



Tasmania

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# **The Tasmanian Government Financial System**

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A guide to the operation of the  
State Government Financial System

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## Useful 2004-05 Budget and Government Web sites

<b><a href="http://www.treasury.tas.gov.au">www.treasury.tas.gov.au</a></b>	Copies of all Budget Papers can be found at the Department of Treasury and Finance's web site. The Department's web site also provides information on major departmental initiatives, activities and publications.
<b><a href="http://www.media.tas.gov.au">www.media.tas.gov.au</a></b>	This web site contains the Government's Budget related media releases.
<b><a href="http://www.tas.gov.au">www.tas.gov.au</a></b>	The Tasmania On-line web site provides links to the web sites of a wide range of Tasmanian public and private sector organisations.
<b><a href="http://www.service.tas.gov.au">www.service.tas.gov.au</a></b>	The <i>Service</i> Tasmania web site provides a comprehensive entry point to Government services in Tasmania.
<b><a href="http://www.tasmaniatogether.tas.gov.au">www.tasmaniatogether.tas.gov.au</a></b>	This web site provides detailed information on Tasmania <i>Together</i> , including the current status of this important initiative.

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# 1 INTRODUCTION

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## PURPOSE

The aim of this document is to provide summary information on the Tasmanian Government's financial system to assist readers in gaining an understanding of the financial operations of the Government and the Government's annual Budget Papers. As such, this document provides a variety of information on the content of the Budget Papers, the structure of the Tasmanian Public Sector, government financial accounting, and the Budget development, review and monitoring processes.

Also included in this document is information on other sources of Government financial information and a glossary of terms used in the Budget Papers.

A brief outline of the Budget and the Budget Papers is provided in the following section.

## THE BUDGET AND BUDGET PAPERS

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

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

Other documents presented simultaneously to Parliament provide information on many aspects of the State's financial affairs, including the Government's total revenues and expenses, the Government's financial assets and liabilities, the cost and funding of Outputs, the State Capital Program, financial relations with the Commonwealth Government, the operations and performance of departments and some State authorities, and the economic outlook and underlying financial trends.

The following documents currently form the Budget Papers package.

## Consolidated Fund Appropriation Bill

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

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

In 2002-03, an additional appropriation was made to the Economic and Social Infrastructure Fund for specific community and infrastructure development purposes through the *Consolidated Fund (Supplementary Appropriation for 2002-03) Act 2003* passed by Parliament in the 2003 Budget Parliamentary session. In 2003-04, an additional appropriation is again proposed to be made to the Economic and Social Infrastructure Fund. The *Consolidated Fund (Supplementary Appropriation for 2003-04) Bill 2004* will be considered during the 2004 Budget Parliamentary session.

These additional appropriations were introduced in accordance with the requirements of the *Public Account Act 1986* to appropriate additional funds for purposes which were not foreseen at the time of the original Budget.

## Budget Speech

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

## Budget Paper No 1 *Budget Overview 2004-05*

Budget Paper No 1 includes information which explains the context in which the Budget has been developed. The focus of Budget Paper No 1 is the Fiscal Surplus and financial position of the Tasmanian General Government Sector (refer to Chapter 2 of this document). It provides an overview and a detailed explanation of the major strategies of the Government in the coming financial year. The information provided includes:

- a detailed estimate of revenue and expenses for the coming Budget year;
- a revised estimate of the revenue and expenses for the current financial year and actuals as at 31 March;
- an estimate of the revenue and expenses for the Forward Estimates (each of the following three financial years);
- an estimate of the State's assets and liabilities for the coming Budget year and Forward Estimates; and
- details of expenditure from, and receipts to, the Consolidated Fund for the coming Budget year, the Forward Estimates, and the estimated Consolidated Fund outcome for the current financial year.

Budget Paper No 1 also includes information on the Tasmanian economy and its performance, and on Commonwealth-State financial relations.

## Budget Paper No 2 *Operations of Government Departments 2004-05*

Budget Paper No 2 includes a range of information on each entity included in the General Government Sector. Chapter 2 of this document lists those entities included within the General Government Sector. Presented for each department is a budgeted Statement of Financial Performance,

a budgeted Statement of Financial Position and a budgeted Statement of Cash Flows for both controlled and administered items. The presentation of these statements is broadly in accordance with the principles of Australian Accounting Standards (AAS).

Other information included in Budget Paper No 2 includes information on the operating environment and any major departmental initiatives for the coming Budget year. This Budget Paper provides details of the Consolidated Fund appropriations included in the Appropriation Bill. As such, Budget Paper No 2 provides the basis for Parliament's detailed review of the Appropriation Bill.

## The Tasmanian Government Financial System

As indicated in the introduction to this Chapter, this document provides an explanation of the Tasmanian Government financial system and the contents of the Budget Papers. A glossary of terms used in the Budget Papers is also included.

## Other documents distributed with the Budget Papers

A number of other documents are distributed with the Budget Papers. These documents include a summary of the Budget and documents providing more detailed information on major Government initiatives.

In 2004-05 a separate publication entitled *State and Local Government Working in Partnership* has been published for the first time. This document covers the majority of policy initiatives affecting Local Government and key performance measure information.



# 2 THE 2004-05 BUDGET FRAMEWORK

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## BUDGET SCOPE

The State Budget is based on the General Government Sector as defined under the Uniform Presentation Framework (UPF). The General Government Sector incorporates all Budget sector agencies as well as the transactions for a number of entities that reside outside the Public Account but which receive significant funding from the Government. Information on the State Budget is contained in Budget Paper No 1 *Budget Overview 2004-05*. Budget Paper No 2 *Operations of Government Departments 2004-05* provides further information on each entity included within the General Government Sector.

The focus of the State Budget is on the transactions of the General Government Sector with entities outside that Sector. These transactions are then reflected in the Fiscal Surplus and the financial position of the Government. A majority of the General Government Sector transactions occur from the Public Account which encompasses both the Consolidated Fund and the Special Deposits and Trusts Fund. Further information on the operation of the Public Account is provided in Chapter 7 of this document.

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

Appendix 1 of Budget Paper No 1 *Budget Overview 2004-05* presents the consolidated Budget position for the Total Non-Financial Public Sector (the General Government Sector and the Public Non-Financial Corporations) on an accrual UPF basis. The Total Non-Financial Public Sector excludes the Tasmanian Public Finance Corporation and the Motor Accidents Insurance Board, which are classified as Public Financial Corporations. Refer to Chapter 8 of this document for further information relating to the Total Non-Financial Public Sector.

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

## BUDGET DEVELOPMENT CONTEXT

The 2004-05 State Budget has been developed to meet the objectives of the Government's Fiscal Strategy.

# Fiscal Strategy

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

The current Fiscal Strategy was announced in the 2002-03 Budget Papers and extends for a period of six years. The Fiscal Strategy sets Tasmania's medium-term fiscal goals. The conclusion of the Fiscal Strategy will culminate in major achievements such as the elimination of General Government Sector Net Debt.

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

## *Budget Position*

### Principle

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

### Targets

- The Budget will be maintained in surplus; and
- The General Government Sector cash surplus will be sufficient to achieve the Government's established net debt targets.

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

## *Debt and Liability Reduction*

### Principles

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

### Targets

- General Government Sector Net Debt will be below \$450 million by June 2005;
- General Government Sector Net Debt will be eliminated by June 2008;
- General Government Sector Net Interest Costs will be zero by June 2008;
- Total State Sector Net Debt will be below \$1 000 million by June 2008;
- The State's unfunded superannuation liability will be extinguished within 16 years (that is, by June 2018); and
- Net Financial Liabilities for the General Government Sector will be eliminated within 15 years (that is, by June 2017).

## *Taxation Competitiveness*

### Principle

- Maintain a competitive State tax environment.

### Targets

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

## *Infrastructure Maintenance*

### Principle

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

### Target

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

## *Risk Management*

### Principle

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

### Target

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

For further information on the Budget development context, refer to Chapter 1 of Budget Paper No 1 *Budget Overview 2004-05*.

# COMPOSITION OF THE TASMANIAN PUBLIC SECTOR

The Tasmanian Public Sector comprises several different types of entities. These are classified according to the nature of activities in those sectors comprising the Total State Government Sector, namely the General Government, the Public Non-Financial Corporation (PNFC), and the Public Financial Corporations (PFC) Sectors. The State Budget in 2004-05 is based on the General Government Sector.

## General Government Sector

The General Government Sector comprises those agencies of government, the primary function of which is to provide public services which are mainly non-market in nature, for the collective consumption of the community, or which involve the transfer or redistribution of income and are

financed mainly through taxes and other compulsory levies. This sector includes government departments and a number of other entities including the Inland Fisheries Service, Marine *and* Safety Tasmania, the Royal Tasmanian Botanical Gardens, the State Fire Commission, and the Nominal Insurer (a statutory entity created by the *Workers Rehabilitation and Compensation 1988 Act*). The General Government Sector currently includes the following Government departments and other entities.

