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The Tasmanian Government Financial System

A guide to the operation of the
State Government Financial System

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www.treasury.tas.gov.au	Contains all Budget Papers and provides information on major Departmental initiatives, activities and publications.
www.media.tas.gov.au	Contains the Government's Budget related media releases.
www.tas.gov.au	Provides links to the Web sites of a wide range of Tasmanian public and private sector organisations.
www.service.tas.gov.au	Provides a comprehensive entry point to Government services in Tasmania.
www.tasmaniatogether.tas.gov.au	Provides detailed information on Tasmania *Together*, including the current status of this important initiative.

CONTENTS

1 INTRODUCTION

PURPOSE

This document describes the Tasmanian Government's financial system to assist readers to understand the financial operations of the Government and the Government's annual Budget Papers. This document explains the contents of the Budget Papers, the structure of the Tasmanian Public Sector, government financial reporting, and the Budget development, review and monitoring processes.

It also lists other sources of Government financial information and contains a glossary of terms used in the Budget Papers.

THE BUDGET AND BUDGET PAPERS

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

The State Budget financial statements are prepared on a Uniform Presentation Framework (UPF) basis. This Framework describes accrued expenses and revenues, cash payments and receipts, assets and liabilities of the Government in a standardised format. The UPF Budget is consistent with those of other Australian State governments and discloses similar information to that presented in consolidated financial reports prepared under Australian Accounting Standards. Further explanation of the UPF is provided in Chapter 3 of this document.

Other information presented simultaneously to Parliament provide information on many aspects of the State's financial affairs, including 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 State 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, including 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 2007-08;
- a revised estimate of the revenue and expenses outcome for the current financial year 2006-07;
- an estimate of the revenue and expenses for the Forward Estimates period (each of the following three financial years 2008-09 to 2010-11);
- an estimate of the State's assets and liabilities for the coming financial year and Forward Estimates period;
- information on Commonwealth-State financial relations; and
- details of expenditure from, and receipts to, the Consolidated Fund for the coming Budget year and the Forward Estimates period, and the estimated Consolidated Fund outcome for the current financial year.

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 detailed information on the services delivered by agencies on behalf of the Government. Presented for each agency is a budgeted Income Statement, a budgeted Balance Sheet and a budgeted Statement of Cash Flows for both controlled and administered items. The presentation of these statements is in accordance with Australian Accounting Standards. Budget Paper No 2 also includes information on the agency operating environment and any major agency initiatives for the coming financial year.

The Tasmanian Government Financial System

This document provides an explanation of the Tasmanian Government financial system and the contents of the Budget Papers. A glossary of terms used in the Budget Papers is also included.

Other Documents Distributed with the Budget Papers

A number of other documents are distributed with the Budget Papers. These documents include a summary of the Budget, the Tasmanian Government Concessions booklet, and fact sheets providing summary information on major Government initiatives.

2 THE 2007-08 BUDGET FRAMEWORK

BUDGET SCOPE

The State Budget is presented for the General Government Sector as defined under the Uniform Presentation Framework (UPF). The General Government Sector incorporates all Budget sector agencies as well as the transactions for a number of entities that operate outside the Public Account.

The focus of the State Budget is on the transactions of the General Government Sector with entities outside that Sector. These transactions are reflected in the financial position of the Government. The majority of the General Government Sector transactions occur within the Public Account, which comprises the Consolidated Fund and the Special Deposits and Trust Fund. Further information on the operation of the Public Account is provided in Chapter 7 of this document.

Apart from those payments made to or from the General Government Sector, the transactions of other Government-related entities, such as Government Business Enterprises and State-owned Companies, are not reflected in the State Budget.

Appendix 1 of Budget Paper No 1 *The Budget* presents the consolidated Budget position for the Total Non-Financial Public Sector (incorporating the General Government Sector and the Public Non-Financial Corporations Sector) on a UPF basis. The Total Non-Financial Public Sector excludes the Tasmanian Public Finance Corporation and the Motor Accidents Insurance Board, which are classified as Public Financial Corporations. Refer to Chapter 8 of this document for further information relating to the Total Non-Financial Public Sector.

The following sections provide information on the context for the Budget development and the composition of the Tasmanian Public Sector and the UPF classification of those entities included within the Tasmanian Public Sector.

BUDGET DEVELOPMENT CONTEXT

The 2007-08 State Budget has been developed in the context of the Government's Fiscal Strategy.

Fiscal Strategy

A Fiscal Strategy provides an effective planning tool for governments and provides clear signals to financial markets, the business sector and the community, of the government's direction in terms of financial management. A credible and achievable Fiscal Strategy is an essential component of prudent contemporary public financial management practice.

A Fiscal Strategy may include, but is not limited to:

- a commitment to maintain Budget surpluses;
- the elimination of debt and other liabilities;
- maintaining a competitive State tax environment; and
- sustainable levels of investment in economic and social infrastructure.

The Government's Fiscal Strategy supports priority initiatives such as Tasmania *Together*, the Industry Development Plan and Partnership Agreements by delivering quantifiable benefits to the community over time in the form of improved service provision, tax cuts and infrastructure development.

Details of the Government's Fiscal Strategy are provided in Chapter 3 of Budget Paper No 1 *The Budget.*

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 and a number of other entities including the Inland Fisheries Service, Marine *and* Safety Tasmania, the Royal Tasmanian Botanical Gardens, the State Fire Commission, TAFE Tasmania, and the Nominal Insurer (a statutory entity created by the *Workers Rehabilitation and Compensation Act 1988*).

Table 2.1: The Tasmanian General Government Sector

Government Departments	Other Government Agencies	Statutory Authorities
Economic Development	**House of Assembly**	**Inland Fisheries Service**
Education	**Legislative Council**	**Marine *and* Safety Tasmania**
Health and Human Services	**Legislature-General**	**The Nominal Insurer**
Infrastructure, Energy and Resources	**Office of the Governor**	**Royal Tasmanian Botanical Gardens**
Justice	**Office of the Ombudsman**	**State Fire Commission**
Police and Emergency Management	**Tasmanian Audit Office**	**TAFE Tasmania**
Premier and Cabinet		
Primary Industries and Water		
Tourism, Arts and the Environment		
Treasury and Finance		

Government Departments

State Government departments are established by order of the Governor under the provisions of the *Tasmanian State Service Act 2000* (the State Service Act), 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. The following diagram illustrates the current Ministerial portfolio and departmental structure of the Tasmanian Government under the *Administrative Arrangements Order (No. 2) 2006*.

