

CONTENTS

	Page
1 Introduction	1
Focus and Aims	1
Composition of the State Public Sector	1
Government Departments	1
Statutory Authorities	3
State-Owned Companies	3
The State Public Sector and the Budget	4
On-Budget Entities	4
Off-Budget Entities	4
Non-Budget Entities	5
Government Business Enterprises	5
State-Owned Companies	6
Other Non-Budget Entities	6
2 Government Financial Accounting	7
The Public Account	7
The Output Methodology	7
The Consolidated Fund	8
The Special Deposits and Trust Fund	10
Uniform Government Reporting	12
Government Financial Estimates (GFEs)	12
Financial Assets and Liabilities (FALs)	13
3 Development of the Budget	15
The Introduction of a May Budget	15
The Budget Development Cycle	15
The Budget Result	16
The Budget Documents	17
Consolidated Fund Appropriation Bill	17

Budget Speech	17
Budget Paper No 1 <i>Budget Overview</i>	17
Budget Paper No 2 <i>Operations of Government Departments</i>	18
Budget Highlights	18
The Tasmanian Government Financial System	18
Financial Review of Government Activities	18
Additional Financial Information	19
Treasurer's Annual Financial Statements	19
Report of the Auditor-General on the Public Account	19
Annual Reports of Departments, Government Business Enterprises and State-Owned Companies	19
Tasmanian State Public Sector Financial Assets and Liabilities	20
4 Monitoring and Review of the Budget	21
Review and Variation of the Budget	21
Other Parliamentary Review	23
Estimates Committees	23
The Parliamentary Standing Committee of Public Accounts	23
The Parliamentary Standing Committee on Public Works	23
The Government Business Enterprise and Government Corporations Scrutiny Committee	24
5 Other Sources of Information	25
6 Glossary of Terms	29

1 INTRODUCTION

FOCUS AND AIMS

The aim of this document is to provide an explanation of the Government's financial system, the content of the Budget documents and the Budget development and review process.

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 State sector as a whole, and for specific departments.

The core of the Budget is the annual Consolidated Fund Appropriation Bill. Other documents presented simultaneously to Parliament provide information on many aspects of the State's financial affairs, including expenditures from, and receipts to, the Consolidated Fund, the purpose and balances of accounts in the Special Deposits and Trust Fund, the cost of funding of Outputs from all sources, the State Capital Program, financial relations with the Commonwealth Government and Local Government, the operations and performance of departments, State authorities, Government Business Enterprises (GBEs) and State-owned companies (SOCs), and the economic outlook and underlying financial trends. Further details of the content of the various Budget documents presented to Parliament are covered in Chapter 3 of this document.

A glossary of terms used in the Budget documents is also included.

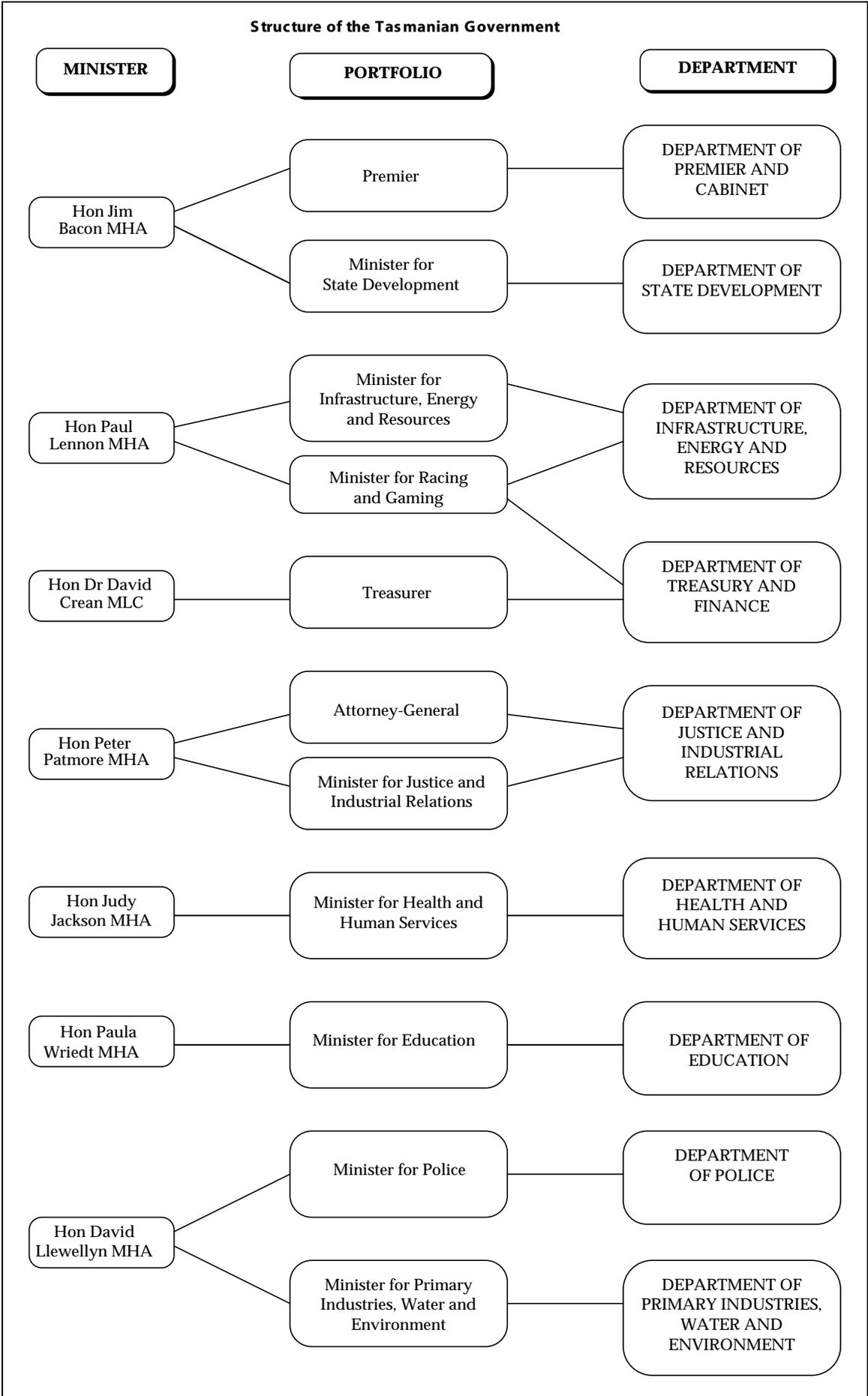
COMPOSITION OF THE STATE PUBLIC SECTOR

In broad terms, the State public sector comprises departments, statutory authorities and SOCs. Statutory authorities can be further classified as State authorities or GBEs.

Government Departments

State Government departments are established by order of the Governor, on the recommendation of the Minister responsible, under the provisions of the *Tasmanian State Service Act 1984* (the State Service Act). 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.



In general, departments are engaged in the provision of Outputs (goods and services) to the public, private businesses or other government bodies, 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. Outputs may include policy advice, the administration of regulations, grants and benefits and the provision of goods or services.

Statutory Authorities

Statutory authorities are each established under specific legislation which defines the purpose for which they are established and the general functions for which they are responsible.