### *Government Departments and Executive Agencies*

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

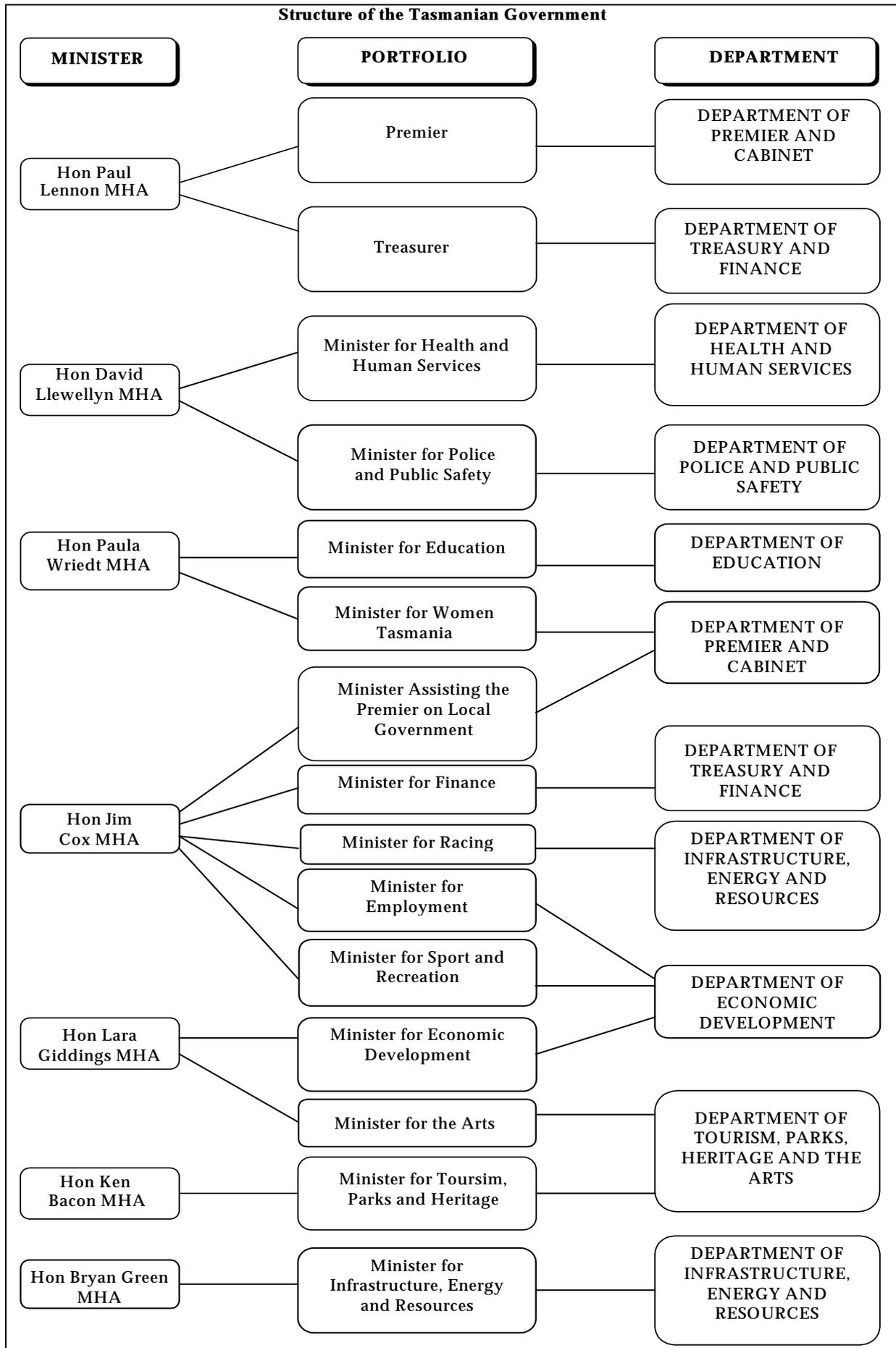
### *Other General Government Sector Entities*

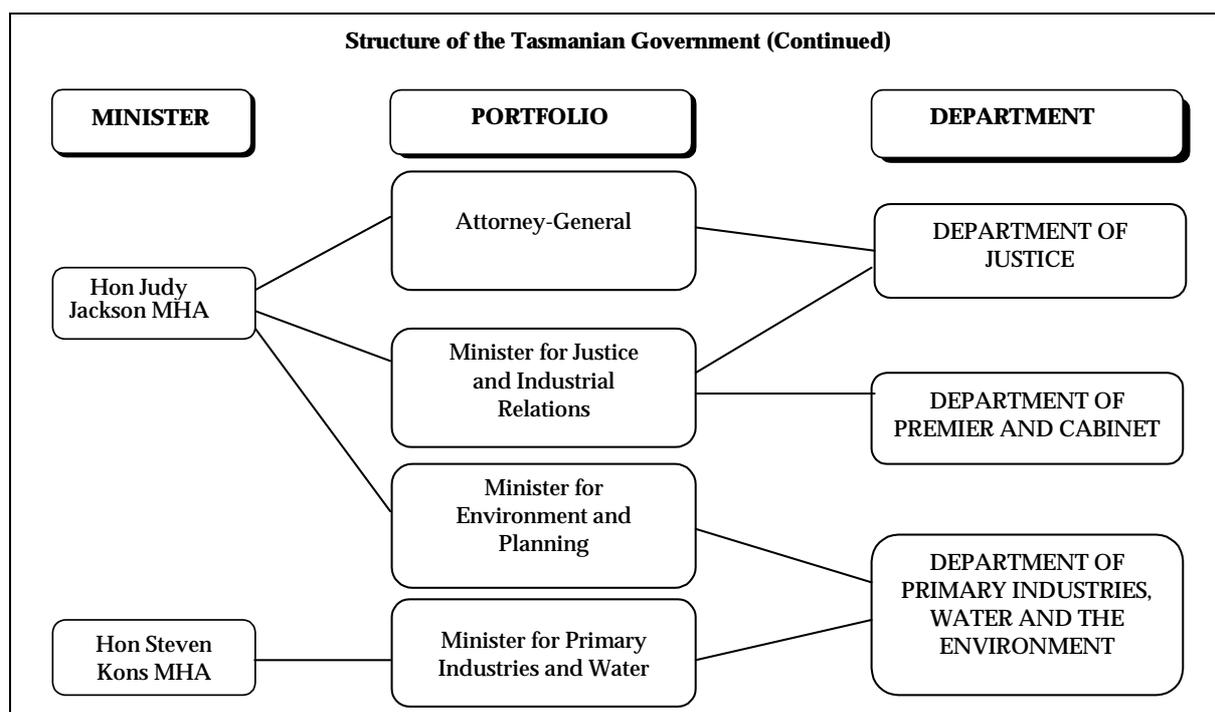
- Inland Fisheries Service
- Marine *and* Safety Tasmania
- The Nominal Insurer
- Royal Tasmanian Botanical Gardens
- State Fire Commission
- TAFE Tasmania

### *Government Departments*

State Government departments are established by order of the Governor under the provisions of the *Tasmanian State Service Act 2000* (the State Service Act), on the recommendation of the Minister responsible. Ministerial responsibility for departments is assigned under the provisions of the *Administrative Arrangements Act 1990*. Government departments are those listed in Schedule 1 of the State Service Act. The following diagram illustrates the current Ministerial portfolio and departmental structure of the Tasmanian Government.

**Structure of the Tasmanian Government**





In general, departments are engaged in the provision of goods and services (Outputs) to the public, private businesses or other government bodies. Outputs may also include policy advice and the administration of regulations, grants and benefits. Outputs are provided by departments in order to achieve Outcomes which contribute to the accomplishment of the Government's policy objectives in areas such as health, education, law, public safety, the environment and community infrastructure. The Output Methodology is described in greater detail in Chapter 5 of this document.

The major characteristics of a department are:

- it is funded totally or largely from the Consolidated Fund and therefore has a major direct impact on the State Budget;
- it is subject to Ministerial direction, under the provisions of the *Public Account Act 1986*, and the *Financial Management and Audit Act 1990* (FMAA); and
- it is required to prepare annual reports to be tabled in Parliament, with financial statements to be prepared on an accrual basis, and is subject to audit by the Auditor-General. The financial statements are required to comply with the relevant Australian Accounting Standards.

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

### *General Government Sector Authorities*

These Statutory Authorities are established under specific legislation which defines the purpose for which the authority has been established and the general functions for which it is responsible. Authorities falling within this category include the State Fire Commission and TAFE Tasmania.