Diagram 2.1: Structure of the Tasmanian Government

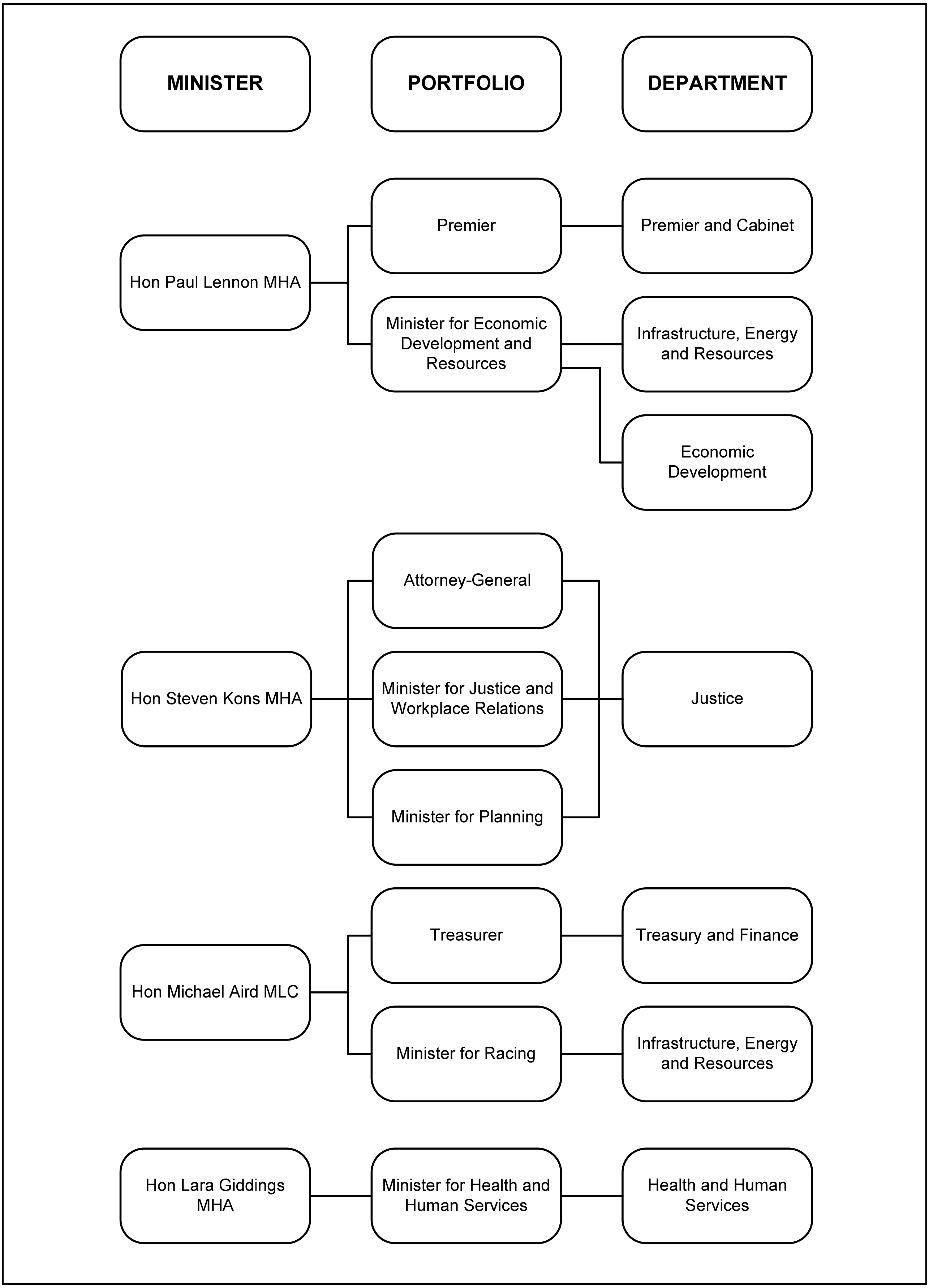
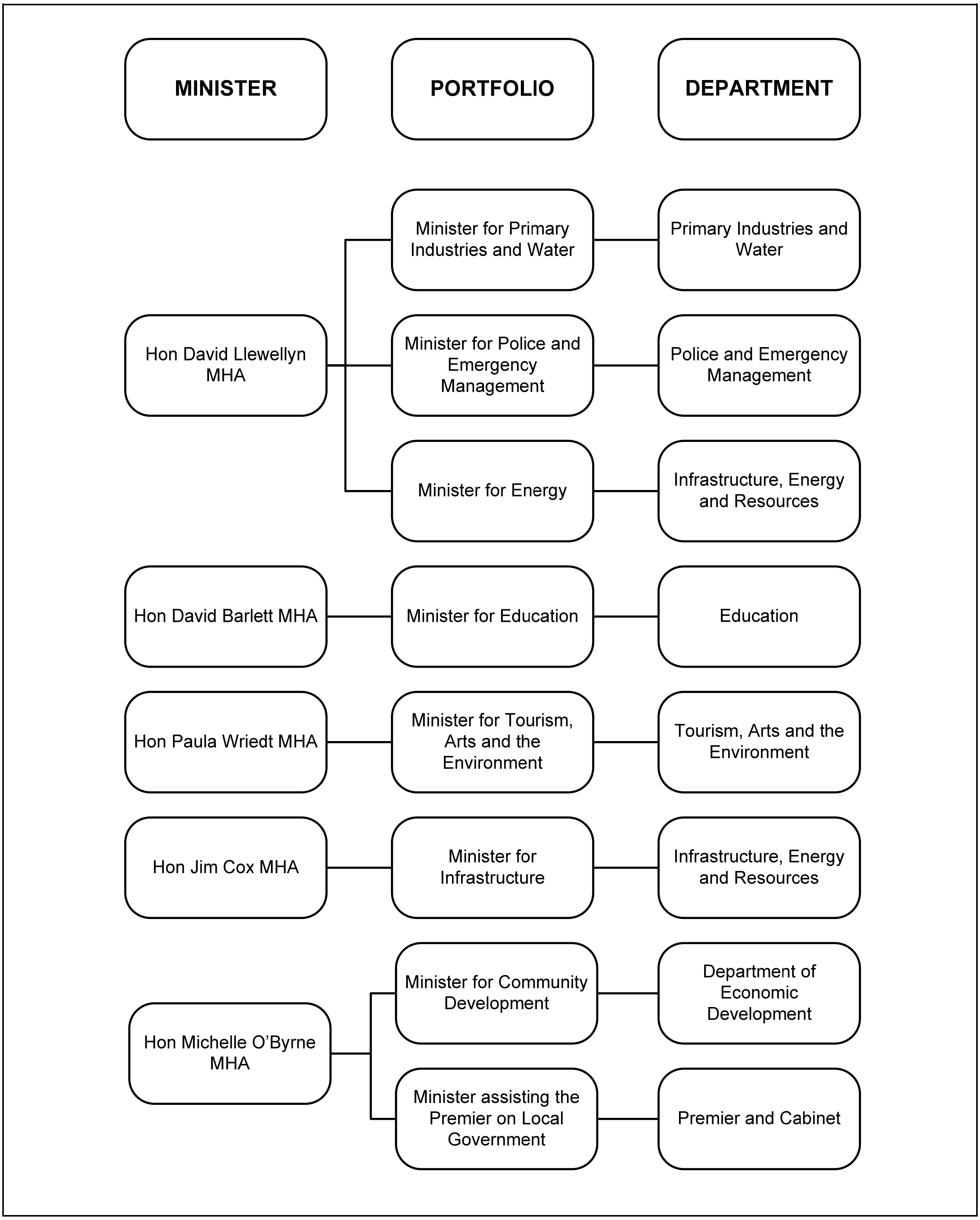