Statutory authorities can be classified into two distinct categories, namely:

- those authorities that are subject to specific requirements contained in their enabling legislation. Major authorities falling within this category include the State Fire Commission, the Inland Fisheries Commission and Private Forests Tasmania. These authorities generally fulfil a regulatory/supervisory function. For the purpose of this document, these authorities will be described as State authorities; and
- those authorities which are subject to provisions contained in their enabling legislation and which are also subject to the provisions of the *Government Business Enterprises Act 1995* (GBE Act). Authorities in this category are those which undertake commercial trading activities and are listed in Schedule 1 of the GBE Act. Major authorities in this category include the Hydro-Electric Corporation (HEC), the Totalizator Agency Board (TAB), the Motor Accidents Insurance Board (MAIB) and Forestry Tasmania. These authorities are described as GBEs.

State-Owned Companies

State-owned companies (SOCs) are each established under specific legislation which defines the purpose for which they are established and the general functions for which they are responsible. They are subject to the Corporations Law and, in some cases, their own enabling legislation. They:

- 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 payment for services provided; and
- provide returns to the Consolidated Fund in the form of dividends to shareholders (the State) and the payment of taxation equivalents and guarantee fees.

SOCs include the TT-Line Company Pty Ltd, Metro Tasmania Pty Ltd, the new electricity companies, Transend Networks Pty Ltd and Aurora Energy Pty Ltd, and the Ports Corporations (Hobart, Launceston, Burnie and Devonport).

Further information on State authorities, GBEs and SOCs can be found in Chapter 13 of Budget Paper No 1 *Budget Overview 1998-99*.

THE STATE PUBLIC SECTOR AND THE BUDGET

From a State Budget perspective, three broad types of relationships between public sector bodies and the Budget can be identified. Public sector bodies can be classified as:

- on-Budget entities;
- off-Budget entities; or
- non-Budget entities.

A description of these entities, and their characteristics in relation to the State Budget, is as follows.

On-Budget Entities

This organisational category incorporates all departments and some State authorities. Respective examples are the Department of Treasury and Finance and Private Forests Tasmania.

Characteristics include:

- they are funded totally or largely from the Consolidated Fund and therefore have a major direct impact on the State Budget;
- they are subject to Ministerial direction, the *Public Account Act 1986* (the Public Account Act), the *Financial Management and Audit Act 1990* (FMAA) and, in the case of State authorities, specific enabling legislation; and
- they are required to prepare annual reports to be tabled in Parliament, with financial statements to be prepared on both a cash and an accrual accounting basis, and are subject to audit by the Auditor-General.

Off-Budget Entities

Off-Budget entities can be divided into two sub-categories:

- The first sub-category includes those parts of departments that operate within the Public Account, but in a commercial environment with all revenue derived from user charges made on a full cost recovery basis. Examples are, the Office of the Valuer-General within the Department of Primary Industries, Water and Environment and the Telecommunications and Management Division of the Department of Premier and Cabinet. Their characteristics include:
 - their operations are funded from operating revenues generated on a user pays pricing policy basis and processed through specific Business Unit Accounts in the Special Deposits and Trust Fund of the Public Account. There is no direct impact on Budget expenditure as there is no annual appropriation from the Consolidated Fund;

- they are subject to the Public Account Act and the FMAA; and
- they are required to prepare annual reports, with comprehensive financial statements, on both a cash and an accrual basis, that are subject to audit by the Auditor-General.
- The second sub-category is comprised of public sector bodies which operate in a quasi-commercial environment and are similar to those in the first sub-category above, except that they receive a funding contribution from the Consolidated Fund (for example, the Tasmanian Audit Office). Characteristics include:
 - their operations are funded substantially from operating revenues, generated on a user pays pricing basis, processed through specific Business Unit Accounts in the Special Deposits and Trust Fund of the Public Account. They impact directly on Budget expenditure to the extent that some funding is provided from the Consolidated Fund;
 - they are subject to Ministerial direction (with the exception of the Tasmanian Audit Office), the Public Account Act and the FMAA; and
 - they are required to prepare annual reports, with comprehensive financial statements, on both a cash and an accrual basis, which are subject to audit.

Non-Budget Entities

This organisational category includes a diverse range of entities, ranging from GBEs such as the TAB and The Public Trustee, to autonomous institutions such as the University of Tasmania, to fully corporatised SOCs such as TT-Line Company Pty Ltd, Transend Networks Pty Ltd, Aurora Energy Pty Ltd and the Ports Corporations.

Government Business Enterprises

GBEs in the non-Budget category include Forestry Tasmania, the TAB and the MAIB. These entities:

- 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 Community Service Obligations (CSOs) or receive payment for services provided e.g. electricity, third party insurance;
- 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;
- are subject to their own enabling legislation and the GBE Act; and
- 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.

CSO payments to GBEs are reported as Administered Payments by the purchasing department.

State-Owned Companies

SOCs in the non-Budget category include TT-Line, Metro, the new electricity companies, Transend Networks Pty Ltd and Aurora Energy Pty Ltd, and the Ports Corporations (Hobart, Launceston, Burnie and Devonport). 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 payment for services provided e.g. electricity;
- 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 (e.g. TT-Line) or generic (e.g. Aurora) enabling legislation;
- are also subject to Corporations Law; and
- prepare annual reports, with financial statements on a commercial, accrual accounting basis, which are tabled in Parliament and are subject to audit by an auditor appointed by the shareholders, currently the Auditor-General.

Other Non-Budget Entities

Other non-Budget public sector entities principally cover institutions such as the University of Tasmania, the Retirement Benefits Fund Board and any statutory authorities which operate entirely outside the Public Account with no financial contribution being provided from the Consolidated Fund. These entities:

- operate outside the Public Account, on the basis of funds derived through their operations, and they have no impact on Budget expenditure;
- may be required to provide returns to the Consolidated Fund;
- are generally subject to their own enabling legislation; and
- may be required to prepare annual reports for tabling in Parliament, with financial statements being prepared on an accrual accounting basis, and be subject to audit by the Auditor-General, depending on the provisions of the relevant governing legislation.

As may be gathered from the discussion above, the categorisation of government bodies as on-Budget, off-Budget or non-Budget is not necessarily a clear-cut exercise. At present, there is not always a direct correlation between the organisational form of a government entity (for example, as a GBE) and the relationship of that entity to the State Budget.

By focusing on the Tasmanian financial system in the context of the State Budget, this document will, in the main, discuss issues which relate to on-Budget departments and off-Budget entities. Non-Budget entities/GBEs have a more limited coverage as their connection with the State Budget relates principally to their Capital Programs, CSOs and returns provided in the form of dividends and the payment of taxation equivalents and guarantee fees.

2 GOVERNMENT FINANCIAL ACCOUNTING

THE PUBLIC ACCOUNT

The Government's financial operations are principally conducted within the Public Account, established under the authority of the *Public Account Act 1986* (the Public Account Act). The Public Account comprises two separate Funds, the Consolidated Fund and the Special Deposits and Trust Fund. Transactions through both these Funds are specifically linked to individual Outputs of Government departments.

The Output Methodology

The Output methodology was fully adopted for the 1996-97 Budget, replacing the previous system of appropriating funds on a Program basis. The introduction of the Output methodology has had a significant impact on the structure of both the Budget and the Government's financial accounting system.

The Output methodology is an approach to the management of the total public resources of the State. It focuses attention on what Outputs (good and services) the Government is providing to the community and whether these Outputs are having the intended effect on the Government's policy objectives.

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

An Outcome is the effect on the community of the Outputs that are purchased by the Government.