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

<b>Authority</b>	<b>Portfolio Minister</b>	<b>Portfolio Department</b>
<b>Inland Fisheries Service</b>	<b>Hon Steven Kons MHA</b>	<b>Department of Primary Industries, Water and Environment</b>
<b>Marine <i>and</i> Safety Tasmania</b>	<b>Hon Bryan Green MHA</b>	<b>Department of Infrastructure, Energy and Resources</b>
<b>Royal Tasmanian Botanical Gardens</b>	<b>Hon Ken Bacon MHA</b>	<b>Department of Tourism, Parks, Heritage and the Arts</b>
<b>State Fire Commission</b>	<b>Hon David Llewellyn MHA</b>	<b>Department of Health and Human Services</b>
<b>TAFE Tasmania</b>	<b>Hon Paula Wriedt MHA</b>	<b>Department of Education</b>
<b>The Nominal Insurer</b>	<b>Hon Bryan Green MHA</b>	<b>Department of Infrastructure, Energy and Resources</b>

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

The PNFC Sector comprises those entities that aim to cover the majority of their expenses by revenue from the sales of goods and services and which are mainly market, non-regulatory and non-financial in nature. Generally, this sector covers the Government Business Enterprises (GBEs) and State-owned Companies (SOCs). These entities have a variety of functions and responsibilities, are established in varying ways and also have different relationships with the Budget.

The PFC sector comprises those entities that provide financial services, including central borrowing authorities (the Tasmanian Public Finance Corporation (Tascorp) and insurance companies (Motor Accidents Insurance Board).

Tascorp provides finance for other government entities and arranges for the investment of their surplus funds.

### *Government Business Enterprises*

These entities:

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

- may receive CSO payments which are reported as Grants and Subsidies expenditure by the purchasing department.

The following table indicates the Portfolio Minister responsible for each GBE. The Treasurer is the Minister responsible for overseeing all GBEs.

<b>Government Business Enterprise</b>	<b>Portfolio Minister</b>	<b>Portfolio Department</b>
<b>Forestry Tasmania</b>	<b>Hon Bryan Green MHA</b>	<b>Department of Infrastructure, Energy and Resources</b>
<b>Hydro Tasmania</b>	<b>Hon Bryan Green MHA</b>	<b>Department of Infrastructure, Energy and Resources</b>
<b>Motor Accidents Insurance Board</b>	<b>Hon Bryan Green MHA</b>	<b>Department of Infrastructure, Energy and Resources</b>
<b>Port Arthur Historic Site Management Authority</b>	<b>Hon Ken Bacon MHA</b>	<b>Department of Tourism, Parks, Heritage and the Arts</b>
<b>Printing Authority of Tasmania</b>	<b>Hon Bryan Green MHA</b>	<b>Department of Infrastructure, Energy and Resources</b>
<b>Rivers and Water Supply Commission</b>	<b>Hon Steven Kons MHA</b>	<b>Department of Primary Industries, Water and Environment</b>
<b>Southern Regional Cemetery Trust</b>	<b>Hon Jim Cox MHA</b>	<b>Department of Premier and Cabinet</b>
<b>Tasmanian International Velodrome Management Authority</b>	<b>Hon Jim Cox MHA</b>	<b>Department of Economic Development</b>
<b>Tasmanian Public Finance Corporation</b>	<b>Hon Paul Lennon MHA</b>	<b>Department of Treasury and Finance</b>
<b>The Public Trustee</b>	<b>Hon Judy Jackson MHA</b>	<b>Department of Justice</b>

### *State-owned Companies*

SOCs are established under specific or generic legislation which defines the purpose for which the SOC has been established and the general functions for which it is responsible. SOC's are subject to the Corporations Law with two shareholders, the Treasurer and the Portfolio Minister, holding the shares in trust for the Crown.

Major SOC's are Aurora Energy Pty Ltd, TT-Line Company Pty Ltd, Metro Tasmania Pty Ltd, Transend Networks Pty Ltd and the Port 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, eg electricity provided to agencies;
- provide returns to the Consolidated Fund in the form of dividends to shareholders (the State) and the payment of taxation equivalents and guarantee fees;

- are subject to specific legislation (eg TT-Line Company Pty Ltd is subject to the *TT-Line Arrangements Act 1993*) or generic enabling legislation (eg Aurora Energy Pty Ltd is subject to the *Electricity Companies Act 1997*);
- are subject to Commonwealth Corporations Law;
- prepare annual reports, with financial statements on an 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 Australian Accounting Standards; and
- may receive CSA payments which are reported as Grants and Subsidies expenditure by the purchasing department.

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

<b>State-owned Company</b>	<b>Shareholder Minister</b>	<b>Portfolio Department</b>
<b>Aurora Energy Pty Ltd</b>	<b>Hon Bryan Green MHA</b>	<b>Department of Infrastructure, Energy and Resources</b>
<b>Burnie Ports Corporation Pty Ltd</b>	<b>Hon Bryan Green MHA</b>	<b>Department of Infrastructure, Energy and Resources</b>
<b>Hobart Ports Corporation Pty Ltd</b>	<b>Hon Bryan Green MHA</b>	<b>Department of Infrastructure, Energy and Resources</b>
<b>Metro Tasmania Pty Ltd</b>	<b>Hon Bryan Green MHA</b>	<b>Department of Infrastructure, Energy and Resources</b>
<b>Port of Devonport Corporation Pty Ltd</b>	<b>Hon Bryan Green MHA</b>	<b>Department of Infrastructure, Energy and Resources</b>
<b>Port of Launceston Pty Ltd</b>	<b>Hon Bryan Green MHA</b>	<b>Department of Infrastructure, Energy and Resources</b>
<b>TOTE Tasmania Pty Ltd</b>	<b>Hon Jim Cox MHA</b>	<b>Department of Infrastructure, Energy and Resources</b>
<b>Transend Networks Pty Ltd</b>	<b>Hon Bryan Green MHA</b>	<b>Department of Infrastructure, Energy and Resources</b>
<b>TT-Line Company Pty Ltd</b>	<b>Hon Ken Bacon MHA</b>	<b>Department of Tourism, Parks, Heritage and the Arts</b>

## Other Entities

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

These entities:

- operate outside the Public Account, on the basis of funds derived through their operations, 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 Australian Accounting Standards.

# 3 THE STATE BUDGET

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The 2004-05 State Budget has been prepared on an accrual Uniform Presentation Framework (UPF) basis and includes all entities within the General Government Sector (refer to Chapter 2 of this document for a complete list of entities included in the General Government Sector). This framework provides details of the accrued revenues and expenses, receipts, payments, assets and liabilities of the Government in a standardised format.

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

The Government Finance Statistics (GFS) is an accounting framework for the production of national and government accounts that facilitates comparison of financial performance across jurisdictions and is increasingly used by financial markets, credit rating agencies and other analysts and commentators.

The UPF was first established by the Australian Loan Council in May 1991. The Council revised the UPF in March 2000 to adopt accrual Government Finance Statistics based reporting. The primary objective of the UPF is to ensure that Commonwealth, State and Territory governments present their budgets on a standard, comparable basis. It was recognised that a more uniform approach to the presentation of budgets, forward estimates and outcomes would facilitate a better understanding of individual government's financial results and projections.

The presentation of an accrual UPF budget is consistent with other Australian governments and discloses similar information to that presented in consolidated financial reports prepared under Australian Accounting Standards. In December 2002, the Financial Reporting Council (FRC) set a broad strategic direction for the Australian Accounting Standards Board (AASB) to achieve convergence of GFS and Generally Accepted Accounting Principles. The objective is to provide a single set of Government reports which are auditable, comparable between jurisdictions, and in which outcome statements are directly comparable with the relevant budget statements. The AASB is currently working to develop an accounting standard that achieves the objective set by the FRC.