Diagram 2.1: Structure of the Tasmanian Government (continued)



In general, departments are engaged in the provision of goods and services (Outputs) 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 5 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* (FMAA) 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.

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.

The following table shows the current Ministerial portfolio allocations for the General Government Sector Authorities.

Table 2.2: General Government Sector Authorities

Statutory Authority	Portfolio Minister	Portfolio Department
Inland Fisheries Service	Hon David Llewellyn MHA	Primary Industries and Water
Marine *and* Safety Tasmania	Hon Jim Cox MHA	Infrastructure, Energy and Resources
The Nominal Insurer	Hon Steve Kons MHA	Justice
Royal Tasmanian Botanical Gardens	Hon Paula Wriedt MHA	Tourism, Arts and the Environment
State Fire Commission	Hon David Llewellyn MHA	Police and Emergency Management
TAFE Tasmania	Hon David Bartlett MHA	Education

Public Non-Financial Corporation (PNFC) and Public Financial Corporations (PFC)

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. 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 PFC sector comprises those entities that provide financial services, including central borrowing authorities (the Tasmanian Public Finance Corporation (Tascorp)) and insurance companies (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 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 is the Minister responsible for overseeing all GBEs. The following table indicates the Portfolio Minister responsible for each GBE.

Table 2.3: Government Business Enterprises

Government Business Enterprise	Portfolio Minister	Portfolio Department
Forestry Tasmania	**Hon Paul Lennon MHA**	**Infrastructure, Energy and Resources**
Hydro Tasmania	**Hon David Llewellyn MHA**	**Infrastructure, Energy and Resources**
Motor Accidents Insurance Board	**Hon Jim Cox MHA**	**Infrastructure, Energy and Resources**
Port Arthur Historic Site Management Authority	**Hon Paula Wriedt MHA**	**Tourism, Arts and the Environment**
Printing Authority of Tasmania	**Hon Jim Cox MHA**	**Infrastructure, Energy and Resources**
Rivers and Water Supply Commission	**Hon David Llewellyn MHA**	**Primary Industries and Water**
Southern Regional Cemetery Trust	**Hon Paul Lennon MHA**	**Premier and Cabinet**
Tasmanian International Velodrome Management Authority	**Hon Michelle O'Byrne MHA**	**Economic Development**
Tasmanian Public Finance Corporation	**Hon Michael Aird MLC**	**Treasury and Finance**
The Public Trustee	**Hon Steven Kons MHA**	**Justice**

State-owned Companies (SOCs)

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), equity injections 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 Commonwealth 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. The following table details the other Shareholder Minister and the Portfolio Department for each SOC.

Table 2.4: State-owned Companies

State-owned Company	Shareholder Minister	Portfolio Department
Aurora Energy Pty Ltd	Hon David Llewellyn MHA	Infrastructure, Energy and Resources
Tasmanian Ports Corporation Pty Ltd	Hon Jim Cox MHA	Infrastructure, Energy and Resources
Metro Tasmania Pty Ltd	Hon Jim Cox MHA	Infrastructure, Energy and Resources
TOTE Tasmania Pty Ltd	Hon Jim Cox MHA	Infrastructure, Energy and Resources
Transend Networks Pty Ltd	Hon David Llewellyn MHA	Infrastructure, Energy and Resources
TT-Line Company Pty Ltd	Hon Jim Cox MHA	Infrastructure, Energy and Resources

Other Entities

Under the Uniform Presentation Framework, the classification of the Tasmanian Public Sector includes only those transactions over which a 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.

3 THE STATE BUDGET

The 2007-08 State Budget has been prepared on a Uniform Presentation Framework (UPF) basis. The Budget details the accrued revenues and expenses, receipts, payments, assets and liabilities of the General Government Sector in a standardised format.

The UPF is based on the concepts and classifications 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 Government Finance Statistics (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 presentation of a UPF budget is consistent with other Australian governments and discloses similar information to that presented in consolidated financial reports prepared under Australian Accounting Standards. In December 2002, the Financial Reporting Council (FRC) set a broad strategic direction for the Australian Accounting Standards Board (AASB) to achieve harmonisation of GFS and Generally Accepted Accounting Principles. In 2006, the AASB released AASB 1049 *Financial Reporting of General Government Sectors by Governments* that achieves the objective set by the FRC, and is applicable from 2008-09. The AASB is currently developing a similar standard for the total government sector.

The Australian Accounting Standards form the basis for the presentation of departmental budgets. The presentation of departmental budgets is detailed in Chapter 4 of this document.

UNIFORM PRESENTATION FRAMEWORK (UPF)

UPF Budget information:

