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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 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

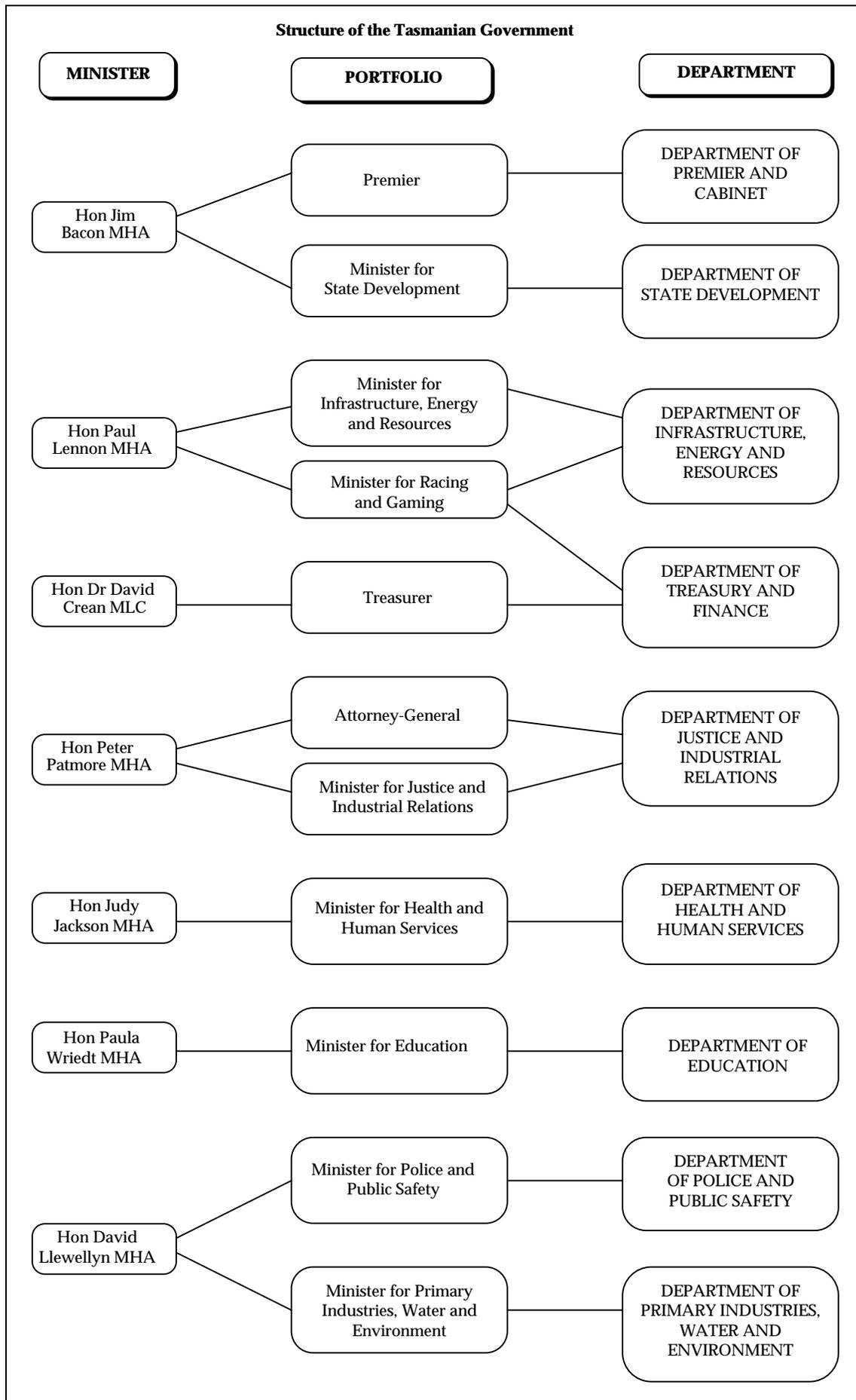
In broad terms, the State public sector comprises departments, statutory authorities and SOCs. Statutory authorities can be further classified as State authorities or GBEs.

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.

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. In this document, these authorities are 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.