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

# ACCRUAL UNIFORM PRESENTATION FRAMEWORK (UPF)

Accrual UPF Budget information:

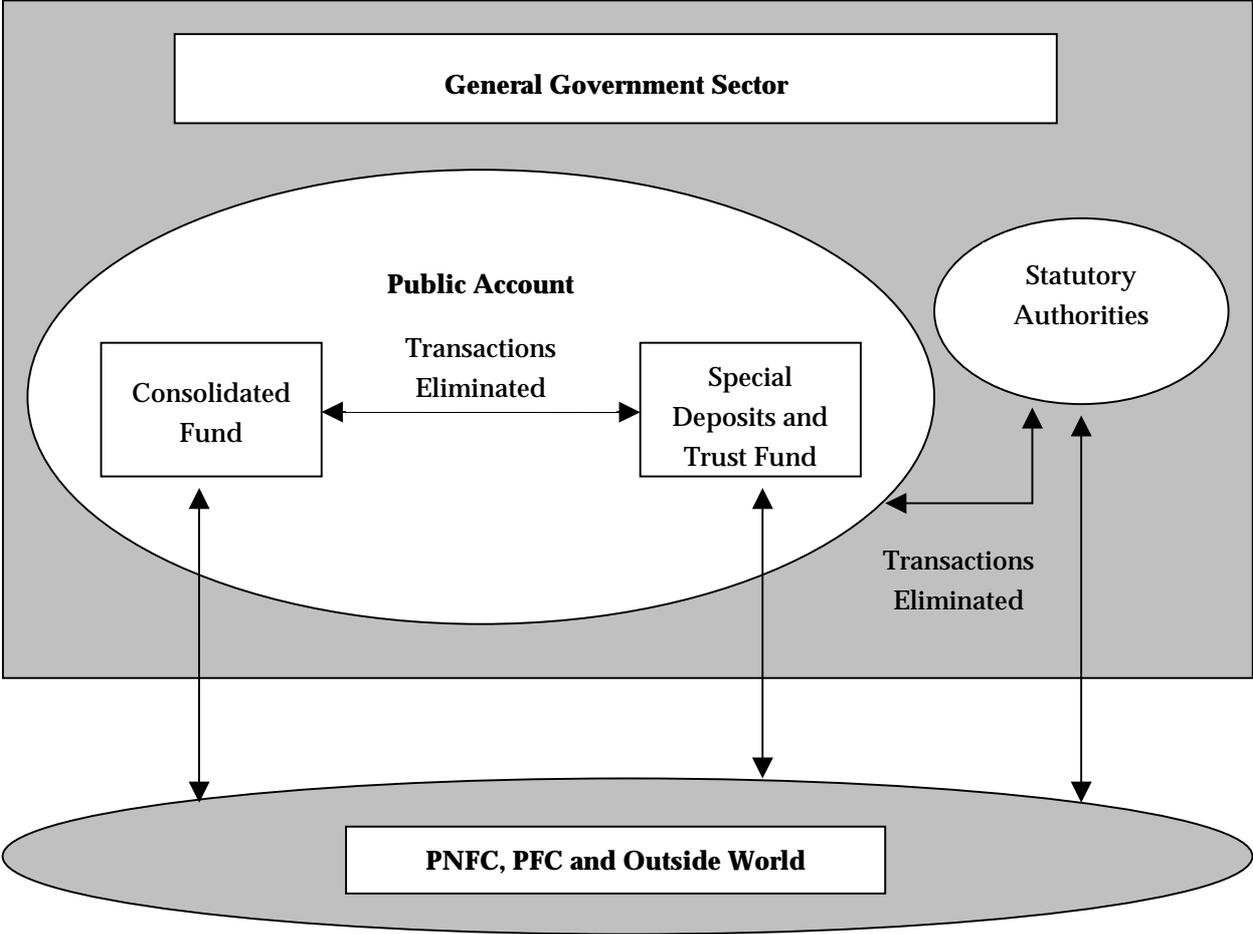
- is presented on a total source of funds basis, meaning that balances and transactions of both the Consolidated Fund and the Special Deposits and Trust Fund are included in the UPF Budget Statements; and
- includes accrual transactions such as depreciation and nominal interest on superannuation.

An important distinction in the UPF framework from the Australian Accounting Standards (AAS) framework, is that of 'transaction flows' and 'other economic flows'. Transactions result directly from a mutually agreed interaction between two parties, for example, the sale of a good or service. The definition of a 'transaction flow' also includes depreciation which does not involve interaction between two parties. The treatment of depreciation recognises that in this case the one party is acting in two roles, as owner of the asset and consumer of the services provided by the asset.

An 'other economic flow' is a change in the volume or value of an asset or liability that does not result from a transaction. This includes a wide variety of events such as revaluation of assets (holding gains or losses) arising from a change in market prices, and changes in the volume of assets that result from discoveries, depletion and destruction of assets. The impact of all 'other economic flows' are excluded from the UPF operating statement. These changes impact directly on equity in the balance sheet in the UPF treatment. This means that differences currently exist between the UPF operating statement and the statement of financial performance prepared in compliance with the AAS.

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

**Diagram 3.1: Transactions included in the General Government Sector**



Details of public sector estimates and outcomes are presented within the accrual UPF in three primary statements: the operating statement, balance sheet and cash flow statement. These statements form the core of the accrual UPF.

### Operating Statement

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

The operating statement reports two major fiscal measures: the Net Operating Result and the Fiscal Surplus. The Fiscal Surplus is the Tasmanian Government's headline Budget measure.

The General Government Sector Operating Statement is presented in Chapter 4 of Budget Paper No 1 *Budget Overview 2004-05*.

## *Net Operating Result*

The UPF Net Operating Result is the excess of revenue over expenses. The Net Operating Result excludes capital expenditure, but includes non-cash costs such as accruing employee entitlements and depreciation. By including all accruing costs, including depreciation, the Net Operating Result encompasses the full costs of providing government services. This makes it a good measure of the sustainability of the government's fiscal position over time and provides an indication of the sustainability of the existing level of government services.

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

## *Fiscal Surplus*

The Fiscal Surplus represents the difference between General Government revenue over expenses. It includes capital expenditure, but excludes depreciation.

The Fiscal Surplus measures a government's investment-saving balance and is a useful indicator of funds available for application to either assets or liabilities. A Fiscal Surplus indicates that the Government is saving more than enough to finance all of its investment spending.

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

## **Balance Sheet**

The balance sheet records a government's stocks of financial and non-financial assets and liabilities. This statement discloses the resources over which a government maintains control. The balance sheet is a financial snap-shot of a government, taken at the end of each financial year. By providing information on the type of assets and liabilities held by a government, the statement gives an indication of the government's financial strength.

The balance sheet includes data on the make up of a government's financial assets, on its holdings of fixed assets, and on the extent of liabilities such as borrowings and unfunded superannuation. This allows for intertemporal and interjurisdictional comparisons of asset and liability levels. The major balance sheet indicators are Net Worth, Net Financial Worth, Net Financial Liabilities and Net Debt.

The General Government Sector Balance Sheet is presented in Chapter 7 of Budget Paper No 1 *Budget Overview 2004-05*.

## *Net Debt*

Net Debt is a measure used to help judge the overall strength of a jurisdiction's fiscal position. Net Debt comprises the stock of specified gross financial liabilities less selected financial assets. High levels of Net Debt impose a call on future revenue flows to service that debt and can therefore limit a government's flexibility to adjust expenditure.

## *Net Financial Liabilities*

Net Financial Liabilities is Net Debt plus gross unfunded superannuation liabilities. This additional information is important in gauging the strength of a government's fiscal position. This measure is not

included in the UPF. However, it is commonly used by international credit ratings agencies as it targets the significant financial assets and liabilities held by most governments.

### *Net Financial Worth*

Net Financial Worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets minus liabilities. Net Financial Worth is a broader measure than Net Debt, in that it incorporates provisions made (such as superannuation, but excludes depreciation and bad debts) as well as ownership of equity. Net Financial Worth includes all classes of financial assets and liabilities, only some of which are included in Net Debt.

### *Net Worth*

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

## Cash Flow Statement

The cash flow statement records a government's cash receipts and payments. The cash flow statement reveals how a government obtains and expends cash.

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

The signing convention within the cash flow statement is that all inflows carry a positive sign and all outflows carry a negative sign (regardless of whether they are gross or net cash flows). The cash flow statement reports two major fiscal measures: net increase in cash held and cash surplus. Net increase in cash held is the sum of net cash flows from all operating, investing and financing activities. The cash surplus comprises only net cash received from operating activities, and from sales and purchases of non-financial assets, minus distributions paid (in the case of public financial corporations and public non-financial corporations), minus finance leases and similar arrangements.

The General Government Sector Cash Flow Statement is presented in Chapter 9 of Budget Paper No 1 *Budget Overview 2004-05*.

### *Cash Surplus*

The Cash Surplus is important for cash management purposes. The Cash Surplus represents the difference between General Government operating and investing receipts over expenditure (including capital expenditure).

It should be noted that the ABS concept of a surplus/(deficit) does not include equity injections/withdrawals and the repayment of advances. These items can have a major impact in any

given year. The ABS classifies these transactions as Financing Transactions which have no impact on the calculation of the surplus/(deficit).

### *Net Increase in Cash Held*

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

This measure provides a mechanism for managing the cash position to ensure that sufficient cash is available to fund Government policy decisions.

# 4 DEPARTMENTAL BUDGETS

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## PRESENTATION OF DEPARTMENTAL BUDGETS

Agency Budgets are presented in Budget Paper No 2 *Operations of Government Departments 2004-05*. Budget Paper No 2 provides the following information in regard to each department included in the General Government Sector:

- the operating environment of the department/authority during 2004-05, including the implementation of new and continuing Government initiatives;
- non-financial information such as the nature of the Outputs provided by the department and the Outcomes to which those Outputs are linked (refer to Chapter 5 of this document for information regarding Outputs Methodology);
- detailed Output Group information (including financial and performance information) in relation to each Output Group of the department; and
- financial information on a whole-of-agency basis.