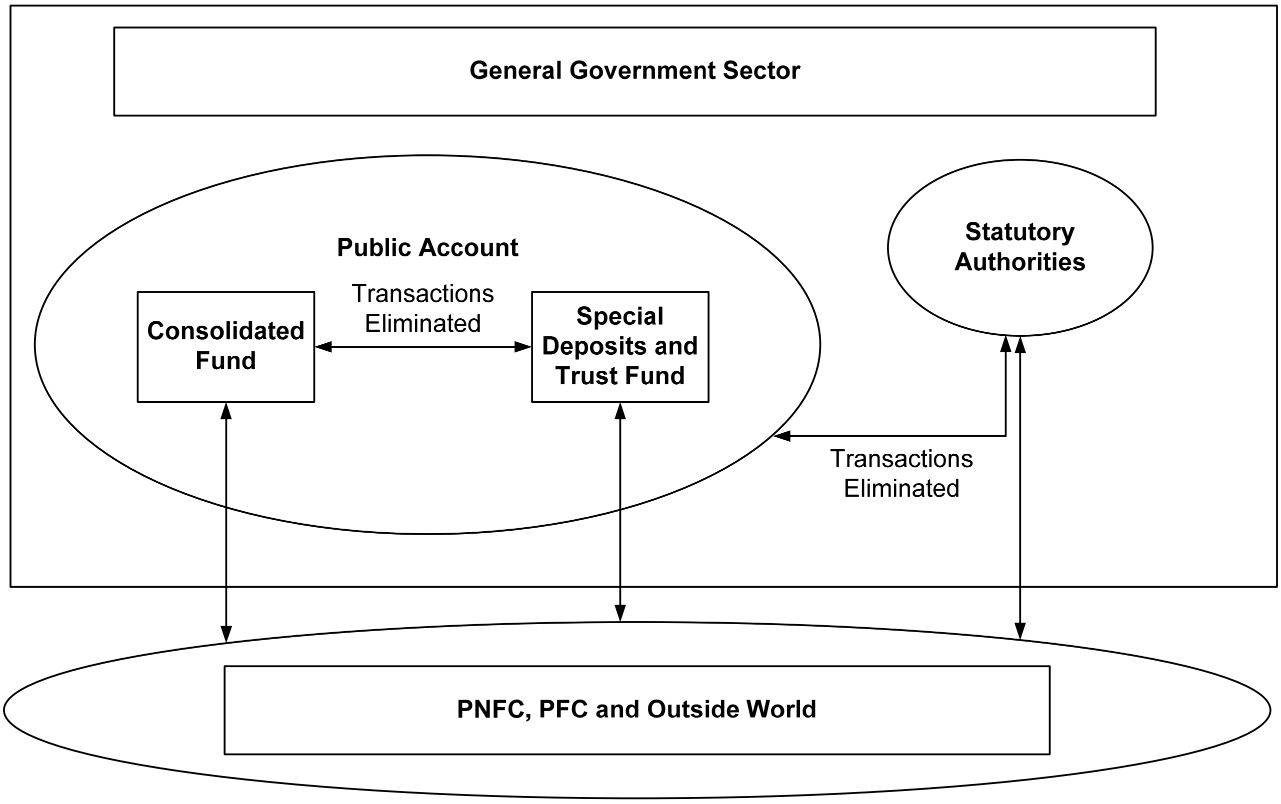
- includes the balances and transactions of both the Consolidated Fund and the Special Deposits and Trust Fund; and
- includes accrual transactions such as depreciation and nominal interest on superannuation.

The UPF 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 impact of all 'other economic flows' are excluded from the UPF Operating Statement. These changes impact directly on equity in the Balance Sheet in the UPF treatment. This is a major source of differences between the UPF Operating Statement and the Income Statement prepared in compliance with Australian Accounting Standards (AAS). AAS does not make the transactions/other economic flows distinction, and valuation changes and the like are generally reflected in the AAS Income Statement, impacting on the operating result.

The following diagram illustrates the transactions included under the UPF for the General Government Sector. Transactions included are only those with entities outside the General Government Sector, with intra-sector transactions eliminated.

Diagram 3.1: Transactions included in the General Government Sector



Details of public sector estimates and outcomes are presented within the UPF in three primary statements: the Operating Statement, the Balance Sheet and the Cash Flow Statement. These statements form the core of the UPF.

Operating Statement

The Operating Statement presents information on revenue and expenses. This statement is designed to capture the composition of expenses and revenues and the net cost of a government's activities within a fiscal 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 Operating Statement reports two major fiscal measures: the Net Operating Balance and the Fiscal Balance.

The General Government Sector Operating Statement is presented in Chapter 4 of Budget Paper No 1 *The Budget*.

Net Operating Balance

The Net Operating Balance is the best measure of the on-going sustainability of the ordinary operations of government. It is determined as the excess of revenue over expenses. 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.

Fiscal Balance

The Fiscal Balance indicates whether a sufficient surplus is being generated by the ordinary 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 the capital stock.

The Fiscal Balance measures the investment–saving balance. A Fiscal Surplus indicates that the Government is saving more than enough to finance all of its capital spending, whilst a Fiscal Deficit indicates that the Government is spending reserves, including previously accumulated surpluses, to fund its capital spending.

In a year in which the Government undertakes major capital works, other things being equal, the Fiscal Balance will be significantly lower than the Net Operating Balance.

Balance Sheet

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

The Balance Sheet includes information on the make-up and value of a government's financial assets, and on the extent of liabilities such as borrowings and unfunded superannuation. This allows for intertemporal and interjurisdictional comparisons of asset and liability levels. The major Balance Sheet indicators are Net Debt, Net Financial Liabilities, Net Financial Worth and Net Worth.

The General Government Sector Balance Sheet is presented in Chapter 6 of Budget Paper No 1 *The Budget*.

Net Debt

Net Debt is a measure used to help judge the overall strength of a jurisdiction's fiscal position. Net Debt comprises a stock of selected gross financial liabilities less selected financial assets. High levels of Net Debt impose a call on future revenue flows to service that debt and can therefore limit a government's flexibility to adjust expenditure. Currently, Tasmania's selected financial assets exceed the stock of specified gross financial liabilities. Therefore, the State has 'negative' Net Debt and is considered a net investor of funds.

Net Financial Liabilities

Net Financial Liabilities is Net Debt plus gross unfunded superannuation liabilities. This additional information is important in gauging the strength of a government's overall fiscal position. This measure is not included in the UPF, but is commonly used by international credit ratings agencies.

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***.***

Cash Flow Statement

The Cash Flow Statement records a government's cash receipts and payments, outlining how a government obtains and disposes of its cash.

This statement categorises cash flows into operating, investing and financing activities. Operating activities are related to the collection of taxes, the distribution of grants, and the provision of goods and services. Investing activities are related to the acquisition and disposal of financial and non-financial assets. Financing activities are related to changing the size and composition of a government's financial structure.

The convention is that all inflows carry a positive sign and all outflows carry a negative sign (regardless of whether they are gross or net cash flows). The Cash Flow Statement reports two major fiscal measures: net increase in cash held and the cash surplus. Net increase in cash held is the sum of net cash flows from all operating, investing and financing activities.

The General Government Sector Cash Flow Statement is presented in Chapter 9 of Budget Paper No 1 *The Budget*.

Cash Surplus

The Cash Surplus comprises cash received from operating activities, and from sales and purchases of non-financial assets, minus distributions paid (in the case of public financial corporations and public non-financial corporations), minus finance leases and similar arrangements.

The Cash Surplus is important for cash management purposes. The Cash Surplus represents the difference between General Government operating and investing receipts over expenditure (including capital expenditure). It is important to note that a Cash Surplus does not necessarily imply that there is cash available for spending. This is because the Cash Surplus includes funds allocated to provisions such as the Superannuation Provision Account (SPA).