GBEs also:

- 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 or a specific contribution from the Consolidated Fund; and
- may provide returns to the Consolidated Fund in the form of dividends and the payment of taxation equivalents and guarantee fees.

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 and the payment of taxation equivalents and guarantee fees.

The major SOCs are the TT Line Company Pty Ltd, Metro Tasmania Pty Ltd, Transend Networks Pty Ltd, 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 11 of Budget Paper No 1 *Budget Overview 2000-01*.

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 Education 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, under the provisions of the *Public Account Act 1986*, 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 accrual basis, and are subject to audit by the Auditor-General. The financial statements comply with the relevant public sector accounting standards.

Off-Budget Entities

Off-Budget entities include those parts of departments that operate within the Public Account, but in a commercial or quasi-commercial environment with all revenue derived from user charges determined on a full cost recovery basis. Some off-Budget entities may also receive a funding contribution from the Consolidated Fund (e.g. the Tasmanian Audit Office). Characteristics of off-Budget entities 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 may be a direct impact on Budget expenditure as some off-Budget Entities receive funding from the Consolidated Fund;

- they are subject to the Public Account Act and the FMAA;
- some are subject to Ministerial direction; and
- they are required to prepare annual reports, with comprehensive financial statements, which comply with the relevant public sector accounting standards, that are subject to audit by the Auditor-General.

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 to fully corporatised SOCs such as the 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. third party motor vehicle insurance provided to agencies;
- 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 basis which are tabled in Parliament and are subject to audit by the Auditor-General as the auditor appointed by the shareholders. The accrual financial statements are prepared according to applicable accounting standards.

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

State-owned Companies

The major SOCs in the non-Budget category are TT Line Company Pty Ltd, Metro Tasmania Pty Ltd, 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 funding for Community Service Activities (CSAs) and in circumstances where they receive payment for services provided e.g. 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 (e.g. TT Line Company Pty Ltd) or generic (e.g. Aurora Energy Pty Ltd) enabling legislation;
- are also subject to Corporations Law; and

- prepare annual reports, with financial statements on a commercial, accrual basis which are tabled in Parliament and are subject to audit by an auditor appointed by the shareholders, currently the Auditor-General. The accrual financial statements are prepared according to applicable accounting standards.

CSA payments to SOCs are reported as Administered Payments by the purchasing department.

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, with financial statements on an accrual basis which are tabled in Parliament and are subject to audit by the Auditor-General, depending on the provisions of the relevant governing legislation. The accrual financial statements are prepared according to applicable accounting standards.

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 Government 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 CSOs, CSAs 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 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 (goods 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.