Chapter 19 of Budget Paper No 2 provides information on the statutory bodies that are included within the General Government Sector for the 2004-05 Budget.

The financial information provided for each department consists of information on the total resources available to the department/authority, including the sources of revenue, areas of expenditure, grants and subsidies and capital investment projects. This information is presented on an accrual basis in accordance with Australian Accounting Standards, specifically Australian Accounting Standard 29 *Financial Reporting by Government Departments* (AAS 29).

As department financial statements are currently prepared in accordance with applicable Australian Accounting Standards, the department budget presentation will provide greater consistency between departmental budgeting and reporting.

Under AAS 29, financial information is provided through three separate statements:

- a Statement of Financial Performance (Operating Statement);
- a Statement of Financial Position (Balance Sheet); and
- a Statement of Cash Flows.

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

In addition to providing the above detailed department statements for controlled and administered, agency financial information in Budget Paper No 2 also includes:

- summary financial information by Output Group;
- details of grants and subsidies provided by departments;
- details of the revenue collected on behalf of the Government; and
- details of Capital Investment Program project expenses.

## Statement of Financial Performance

The Statement of Financial Performance includes all of the operating transactions undertaken by the department. It includes all controlled and administered transactions on an accrual basis. The controlled and administered activities are segregated within the statement.

Operating revenue includes the Consolidated Fund Appropriation to the department, Commonwealth funding and non-government funding such as the proceeds from the provision of goods and services to individuals, groups or organisations.

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

### *Net Operating Result*

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

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

It should be noted that departments are mainly funded through a cash-based appropriation and therefore may require additional cash funding from time to time to ensure the ongoing sustainability of the department.

Net operating surpluses or deficits can occur due to the timing of when a department receives an appropriation, as departments are funded on a cash basis, but are recording expenses on an accrual basis. For example, any increase in long service leave entitlements is shown each year, but the funding of the leave will be appropriated when the cash is required by the department which may not be in the same year as the expense is incurred. Another example is the funding of capital works. While the annual utilisation of assets is shown through an annual depreciation charge, the Government will not fund the department for capital works until an asset needs replacement or major capital improvements. Therefore, a deficit may occur in those years where capital expenditure is not requested while, in the year the funds are provided a surplus may result. This occurs because although the appropriation will be reflected, as Revenue from Government in the Statement of Financial Performance, the majority of the expenditure will be reflected in the Statement of Financial Position.

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

## Statement of Financial Position

The Statement of Financial Position includes all of the assets and liabilities of the department. The Statement of Financial Position is a financial snap-shot of the department, taken at the end of the financial year and includes data on financial assets (cash), on holdings of fixed assets (land and buildings), and on the extent of liabilities such as creditors, borrowings and superannuation. The assets and liabilities are segregated into controlled and administered activities.

Those assets and liabilities that are expected to be received (assets) or paid (liabilities) within the next 12 months are considered current. Those assets and liabilities that are expected to be received or paid outside 12 months are considered non-current.

Assets reflect what the department controls or what is owed to the department at a point in time. Liabilities reflect what the department owes to others at a point in time.

### *Net Assets*

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

## Statement of Cash Flows

The Statement of Cash Flows includes all of the operating, investing and financing transactions undertaken by the department. Operating transactions are those which relate to the core business of the department, for example the collections of taxes, the distribution of grants and the provision of goods and services. Investing transactions are those which relate to the management of assets, including the sale and purchase of fixed assets such as land, buildings and plant and equipment and management of investments and customer loans. Financing transactions are those which relate to changes in the financial assets and liabilities of the department and generally reflect the borrowing activity of the department. Activity in this area for departments is restricted and will only appear in some department's statements.

The controlled and administered activities are segregated into two parts within this Statement.

The Statement of Cash Flows also includes the GST transactions of a department. The GST flows are shown in the administered operating activities section on the Statement of Cash Flows. In accordance with Australian Accounting Standards principles, GST is not reflected in the Statement of Financial Performance.

### *Net Increase/(Decrease) in Cash Held*

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

## Other Agency Financial Information

As noted above, departmental budget information contained within Budget Paper No 2 contains various other financial information. Further explanation of this information is provided in Chapter 1 of Budget Paper No 2 *Operations of Government Departments 2004-05*.



# 5 THE BUDGET METHODOLOGY

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The Output Methodology was fully adopted as the Budget Methodology for the 1996-97 Budget, replacing the previous system of appropriating funds on a Program basis.

## THE OUTPUT METHODOLOGY

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

### Outputs and Outcomes

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

An Outcome, such as a Tasmania *Together* goal, 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.

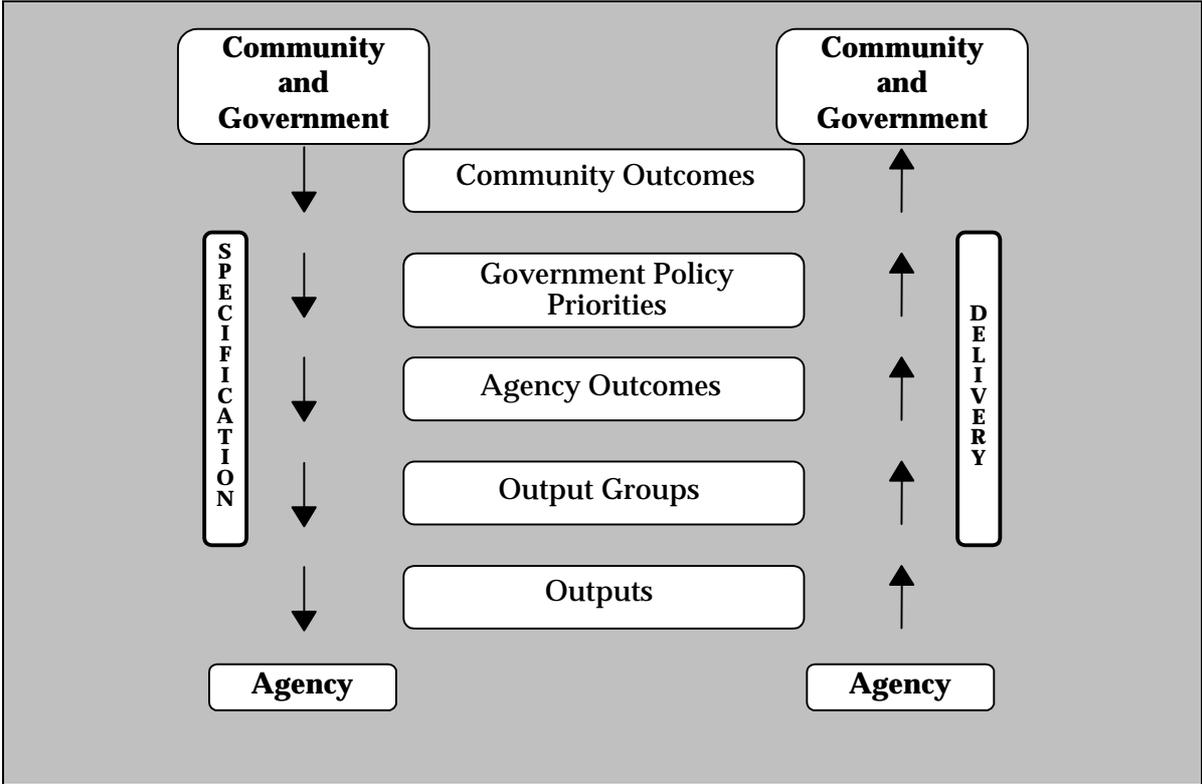
Community Outcomes are those Outcomes which are achieved over the longer term through contributions from all sectors of the Tasmanian community. Through the Tasmania *Together* process, the Tasmanian Government has placed a strong emphasis on the development of Community Outcomes. The related benchmarks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

Government Policy Priorities are those policy directions 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.

Diagram 5.1: Relationship Between Outcomes and Outputs



### Focus on Total Resources

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.

## THE BUDGET DEVELOPMENT CYCLE

The Budget Papers, presented annually to Parliament in May, 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 in June 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 Budget process has been developed to take into consideration the outcomes of *Tasmania Together*. Key elements of this process are:

- *Tasmania Together*, along with other major Government Policy Priorities such as the Industry Development Plan, Local Government Partnership Agreements and the Fiscal Strategy, provide a framework for the annual development of the Budget;

- analysis of information by Treasury, the Department of Premier and Cabinet, Budget Committee and Cabinet includes a strong focus on the achievement of Tasmania *Together* priorities and benchmarks;
- increased focus on department performance both in terms of Tasmania *Together* benchmarks and other agency-related performance indicators; and
- increased focus on the medium to longer term.

The Budget development process is summarised below.

