial Position;**
- **Statement of Financial Performance; and**
- **Statement of Cash Flows.**

During the annual Budget development process, entities within the General Government Sector are required to provide Treasury with detailed budgeted financial statements. These statements are the:

- Statement of Financial Position
- Statement of Financial Performance
- Statement of Cash Flows

These budgeted financial statements should be prepared by entities in accordance with the principles of the Australian Accounting Standards.

The budgeted statements provide information for the development of the whole-of-government budgeted financial statements (General Government Sector) and provide both agencies and the Government with important financial performance information. Any movements away from an entity's budgeted financial statements will directly impact on the General Government Sector Budget result.

To enable the Government to achieve the targets detailed in the Fiscal Strategy, agencies are required to manage to the AAS Budgeted financial statements and provide accurate estimates of revenue and expenditures. General Government Sector entities must also ensure the accuracy of Budget data, including revenue and expenditure estimates relating to accounts in the Special Deposits and Trust Fund in the Budget year and the Forward Estimates. Specific attention should be applied by an agency to ensure it manages to the net cash position, net asset position and operating result detailed in the agency chapter within the Budget Papers.

4.1.6. Ministerial Meetings with Budget Committee

During the Budget development process, each Minister will be invited to meet with, and present submissions to, Budget Committee to discuss issues relevant to each Minister's portfolio.

4.2. Within Year Budget Management

4.2.1. Treasurer's Expenditure Control Authority (TECA)

In accordance with section 14 of the *Financial Management and Audit Act 1990*, the Treasurer may issue a TECA to Ministers for the purpose of issuing and applying money from the Consolidated Fund in accordance with an Appropriation Act. The Minister shall authorise the responsible Head of Agency to incur expenditure not exceeding the limit of that authority.

4.2.2. Monitoring and Reporting Progress

(11) Treasury will provide:

- **the Treasurer with a monthly State of the Budget Report outlining the status of the Budget; and**
- **Budget Committee with regular status reports of the Budget and, where appropriate, with options for addressing emerging variations from Budget.**

(12) Agencies must provide Treasury with advice of any variations to revenue and expenditure estimates by no later than the fourth working day of each month. These variations should be entered into the Budget Management System (BMS).

To ensure the Government is fully briefed on the progress to date in achieving its Fiscal Strategy targets, Treasury monitors the likely Budget outcome and provides the Treasurer, Budget Committee and Cabinet with advice on Budget trends and options for achieving targets in the event of emerging Budget pressures.

To assist Treasury in preparing reports to the Treasurer and Budget Committee, it is essential that agencies provide timely advice to Treasury of any variations in revenue and expenditure estimates.

4.2.3. Submissions with Financial Impacts

(13) All submissions with a financial impact are to be considered by both Budget Committee and Cabinet.

(14) Subject to Guideline 15, submissions to Cabinet or Budget Committee for funding of new expenditure initiatives should only be considered during the annual Budget development process, in order to ensure they are assessed against the range of competing Budget priorities and in the context of the prevailing Budget task

(15) Cabinet or Budget Committee may:

- **consider new expenditure initiatives outside the annual Budget process if offsetting savings have been identified within the Outputs for which the relevant Minister is responsible; or**

- **giving in-principle support to a new expenditure initiative during the course of the year, with confirmation of that support, as well as agreement on funding source, required during the annual Budget development process.**

To ensure Cabinet is not committing to expenditure proposals, which are likely to result in a deterioration of projected Budget surpluses, all submissions with a financial impact should be considered by Budget Committee prior to consideration by Cabinet. It is essential that if the targets for the Fiscal Strategy are to be met, comprehensive financial management and discipline needs to be applied to expenditure proposals to ensure that the Government is not faced with an additional Budget task.

In practice, Ministers and agencies will submit spending proposals during the year, either through Budget Committee or directly to Cabinet, often at short notice. Often this process does not allow for the proper consideration of the costs and benefits of proposals, the impact on the Government's fiscal objectives or prioritisation in the context of competing policy objectives. Further, the limited consultation process may not adequately identify the financial implications of proposals and ambiguous drafting of recommendations may result in subsequent disagreement about whether proposals are to be funded internally or from the Treasurer's Reserve and/or the Forward Estimates.