It should be noted that the ABS concept of a surplus/(deficit) does not include equity injections/withdrawals and the repayment of advances. These items can have a major impact in any given year. The ABS classifies these transactions as Financing Transactions, which have no impact on the calculation of the surplus/(deficit).

Net Increase in Cash Held

Net Increase in Cash Held is the sum of net cash flows from all operating, investing and financing activities. This measure is consistent with the movement in cash and deposits reported in the Balance Sheet, and provides a mechanism for managing the cash position to ensure that sufficient cash is available to fund Government policy decisions.

4 DEPARTMENTAL BUDGETS

PRESENTATION OF DEPARTMENTAL BUDGETS

Departmental Budgets are presented in Budget Paper No 2 Go*vernment Services*. Budget Paper No 2 provides the following information in regard to each department included in the General Government Sector:

- the operating environment of the department/authority during 2007-08, including the implementation of new and continuing Government initiatives;
- non-financial information such as the nature of the Outputs provided by the department and the Outcomes to which those Outputs are linked;
- detailed information (including financial and performance information) for each Output Group of the department; and
- financial information on a whole-of-department basis.

Budget Paper No 2 also provides information on the statutory bodies that are included in the General Government Sector for the 2007-08 Budget.

The financial information provided for each department consists of information on the total resources available to the department/authority, including the sources of revenue, areas of expenditure, grants and subsidies and capital investment projects. This information is presented on an accrual basis in accordance with Australian Accounting Standard 29 *Financial Reporting by Government Departments* (AAS 29). This enables direct comparison between departmental budgeting and outcomes reporting. The AASB is currently considering the withdrawal of AAS 29, and incorporating the requirements of this standard into existing or new Australian Accounting Standards.

Financial information presented in the 2007-08 Budget Papers for each department is prepared in accordance with the principles contained in Australian Accounting Standards.

Financial information is provided through three separate statements:

- an Income Statement;
- a Balance Sheet; and
- a Statement of Cash Flows.

The departmental 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. However, 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 regarded as administered.

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 to individuals, groups or organisations.

Operating expenses include, on an accrual basis, employee and accommodation expenses, depreciation, interest and other supplies and consumables.

Net Operating Result

The Net Operating Result of a department is the excess of operating revenue over operating expenses. 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 Statement of Cash Flows.

A Net 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.

Net operating surpluses or deficits can occur due to the timing of when a department receives an appropriation, as departments are funded on a cash basis but are recording expenses on an accrual basis. For example, agencies receive an appropriation for salaries and wages based on 26 pays per year, but under accrual budgeting the amount included in an agency's Income Statement includes the cost of salaries and wages for any days in excess of the 26 pays in that financial year, less the cost of any days included in the previous year statement. Another example is the funding of capital works. Whilst the annual utilisation of assets is shown through an annual depreciation charge, the Government will not fund the department for capital works until an asset needs replacement or major capital improvements. Therefore, a deficit may occur in those years where a capital expenditure is not requested, while in the year the funds are provided a surplus may result. This occurs because although the appropriation will be reflected as Revenue from Government in the Income Statement, the majority of the expenditure will be reflected in the Balance Sheet.

In departments with significant assets, the differences in the timing in the recognition of depreciation and the receiving of the appropriation (and the associated impact on the Net Operating Result for the year) can also be affected by the method used to value assets.

Balance Sheet

The Balance Sheet includes all of the assets and liabilities of the department. The Balance Sheet is a financial snap-shot of the department, taken at the end of the financial year and includes financial assets (eg cash), non-financial assets (eg land and buildings), and the extent of liabilities such as creditors, borrowings and superannuation. The assets and liabilities are segregated into controlled and administered activities.

Assets reflect what the department controls or what is owed to the department at a point in time, whilst liabilities reflect what the department owes to others at a point in time. Both assets and liabilities are shown in order of liquidity.

Net Assets

Net Assets represents total assets less total liabilities. Net Assets represents the department's overall financial position at a point in time.

Statement of Cash Flows

The Statement of Cash Flows 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 and 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 which operates the Loans, Property and Equities Portfolio of Tasmanian 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 198*8. 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. For further details see Budget Paper No 2 *Government Services*.

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

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

Net Increase/(Decrease) in Cash Held

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 reported in the Balance Sheet.

5 THE BUDGET METHODOLOGY

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 and Outcomes

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.

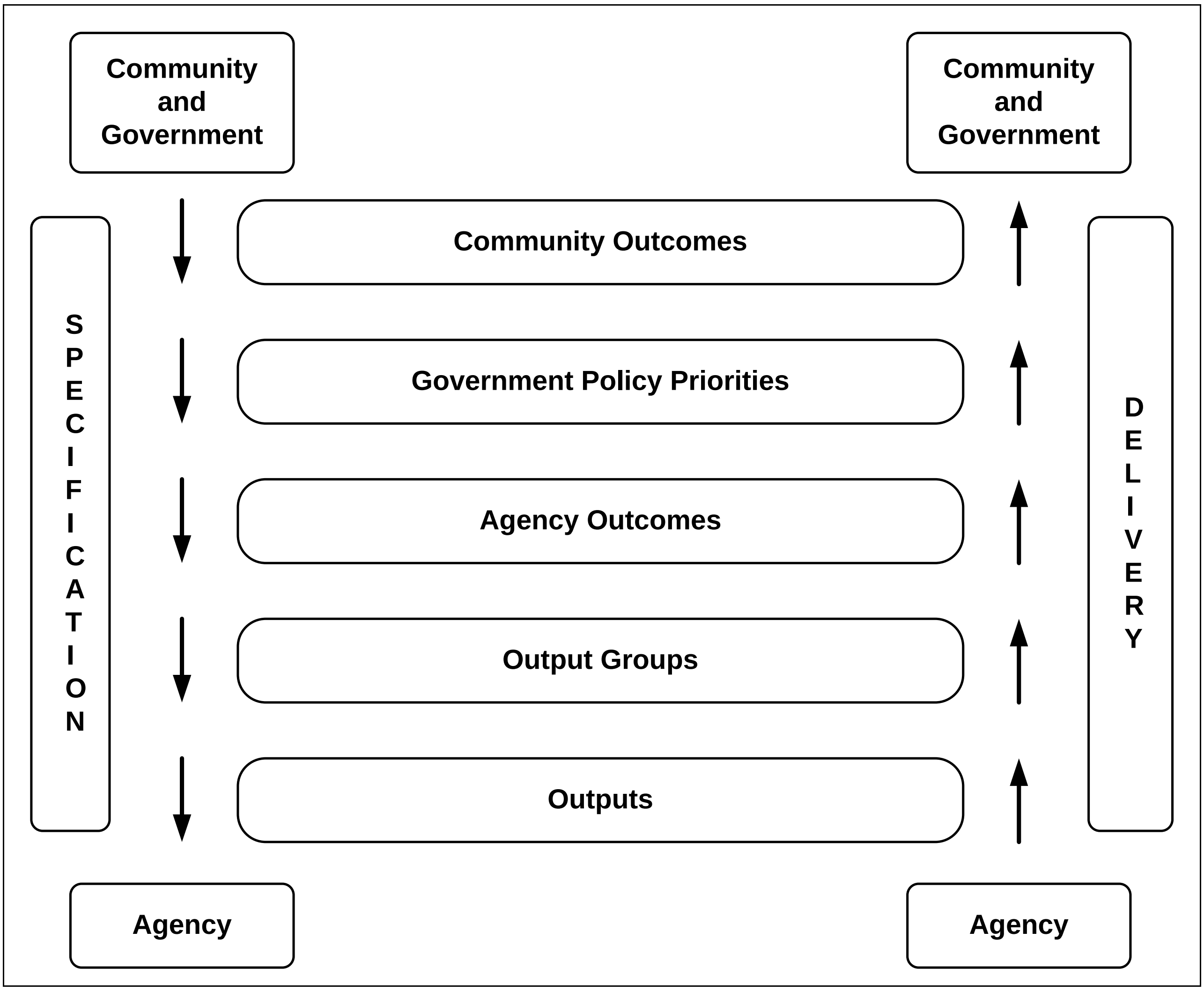
Community Outcomes are those Outcomes that are achieved over the longer term through contributions from all sectors of the Tasmanian community. Through the Tasmania *Together* process for example, the Tasmanian Government has placed a strong emphasis on the development of Community Outcomes. The related 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 5.1.