Departmental forward estimate allocations for the next Budget year published in the Budget Papers (see Appendix 2 of Budget Paper No 1 *Budget Overview 2004-05*) form the basis for the development of the Budget. During the Budget year, the forward estimates are continually reviewed by Budget Committee, Treasury and departments to ensure that they reflect current circumstances and Government policy decisions.

In September, Cabinet, based on information provided by Budget Committee, determines the overall framework for the development of the Budget for the following year.

Also in September each year, Budget Committee calls for submissions from the community in relation to the Budget for the coming financial year. Subsequently, in November, members of Budget Committee meet with Ministers and peak community groups to discuss these submissions. Information received during this community consultation process is required to be addressed by departments during the Budget development process.

In late December, each department provides a comprehensive pre-Budget submission to Treasury. This submission includes qualitative information such as the department's operating environment, major issues which could be expected to impact on the delivery of the department's Outputs over the forthcoming Budget year and links between Outputs/initiatives and established Outcomes (including Tasmania *Together* related Outcomes). Financial information required to be provided includes detailed financial estimates for both expenditure and revenue. Departments are also required to provide performance information relating to the Outputs produced and, where appropriate, established Tasmania *Together* benchmarks.

This detailed information provided by departments is then subject to comprehensive analysis by Treasury and the Department of Premier and Cabinet.

Following the completion of this analysis, detailed pre-Budget reports relating to each department are prepared by Treasury with input from the Department of Premier and Cabinet. These reports highlight the results of the analysis of each department's submission and identify the major issues facing each agency during the forthcoming Budget year. The pre-Budget reports are provided to Budget Committee in late February and early March.

In March, Budget Committee meets with Ministers and Heads of Agency to discuss the information included in the pre-Budget reports prepared by Treasury. Upon the completion of these meetings, a Budget Cabinet Submission is prepared by Treasury for consideration by Budget Committee and, following Budget Committee's consideration and endorsement of the Budget Cabinet Submission, the submission is provided to Cabinet for its consideration. The Budget parameters are generally considered and finalised by Cabinet in early to mid-April.

In finalising the Budget parameters, Cabinet takes into account outcomes of the pre-Budget report discussions between Budget Committee and Ministers, Tasmania *Together* goals and benchmarks, the Government's medium-term Fiscal Strategy targets, input received by the Government through the Budget community consultation processes, the estimated result for the current year, national and State economic forecasts and a range of other factors. Important amongst these other factors are the recommendations of the Treasurers' Conference in relation to the distribution of GST revenue as required under the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA). The Treasurers' Conference comprises the Treasurer of the Commonwealth and the Treasurers of the states and territories. Over 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 10 of Budget Paper No 1 *Budget Overview 2004-05*.

Once the Budget is finalised by Cabinet, Heads of Agency are advised of the proposed Budget allocation for their department for the Budget year, as well as forward estimates for the subsequent three years.

Departmental information for inclusion in Budget Paper No 2 *Operations of Government Departments 2004-05* is provided to Treasury by departments in early May.

The Budget Papers and related documents are then prepared by Treasury for presentation to Parliament by the Treasurer in late May.

## PARLIAMENTARY REVIEW OF THE BUDGET

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

Following the introduction of the Consolidated Fund Appropriation Bill into Parliament, the Budget is debated in the House of Assembly. Immediately after the second reading of the Bill, the Bill is referred to two House of Assembly Estimates Committees.

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

On completion of the Estimates 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.

The Legislative Council also undertakes an Estimates Committee process to facilitate the detailed analysis of the Budget by Members of the Legislative Council. In recent years, these Estimates Committees 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 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 current Parliamentary arrangements do not provide any mechanism for resolving a deadlock between the two Houses.

Once the Consolidated Fund Appropriation Bill has been passed by both Houses of Parliament, it is presented to the Governor for Royal Assent. The Appropriation Bill receives Royal Assent prior to 30 June.

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 has been required), further Consolidated Fund Supply Bills can be introduced into Parliament to provide funds for ongoing Government operations, pending the passage of the new Appropriation Act.



# 6 MONITORING AND REVIEW OF THE BUDGET

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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.

Once the Budget year commences, the Budget monitoring and review process commences and continues until the end of the Budget year. This monitoring and review process is undertaken both at the departmental level by departmental management and at a whole-of-government level by Treasury.

As part of the Budget monitoring process, departments are required to report to Treasury any variation from Budget estimates as soon as the variation becomes known. Possible variations in departmental expenditure and revenue are also identified through ongoing discussions between Treasury and departmental officers which occur throughout the Budget year. This information is used by Treasury to manage the whole-of-government Budget on a day to day basis.

In February, the Treasurer publishes an estimated Budget outcome which takes into consideration departmental variations. The estimated Budget Outcome is contained within the Mid-Year Financial Report. Refer to Chapter 9 of this document for further information.

## 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 agency appropriation being exceeded.

The Treasurer may approve the provision of additional funding for necessary increases in expenditure on Outputs, above that appropriated by the Appropriation 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 an authority for additional expenditure from the Consolidated Fund, subject to the Treasurer obtaining a supporting report by the Auditor-General and the approval of the Governor-in-Council.

All expenditure in excess of appropriation is tabled in Parliament in accordance with section 19 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. In the past two years, a second Appropriation Bill has been presented to Parliament to appropriate additional available funds for specific community and infrastructure development purposes that were not foreseen at the time of the original Budgets.

## PARLIAMENTARY REVIEW

In addition to the initial Parliamentary review of the Budget outlined in the previous Chapter, Parliament also conducts ongoing 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 one or both Houses of Parliament. Examples of the latter are the Select Committees into Working Arrangements of Parliament, Industrial Relations and Community Development.

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

## The Parliamentary Standing Committee of Public Accounts

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

## The Parliamentary Standing Committee on Public Works

The Public Works Committee is established under the *Public Works Committee Act 1914*. The Committee comprises members drawn from both Houses of Parliament. The role of the Committee is to report on every proposal for public works costing \$2 million or more of State Works and Services funds. The Committee is provided with plans, specifications and other material relating to the works and may summon witnesses if necessary. The Committee reports back to Parliament on its findings. Public works costing less than \$2 million may, by resolution, be referred to the Committee. The process by which projects are to be referred to the Committee is detailed in the *Procurement Practices Manual* published by Treasury in November 1997.

## Government Businesses Scrutiny Committees

Committees have been established by the House of Assembly and Legislative Council in recent years to inquire into the operations of select GBEs, State authorities and SOCs. In 2004, these Committees inquired into the performance of a number of major GBEs, State authorities and SOCs, including Aurora Energy Pty Ltd, Motor Accidents Insurance Board, Metro Tasmania Pty Ltd, Port Arthur Historic Site Management Authority, Rivers and Water Supply Commission, Tasmanian Public Finance Corporation, TOTE Tasmania and the Tasmanian International Velodrome Management Authority.



# 7 THE PUBLIC ACCOUNT

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The General Government Sector's financial operations are generally 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 of these Funds are specifically linked to individual Outputs of Government departments.

## THE CONSOLIDATED FUND

The Consolidated Fund contributes to the operations of all departments, is the source of funding for Reserved by Law payments and may make some contribution to the operations of other General Government Sector entities. The following sections provide information in relation to expenditure from, and receipts to, the Consolidated Fund.

Consolidated Fund funding is provided for two types of expenditure, recurrent services, and works and services.

### *Recurrent Services*

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

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 Output Expenditure or Grants and Subsidies 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 funding, departments do not have the discretion to transfer these funds to another Output; and
- Grants and Subsidies expenditure relate to payments or concessions made by the Government to individuals, groups or organisations. Grants and Subsidies expenditure do not represent Outputs

of a department, rather it is the administration of these payments that represents an Output of a particular department. Levels of individual Grants and Subsidies expenditure are determined by the Government, having regard to particular policy objectives. These payments are non-discretionary in that a department does not have the discretion to either alter the level of Grants and Subsidies expenditure from that agreed by the Government, or to transfer the funds to Outputs. Examples of Grants and Subsidies expenditure are the funds provided by the Government to private operators, through the Department of Infrastructure, Energy and Resources, for student transport services and the funding provided to a large number of community sector organisations, through the Department of Health and Human Services, for community health and support services.

### *Works and Services*

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

### *Expenditure from the Consolidated Fund*

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

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

Funds also may be appropriated by a Supply Act. Since the introduction of a May Budget in 1999, a Supply Act has not been required.

### *Consolidated Fund Receipts*

Under the Public Account Act, unless specifically excluded by that Act or another statute, all revenue of the State is to be credited to the Consolidated Fund. The Consolidated Fund receives funds from a number of sources, the major categories being:

- receipts from the Commonwealth for general recurrent purposes such as GST Revenue;
- receipts from the Commonwealth for specific recurrent purposes such as Health Care, Disability Services and Home and Community Care;
- receipts from the Commonwealth for specific capital purposes such as Primary and Secondary Education, Technical and Further Education and the National Highway System;
- State Taxation receipts, the major items being Payroll Tax, Duties, Casino related taxes and Licence Fees;

- payments by Government Business Enterprises and State-owned Companies to the Government for dividends, tax equivalents and guarantee fees;
- Departmental Fees and Recoveries which include such fees as Land Titles Office fees, driver licence fees and vehicle registration fees; and
- Resource Rents and Royalties, the major item being mineral royalties.