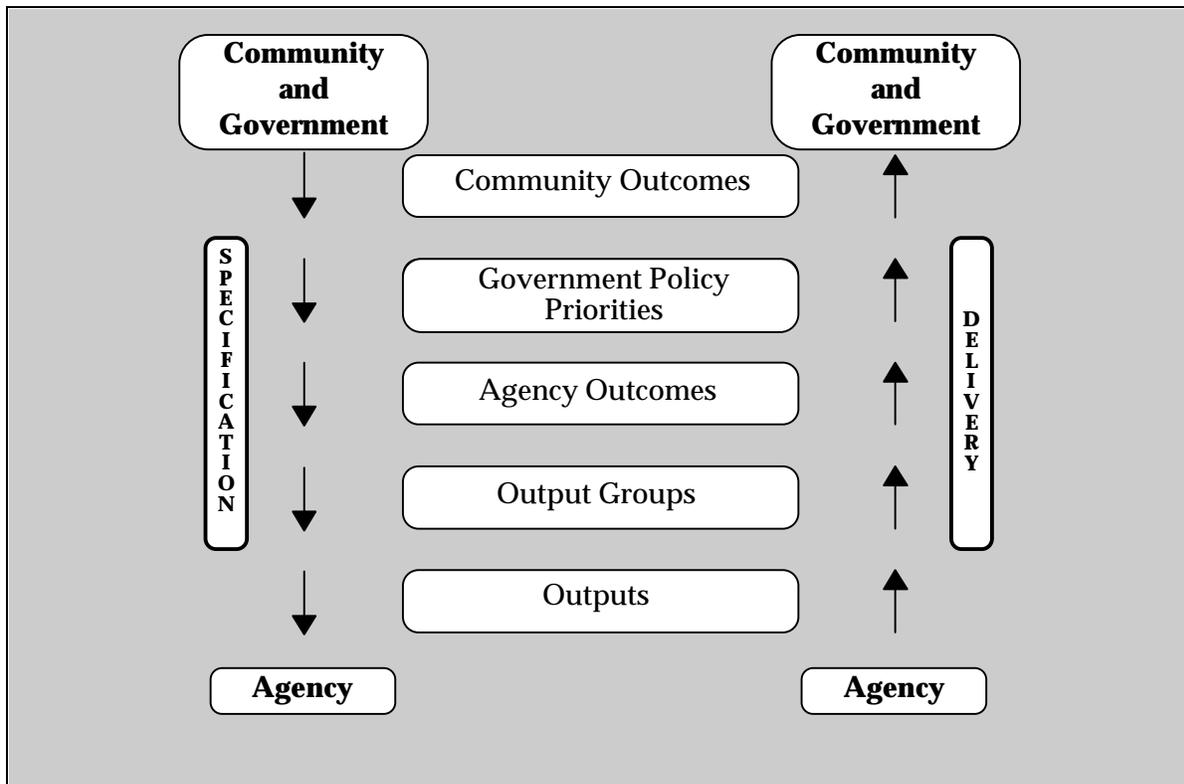
Community Outcomes are those Outcomes which are achieved over the longer term through contributions from all sectors of the Tasmanian community. The Tasmanian Government is currently addressing a wide range of issues with the community through the Tasmania *Together* process.

Government Policy Priorities are those policy directions which 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 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 providing 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.

In November 1999, the Government decided that an accrual budgeting framework for the General Government sector should be implemented for the 2001-02 Budget. An accrual based State Budget forms part of the Government's Financial Management Reform Strategy and will be one of the most significant financial management reforms implemented in Tasmania in recent years. An accrual budgeting framework will further enhance the Output methodology and establish a clear link between budgeting, accounting and reporting functions. Additional benefits of an accrual budgeting framework will include:

- longer term focus – it shifts attention from year by year cash management to managing resource allocation for service delivery over the longer term;

- better resource decisions – it facilitates assessment of agency performance by showing the full cost of service delivery, including the effects of decisions made now that will result in increased costs in the future; and
- greater accountability – it improves the transparency of Government accounting by detailing when current levels of service provision are not sustainable, e.g. where funding levels will not provide for asset replacement.

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 receipts from GBEs, 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 to 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 expenditure is provided under the Capital Investment Program (CIP). 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.

To ensure that particular Outputs receive the level of funding determined by the Government during the development of the Budget, recurrent services expenditure is further classified as being either Output Expenditure or an Administered Payment as follows:

- 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. 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 expenditures, departments do not have the discretion to transfer these funds to another Output. This type of expenditure occurs where the Government considers that an Output should receive a specified level of funding; 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. 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 annual Consolidated Fund Appropriation Act. Most of the expenditure from the Consolidated Fund is authorised by this Act, which is the central element of the Budget. This Act authorises over 90 per cent of all expenditure 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' because they do not need to be passed by Parliament each year. They are commonly referred to as Reserved by Law payments.

As noted in *The Tasmanian Government Financial System*, May 1999, while the Consolidated Fund Supply Act has played a very important role in the provision of funds to agencies, with the movement to a May Budget it is again not expected that a Supply Act will be required for the 2000-01 or subsequent Budget years.

The difference between Consolidated Fund receipts and the expenditure of these funds (net of loan repayments) is the Net Financing Requirement (NFR). When the NFR is a positive number it is funded by new borrowings. When the NFR is a negative number it represents a surplus which is available for the retirement of debt.