The result is that the Government may be faced with a substantial unbudgeted expenditure during the year.

The Government can continue to review its policies and establish new policies during the year. However, to maintain the integrity of the Budget, it is necessary for any proposals that have budgetary implications to be accurately costed and a source of funding identified. It is also important that any new expenditure initiatives are assessed against the range of competing priorities.

4.2.4. Ministerial Consultation with Budget Committee

Consistent with the Budget development process, each Minister has the opportunity to present submissions to, and meet with Budget Committee to discuss issues relevant to each Minister's portfolio throughout the financial year to ensure that Budget Committee is fully informed on issues.

4.2.5. One-Off Changes to Revenue and Expenditure and One-Off Fund Transfers

When the authority to approve a variation falls to the Minister or Head of Agency, agencies are required to inform Treasury of these variations (revenue, expenditure and transfers) as soon as possible. Agencies are also required to forward the relevant departmental or Ministerial approval for these variations to Treasury.

Request for Additional Funds (RAFs)

Given the need to achieve the Government's Fiscal Strategy targets, a Consolidated Fund RAF of less than 0.5 per cent of Minister's total discretionary Output costs (including Capital Investment Program but excluding Administrative Payments) is unlikely to be approved by the Treasurer. In these situations, agencies should seek to fund the additional expenditure from within the agency's existing global Budget allocation.

4.2.6. Changes to Revenue and Expenditure and Fund Transfers with Out-Year Effects

While increased flexibility has been provided for one-off transactions, there is a need for a relatively higher degree of scrutiny of transactions that involve more permanent changes to funding arrangements. Transactions which effect out-years, including those with current year effects, involve a structural change to the notional 'contract' that each agency has with the Government to provide certain Outputs at specified costs. Therefore, such changes require scrutiny by the Treasurer in the context of whole-of-Government Budget considerations.

As such, it is proposed that the Guidelines require the Treasurer's approval for any variations to revenue and expenditure, as well as fund transfers, that have impacts on out-years. It should be noted that such an out-year affect need not be permanent, but could be for a specific number of years only.

(16) Changes to revenue or expenditure, as well as fund transfers, that only have a single impact on the current Budget require the necessary approval as outlined in the following table.

Within Year Transactions	Approval Required
1. Additional Expenditure (RAF required) A Consolidated Fund RAF of less than 0.5 per cent of a Minister's total discretionary Output costs (including Capital Investment Program but excluding Administrative Payments) is unlikely to be approved by the Treasurer	Minister and Treasurer
2. Additional Reserved By Law Expenditure (no RAF required)	No Approval Required
3. Application of Additional Receipts to Expenditure	
3.1 Asset Sale Proceeds	Treasurer
3.2 Commonwealth Receipts	Minister
3.3 Non-Government Sources of Funds	Head of Agency
3.4 Reimbursements	Head of Agency
4. Changes to Consolidated Fund Revenues	No Approval Required
5. Fund Transfers	
5.1 Transfers of Funds between Output Groups - less than or equal to 20 per cent of lowest Output Group total involved - greater than 20 per cent of lowest Output Group total involved	Head of Agency Treasurer
5.2 Transfers of Funds between Outputs within an Output Group - less than or equal to 20 per cent of lowest Output total involved - greater than 20 per cent of lowest Output total involved	Head of Agency Minister

Within Year Transactions	Approval Required
5.4 Transfer of Funds between Outputs and Administered Payments	Minister and Treasurer
5.5 Transfer of Funds between Administered Payments	Minister and Treasurer
5.6 Transfer of Funds between CIP Outputs – refer to section 10(3) of the Public Account Act	Treasurer

- (17) **In addition to the approval requirements outlined above, agencies are required to notify Treasury of the relevant change as soon as possible and provide a copy of the required approval.**
- (18) **Agencies are required to seek the Treasurer's approval, after the relevant Minister's endorsement, for all variations to revenue and expenditure, as well as fund transfers, that have an impact on future years (including those that also have current year affects).**

5. FISCAL STRATEGY

The following description of the Government's new Fiscal Strategy is an extract from Chapter 1 of Budget Paper No 1 *Budget Overview 2003-04*.