Diagram 5.1: Relationship Between Outcomes and Outputs



Focus on Total Resources

The Output Methodology facilitates consideration of the full cost of providing Outputs, through both the Consolidated Fund and the Special Deposits and Trust Fund.

Identifying the full cost of Outputs enables the Government and departments to improve strategic decision-making and resource allocation. It allows the Government to determine if departmental Outputs are consistent with the Government's Policy priorities and desired Outcomes.

THE BUDGET DEVELOPMENT CYCLE

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.

The Budget process has been developed to take into consideration the outcomes of Tasmania *Together.* Key elements of this process include:

- major Government Policy Priorities such as the Industry Development Plan, 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;
- increased focus on department performance both in terms of Tasmania *Together* benchmarks and other agency-related performance indicators; and
- increased focus on the medium to longer term.

The Budget development process is summarised below.

Departmental Forward Estimate allocations for the next Budget year published in the Budget Papers (see Appendix 2 of Budget Paper No 1 *The Budget*) 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 that they reflect current circumstances and Government policy decisions.

In September, 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.

In November, members of Budget Committee and Ministers meet with peak community groups to discuss community submissions. This process includes a peak community group roundtable meeting facilitated by the Treasurer. Information received during this community consultation process is required to be addressed by departments during the Budget development process.

In December, agencies prepare Budget submissions for Budget Committee's consideration in January and February. 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 and where appropriate, established Tasmania *Together* benchmarks.

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

In finalising the Budget parameters, Cabinet takes into account agency Budget submissions, discussions between Budget Committee and Ministers, Tasmania *Together* goals and benchmarks, the Government's medium-term Fiscal Strategy targets, input received by the Government through the Budget community consultation processes, 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 the Reform of Commonwealth-State Financial Relations (IGA). 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 Chapter 10 of Budget Paper No 1 *The Budget*.

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 early May. Treasury then prepares the Budget Papers and related documents for presentation to Parliament by the Treasurer in early June.

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 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.

6 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.

In 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 (refer to Chapter 8).

REVIEW AND VARIATION OF THE BUDGET

Situations may arise during the financial year that require a variation from the expenditure plans expressed in the Appropriation Acts. For example, essential unforseen 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 is 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 Commonwealth 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 second 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 Budgets.

Parliamentary Review

In addition to the initial Parliamentary review of the Budget outlined in the previous Chapter, 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 $2 million or more of State Works and Services funds. 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 $2 million may, by resolution, be referred to the Committee. The process by which projects are to be referred to the Committee is detailed in the *Procurement Practices Manual,* published by Treasury.

Government Businesses Scrutiny Committees

The House of Assembly and Legislative Council have established committees in recent years to inquire into the operations of selected GBEs, State authorities and SOCs. These committees are held annually and generally commence in the early part of the calendar year. In March 2007, these committees inquired into the operations of the Printing Authority of Tasmania, Metro Tasmania Pty Ltd, TOTE Tasmania Pty Ltd, Aurora Energy Pty Ltd, Motor Accidents Insurance Board, Port Arthur Historic Site Management Authority, Tasmanian International Velodrome Management Authority, Hydro Tasmania, Transend Networks Pty Ltd, The Public Trustee, Tasmanian Ports Corporation Pty Ltd, TT-Line Company Pty Ltd, and Forestry Tasmania.

7 THE PUBLIC ACCOUNT

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 the 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 to a large number of community sector organisations, through the Department of Health and Human Services, for community health and support services.

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 recurrent purposes such as Health Care, Disability Services and Home and Community Care;
- the Australian Government for specific capital purposes such as Primary and Secondary Education, Technical and Further Education and the National Highway System;
- 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 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

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. Until 1999-00, when Consolidated Fund expenditure exceeded receipts, the Budget outcome was described as the Net Financing Requirement (NFR). The NFR indicated the magnitude of the deficit required to be funded by new borrowings.

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.