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:

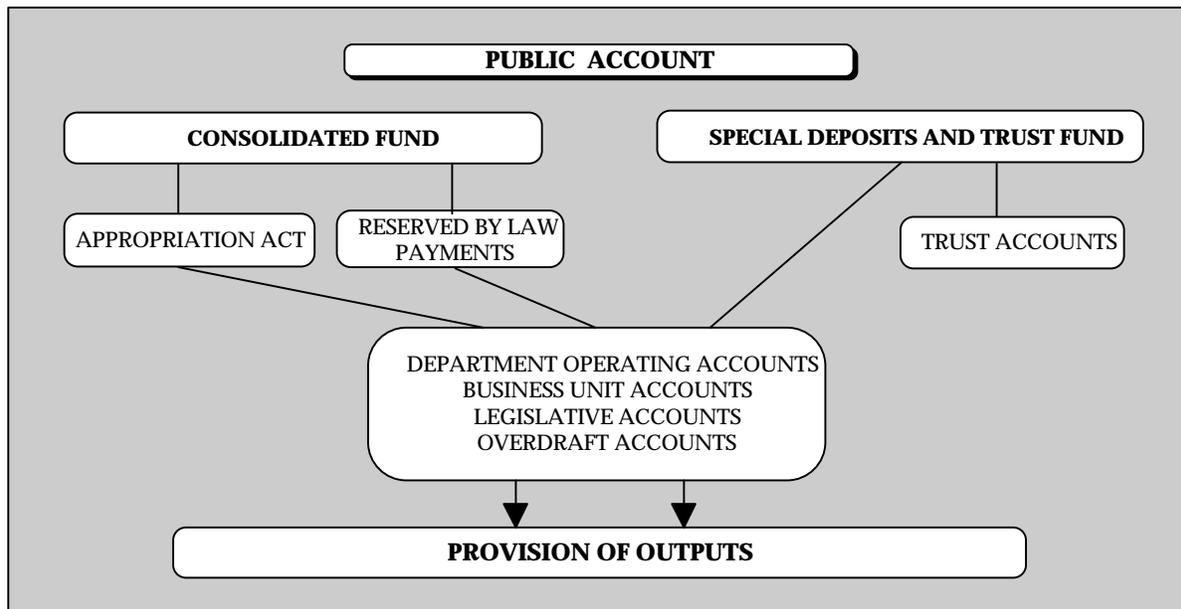
- Department Operating Accounts were first established from 1996-97, in conjunction with the implementation of the Output methodology. With the exception of transactions through other specific purpose Accounts in the Special Deposits and Trust Fund, all department related transactions are now recorded through individual Department Operating Accounts. These Accounts receive funds appropriated from the Consolidated Fund by the annual Consolidated Fund Appropriation Act and retain certain 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. 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 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.

Details of transactions and balances of accounts in the Special Deposits and Trust Fund are provided in the Treasurer's Annual Financial Statements and Departmental Annual Reports.

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.

The uniform presentation framework was revised by the Australian Loan Council in March 2000. The framework was amended to adopt accrual based statistical reporting and it is agreed that all States will comply with the new framework. Given Tasmania's move to an accrual Budget in 2001-02 (as previously discussed), the 2000-01 Budget documents will continue to be presented on a cash basis.

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, agencies are classified into either the General Government, Public Trading Enterprises (PTE) or Public Financial Enterprises (PFE) 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 on-Budget agencies and some statutory authorities such as the State Fire Commission. Therefore, the General Government sector primarily comprises those agencies which are included within the Budget Documents.

All jurisdictions now include three year forward estimates as part of uniform government reporting. Forward estimates provide important aggregate 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 2000-01*.

Financial Assets and Liabilities (FALs)

As with GFEs, the FALs statistics cover the non-financial public sector, incorporating the General Government, PTE and PFE 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 details of FALs can be found in Chapter 10 of Budget Paper No 1 *Budget Overview 2000-01*.

3 THE BUDGET DEVELOPMENT AND REVIEW CYCLE

INTRODUCTION

The State Budget is tabled in Parliament in the May preceding the Budget year. Until the 1999-00 Budget, the general practice had been to table the Budget in August of the Budget year. The intention is to continue to table the Budget in May in future.

The change in the timing of the Budget to May, rather than August, assists 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 likely (as was the case with the 1999-00 Budget) that with a May Budget, Parliament will approve Budget allocations prior to the commencement of the Budget year, thereby increasing the Budget certainty provided to agencies.