A complete listing of individual Consolidated Fund receipts is provided in Appendix 2 of Budget Paper No 1 *Budget Overview 2004-05*.

### *Consolidated Fund Surplus*

The excess of Consolidated Fund receipts over the expenditure of these funds (net of loan repayments) is the Consolidated Fund Surplus (CFS). A CFS represents funds which are available for the retirement of debt. Until 1999-00, when Consolidated Fund expenditure exceeded receipts, the Budget outcome was described as the Net Financing Requirement (NFR). The NFR indicated the magnitude of the deficit required to be funded by new borrowings.

## The Special Deposits and Trust Fund

The 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 established in 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;

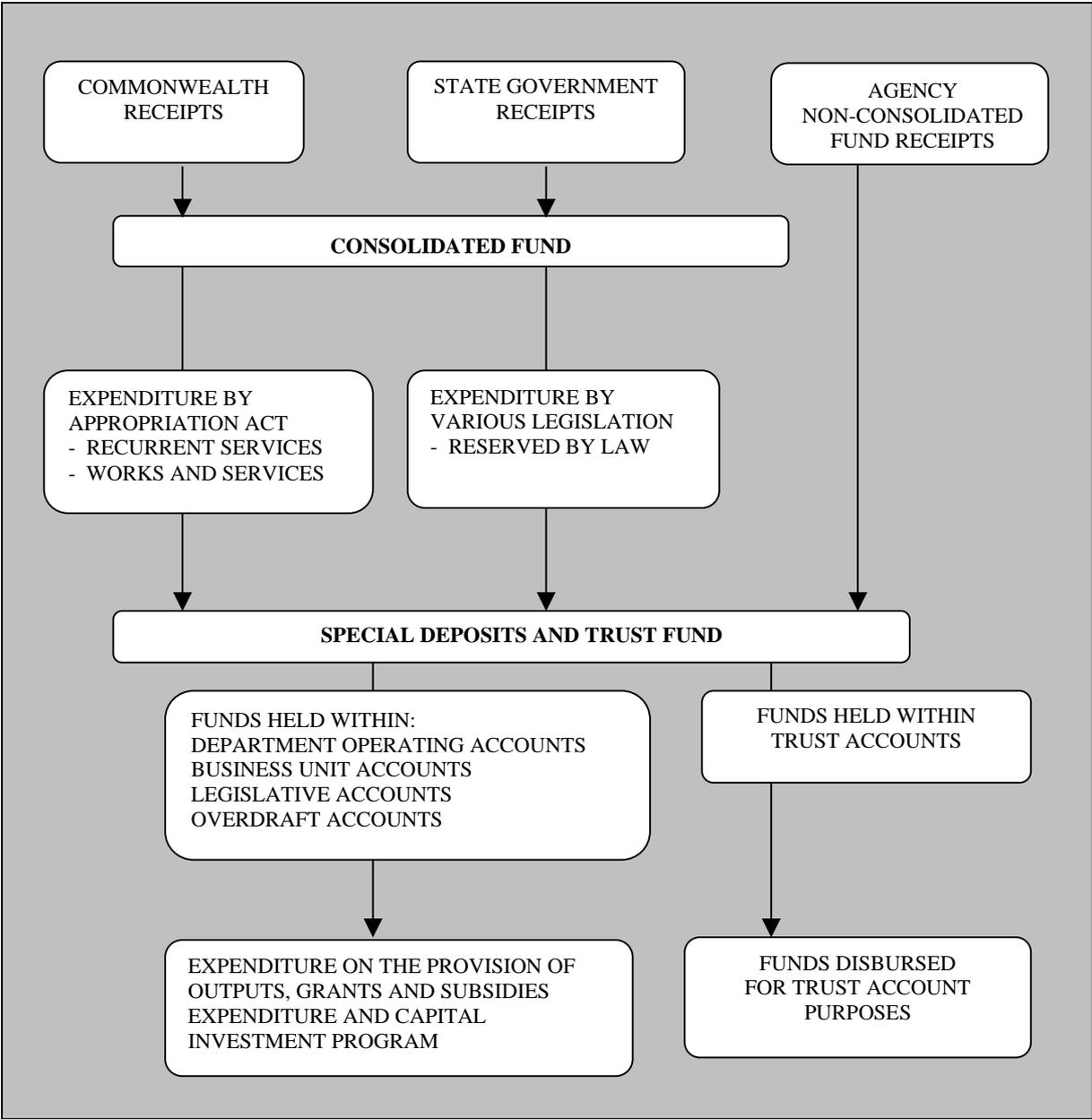
- Trust Accounts are accounts in which funds are held by the Government on behalf of a third party. These funds are not available to the Government to spend for its own purposes. Examples of Trust Accounts are the Tsuneichi Fujii Fellowship Account and the Supreme Court Suitors Fund Deposit Account; 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 Government Car Fleet Account which is used for the purchase of government vehicles.

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.

Surplus cash is used to repay maturing debt, thus reducing borrowing costs by delaying the need to refinance (or borrow). Such temporary debt payments are effectively an internal borrowing and are recorded in a Temporary Debt Repayment Account within the Special Deposits and Trust Fund, which results in the Account being overdrawn. However, should it ever be necessary, additional borrowing would be undertaken to ensure that the overdraft balance does not exceed the maximum limit. All monies deposited within the Special Deposits and Trust Fund remain available for their designated use at all times.

The following diagram summarises the operation of the Public Account.

**Diagram 7.1: Operation of the Public Account**





# 8 OTHER INFORMATION INCLUDED IN THE BUDGET PAPERS

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## COMMONWEALTH STATE FINANCIAL ARRANGEMENTS

Commonwealth sourced revenue is a vital source of revenue for all states and territories (states). This revenue is required to address the imbalance between the revenue raising powers and functional responsibilities of Commonwealth and State governments. While this imbalance existed prior to the implementation of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), the degree of imbalance has increased further since 1 July 2000, as a result of the reforms implemented under the Agreement. In 2003-04, it is expected that Commonwealth sourced revenue will comprise 62 per cent of the State's total General Government Sector revenue.

Chapter 10 of Budget Paper No 1 provides information on the Commonwealth-State financial arrangements, specifically addressing the major areas covered in Commonwealth-State financial arrangements, such as:

- the Commonwealth Grants Commission;
- the impact of the IGA;
- the Treasurer's Conference;
- major Specific Purpose Payments;
- Vertical Fiscal Imbalance; and
- Horizontal Fiscal Equalisation.

## UNIFORM GOVERNMENT REPORTING

Details of the basis of the Uniform Presentation Framework (UPF) have been provided in earlier chapters of this document. The primary objective of the UPF is to ensure that Commonwealth, State and Territory governments present their budgets on a standard, comparable basis. All jurisdictions are fully complying with the UPF and accrual based UPF information was included for the first time in Tasmania's 2002-03 Budget documents.

Appendix 1 of Budget Paper No 1 provides 2002-03 outcomes, 2003-04 revised estimates and 2004-05 Budget estimates for the Operating Statement, Balance Sheet and Cash Flow Statement for the

Tasmanian General Government, Public Non-Financial Corporations (PNFC) and Total Non-Financial Public Sectors. For the General Government Sector, Forward Estimates are provided for the period 2005-06 to 2007-08.

Jurisdictions are not required to report Budget and Forward Estimates for the Public Financial Corporations (PFC) Sector.

The purpose of the Appendix 1 of Budget Paper No 1 *Budget Overview 2004-05* is to:

- report on Tasmania's recent financial performance;
- enable a comparison with the recent financial performance of other states;
- present information on Loan Council arrangements and the Loan Council Allocation (LCA), which is primarily based on GFS aggregates; and
- satisfy information requirements under the UPF.

# 9 ADDITIONAL FINANCIAL PUBLICATIONS

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

## MID-YEAR FINANCIAL REPORT

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

The Mid-Year Financial Report contains:

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

In addition, to harmonise the release of financial information, this report includes a section that satisfies the Loan Council Mid-Year reporting requirements set out in the Uniform Presentation Framework (UPF). The UPF requires the production of revised fiscal estimates for the General Government, Public Non-Financial Corporations and Total Non-Financial Public Sectors.

## PRELIMINARY OUTCOMES REPORT

The Preliminary Outcomes Report is prepared in accordance with section 26 of the *Financial Management and Audit Act 1990*, which requires the publication of a preliminary outcomes financial report for the year ending 30 June each year by 15 August. The report provides a preliminary Budget outcome for the year. The reported outcomes are preliminary in nature because they are produced in a short timeframe, are based on unaudited information and accrual entries for the financial year may not be finalised.