5.1. The New Fiscal Strategy

Having achieved all of the targets established in the previous Fiscal Strategy some two years ahead of schedule, the Government has developed a new Fiscal Strategy. This new Fiscal Strategy will build on the significant achievements of the previous Fiscal Strategy and focuses on continuing the Government's record of strong financial management.

The implementation of the new Fiscal Strategy will continue to support the Government's priority initiatives such as *Tasmania Together*, the Industry Development Plan and Partnership Agreements by delivering quantifiable benefits to the community in the form of improved service provision, tax cuts and infrastructure development. Key elements of the new Fiscal Strategy include ongoing Budget surpluses, the elimination of General Government Net Debt and net interest payments, a significant reduction in Total State Sector Net Debt and the elimination of the Government's unfunded superannuation liability within a reasonable time frame.

The new Fiscal Strategy will extend for a period of six years, commencing in 2002-03. Extending the period of the Fiscal Strategy to six years represents an appropriate medium-term timeframe in which to set Tasmania's fiscal goals. The conclusion of the new Fiscal Strategy will also coincide with major achievements such as the elimination of General Government Sector Net Debt.

The principles and targets which form the basis of the new Fiscal Strategy are outlined in detail below.

5.2. Budget Position

Principle - To strengthen the State's financial position, the State Budget will be managed in surplus on a long-term sustainable basis to achieve the Government's net debt targets.

Target - The annual General Government Sector Budget will be maintained in surplus; and

- The General Government Sector cash surplus will be sufficient to achieve the Government's established net debt targets.*

The annual Budget outcome is a vital factor in the long-term management of the State's finances. In the absence of asset sales and additional financial assets, the only means of achieving a significant reduction in net debt is through the achievement of ongoing surpluses. In order for the net debt targets established as part of this new Fiscal Strategy to be achieved, it is therefore essential that the necessary level of Budget surpluses be achieved.

5.3. Debt and Liability Reduction

Principles- The debt and liability burden on the Tasmanian community will be further reduced.

- Targets*
- *General Government Sector Net Debt will be below \$450 million by June 2005;*
 - *General Government Sector Net Debt will be eliminated by June 2008;*
 - *General Government Sector Net Interest Costs will be zero by June 2008;*
 - *Total State Sector Net Debt will be below \$1 000 million by June 2008;*
 - *The State's unfunded superannuation liability will be extinguished within 15 years (that is, by June 2018); and*
 - *Net Financial Liabilities for the General Government Sector will be eliminated within 14 years (that is, by June 2017).*

Debt and liability reduction will again be a centrepiece of the new Fiscal Strategy. Achieving a reduction in the level of net debt is a critical factor in the achievement of further improvements in the State's financial position while also reducing the pressure on the annual Budget from increases in interest rates. A reduction in the level of debt is also of great importance due to the strong focus rating agencies place on the liability side of the State's balance sheet.

In addition to these significant benefits, the reduced interest costs associated with debt reduction also mean that savings are generated which can then be applied to major Government initiatives such as tax cuts, improved services to the community and increased spending on public infrastructure. This has been a significant factor in the increased funding which the Government has been able to apply in recent Budgets to a range of services and initiatives

5.4. Taxation Competitiveness

Principle - Maintain a competitive State tax environment.

- Targets*
- *Tasmania's tax severity (as measured by the Commonwealth Grants Commission) will remain below the average of all states and territories and below that of Victoria; and*
 - *There will be no new taxes and no increase in the rate of any existing taxes.*

The Government is committed to fostering an increasingly competitive business environment in Tasmania and to ensuring that Tasmania is an attractive place for people to live. These are both major factors in increasing the level of employment in Tasmania.

Through its Industry Development Plan and a range of other major strategies and initiatives, the Government has actively sought to achieve these important objectives. Foremost amongst these strategies and initiatives has been the creation of a competitive State tax environment

through the implementation of State tax reform, a key element of the 2001-02 Budget and this Budget.