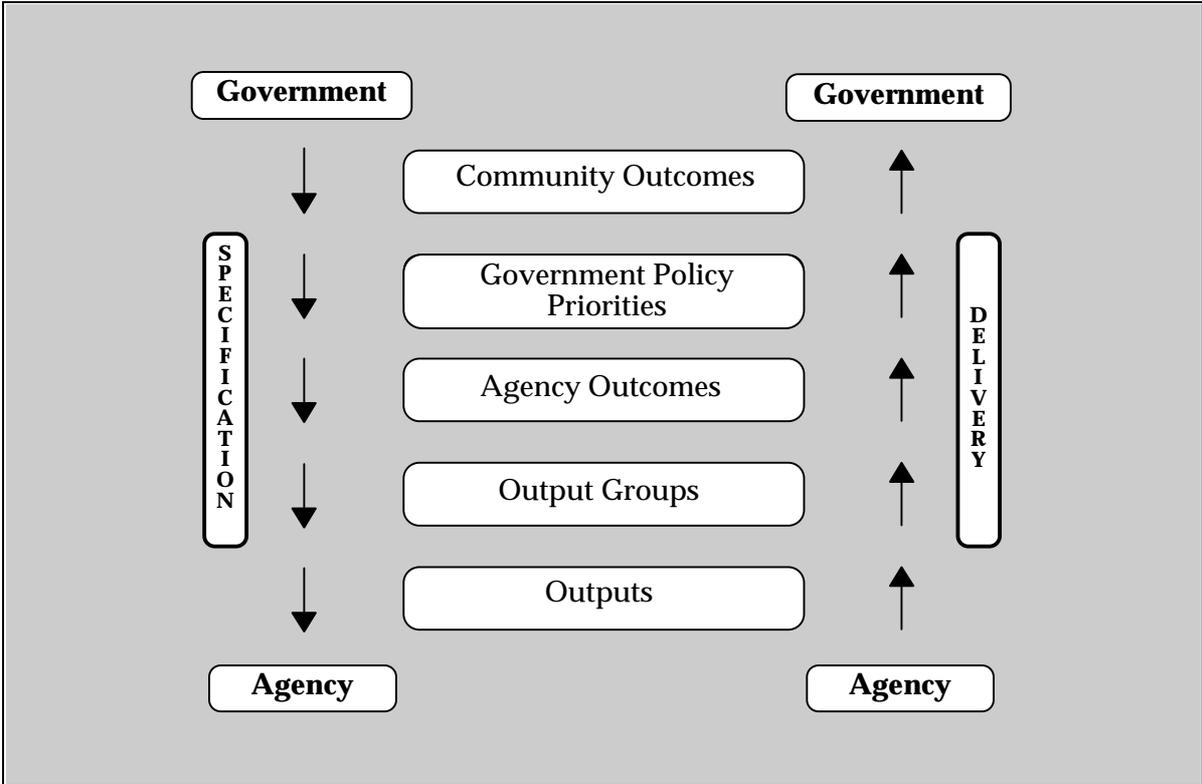
Outcomes can be further segregated into Community Outcomes, Government Policy Priorities and Agency Outcomes.

Community Outcomes are those Outcomes which are achieved over the longer term through contributions from all sectors of the Tasmanian community, whereas Government Policy Priorities are those policies which indicate a change in direction, or an area of reform.

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 below:

Relationship Between Outcomes and Outputs



Prior to the introduction of the Output methodology, the focus of Government and public attention was on the Consolidated Fund, as this Fund is the basis of the Government’s Budget. The Output methodology facilitates consideration of the full cost of the Government’s Outputs, focusing attention on the Government’s total resourcing of Outputs through both the Consolidated Fund and the Special Deposits and Trust Fund.

The clear identification of the full cost of Outputs enables the Government and departments to improve their strategic decision making and resource allocation and allows the Government to determine if departmental Outputs are consistent with the Government’s policy objectives and desired Outcomes.

The introduction of accrual accounting systems during 1997-98 has assisted in identifying the full cost of Outputs. However, the full advantages of accrual accounting in relation to Outputs will not be realised until the implementation of the next major financial management reform, which is the proposed introduction of an accrual based State Budget for 1999-2000. Work has begun on an accrual budgeting framework with a view to a decision by the Government in early 1999 on whether the framework should be adopted for the 1999-2000 Budget.

The Consolidated Fund

The Consolidated Fund contributes to the operations of all on-Budget departments, is the source of funding for Reserved by Law payments and may make some contribution to the operations of off-Budget entities. The Consolidated Fund receives all State taxation revenue, the majority of

Commonwealth payments to Tasmania, territorial revenue and certain other classes of revenue, such as recoveries from Government Business Enterprises, other State authorities and SOCs.

There are two types of expenditures from the Consolidated Fund:

- Recurrent Services expenditure to meet the cost of the ordinary annual services provided by the Government. The major recurrent services expenditures are salaries and other operating costs associated with the operation of departments. Operating costs include building services and maintenance, minor works and furniture and equipment purchases. In addition to the general operating expenditures, Reserved by Law payments are also made by departments on a recurrent basis. Reserved by Law payments are made 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 the funding for the salary of the Auditor-General, payment to the Superannuation provision account, and pensions payable under the *Judges' Contributory Pensions Act 1968*.
- Works and Services expenditure to meet construction costs and the purchase and maintenance of major capital assets such as roads, public housing, schools and hospitals. There are separate Roads and Housing Programs. All other Works and Services are provided under the Capital Investment Program (CIP). The CIP was introduced in 1996-97, replacing the Building Construction Program (BCP). The CIP was introduced to link investment by the Government in capital and maintenance projects with the corporate and asset management plans of departments, and specific Government policy objectives.

In the *Consolidated Fund Appropriation Bill 1998*, funds provided to departments are classified as being either Recurrent Services or Works and Services and are not explicitly linked to specific purposes or Outputs. To ensure that particular Outputs receive the level of funding determined by the Government during the development of the Budget, expenditure is further classified as being either a Discretionary Output Expenditure, a Non-discretionary Output Expenditure or an Administered Payment as follows:

- Discretionary Output Expenditure is expenditure over which a department has the flexibility to reallocate funds to other approved purposes and initiatives within the limits of Budget allocation principles. For example, if the funding to an Output is classified as discretionary, then 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 Department remain responsible for the provision of the agreed level and range of Outputs purchased by the Government;
- Non-discretionary Output Expenditure refers to those funds that have been provided to a specific Output where departments do not have the discretion to transfer these funds to another Output. These types of expenditures occur where the Government considers that an Output should receive a specified level of funding. By their nature, all Reserved by Law payments are classified as Non-discretionary Output Expenditures; and
- Administered Payments relate to payments or concessions made by the Government to individuals, groups or organisations. Administered Payments 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 Administered Payments are determined by the Government, having regard to particular policy objectives. Therefore, these payments are Non-discretionary in that a department

does not have the discretion to either alter the level of Administered Payments from that agreed by the Government, or to transfer the funds to Outputs.

Funds may only be expended from the Consolidated Fund under the authority of an Act of Parliament. In general, these Acts are:

- the Consolidated Fund Supply Act, which provides funds for ongoing operations, pending the passage of the annual Consolidated Fund Appropriation Act. In the past, the Supply Act has usually been based on five twelfths of the previous year's appropriations and covered a period of up to five months. With the proposed introduction of a May Budget, commencing from 1999-2000 (see Chapter 3 of this document), the period for which Supply funding is required by agencies will be reduced to three months;
- the annual Consolidated Fund Appropriation Act; and
- other Acts authorising specific items such as the payment of salaries for the Judiciary and Parliamentarians. These appropriations are 'standing' because they do not need to be passed by Parliament each year. They are commonly referred to as Reserved by Law payments.