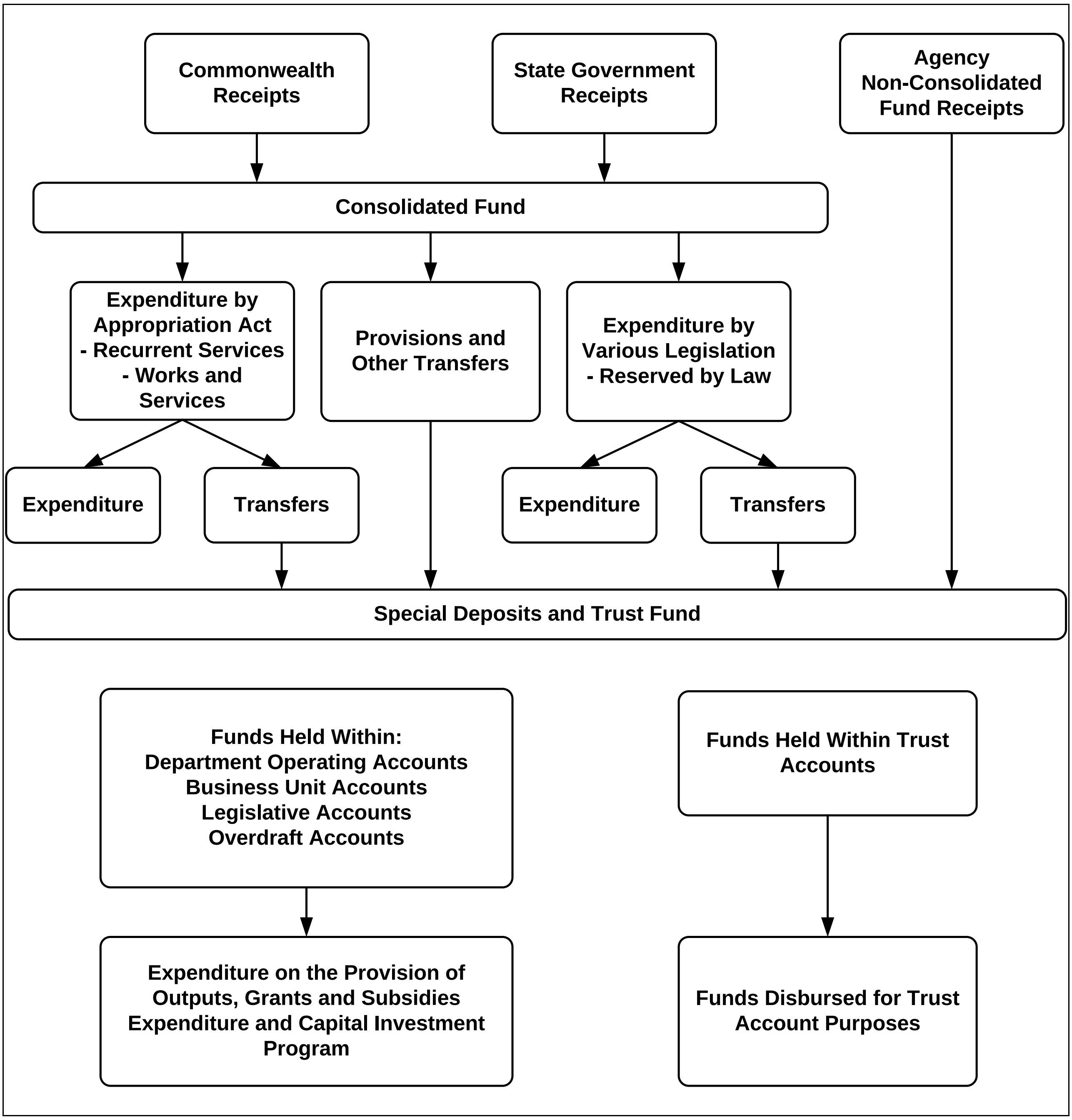
Accounts within the SDTF are classified as Department Operating Accounts, Business Unit Accounts, Legislative Accounts, Trust Accounts or Overdraft Accounts as follows:

- 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. This amounts to internal borrowings that reduce the Government's requirement to borrow in external capital markets. 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.

The following diagram summarises the operation of the Public Account.

Diagram 7.1: Operation of the Public Account



8 ADDITIONAL FINANCIAL PUBLICATIONS

In addition to the Budget documents, a number of other reports produced by the Government provide additional financial information to Parliament.

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 key Fiscal Strategy Measures contained within the Budget Papers;
- an update of the Tasmanian economic aggregate forecasts published in the Budget Papers;
- an Operating 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, are based on unaudited information.

The Preliminary Outcomes Report contains:

- an update on progress against the key Fiscal Strategy Measures contained within the Budget Papers;
- an Operating 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 key Fiscal Strategy Measures contained within the Budget Papers with reference to the major Tasmanian economic aggregates;
- an Operating 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 UPF. This includes information regarding the GFS outcomes for the Total State Sector and its component sectors and additional information regarding General Government Expenditure by purpose.

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 in November each year as required under the provisions of section 57 of the Financial Management and Audit Act.

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, section 36 of the *Tasmanian 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.

WHOLE-OF-GOVERNMENT FINANCIAL REPORTING

Australian Accounting Standard AAS 31 *Financial Reporting by Governments* provides for the Australian, state and territory governments to separately prepare accrual based whole-of-government financial reports.

9 OTHER SOURCES OF INFORMATION

In addition to the sources previously outlined, Treasury has published the following documents that provide information on economic and financial management issues relevant to Tasmania.

- *Best Practice Guide for the Administration of Grants in the Tasmanian Public Sector* – this document, first published by Treasury in June 1996 and updated in September 2001, provides assistance to State Government departments to facilitate the best practice implementation of grant schemes.
- *Fees and Charges Guidelines* – this document, first published by Treasury in January 1995, updated in May 2006, and again in December 2006, provides assistance to agencies in preparing information about the costing of their goods and services (Outputs) to determine appropriate fees and charges.
- *Strategic Asset Management Framework* – published by Treasury in May 1997 and updated in July 2004, this publication provides guidance to departments in the strategic management of assets. The Framework is currently under review.
- *Competition Index* – the report, first published in May 2000 and updated annually, objectively assesses the strengths and constraints of Tasmania as a business location.
- *Tasmania's Population 2003* – an information paper analysing Tasmania's population trends.
- *Long-term Unemployment in Tasmania: A Statistical Analysis* – published in June 2005 this report contains an analysis of Tasmania's long-term unemployment.
- *The Demographic Change in Tasmania: challenges and opportunities* – discussion paper published in March 2007.

These documents can be viewed on Treasury's Web site at 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.

- Australian Bureau of Statistics publications – these cover a wide 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 5514.0.055.001 *Australian System of Government Finance Statistics: Concepts, Sources and Methods*.
- Australian Government Budget Papers – Australian Government Budget Paper No 3 – *Federal Financial Relations*, provides substantial information on Commonwealth payments to State Government and Local Government.

- 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).
- 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.
- 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 2007* – this report, published in January 2007, is the twelfth report published by the Steering Committee for the Review of Government Service Provision (Review). 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 well being of Australians. The services covered by the Review include education, justice, emergency management, health, community services and housing.
- Research papers and regular publications produced by Australian Government entities, such as the Commonwealth Treasury's monthly *Economic Roundup* and the monthly issue of *Trends – The Tasmanian Labour Market Review* by the Department of Employment and Workplace Relations.

10 GLOSSARY OF TERMS

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 *Financial Management and Audit Act 1990*, 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.

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 and, in turn, assists the Government in making decisions on the level and range of Outputs purchased from departments.

Budget Committee

A Cabinet 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 7 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 have replaced constant price estimates as the adjustment mechanism preferred by the Australian Bureau of Statistics (ABS) for the calculation of real prices.

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.