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 which commences soon after the passage through Parliament of the Consolidated Fund Appropriation Act for the forthcoming Budget year and finishes with the passage of the following year's Appropriation Act through Parliament.

The agency forward estimate allocations for the next Budget year published in the Budget documents form the basis of the development of the Budget. During the Budget year the forward estimates are continually reviewed by Budget Committee, Treasury and agencies to ensure that they reflect current circumstances and Government policy decisions.

In September each year, the Budget Committee calls for submissions from the community in relation to the Budget for the coming year. Subsequently, in November, Budget Committee meets directly with key community groups to discuss their submissions. Information received during this community consultation process is required to be addressed by agencies during the Budget development process.

In January, agencies submit to Treasury comprehensive information on the Outputs being produced by the agency. This information includes financial estimates for both expenditure and revenue where

appropriate, qualitative information such as major issues which could be expected to impact on the delivery of the Output over the forthcoming financial year and links to Outcomes, and performance information relating to the Output. This Output information is then subject to a comprehensive analysis process by Treasury.

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. Details of the Output Groupings of departments, including sources and applications of funds, are incorporated in Budget Paper No 2 *Operations of Government Departments 2000-01*. In addition, this document includes a discussion of the Output methodology. Through this process, it is intended that the Budget allocations of departments 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.

Following the completion of this Output analysis process, detailed pre Budget reports relating to each agency are prepared by Treasury. These reports highlight the results of the Output analysis and identify the major issues facing each agency during the forthcoming Budget year. Ministers and the Heads of Agency are then invited to meet with the Budget Committee of Cabinet during March to discuss the pre Budget reports.

Given the importance of Tasmania *Together* to the Government, changes to the Budget cycle as detailed above are currently being considered by the Government to ensure the full integration of the on-going Tasmania *Together* process with the Budget development cycle.

The development of the Budget is heavily dependent upon the recommendations of the Ministerial Council in relation to the distribution of GST Revenue and, in the short-term, guarantee payments to the States as required under the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA). The Ministerial Council comprises the Treasurer of the Commonwealth and the Treasurers of the States and Territories. In excess of half of the 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 8 of Budget Paper No 1 *Budget Overview 2000-01*.

In finalising the Budget, Cabinet takes into account outcomes of the pre Budget report discussions with Ministers, input received by the Government through its extensive community consultation processes, the outcome of the Ministerial Council, the estimated result for the current Budget year, national and State economic forecasts and a range of other factors.

Once the Budget is finalised by Cabinet, Heads of Agency are advised of the proposed Budget allocation for their agency for the Budget year as well as revised estimates for the subsequent three years. The Budget Papers and related documents are then prepared by Treasury, with input from agencies, for presentation to Parliament by the Treasurer late in May.

THE BUDGET DOCUMENTS

The Consolidated Fund Appropriation Bill represents the Budget which is presented by the Government to Parliament for its consideration on an annual basis. The Government does, however, also publish a package of supporting documents which provide both Members of Parliament and the general public with comprehensive financial and non-financial information on the Government's activities and the operation of the Budget sector. This information primarily focuses on the Budget year but also provides a significant amount of information in relation to previous years. The following documents currently form the Budget Paper package.

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 expenditure appropriated on a Ministerial portfolio basis for each department, for the current financial year. Further detail on Consolidated Fund expenditure is provided in Budget Paper No 2 *Operations of Government Departments* (see below).

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 financial year.

Budget Paper No 1 *Budget Overview*

This document explains the 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 financial year and the main expenditure and revenue areas in the Budget. The information provided includes an estimate of the Budget outcome for the current Budget year, estimated expenditures and receipts for the Budget year, forward estimates - projecting Consolidated Fund expenditure, receipts and the NFR, for each of the next three financial years - and asset and liabilities of the Tasmanian public sector.

Budget Paper No 1 *Budget Overview 2000-01* also includes information on the Tasmanian economy and its performance, the impact of the new taxation arrangements, Commonwealth-State financial relations, Local Government issues, Government Financial Estimates information and information in relation to GBEs, Authorities and SOCs.