Most of the expenditure from the Consolidated Fund is authorised by the annual Consolidated Fund Appropriation Act, which is the central element of the Budget. This Act authorises over 90 per cent of all expenditure from the Consolidated Fund.

The difference between Consolidated Fund receipts and the expenditure of these funds (net of loan repayments) is the Net Financing Requirement, the funds for which are obtained by new borrowings.

The Special Deposits and Trust Fund

The Special Deposits and Trust Fund consists of a number of individual accounts designated for specific purposes. The Public Account Act provides the Treasurer with the authority to establish these accounts, to prescribe the purpose for which they may be used and to attach conditions to their operation.

Accounts within the Special Deposits and Trust Fund are classified as Department Operating Accounts, Business Unit Accounts, Legislative Accounts, Trust Accounts or Overdraft Accounts as follows:

- Department Operating Accounts were first established from 1996-97, in conjunction with the implementation of the Output methodology. With the exception of transactions through other Accounts in the Special Deposits and Trust Fund, all department related transactions are now recorded through individual Department Operating Accounts. These Accounts receive funds appropriated from the Consolidated Fund by the annual Consolidated Fund Appropriation Act. They also receive revenue collected by departments and specific Commonwealth funds that are provided directly to a department. In addition, departments are permitted to retain in their Department Operating Account revenue that is not identified for return to the Consolidated Fund. The amalgamation of departmental transactions through Department Operating Accounts in the Special Deposits and Trust Fund has facilitated the consideration of the total resourcing of Government Outputs that is central to the successful implementation of the Output methodology;
- commercial and quasi-commercial activities of Government departments are undertaken through a Business Unit Account. These activities are usually funded from income generated by the Business

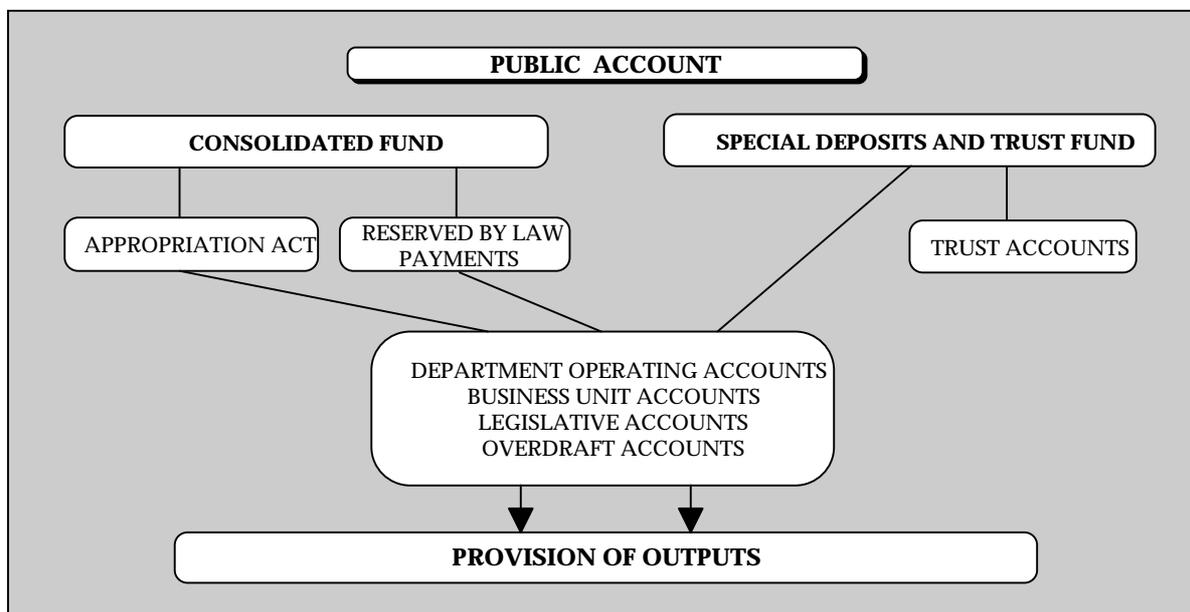
Unit, on a full cost recovery basis, although some Business Units may receive a contribution from the Consolidated Fund. Examples of Business Units are the Office of the Valuer-General and the Tasmanian Audit Office;

- Legislative Accounts have been created where an Act requires a specific account to be established in the Special Deposits and Trust Fund to record transactions associated with a specific purpose. Examples of these accounts are the Crown Lands Administration Fund and the State Highways Trust 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 Tsuneichi Fujii Fellowship Account and the Supreme Court Suitors Fund Deposit Account; and
- Overdraft Accounts have been established in the Special Deposits and Trust Fund to enable the Government to use cash generated from the Special Deposits and Trust Fund 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 Employment Rationalisation Program Account through which past Governments have funded the restructuring of the public sector.

For a more detailed overview of the Special Deposits and Trust Fund, refer to Chapter 8 of Budget Paper No 1 *Budget Overview 1998-99*.

The following diagram illustrates the structure of the Public Account.

Structure of the Public Account



UNIFORM GOVERNMENT REPORTING

The Consolidated Fund Appropriation Act, and other Acts which authorise expenditure, provide for substantial transfers between the Consolidated Fund and various accounts within the Special Deposits and Trust Fund. Because of inter-Fund transfers, the Budget aggregates, which cover only those financial transactions of the Government which are undertaken through the Consolidated Fund, do not reflect the total level of expenditure incurred by, or receipts of, the State public sector. To allow comparison between jurisdictions and the formation of national aggregates, the May 1991 Premiers' Conference agreed that the Commonwealth Government and State and Territory Governments would present uniform financial information in Budget documents, including Government Financial Estimates (GFEs) dealing with financial flow data and Financial Assets and Liabilities (FALs) covering stock data.

Government Financial Estimates (GFEs)

The GFE classification adopts a nationally consistent format for presenting the financial transactions of governments and government trading enterprises. GFEs facilitate comparison of financial performance across jurisdictions and are increasingly used by financial markets, credit rating agencies and other analysts and commentators. The determination of Loan Council Allocations (LCAs) is primarily based on GFEs.

GFEs provide a comprehensive record of the State Government's financial transactions, including those which do not necessarily relate to the State Budget. Other information presented in the Budget documents, because of its focus on the Public Account, provides only partial information on some aspects of the State's finances.

The State Budget and GFEs classify transactions differently. The State Budget classifies transactions according to Ministerial portfolios within each department and, within that, Recurrent Services and Works and Services appropriations. GFEs adopt a standardised statistical classification framework employed by the Australian Bureau of Statistics (ABS) in the preparation of public finance statistics. The transaction classifications used are:

- the Economic Transaction Framework, which categorises outlays, revenue, grants received and financing transactions according to their effect on the rest of the economy;
- the Government Purpose Classification, which groups outlays on similar functions; and
- the Taxes, Fees and Fines Classification, which gives a detailed dissection of this source of revenue.

In the GFE statistics, departments are classified into either the General Government or Public Trading Enterprises (PTE) sectors. The General Government sector comprises those agencies of government where the primary function is to provide public services, which are mainly non-market in nature, for the collective consumption of the community, or involve the transfer or redistribution of income and are financed mainly through taxes and other compulsory levies. This sector covers inner-Budget agencies and some statutory authorities such as the State Fire Commission.

All jurisdictions now include three year forward estimates as part of uniform government reporting. Forward estimates provide important information and increase the ability of users of government reports to assess fiscal trends.

Further details of GFEs can be found in Chapter 12 of Budget Paper No 1 *Budget Overview 1998-99*.