The Preliminary Outcomes Report contains:

- an update on progress against the key Fiscal Strategy Measures contained within the Budget Papers;

- an Operating Statement, Balance Sheet and Cash Flow Statement for the General Government Sector showing the preliminary outcomes and original Budget estimates; and
- summarised details of the preliminary outcome for the Consolidated Fund.

## TREASURER'S ANNUAL FINANCIAL REPORT

The Treasurer's Annual Financial Report is prepared in accordance with section 26 of the *Financial Management and Audit Act 1990* (FMAA). Under the legislation, this report must be tabled in Parliament by 31 October each year. The report presents the final Budget outcomes, which will be audited by the Auditor-General. The report contains:

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

In addition, to harmonise the release of financial information, the report also includes the reporting requirements for Loan Council Outcomes required under the UPF. This includes information regarding the GFS outcomes for the Total State Sector and its component sectors and additional information regarding General Government Expenditure by purpose.

## REPORT OF THE AUDITOR-GENERAL ON THE PUBLIC ACCOUNT

This report, on the audit by the Auditor-General of all Government departments and public bodies for the previous financial year, must be submitted to Parliament by 31 December each year as required under the provisions of section 57(1) of the *Financial Management and Audit Act 1990*.

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

All departments, State authorities, GBEs and SOCs are required to produce annual reports which include the financial statements of the entity, and those of each Board, State authority or other organisation over which they exercise control, for tabling in both Houses of Parliament by 31 October each year. This requirement is provided under section 27 of the FMAA, section 36 of the *Tasmanian State Service Act 2000* for departments and section 55 of the *Government Business Enterprises Act 1995* for

GBEs. The requirement for SOCs to table their financial statements in Parliament is specified within either their enabling legislation or the Memorandum and Articles of Association for each SOC.

Annual reports also include reference to significant financial outcomes of agencies 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 2003-04 financial year will be published by December 2004.



# 10 OTHER SOURCES OF INFORMATION

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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 - 2003 Progress Report* - published by Treasury in September 2003. 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, first published by Treasury in June 1996 and updated in September 2001, provides assistance to State Government departments to facilitate the best practice implementation of grant schemes.
- *Fees and Charges Guidelines* - this document, first published by Treasury in January 1995 and updated in May 2003, provides assistance to agencies in preparing information about the costing of their goods and services (Outputs) to determine appropriate fees and charges.
- *Strategic Asset Management Framework* - published by Treasury in May 1997, this publication provides guidance to departments in the strategic management of assets. The Framework is currently under review.

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

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

- Australian Bureau of Statistics publications - these cover a wide variety of topics, including population and demographic issues and economic, industry and labour market conditions and provide nationally comparable data on Commonwealth and State Government finances.
- Australian Bureau of Statistics publication 5514.0.055.001 *Australian System of Government Finance Statistics: Concepts, Sources and Methods*.
- 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 & Poor's 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 2004* - this report, published in January 2004, is the ninth 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.
- The Accrual Budgeting Framework Brochure was prepared to provide an introduction to the Accrual Budget Framework and provide a brief overview of new Budget presentation requirements and definitions of new Budget measures.

# 11 GLOSSARY OF TERMS

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## **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.

## **Advances**

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

## **Appropriation**

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

## **Auditor-General**

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

## **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 Balancing Assistance**

Under the transitional arrangements of the Intergovernment Agreement, the shortfall between the revenue from the Goods and Services Tax (GST) distributed to a state or territory and that state or territory's Guaranteed Minimum Amount is referred to as Budget Balancing Assistance, with the amount being provided by the Commonwealth in the form of a grant.

## **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 2004-05*.

## **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 with the Government. To qualify as a CSA, the activity must meet similar identification criteria and net cost conditions as CSOs.

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

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

## **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 generally in force from 1 July in one calendar year until 30 June in the subsequent year.

## **Consolidated Fund Surplus (CFS)**

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

## **Constant Price Terms**

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

See also: Chain Volume Measures; Real Terms.

## **Consumer Price Index**

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

## **Department Operating Accounts**

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

## **Economic and Social Infrastructure Fund**

The Economic and Social Infrastructure Fund was established in the 2003-04 Budget to provide funding for major economic projects and the implementation of social initiatives. Further information on the Economic and Social Infrastructure Fund is provided in Chapter 4 of Budget Paper No 2 *Operations of Government Departments 2004-05*.

## **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 Year**

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

## **Fines**

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

## **First Home Owners Scheme**

Under the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA), the states and territories were required to establish, administer and fund a First Home Owners Scheme. The scheme provides first home owners with a grant of \$7 000 to offset 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.

## **Fiscal Surplus**

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

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

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

## **General Government Sector**

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

## **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. 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 are provided in the form of GST revenue payments. In addition, National Competition Policy related payments have continued under the new arrangements. There has been undertaking from the Commonwealth that National Competition Policy will continue beyond 2005-06.

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

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

## **Government Business Enterprises**

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

## **Government Financial Statistics (GFS)**

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

## **Governor-in-Council**

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

## **Grants**

Non-repayable, non-interest bearing assistance.

## **Grants and Subsidies Expenditure**

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

## **Gross State Product**

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

## **Horizontal Fiscal Equalisation**

See Fiscal Equalisation.

## **Implicit Price Deflator – 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.

## **Infrastructure Fund**

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

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

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

## **Loan Council**

A body comprising the Commonwealth, state and territory Treasurers which meets, usually on an annual basis, to determine the Loan Council Allocation 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 PNFC 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.

## **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, in most areas, requires the use of the public benefit test to ensure that all government and community objectives are considered before specific action is taken to facilitate competition in the economy. 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 selected financial assets (claims the Government has on external organisations and individuals) and selected financial liabilities (claims of external organisations and individuals on the Government) held in the form of cash, deposits, non-transferable loans, transferable debt securities (eg Treasury notes and bonds) and finance leases. This definition does not include other financial assets and liabilities such as accounts receivable/payable, assets (such as shares) representing equity in other organisations (including public trading enterprises), liabilities for unfunded employee entitlements and assets and liabilities in the form of long-term trade credit.

## **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 expenses less interest revenue and interest received from investments) to total revenue 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'.

## **Outcomes**

There are three different levels of outcomes.

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

## **Output**

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

## **Output Expenditure**

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

## **Output Methodology**

A system of operating, budgeting and reporting which focuses attention on the Government's desired policy Outcomes and the level of Outputs required to be provided 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 has been replaced by the Treasurers' Conference.

## **Public Account**

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

## **Public Debt**

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

## **Public Non-Financial Corporation Sector**

The PNFC comprises those entities that aim to cover the majority of their expenses by revenue from the sale of goods and services and which are mainly market, non-regulatory and non-financial in nature. Generally, this sector covers the State's Government Business Enterprises (GBE's) and State Owned Companies (SOCs).

## **Public Financial Corporations Sector**

The Public Financial Corporations Sector comprises those entities that provide financial services, including central borrowing authorities (the Tasmanian Public Finance Corporation) and insurance companies (Motor Accidents Insurance Board).

Central borrowing authorities provide finance for other government entities and arrange investments of their surplus funds.

## **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 Grants and Subsidies expenditure and Reserved by Law payments.

## **Reserved by Law Payments**

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

## **Royalty**

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

## **Special Deposits and Trust Fund**

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

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

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

## **State Capital Program**

The State Capital Program comprises the capital programs of State authorities, GBEs and SOCs and the capital expenditure programs of Government departments. Details of the State Capital Program are provided in Chapter 6 of Budget Paper No 1 *Budget Overview 2004-05*. It provides information on the whole State public sector's capital expenditure in Tasmania.

## **State Debt**

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

## **State Government Concessions**

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

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

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

## **State-owned Company**

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

## **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 was introduced into Parliament and finally passed by Parliament well into the Budget year, the Supply Act played a very important role in the provision of funds to agencies. Since the movement to a May Budget in 1999, a Supply Act has not been required.

## **Tascorp**

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

## **Taxation**

A compulsory levy or impost which the Government imposes on transactions, inputs, documents, property and certain activities for the purpose of raising revenue. 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 Commonwealth income tax. Taxation equivalents are applied to ensure that GBEs and SOCs are not placed at a competitive advantage due to their exemption from this tax.

## **Territorial Revenue**

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

## **Treasurers' Conference**

Under the IGA, the Treasurers' Conference is established, comprising the Treasurer of the Commonwealth and the Treasurers of the states and territories. The detailed responsibilities of the this forum are provided in the IGA.

## **Treasurer's Reserve**

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

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

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

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

## **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 72 per cent of national tax revenues but has direct responsibility for only approximately 54 per cent of all public sector outlays.

## **Works and Services**

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