The principles and targets relating to taxation competitiveness established in this new Fiscal Strategy will ensure that Tasmania continues to be highly competitive with the other states and territories when it comes to levels of business and other taxation.

5.5. Infrastructure Maintenance

Principle - Maintain infrastructure to support the delivery of Government services and to foster economic and industry development.

Target - The State funded component of the Capital Investment Program will be maintained in real terms.

The proper maintenance of Tasmania's public infrastructure assets and investment in new public assets is essential to the effective delivery of services to the community and to promoting growth within the State. Appropriate levels of ongoing capital expenditure also assists in reducing the likelihood and impact of significant one-off capital expenditure 'hits' on the Budget.

The focus on infrastructure maintenance as part of this new Fiscal Strategy will ensure that the significant additional expenditure which has been allocated by the Government to infrastructure maintenance in recent years will be supported by the maintenance, in real terms, of the level of State funding provided in the Capital Investment Program over the next six years.

5.6. Risk Management

Principle - Ensure that adequate mechanisms and financial provisions are in place to minimise the risks to the Tasmanian Government.

Target - The Tasmanian Risk Management Fund will operate on a fully funded basis and have reserves that are sufficient to meet estimated outstanding liabilities.

While it is prudent financial management to reduce levels of net debt and unfunded superannuation liabilities and to seek to increase the level of Budget surpluses, it is also prudent financial management to seek to reduce the impact which other risks could have on the Government's overall financial position. Through the establishment of the Tasmanian Risk Management Fund in December 1998, the Government has taken important steps to reduce the potential impact of a range of risks on government agencies.

The inclusion of this principle and target in the new Fiscal Strategy emphasises the importance of the Government continuing to take appropriate action in relation to minimising all risks to the Government's financial position.

6. GLOSSARY OF TERMS

Accrual Accounting

Accrual accounting recognises revenue and expenditure at the time it is earned or incurred, rather than when money is actually received or paid.

Appropriation

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

Auditor-General

A statutory office, established under the *Financial Management and Audit Act 1990*, responsible for the independent review of State financial matters. The Auditor-General is required to report annually to Parliament on the accounts of departments and other public bodies.

Budget Committee

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

Capital Investment Program

The Capital Investment Program (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 6 of Budget Paper No 1 *Budget Overview 2003-04*.

Cash Accounting

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

Commonwealth Grants Commission

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

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 CSOs.

Community Service Obligations (CSOs)

CSOs are activities undertaken by a GBE that would not be undertaken if it was a commercial entity operating in the private sector. In this regard, the GBE Act 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.

Concessions

See State Government Concessions.

Consolidated Fund

The Fund established by Part II of 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 which appropriates moneys from the Consolidated Fund for expenditure by the Government during the financial year. Appropriation Acts are generally in force from 1 July in one calendar year until 30 June in the subsequent year.

Consolidated Fund Surplus (CFS)

The CFS is the excess of Consolidated Fund receipts over the expenditure of these funds (net of loan repayments). A CFS represents funds which are available for the retirement of debt. A negative CFS is the same as the Net Financing Requirement (NFR).

Consumer Price Index

A measure of the change in prices, over time, of a basket of goods and services representing household expenditure patterns. It aims to measure the changes in the cost of living for the average household.

Department Operating Accounts

Accounts created in the Special Deposits and Trust Fund to record all department-related transactions. These accounts receive funds appropriated to departments from the Consolidated Fund and retain certain revenue that is not identified for return to the Consolidated Fund. Department Operating Accounts enable the consideration of the total resourcing of Government Outputs.

Economic and Social Infrastructure Fund

The Economic and Social Infrastructure Fund has been 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 *Operations of Government Departments 2003-04*.

Fees

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

Financial Agreement Acts 1927 and 1994

Agreements between the Commonwealth Government and State Governments establishing the Loan Council and prescribing a framework for governmental borrowing and sinking fund arrangements.