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 it 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

A policy under the *Competition Principles Agreement* (see National Competition Policy) to prevent any resource allocation distortions arising out of the public ownership of entities engaged in significant business activities. Competitive neutrality aims to ensure that Government businesses do not enjoy any net competitive advantage simply as a result of their public sector ownership.

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 (CFS)

The CFS is the excess of Consolidated Fund receipts over the expenditure of these funds (net of loan repayments). A CFS represents funds that are available for the retirement of debt.

Constant Price Terms

Constant price estimates provide a convenient way of measuring real changes in economic time series. Specifically, such estimates measure the change in a series after adjusting values to remove the effects of price movements over time using an index compiled in terms of a constant base year. In Australian Bureau of Statistics series, most measures of real changes are now estimated using chain volume measures.

See also: Chain Volume Measures; Real Terms.

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 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, 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

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 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 provides 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 ordinary 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 the capital stock.

The Fiscal Balance measures the investment–saving balance. A Fiscal Surplus indicates that the Government is saving more than enough to finance all of its capital spending, whilst a Fiscal Deficit indicates that the Government is spending reserves, including previously accumulated surpluses, to fund its capital spending.

In a year in which the Government undertakes major capital works, other things being equal, the Fiscal Balance will be significantly lower than the Net Operating Balance.

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 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 for 2007-08, refer to Chapter 3 of Budget Paper 1 *The Budget.*

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 Tasmanian Public Sector comprises several different types of entities. These are classified according to the sectors comprising the Uniform Presentation Framework (UPF), namely General Government, Public Non-Financial Corporations (PNFC) or Public Financial Corporations (PFC) Sectors.

The General Government Sector comprises of 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 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, TAFE Tasmania, and the Nominal Insurer (a statutory entity created by the *Workers Rehabilitation and Compensation Act 1988).* The 2007-08 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 are currently provided in the form of GST revenue payments and National Competition policy related payments. National Competition Policy payments will, however, not be continued beyond 2005-06.

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 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 *Government Business Enterprises Act 1995*. 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.

Government Finance Statistics (GFS)

The GFS classification is 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.

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 (CSOs) and Community Service Activities (CSAs) payments to Government Business Enterprises (GBEs) and State-owned Companies (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.

Guaranteed Minimum Amount

Under the Intergovernmental Agreement (IGA), the Australian Government has guaranteed that no state or territory will be worse off financially under the new Commonwealth-State financial arrangements than they would have been had the National Tax Reforms not taken place. The guaranteed minimum amount is the minimum level of funding required by each state or territory to ensure that the guarantee provisions of the IGA are met.

Horizontal Fiscal Equalisation

See Fiscal Equalisation.

Implicit Price Deflator

An Implicit Price Deflator (IPD) is another means, in addition to the Consumer Price Index, by which changing prices can be measured. The IPD for GSP is a broad measure of price change used in the State accounts. IPD indexes are obtained by dividing a current price value by its corresponding constant price value or chain volume measure.

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

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

Loan Council

A body comprising the Australian, state and territory Treasurers which meets, usually 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 Loan Council Allocation is the borrowing level for the jurisdiction endorsed by the Loan Council, based on its estimated combined General Government and PNFC sector deficit, plus a number of memorandum items. Memorandum items are other financing transactions, which for Loan Council purposes, are treated as analogous to borrowings. This measure of the level of financing, therefore, focuses on the call of the public sector on national savings.

Major Works

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

National Competition Policy (NCP)

NCP comprises a series of policy initiatives and policy obligations, agreed by all Australian governments that are aimed at promoting free and open competition, where this is in the public benefit, to increase efficiency and productivity throughout the Australian economy. The basis of NCP is three intergovernmental agreements between the Australian and state and territory Governments that were signed on 11 April 1995. These agreements are the *Conduct Code Agreement* (relating to the extension of Part IV of the Commonwealth's *Trade Practices Act 1974* to all businesses), the *Competition Principles Agreement* (relating to the implementation of a series of policy elements designed to improve competition in the Australian economy) and the *Agreement to Implement the National Competition Policy and Related Reforms* (relating to the sharing of the financial benefits expected to flow from the implementation of NCP). At the Council of Australian Governments' meeting held on 10 February 2006, all Australian governments recommitted to NCP.

NCP is not about competition for competition's sake and, in most areas, requires the use of the public benefit test to ensure that all government and community objectives are considered before specific action is taken to facilitate competition in the economy.

NCP payments to the states ceased in 2005-06. Despite the expectation that the economic benefits of the NCP reforms undertaken by the states will continue producing revenue gains at the national level, the Australian Government reallocated funding for NCP payments to water reform, in the form of the Australian Water Fund.

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 non-financial corporations), liabilities for unfunded employee entitlements and assets and liabilities in the form of long-term trade credit.

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 on-going 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 Operating Result

The Net 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 Statement of Cash Flows.

A Net 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.

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

See Net Operating Result.

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.

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 Sector (PFC)

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, there are two organisations in this Sector. These are the Tasmanian Public Finance Corporation and the Motor Accidents Insurance Board.

Public Non-Financial Corporation Sector (PNFC)

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. Generally, 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.

Real Terms

Statistics measured in real terms remove the effects of rising prices or inflation to facilitate a more accurate measure of changes in value due to quantity changes over time. Such values are now most commonly referred to in terms of constant price estimates or 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 the Gross State Product Implicit Price Deflator (GSP IPD).

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), Structural and Performance Initiatives Program (SPIP), Social Infrastructure Fund (SIF), Royal Hobart Hospital Redevelopment Fund and the Better Roads 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 (also known as tied grants) 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. SPPs generally require the state to provide cash or inkind funding to support the activity undertaken under the SPP.

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 7 of Budget Paper No 1 *The Budget*. 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 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 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.

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, documents, 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 Government Business Enterprises (GBEs) and State-owned Companies (SOCs), in line with National Competition Policy principles, to compensate for GBEs and SOCs being exempt from Commonwealth income tax. Taxation equivalents are applied to ensure that GBEs and SOCs are not placed at a competitive advantage due to their exemption from this tax.

Territorial Revenue

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

Treasurers' Conference

Under the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA), the Treasurers' Conference is established, comprising the Australian Government Treasurer and the Treasurers of the states and territories. The detailed responsibilities of this forum 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 under the *Public Account Act 1986*, together with any additional amount appropriated.

Trend

The trend series gives the underlying movements in the data once the seasonal and irregular influences have been removed. 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 2000 to adopt accrual Government Finance Statistics based reporting. This primary objective of the UPF is to ensure that the Australian, State and Territory governments present their budgets on a standard, comparable basis. It was recognised that a more uniform approach to the presentation of budgets, forward estimates and outcomes would facilitate understanding of individual government's financial results and projections.

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 73 per cent of national tax revenues but has direct responsibility for only approximately 58 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.