Budget Paper No 2 *Operations of Government Departments*

Budget Paper No 2 includes information relating to the expenditures and activities of departments including the major issues being faced by departments and initiatives being implemented by departments during the Budget year. 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.

Budget Paper No 2 *Operations of Government Departments* also includes performance information for each department. This information is also presented on an Output Group basis and provides an important means of assessing the extent to which Outputs are contributing to the achievement of agency Outcomes.

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.

National Competition Policy Progress Report

This document provides information on action taken by the Government, since the publishing of the previous report, to implement its obligations under the National Competition Policy Agreements.

Industry Development Plan

This document provides information on the Government's important Industry Development Plan. It provides details on the major elements of the Plan, progress and achievement to date and future action by the Government.

PARLIAMENTARY REVIEW OF THE BUDGET

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 Estimate Committee hearings, each Estimates Committee prepares a report which is 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.

In 1998, the Legislative Council also established an Estimates Committee process to facilitate the more detailed analysis of the Budget by Members of the Council. These Estimates Committee's have sat at the same time as the House of Assembly Estimates Committees. Subsequent to the holding of the Estimates Committees and the passage of the Appropriation Bill through the House of Assembly the Legislative Council 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. The Parliamentary arrangements do not provide any mechanism for resolving a deadlock between the two Houses.

In the event that the Appropriation Bill is not passed within the period covered by an existing Consolidated Fund Appropriation Act or a Consolidated Fund Supply Act (where such an act is 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 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. Given that the Budget is produced on a cash basis, these statements will continue to also be produced on a cash basis for the 1999-00 financial year. These statements represent the primary accountability statements published by the Government. These statements, together with agency annual financial statements, provide financial information on the actual outcome for a Budget year.

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, State Authorities, 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 FMAA, section 33 of the *Tasmanian State Service Act 1984* 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 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.

Accrual Based Whole-of-Government Financial Reporting

Australian Accounting Standard AAS 31 - *Financial Reporting by Governments*, provides for the Commonwealth, State and Territory governments to separately prepare accrual based whole-of-government financial reports for reporting periods ending after 30 June 1999. Audited whole-of-government financial statements for the 1999-00 financial year will be published during 2000-01.

Loan Council Outcomes Report

Published in October each year, this report provides detailed Government Financial Estimates information for the past financial year and information on financial assets and liabilities. 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 Treasury 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 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 Act. Ministers then authorise the responsible Head of Agency 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.

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*. 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 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 FMAA 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 tabled in Parliament in accordance with section 12 of the Public Account Act on a quarterly basis. In addition, the total excess expenditure for a financial year is presented in the Treasurer's Annual Financial Statements.

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 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 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 Treasury in November 1997.

The Government Business Enterprise and Government Corporations Scrutiny Committee

A Committee has been established by the House of Assembly in previous years to inquire into the operations of select GBEs, State authorities and SOCs. In 2000, this Committee inquired into the performance of all major GBEs, State authorities and SOCs, including the Hydro-Electric Corporation, Aurora Energy Pty Ltd, Hobart Ports Corporation and Forestry Tasmania.

It is anticipated that another Committee will be appointed in 2001 to review the operations of major GBEs, State Authorities and SOCs.

5 OTHER SOURCES OF INFORMATION

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

- *Output Methodology* - in May 1996, Treasury 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 Treasury 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.
- *Tasmania's Financial Management Reform Strategy - 1999 Progress Report* - published by Treasury in December 1999. 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 Treasury in May 1997. This publication provides guidance to departments in relation to costing and performance measures for policy advice.
- *Competitive Tendering and Contracting Implementation Manual* - published by Treasury 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 Treasury.
- *Best Practice Guide for the Administration of Grants in the Tasmanian Public Sector* - this document was published by Treasury in June 1996 and provides assistance to State Government departments to facilitate the best practice implementation of grant schemes.
- *Strategic Asset Management Framework* - published by Treasury in May 1997. This publication provides guidance to departments in the strategic management of assets.

These documents can be viewed on Treasury's internet site at <http://www.tres.tas.gov.au/> together with other relevant publications released by the Department. The web site also contains links to other State Government bodies and the Tasmanian Government entry point – *Tasmania Online*.