Financial Assistance Grant (FAG)

Prior to 2000-01, the FAG represented the main form of general revenue assistance provided to the states and territories by the Commonwealth. The size of the FAG for each jurisdiction was determined by the Premiers' Conference each year, taking into account the pool of FAGs available for distribution between all jurisdictions in that year, which were indexed in line with national CPI and population growth, the per capita relativity factors agreed by the Premiers' Conference, the state or territory's share of the national population and special assistance for other jurisdictions funded out of the FAG pool. The FAG was abolished with effect from 2000-01 under the Commonwealth's National Tax Reform package. Information on the FAG is presented in Chapter 7 of Budget Paper No 1 *Budget Overview 2002-03*.

Financial Year

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

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 Surplus

The Fiscal Surplus measures a government's investment-saving balance. A Fiscal Surplus indicates that a government is saving more than enough to finance all of its operations and capital spending. The Fiscal Surplus (which is recorded in the operating statement) differs from the net operating balance in relation to the treatment of capital expenditure. The Fiscal Surplus includes net capital expenditure, but not depreciation.

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.

General Government Sector

For the purpose of reporting uniform information on Government Financial Statistics (GFS - see below), public sector entities have been classified according to the General Government, Public Non-Financial Corporation (PNFC) or Public Financial Corporation (PFC) Sectors. General Government agencies are departments, bodies, or offices that provide services free of charge or at prices substantially below their cost of production.

Goods and Services Tax (GST)

This is a tax imposed by the Commonwealth 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

Government Business Enterprises (GBEs) are entities which operate outside the Public Account, principally on the basis of funds derived through their operations, and have no impact on Budget expenditure except in circumstances where they receive funding for CSOs or receive payments for services provided. GBEs also may provide returns to the Consolidated Fund in the form of dividends to shareholders (the State) and the payment of taxation equivalents and guarantee fees and are subject to their own enabling legislation and the GBE Act. GBEs prepare annual reports, with financial statements on a commercial, accrual accounting basis, which are tabled in Parliament and are subject to audit by the Auditor-General as the auditor appointed by the shareholders. Details of GBEs are provided in Chapter 11 of Budget Paper No 1 *Budget Overview 2003-04*

Government Financial Statistics (GFS)

The Government Financial Statistics system employed by the Australian Bureau of Statistics is designed to provide statistics relating to all public sector entities such as government departments, statutory authorities, government businesses and local government authorities. The GFS is based on two international standards, the United Nations' *System of National Accounts (SNA93)* and the International Monetary Fund's *A Manual on Government Finance Statistics*.

Grants

Non-repayable, non-interest bearing assistance.

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 (CSOs and CSAs – see below) payments to Government Business Enterprises and State-owned Companies (GBEs and SOCs – see below). 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 agency chapters in Budget Paper No 2.

Infrastructure Fund

The Infrastructure Fund (comprising a Social Infrastructure Fund and an Economic Infrastructure Fund) was established in the 2001-02 Budget to provide funding for the development of major government social and economic infrastructure.

Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA)

This is the agreement signed by the Commonwealth and all state and territory Governments in June 1999 which provides for major changes to Commonwealth-State financial relations. Under the IGA GST revenue is to be distributed to the states and territories on a horizontal fiscal equalisation basis. In return, the states and territories have agreed to forego revenue and accept additional expenditure responsibilities.

Loan Council

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

Loan Council Allocation (LCA)

A state or territory's Loan Council Allocation is the borrowing level for the jurisdiction endorsed by the Loan Council, based on its combined General Government and PTE sector deficit (adjusted for financing transactions), plus a number of memorandum items. These items reflect public sector transactions which may have many of the characteristics of borrowings but do not constitute formal borrowings. One example is operating leases. Thus the LCA provides an indicator of the likely impact of the total State public sector's operations on the economy through its net call on national savings.

Major Projects Fund

The Major Projects Fund was established in the 2002-03 Budget to provide funding for major projects including gas, wind and telecommunication developments for the benefit of the Tasmanian community.

Major Works

Capital investment projects, including construction and maintenance, which have an estimated total value greater than \$100 000.