Financial Assets and Liabilities (FALs)

As with GFEs, the FALs statistics cover the non-financial public sector, incorporating the General Government and PTE sectors. Information on FALs reports the Gross Debt, Financial Assets and Net Debt of each sector and of the total Non-financial Public Sector. The concepts of Gross Debt and Net Debt used are as follows:

- Gross Debt is calculated as the total of the Deposits Held, Advances Received and Borrowings categories. Gross Debt includes items such as debt which is incurred by the Government and serviced from the Consolidated Fund, specific purpose loans from the Commonwealth and other borrowings raised from capital markets; and
- Net Debt is the difference between gross debt, as defined above, and the liquid financial assets held by the Government comprising the total of cash and deposits and investments or loans. Investments on the short-term money market and fixed deposits held with banks are included as financial assets.

FALs present the consolidated financial assets and liabilities of each sector. In determining the Gross and Net Debt of each sector, inter-sector transactions are identified and netted off. These transactions include special purpose advances that the State has received from the Commonwealth and on-lent to authorities and transactions with the Central Borrowing Authority (Tascorp). Further, to avoid double counting of liabilities in the General Government and Total Non-financial Public Sectors, on-lending by Tascorp to its clients is offset against its gross borrowing.

Further details of FALs can be found in Chapter 7 and Chapter 12 of Budget Paper No 1 *Budget Overview 1998-99*.

3 DEVELOPMENT OF THE BUDGET

THE INTRODUCTION OF A MAY BUDGET

The Government has announced that, commencing with the 1999-2000 Budget, the Budget will be tabled in Parliament in the May preceding the Budget year instead of the August of the Budget year. On this basis, the Budget for 1999-2000 will be tabled in Parliament in May 1999.

The change in the timing of the Budget to May rather than August will assist the Government and agencies in managing Budget allocations throughout the full Budget year. Instead of agency Budget allocations generally being passed by Parliament in October or November of the Budget year (i.e. four to five months after the commencement of the Budget year), it is expected that with a May Budget, Parliament would approve Budget allocations by July or August, thereby increasing the Budget certainty provided to agencies.

It should be noted that Tasmania is currently the only jurisdiction in which the Government's Budget is tabled in Parliament in August after the commencement of the Budget year.

The change to a May Budget will clearly have a number of implications for the Budget development cycle and certain aspects of the Budget monitoring and review process. It should be noted, however, that the basic components of the Budget development cycle and the Budget monitoring and review process will not change. Instead, the changes required will primarily be in the timing of the undertaking of the various components.

The change to a May Budget will also not necessitate any significant changes to the Budget documents. It should be noted, however, that one change to the financial information included in the Budget documents will be that instead of including actual figures for the full current financial year, the figures will be estimates of actual figures for the current financial year. This is because the Budget will be finalised some two months prior to the end of the current financial year.

The *Tasmanian Government Financial System* document will be amended as part of the 1999-2000 Budget process to reflect the changes made to the Budget process as a consequence of the introduction of a May Budget. Pending these changes, the processes outlined below reflect the current Budget development and monitoring processes.

THE BUDGET DEVELOPMENT CYCLE

The Budget documents, 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 continuous process. By December of each year, following the passage of the Consolidated Fund Appropriation Bill through both houses of Parliament, the Department of Treasury and Finance, in consultation with other departments, reviews forward estimates of expenditure and revenue for the next financial year as part of the three year forward estimate process. This represents the starting point for the formulation of the next Budget.

Over the following three to four months, the forward estimates are analysed and refined by the Government (that is, Cabinet and the Budget Committee of Cabinet). This analysis includes subjecting the Outputs of departments to a screening test to determine if each Output is consistent with Government policy and objectives, whether there are alternative means of producing the Output, whether production of the Output is efficient, whether there is potential for additional departmental revenue through the application of appropriate cost recovery measures, whether the quantity of the Output should be altered and whether there is duplication or conflict with any other Outputs. This concept of systematic evaluation of Outputs was introduced into the Budget development process in the 1995-96 Budget cycle. Details of the Output Groupings of departments, including sources and applications of funds, are incorporated in Budget Paper No 2 *Operations of Government Departments 1998-99*. Through this process, it is intended that the Budget allocations of departments will be primarily based on the Government's judgement about the respective priorities of desired Outcomes and the cost effectiveness of departmental Outputs in achieving those Outcomes.

After this period, full estimates of revenue and expenditure for the following financial year are developed by departments and then presented to Budget Committee and Cabinet for consideration.

During this time, the Budget development cycle incorporates community consultation, with Budget Committee considering submissions from interest groups and members of the public and meeting with a wide range of community interest groups.

At the Premiers' Conference each year, the Government is advised of the estimated level of Commonwealth payments to the State for the forthcoming financial year. In excess of half of this State's total revenue is received directly from the Commonwealth in the form of tied and untied grants. For a detailed discussion of the financial relationship between the State and the Commonwealth, refer to Chapter 10 of Budget Paper No 1 *Budget Overview 1998-99*.

For the three months leading up to the tabling of the Budget, Cabinet and Budget Committee are extensively involved in the development of the Budget for the forthcoming financial year. The development of the Budget is heavily dependent on the resolution of the estimated level of Commonwealth payments, national and State economic forecasts, the previous year's Budget outcome, priorities of the Government and those initiatives proposed by Ministers which are approved by Cabinet for implementation. Once decisions are made by Cabinet, Heads of Department are advised of the proposed budget allocation for their department for the Budget year and the forward estimates. The Budget Papers and related documents are then prepared by the Department of Treasury and Finance, with input from departments, for presentation to Parliament by the Treasurer.

THE BUDGET RESULT

The Budget documents provide information on both the previous year's financial performance, measured against the original estimates for that period, and on the financial estimates for the coming financial year. The key benchmark of the Government's financial performance is reflected in the

'Budget result'. The Budget result is expressed in terms of the Net Financing Requirement (NFR). In simple terms, the NFR is the difference between total Consolidated Fund receipts and total Consolidated Fund expenditures, net of loan repayments. The NFR very closely resembles the concept of the 'deficit'.

Thus, the NFR corresponds to the additional amount which the Government has to borrow in the year because its expenditures have exceeded its receipts.

THE BUDGET DOCUMENTS

The following Budget documents are published, explaining the State's revenue sources, the amounts which the Government has allocated to the purchase of Outputs from departments and authorities funded from the Consolidated Fund, details of current economic conditions and prospects and the Capital Programs of non-Budget entities:

Consolidated Fund Appropriation Bill

This Bill is the primary legislative basis for the Budget. The Bill provides a schedule of the total Recurrent Services and Works and Services appropriated on a Ministerial portfolio basis for each department, for the current financial year. The Bill also includes a schedule detailing all expenditure in excess of the initial appropriation for the past financial year, for ratification by Parliament.

Budget Speech

This document provides the full text of the Treasurer's Second Reading Speech for the Consolidated Fund Appropriation Bill. It explains the Government's economic and financial strategy and outlines key Budget proposals for the forthcoming year.

Budget Paper No 1 *Budget Overview*

This document explains the economic and financial context in which the Budget has been developed. It provides an overview and a detailed explanation, including charts and tables, of the major strategies of the Government in the coming year. It provides details of the main expenditure and revenue areas in the Budget. The information covers the previous year's expenditures and receipts, estimated expenditures and receipts for the Budget year, and forward estimates, projecting Consolidated Fund expenditure, receipts and the NFR for each of the next three financial years. Budget Paper No 1 *Budget Overview* also includes information on the transactions through accounts in the Special Deposits and Trust Fund during the previous year and the beginning and end of year balances of those accounts.