In addition, the following 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.

- 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.
- 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 2000* - this report, published in February 2000, is the fifth report published by the Steering Committee for the Review of Commonwealth-State Service Provision. The Review of Commonwealth-State Service Provision 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 span education, health, justice and community services.
- 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, Workplace Relations and Small Business.

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.

Accrual Budgeting

The preparation and presentation of a Budget based on accrual accounting principles. The 2000-01 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 is a classification of expenditure that relates to payments or concessions made by the Government to individuals, groups or organisations. These include Community Service Obligations and Community Service Activities (CSOs and CSAs – see below) payments to Government Business Enterprises and State-owned Companies (GBEs and SOCs – see below). These payments are determined by the Government and are non-discretionary. In relation to the Output methodology, these payments are not strictly Outputs, but rather Government purchases the administration of these payments from departments.

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) comprises major capital investment projects for all on-Budget agencies and is funded through the Works and Services section of the Consolidated Fund. The CIP was introduced to link Government investment in capital and maintenance projects with departmental corporate and asset management plans and specific Government policy objectives and Outputs. Details of projects included in the CIP are provided in Chapter 6 of Budget Paper No 1 *Budget Overview 2000-01*.

Cash Accounting

Cash accounting recognises revenue and expenditure only 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 recently replaced constant price estimates as the adjustment mechanism preferred by the Australian Bureau of Statistics for the calculation of real prices.

Commonwealth Grants Commission

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

Community Service Activities (CSAs)

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

Community Service Obligations (CSOs)

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

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 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

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

Output Expenditure

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 and 1994

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

Financial Assets and Liabilities (FALs)

Financial Assets and Liabilities information covers the whole non-financial public sector incorporating the General Government, Public Trading Enterprises and Public Financial 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 10 of Budget Paper No 1 *Budget Overview 2000-01*.

Financial Assistance Grant (FAG)

Prior to 2000-01, the FAG represented the main form of general revenue assistance provided to the States and Territories by the Commonwealth. The size of the FAG for each jurisdiction was determined by the Premiers' Conference each year, taking into account the pool of FAGs available for distribution between all jurisdictions in that year which were indexed in line with national CPI and population growth, the per capita relativity factors agreed by the Premiers' Conference, the State or Territory's share of the national population and special assistance for other jurisdictions funded out of the FAG pool. The FAG will be abolished with effect from 2000-01 under the Commonwealth's National Tax Reform package. Information on the FAG is presented in Chapter 8 of Budget Paper No 1 *Budget Overview 2000-01*.

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 Interdepartmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA), the States and Territories are required to establish, administer and fund a First Home Owners Scheme. This scheme is intended to offset the impact of the GST on house prices. The scheme will provide first home owners with a grant of \$7 000 as compensation for the impact of the GST on house prices.

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.

Full Time Equivalentents (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, the Public Trading Enterprises (PTEs) sector or the Public Financial Enterprises (PFE) sector. General Government agencies are departments, bodies, or offices that provide services free of charge or at prices substantially below their cost of production. This classification is 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. Prior to 2000-01, the main form of general revenue assistance provided to the States and Territories was the Financial Assistance Grant (FAG - see above). Other forms of general revenue assistance provided were National Competition Policy related payments and Identified Local Road Funds. Under the IGA, general revenue assistance grants will be provided in the form of GST revenue payments and transitional payments. In addition, National Competition Policy related payments will continue under the new arrangements.

Goods and Services Tax (GST)

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

Government Business Enterprises

Government Business Enterprises (GBEs) are entities which operate outside the Public Account, principally on the basis of funds derived through their operations, and have no impact on Budget expenditure except in circumstances where they receive funding for CSOs or receive payments for services provided. GBEs also may provide returns to the Consolidated Fund in the form of dividends to shareholders (the State) and the payment of taxation equivalentents 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 2000-01*.

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.

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.

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 through the Australian Tax Office and Australian Customs Service in the collection of the GST.

GST Law

Has the same meaning as defined in the *A New tax System (Goods and Services Tax) Act 1999* of the Commonwealth.