Net Debt

The State's Net Debt is defined as the difference between selected financial assets (claims the Government has on external organisations and individuals) and selected financial liabilities (claims of external organisations and individuals on the Government) held in the form of cash, deposits, non-transferable loans, transferable debt securities (eg Treasury notes and bonds) and finance leases. This definition does not include other financial assets and liabilities such as accounts receivable/payable, assets (such as shares) representing equity in other organisations (including public trading enterprises – see below), liabilities for unfunded employee entitlements and assets and liabilities in the form of long-term trade credit.

Net Financing Requirement (NFR)

The difference between Consolidated Fund receipts and the expenditure of these funds (net of loan repayments) is the Net Financing Requirement (NFR). An NFR is required to be funded by new borrowings. Previously, due to a deficit Consolidated Fund budget situation, the NFR has been the primary focus of the Budget outcome. A negative NFR is the same as the Consolidated Fund Surplus (CFS).

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.
- 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 funds 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 purchased by the Government in order to achieve those Outcomes.

Public Account

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

Public Debt

The indebtedness to the Commonwealth for the State's share of loan raising under the Financial Agreement.

Public Non-Financial Corporation Sector

The PNFC 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 the State's Government Business Enterprises (GBE's) and State Owned Companies (SOC's).

Public Financial Sector

The Public Financial 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. This sector covers the Motor Accidents Insurance Board and the Tasmanian Public Financial Corporation.

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 an annual appropriation.

Special Deposits and Trust Fund

A Fund established under the *Public Account Act 1986* which comprises various individual accounts designated for specific purposes.

Specific Purpose Payments (SPPs)

SPPs (also known as tied grants) are payments made by the Commonwealth 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 Commonwealth. 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.

State Capital Program

The State Capital Program comprises the capital programs of State authorities, GBEs and SOCs and the capital expenditure programs of Government departments. Details of the State Capital Program are provided in Chapter 6 of Budget Paper No 1 *Budget Overview 2003-04*. It provides information on the whole State public sector's capital expenditure in Tasmania.

State Debt

The total of debt incurred by the State under the Financial Agreement and borrowings through Tascorp.

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

State-owned Companies (SOCs) operate outside the Public Account, principally on the basis of funds derived through their operations and are subject to Corporations Law. 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. Details of SOCs are provided in Chapter 11 of Budget Paper No 1 *Budget Overview 2003-04*.

State Public Sector Debt

The term used to describe the overall indebtedness of the Government and its State authorities, which includes repayable advances from the Commonwealth to the State for specific programs.

Statutory Authority

Statutory authorities are each established under specific legislation which defines the purpose for which they are established and the general functions for which they are responsible. Statutory authorities can be classified into two distinct categories, namely:

- those authorities that are subject to specific requirements contained in their enabling legislation; and
- those authorities which are subject to provisions contained in their enabling legislation and are also subject to the provisions of the *Government Business Enterprises Act 1995* (GBE Act). Authorities in this category are those which undertake commercial trading activities. These authorities are described as GBEs.

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 Bill. It lapses when the Consolidated Fund Appropriation Act is passed. In previous years, where the Budget was introduced into Parliament and finally passed by Parliament well into the Budget year, the Supply Act has played a very important role in the provision of funds to agencies. With the movement to a May Budget in 1999, a Supply Act has not been required.

Taxation

A compulsory levy or impost which the Government imposes on transactions, inputs, documents, property and certain activities for the purpose of raising revenue. Unlike a charge, fee or royalty, a tax does not carry a specific entitlement to goods and services.

Territorial Revenue

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

Treasurers' Conference

Under the IGA, the Treasurers' Conference for Commonwealth-State Financial Relations is established, comprising the Treasurer of the Commonwealth and the Treasurers of the states and territories. The detailed responsibilities of the Council are provided in the IGA.

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, as provided for in the *Public Account Act 1986*, together with any additional amount appropriated.

Uniform Presentation Framework (UPF)

The May 1991 meeting of the Australian Loan Council agreed to the introduction of the Uniform Presentation Framework in 1991. The primary objective of the UPF is to ensure that Commonwealth, state and territory governments provide a common core of financial information in their Budget Papers to provide more meaningful comparisons of each government's financial results and projections.

The format of the UPF was last revised in March 2000 to adopt accrual Government Finance Statistics based reporting.

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.