As was the case in 1997-98, Budget Paper No 1 *Budget Overview 1998-99* will again include information in relation to GBEs, Authorities and SOCs.

These entities have their own reporting, governance and accountability framework, including the tabling of annual reports in Parliament. Chapter 13 in Budget Paper No 1 *Budget Overview 1998-99* includes an analysis of reforms and longer term trends in financial returns from GBEs and SOCs.

In previous years, the document, *Tasmania: Economic Insights and Outlook - Annual Review*, has been printed to accompany the Budget documents. The publication of this document ceased in August 1997

and commencing from the 1998-99 Budget, information on the Tasmanian economy, current economic conditions and the State's economic outlook will be included in Chapter 2 of Budget Paper No 1 *Budget Overview 1998-99*.

Budget Paper No 2 *Operations of Government Departments*

Budget Paper No 2 includes information relating to the expenditures and activities of departments. This information is presented on an Output basis and covers the total resources available to departments from the Consolidated Fund and the Special Deposits and Trust Fund, including other sources of revenue such as retained revenues and Commonwealth funding. This Budget Paper forms the basis of Parliament's consideration of the Appropriation Bill.

In 1998-99, Budget Paper No 2 *Operations of Government Departments* again includes selected performance information in relation to the majority of Output Groups of departments.

Budget Highlights

This document provides a brief summary of the major elements of the Budget.

The Tasmanian Government Financial System

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

FINANCIAL REVIEW OF GOVERNMENT ACTIVITIES

Following the introduction of the Consolidated Fund Appropriation Bill into Parliament, the Budget is debated in the House of Assembly. Immediately after the second reading, the Consolidated Fund Appropriation Bill is referred to two Estimates Committees. The Estimates Committees are required to examine and report on the proposed expenditures.

On completion of the Estimates Committees' hearings, each Estimates Committee prepares a report to be presented to the House of Assembly for further debate in Committee of the whole House. When the Bill has been agreed to by the House, the third reading of the Bill takes place and the Bill is referred to the Legislative Council.

The Legislative Council then debates proposed expenditures under the Consolidated Fund Appropriation Bill. Any requests by the Legislative Council for amendments to the Bill are referred to the House of Assembly. The House of Assembly then considers whether to accept or reject any amendments proposed by the Legislative Council. If the House of Assembly decides to reject a proposed amendment, the Legislative Council is provided with an opportunity to withdraw the proposed amendment. In the event that the Legislative Council does not withdraw the proposed amendment, a Managers' Conference is convened. A Managers' Conference consists of representatives from both Houses of Parliament and remains in session until a resolution is reached.

In the event that the Appropriation Bill is not passed within the period covered by the Consolidated Fund Supply Act, further Consolidated Fund Supply Bills can be introduced into Parliament to provide funds for ongoing Government operations, pending the passage of the Appropriation Act.

The Budget debate and Estimates Committee review process provide an opportunity for detailed Parliamentary scrutiny of, and debate on, the State's economic and financial situation and the Government's financial plans.

Once the Consolidated Fund Appropriation Bill has been passed by both Houses of Parliament, it is presented to the Governor for Royal Assent.

Additional Financial Information

In addition to the Budget documents, a number of other reports are produced annually which provide additional financial information to Parliament:

Treasurer's Annual Financial Statements

These are financial statements on the Public Account prepared in accordance with section 26 of the *Financial Management and Audit Act 1990* (FMAA). The statements are required to be tabled in Parliament by 30 September each year and include end of year figures that have been certified by the Auditor-General. These statements will be produced on a cash basis for the 1997-98 financial year. A review of the format of this publication will be conducted in 1998-99 to incorporate a consolidated accrual basis of reporting from 1 July 1999.

Report of the Auditor-General on the Public Account

This report, on the audit of the Public Account for the previous financial year, must be submitted to Parliament by 30 September each year as required under the provisions of section 57(1) of the FMAA.

Annual Reports of Departments, Government Business Enterprises and State-Owned Companies

All departments, GBEs and SOCs are required to produce annual reports which include the financial statements of the department, GBE or SOC, and those of each Board, State authority or other organisations over which they exercise control, for tabling in both Houses of Parliament within five months of the end of the financial year. This requirement is provided under section 27 of the *Financial Management and Audit Act 1990*, section 33 of the *Tasmanian State Service Act 1984* for departments and section 55 of the *Government Business Enterprises Act 1995* for GBEs. The provision for SOCs to table their financial statements in Parliament is specified within either enabling legislation or the Memorandum and Articles of Association for each SOC.

Annual reports also include reference to significant financial outcomes of organisations and reference to economic and other factors which have affected the achievement of operational objectives. The Auditor-General's report on the financial statements is also included in the annual reports. The financial statements of departments for the 1997-98 financial year will be reported on both a cash and accrual basis. Departments were required to implement accrual accounting systems by 1 July 1997 and pursue accrual based financial management from July 1998.

Tasmanian State Public Sector Financial Assets and Liabilities

Released in November or December each year, the purpose of this report is to present the financial assets and liabilities for General Government, Public Trading Enterprises and the Total Public Sector for the previous financial year. This information is presented on a uniform government reporting basis, as agreed at the May 1991 Premiers' Conference.

4 MONITORING AND REVIEW OF THE BUDGET

Following the presentation of the Budget each year, the Government and the Department of Treasury and Finance continuously monitor expenditure and receipts to ensure that the focus on Budget objectives is maintained.

Once the annual Consolidated Fund Appropriation Bill has been passed, Treasurer's Expenditure Control Authorities (TECAs) are issued to all Ministers under section 14 of the *Financial Management and Audit Act 1990*. 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 Act. Ministers then authorise the responsible Head of Department to incur expenditure not exceeding the limit of their respective TECAs.

Under the Revised Estimates process, departments report to Treasury during the year any variation from Budget estimates as soon as the variation becomes known. Reported variations are then used to compile a monthly Revised Estimates report, which is incorporated into the monthly State of the Budget Report prepared by Treasury. The State of the Budget Report details the projected NFR outcome and measures performance against the objectives of the Government's current fiscal strategy. The State of the Budget Report briefs Cabinet on the current situation with regard to the fiscal strategy and ensures that any proposals having financial implications are considered by Cabinet in a whole-of-government Budget context.

REVIEW AND VARIATION OF THE BUDGET

Situations may arise during the financial year which require a variation from the expenditure plans expressed in the Appropriation Act. For example, necessary expenditures may need to be incurred, due to an unforeseeable change in circumstances, resulting in the initial 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 Act. 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* (the Public Account Act). 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 makes provision for approval to be granted for 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. An amount authorised under section 12 as additional expenditure funding for new Works and Services expenditure is restricted to \$1 million in the relevant financial year.

In the event that changes are authorised for a particular department's appropriation, then these alterations are implemented through the issuing of a revised TECA to the Minister responsible for that department.

Finally, in cases of emergency, the *Financial Management and Audit Act 1990* provides 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 presented to Parliament in a separate schedule of the Consolidated Fund Appropriation Bill in the subsequent year for ratification by Parliament. Further, a copy of each order issued by the Treasurer is forwarded to the Auditor-General within seven days. This ensures that the Auditor-General is kept fully informed so that he can conduct a proper audit of the expenditure and be in a position to report to Parliament, if and when necessary.