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 IGA, the Commonwealth has guaranteed that no State or Territory will be worse off financially under the new 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 to ensure that the guarantee provisions of the IGA are met.

Horizontal Fiscal Equalisation

See Fiscal Equalisation.

Implicit Price Deflator – GSP

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 Gross State Product (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 Commonwealth and all State and Territory Governments in June 1999 which provides for major changes to Commonwealth-State financial relations. Under the IGA GST revenue is to be distributed to the States and Territories on a horizontal fiscal equalisation basis. In return, the States and Territories have agreed to forego revenue and accept additional expenditure responsibilities.

Loan Council

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

Loan Council Allocation (LCA)

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

Major Works

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

Ministerial Council

Under the IGA, the Ministerial Council for Commonwealth-State Relations is established, comprising the Treasurer of the Commonwealth and the Treasurers of the States and Territories. The detailed responsibilities of the Council are provided in the IGA.

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).

NCP is not about competition for competition's sake and requires the consistent 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. For example, considerations include, but are not limited to, economic and regional development (including employment and investment growth) and the interests of consumers generally or a class of consumers, and social welfare and equity considerations (including community service obligations).

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 (e.g. 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 difference between Consolidated Fund receipts and the expenditure of these funds (net of loan repayments) is the Net Financing Requirement (NFR). When the NFR is a positive number it is funded by new borrowings. When the NFR is a negative number it represents a surplus which is available for the retirement of debt.

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 changing price levels over time. The term is used to contrast with 'real terms' (see below).

Outcomes

There are three different levels of outcomes. There are:

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

Output

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

Output 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, which prior to the year 2000 was held annually, to deal with Commonwealth-State financial relations issues. Under the IGA, this meeting will be replaced by the Ministerial Council (see above).

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 Financial 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, the Public Trading Enterprises (PTEs) sector or the Public Financial Enterprises (PFEs) sector. The PFE sector comprises those entities that perform central bank functions or have the authority to incur financial liabilities and acquire financial assets in the market on their own account. This classification is consistent with those adopted by the ABS.

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, the Public Trading Enterprises (PTEs) sector or the Public Financial Enterprises (PFEs) sector. PTEs aim to recover the majority of their costs by revenue generated from user charges. This classification is consistent with those adopted by the ABS.

Real Terms

Statistics measured in real terms remove the effects of rising prices or inflation to facilitate a more accurate measure of change 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 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, water, fish, 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, State authorities and State-owned Companies 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 2000-01*. It provides information on the whole State public sector's capital expenditure in Tasmania.

State Debt

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

State Government Concessions

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

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

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

State-owned Company

State-owned Companies (SOCs) operate outside the Public Account, principally on the basis of funds derived through their operations and are subject to Corporations Law. They have no impact on the Consolidated Fund except in circumstances where they receive payment for services provided by the SOC to the Government, or provide dividends, taxation equivalents or guarantee fees to the Government. Details of SOC's are provided in Chapter 11 of Budget Paper No 1 *Budget Overview 2000-01*.

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 a Supply Act is to appropriate funds for payments necessary for the ongoing business of the Government during the period between the first day of each financial year and the passing of the Consolidated Fund Appropriation Bill. It lapses when the Consolidated Fund Appropriation Act is passed. In previous years, where the Budget has been introduced into Parliament and finally passed by Parliament well into the Budget year, the Supply Act has played a very important role in the provision of funds to agencies. With the movement to a May Budget, it is not expected that a Supply Act will be required in 2000.

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 a specific 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 certain Commonwealth taxes. Taxation equivalents are applied to ensure that GBEs and SOCs are not placed at a competitive advantage due to their exemption from these taxes. Under the IGA, wholesale sales tax will be abolished from 1 July 2000. Therefore, from 1 July 2000, GBEs and SOCs will not be required to pay taxation equivalents to the Government for this tax.

Territorial Revenue

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

Transitional Payments

The difference between the Guaranteed Minimum Amount and the revenue from the GST distributed to a State or Territory is referred to as the Transitional Payment. For 2000-01, the Transitional Payments to be provided by the Commonwealth will be in the form of both an interest free loan and a grant. Only grants will be provided in subsequent years.

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 70 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.