OTHER PARLIAMENTARY REVIEW

In addition to the review processes outlined above, Parliament also conducts detailed analysis of the Government's finances and other issues, through the establishment of Committees. These Committees may be either established by statute, as is the case with the Public Accounts and Public Works Standing Committees, or through a vote of a House of Parliament. Recent examples of the latter are the Select Committees into Correctional Services and Sentencing in Tasmania, Superannuation Arrangements in the Tasmanian Public Sector and Workers' Compensation Schemes.

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

Estimates Committees

Following the second reading of the Consolidated Fund Appropriation Bill in the House of Assembly, the Bill is referred to two Estimates Committees established under standing orders. These Committees comprise five members of the House of Assembly and examine in detail the proposed expenditures contained in the Bill and report back to the House of Assembly. To facilitate the examination by the Committees, Ministers, Heads of Agency and other senior agency officers meet with the Committees to answer questions from the members of the Committees on agency Budget estimates. The Committees were established to create a more meaningful and constructive debate on the Budget by removing the debate on the Budget from the Chamber and thus freeing it from the strict guidelines that govern the Chamber's proceedings.

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 the 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 drawn from both Houses of Parliament. The role of the Committee is to report on every proposal for public works costing \$1 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 \$1 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 the Department of Treasury and Finance in November 1997.

The Government Business Enterprise and Government Corporations Scrutiny Committee

The House of Assembly appointed a Select Committee, which sat during March 1998, to inquire into GBEs and SOCs. The Committee considered issues associated with the Hydro-Electric Corporation, TT-Line, Metro, the Printing Authority of Tasmania, the Civil Construction Corporation, the Tasmanian Public Finance Corporation and Forestry Tasmania.

It is anticipated that a Select Committee will be appointed in 1998-99 to review the operations of selected GBEs and SOCs for the 1997-98 financial year.

5 OTHER SOURCES OF INFORMATION

In addition to the sources previously outlined, 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 Commonwealth and State Government finances.
- *Best Practice Guide for the Administration of Grants in the Tasmanian Public Sector* - this document was published by the Department of Treasury and Finance in June 1996 and provides assistance to State Government departments to facilitate the best practice implementation of grant schemes.
- Centre for Regional Economic Analysis (CREA) publications - CREA is an independent research centre at the University of Tasmania which undertakes theoretical and empirical research into regional economics and commissioned studies for Tasmanian and national clients. CREA also provides economic information services for subscribing organisations.
- Commonwealth Budget Papers - Commonwealth 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 Commonwealth. 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 & Poors Ratings Group and Moody's Investors Service. These reports provide a broad assessment of the State's current and predicted fiscal position.
- The Productivity Commission's *Report on Government Services Provision* - this report presents information relating to the effectiveness and efficiency of a range of government funded services.
- Information specifically relevant to a number of GBEs can be found in reports of the Steering Committee on National Performance Monitoring of Government Trading Enterprises, published by the Productivity Commission. The Steering Committee was established in 1991 following a decision of the Special Premiers' Conference, now the Council of Australian Governments (COAG).

The Steering Committee comprises representatives from the Commonwealth, States and Territories and has the role of developing a consistent set of indicators to allow the performance of Government Trading Enterprises to be monitored and published on an annual basis. The latest report, *Government Trading Enterprises Performance Indicators 1992-93 to 1996-97*, was published in

August 1998. However, it should be noted that this was the sixth and final report of the Steering Committee due to the number of government trading enterprises that now have been corporatised or privatised and the opening up of traditional government monopoly industries to competition. The Committee has determined that the publication of comparative information in this form is no longer warranted.

- National Fiscal Outlook (NFO) - this document is a publicly released report to the Premiers' Conference, prepared annually by a Working Party of Commonwealth, State and Territory Treasury officials and published by the Australian Government Publishing Service. The key objective of the NFO is to assist in the development of fiscal policy at the national level by providing Heads of Governments with information on the medium-term outlook for Commonwealth, State and Territory finances implied by current policy settings. NFO projections for the following financial year are also used as a starting point for preparing Loan Council Allocation bids and placing those bids in the medium-term context.
- Outputs Methodology - in May 1996, the Department of Treasury and Finance released a brochure entitled *The Output Methodology and the Budget Process*. This brochure provides a brief overview of the Output Methodology and its application to Government activities and the Budget. In addition, in June 1996 the Department of Treasury and Finance released *Guidelines for the Costing of Outputs*. These guidelines provide a detailed framework for the consistent costing of Outputs across Government, for use by departments.
- 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.
- Publications of a range of State Government bodies. For example, publications by the Department of Treasury and Finance and publications by the Department of State Development.
- Research papers and regular publications produced by Commonwealth 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, Education, Training and Youth Affairs.
- *Tasmania's Financial Management Reform Strategy* - published by the Department of Treasury and Finance in July 1996. This document outlines the financial management reforms which are currently being implemented in the public sector in Tasmania. Update reports are published annually.
- *Guidelines for the Definition, Costing and Reporting of Policy Advice Outputs* - published by the Department of Treasury and Finance in May 1997. This publication provides guidance to departments in relation to costing and performance measures for policy advice.
- *National Competition Policy Progress Report: September 1998* - This provides an overview of the progress with National Competition Policy implementation in Tasmania.
- *Competitive Tendering and Contracting Implementation Manual* - published by the Department of Treasury and Finance in May 1997. This publication provides guidance to departments and GBEs in relation to the development of competitive tendering and contracting (CTC) initiatives. The CTC Manual incorporates the CTC Policy Framework issued in September 1996 and CTC Implementation Guidelines prepared by the Department of Treasury and Finance.

- *Strategic Asset Management Framework* - published by the Department of Treasury and Finance in May 1997. This publication provides guidance to departments in the strategic management of assets.

6 GLOSSARY OF TERMS

Accrual Accounting

Accrual accounting recognises revenue and expenditure at the time it is earned or incurred, rather than when money is actually received or paid. The Budget is not presented on an accrual basis but on a cash basis - that is, receipts and expenditures are recorded when the cash transaction occurs.

Administered Payments

Administered Payments, formerly known as Grants, Subsidies and Loans, is a classification of expenditure that relates to payments or concessions made by the Government to individuals, groups or organisations. 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 the Government purchases the administration of these payments from departments.

Advances

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

Appropriation

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

Auditor-General

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

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

Capital Investment Program

The Capital Investment Program (CIP) replaced the Building Construction Program (BCP) from 1996-97 as the basis for the Government's investment in built assets. The CIP comprises major capital investment projects for all inner-Budget agencies and is funded through the Works and Services section of the Consolidated Fund. The CIP was introduced to link Government investment in capital and maintenance projects with departmental corporate and asset management plans, and specific Government policy objectives and Outputs. Details of projects included in the CIP are provided in Chapter 6 of Budget Paper No 1 *Budget Overview 1998-99*.

Cash Accounting

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

Commonwealth Grants Commission

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

Community Service Obligations (CSOs)

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

Consolidated Fund

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

Consolidated Fund Appropriation Act

An Act which appropriates moneys from the Consolidated Fund for expenditure by the Government during the financial year. Appropriation Acts are in force from 1 July in one calendar year until 30 June in the subsequent year.

Constant Price Terms

See 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 created in the Special Deposits and Trust Fund to record all department related transactions. These accounts receive funds appropriated to departments from the Consolidated Fund, all revenue collected by departments and any specific Commonwealth payments that are made directly to a Department Operating Account. Departments are permitted to retain in their Operating Accounts any revenue that is not identified for return to the Consolidated Fund. Department Operating Accounts enable the consideration of the total resourcing of Government Outputs.

Discretionary Output Expenditure

Output expenditure over which a department has flexibility to reallocate funds to other Outputs within the limits of budget allocation principles.

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 & 1994

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

Financial Assets and Liabilities (FALs)

Financial Assets and Liabilities information covers the whole non-financial public sector incorporating the General Government and Public Trading Enterprises sectors as defined by the ABS. FALs present the consolidated financial assets and liabilities of each sector. Details of FALs are incorporated in Chapter 12 of Budget Paper No 1 *Budget Overview 1998-99*.

Financial Assistance Grants (FAGs)

FAGs represent the main form of general revenue assistance provided to the States and Territories by the Commonwealth. The size of the FAG for each jurisdiction is determined by the Premiers' Conference each year, taking into account the pool of FAGs available for distribution between all jurisdictions in that year, the per capita relativity factors agreed by the Premiers' Conference, the State or Territory's share of the national population, and special assistance for other jurisdictions funded out of the FAG pool. Information on FAGs is presented in Chapter 10 of Budget Paper No 1 *Budget Overview 1998-99*.

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.

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.

Fiscal Equalisation

Also described as horizontal fiscal equalisation, it refers to the method 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 provided it makes the same revenue raising effort.

Full Time Equivalent (FTEs)

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

General Government Sector

For the purpose of reporting uniform information on Government Financial Estimates (GFEs - see below) and Financial Assets and Liabilities (FALs - see above), non-financial public sector bodies are categorised as belonging to either the General Government sector or the Public Trading Enterprises (PTEs) sector. General Government agencies are departments, bodies, or offices that provide services free of charge or at prices substantially below their cost of production. PTEs, by comparison, aim to recover the majority of their costs by revenue generated from user charges. The classifications are consistent with those adopted by the ABS.

General Revenue Assistance

Grants provided by the Commonwealth to the State and Territory Governments and Local Governments, to be used for purposes determined by the recipients. The main form of general revenue assistance currently provided to the States and Territories is Financial Assistance Grants (FAGs - see above). Another form of general revenue assistance provided is special revenue assistance.

Government Business Enterprises

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

Government Financial Estimates (GFEs)

Government Financial Estimates provide a comprehensive record of the financial transactions of the whole non-financial public sector incorporating the General Government and Public Trading Enterprises sectors as defined by the ABS. GFEs utilise the framework for statistical classification of transactions adopted by the ABS in the preparation of public finance statistics. Details of GFEs are provided in Chapter 12 of Budget Paper No 1 *Budget Overview 1998-99*.

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, Subsidies and Loans

See Administered Payments.

Gross State Product

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.

Guarantee Fees

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

Horizontal Fiscal Equalisation

See Fiscal Equalisation.

Loan Council

A body comprising the Commonwealth, State and Territory Treasurers which meets, usually on an annual basis, to determine the Loan Council Allocation (see below) for the Commonwealth, States and Territories for the forthcoming financial year.

Loan Council Allocation (LCA)

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

Major Works

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

National Competition Policy (NCP)

NCP involves a series of policy initiatives, agreed by all Australian governments, that are aimed at promoting free and open competition, where this is in the public benefit, which in turn will increase efficiency and productivity throughout the Australian economy. The basis of NCP is three intergovernmental agreements between the Commonwealth 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).

Net Debt

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

Net Financing Requirement (NFR)

The shortfall between payments from the Consolidated Fund, net of loan repayments, and receipts. The NFR measures the borrowing necessary each year to bridge the gap between payments from and receipts to the Consolidated Fund.

Net Interest Cost Ratio

The ratio of net interest costs met from the General Government sector (where net interest costs are defined as gross interest costs less interest recoveries and interest received from investments) to total recurrent receipts of the General Government sector net of total interest recoveries.

Nominal Terms

Values expressed in nominal terms are actual values at a point in time and reflect increasing price levels over time. The term is used to contrast with 'real terms' (see below).

Non-Discretionary Output Expenditure

Funds provided for Non-discretionary Output expenditure cannot be transferred to another Output.

Outcomes

The effect on the community of the Outputs that are purchased by Government.

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 Methodology

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

Premiers' Conference

A meeting of the Prime Minister, State Premiers and the Chief Ministers of the two Territories, usually held annually, to deal with Commonwealth-State financial relations issues.

Public Account

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

Public Debt

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

Public Trading Enterprises Sector

For the purpose of reporting uniform information on Government Financial Estimates (GFEs - see above) and Financial Assets and Liabilities (FALs - see above), non-financial public sector bodies are categorised as belonging to either the General Government sector or the Public Trading Enterprises (PTEs) sector. General Government agencies are departments, bodies, or offices that provide services free of charge or at prices substantially below their cost of production. PTEs, on the other hand, aim to recover the majority of their costs by revenue generated from user charges. The classifications are consistent with those adopted by the ABS.

Real Terms

Values from which the effects of generally rising prices or inflation have been removed. Often referred to statistically as 'constant price' terms. Except where otherwise stated, figures in the Budget documents expressed in real terms or constant prices are calculated 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 Administered Payments and Reserved by Law payments.

Reserved by Law Payments

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

Royalty

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

Special Deposits and Trust Fund

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

Specific Purpose Payments (SPPs)

SPPs (also known as tied grants) are payments made by the Commonwealth to the States and Territories, generally under section 96 of the Constitution, for the purposes, and on such terms and conditions, as may be specified by the Commonwealth. All SPPs of a recurrent nature are in the form of grants, while a small amount of assistance of a capital nature takes the form of advances.

State Capital Program

The State Capital Program comprises the capital programs of GBEs and State authorities and the capital expenditure programs of Government departments. Details of the State Capital Program are provided in Chapter 6 of Budget Paper No 1 *Budget Overview 1998-99*. 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-Owned Companies

State-owned companies (SOCs) operate outside the Public Account, principally on the basis of funds derived through their operations and are subject to Corporations Law. They have no impact on the Consolidated Fund except in circumstances where they receive payment for services provided by the SOC to the Government, or provide dividends, taxation equivalents or guarantee fees to the Government. Details of SOCs are provided in Chapter 13 of Budget Paper No 1 *Budget Overview 1998-99*.

State Public Sector Debt

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

Statutory Authority

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

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

Statutory Office

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

Supply Act

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

Tascorp

The Tasmanian Public Finance Corporation. Tascorp acts as the State's central borrowing authority and raises funds for State authorities, SOCs and the Consolidated Fund under the annually approved Loan Council Allocation.

Taxation

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

Taxation Equivalents

Taxation equivalents are tax-like payments that are required to be paid to the Tasmanian Government by GBEs and SOCs, in line with National Competition Policy principles, to compensate for GBEs and SOCs being exempt from Commonwealth income and wholesale sales taxes. Taxation equivalents are applied to ensure that GBEs and SOCs are not placed at a competitive advantage due to their exemption from certain Commonwealth taxes.

Territorial Revenue

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

Treasurer's Reserve

An appropriation to the Treasurer to provide funds to meet expenditure which could not have been reasonably foreseen at the time of preparation of the Budget. The Treasurer's Reserve is comprised of a statutory amount of \$10 million, as provided for in the *Public Account Act 1986*, together with any additional amount appropriated. See Chapter 4 of this document for a more complete discussion of the Treasurer's Reserve.

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 Commonwealth raises around 73 per cent of national tax revenues but has direct responsibility for only approximately 54 per cent of all public sector outlays.

Works and Services

That part of Consolidated Fund expenditure relating to the construction, purchase and maintenance of major capital assets such as roads, public housing, schools, hospitals and equipment. There are separate Roads and Housing Programs. All other Works and Services are provided under the Capital Investment Program.