

# Highlights

## Since 1998-99 the Budget:

- ◆ Shows full accrual revenues and expenses
- ◆ Reflects full accrual assets and liabilities
- ◆ Details cash receipts and payments
- ◆ Publishes four-year forward estimates for the General Government Sector

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The objectives of this Guide are to:

- ◆ Extend the reader's understanding of NSW public finances
- ◆ Explain the presentation of this Budget
- ◆ Help readers understand the impact of those changes on the reporting of performance of public service delivery and NSW's financial position

# Budget Papers Made Easy

## Budget Summary

*Sets out in simple graphical form the key elements of the Budget.*

## Budget Guide

*Provides step by step help for understanding the Budget Papers.*

## Budget Speech

*Budget Paper No. 1*

*Sets out the Government's budgetary strategy and financial plans.*

## Budget Statement

*Budget Paper No. 2*

*This Budget Paper presents detailed information both on the Budget itself (ie for the General Government Sector) and on State finances more generally. Analysis focuses primarily on the accrual results but is provided both on an accrual and cash basis.*

*Contents:*

- ◆ *Overview of Strategic Direction and Environment*
- ◆ *Budget Position and Outlook*
- ◆ *General Government Sector Revenues*
- ◆ *General Government Sector Expenses*
- ◆ *Asset and Liability Management*
- ◆ *Sydney 2000 Olympic and Paralympic Games*
- ◆ *Tax Expenditure and Concessions Statement*
- ◆ *State Economic Reform*
- ◆ *Financial Arrangements with the Commonwealth*
- ◆ *Interstate Public Sector Comparisons*
- ◆ *Government Finance Statistics and Uniform Reporting Framework*

## Budget Estimates

*Budget Paper No. 3, Volumes 1, 2 and 3*

*The Budget Estimates contain detailed revenue and expense information on an agency, program and portfolio basis. Information is provided on the net cost of providing services for each agency's programs.*

## State Asset Acquisition Program

*Budget Paper No. 4*

*Provides a summary of the General Government Sector and Public Trading Enterprise Sector Asset Acquisition Programs for 1999-00. Information is provided on an accrual basis.*

## Appropriation Bills

*Budget Paper No. 5*

*Contains three Bills -*

- ◆ *a Special Offices Bill to provide funding for the Ombudsman's Office, State Electoral Office, Independent Commission Against Corruption, and the Office of the Director of Public Prosecutions*
  - ◆ *a Bill to provide funding for the Parliament*
- ◆ *a general Appropriation Bill covering the remaining General Government Sector agencies*

## Western Sydney Budget Statement

*Details Government spending in the Western Sydney area.*

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**This section:**

- ◆ **Briefly describes the contents of each Budget Paper**

# The Financial Statements

## Understanding

### Operating Statement

State Revenues

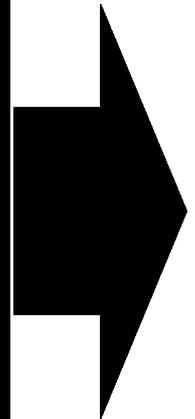
Operating Expenses

employee related  
operating, depreciation and grants expenses

Operating Revenues

Net Cost of Services

Surplus/(Deficit) for the Year



### Statement of Financial Position

Assets

Current Assets

Non Current Assets

Fixed Assets

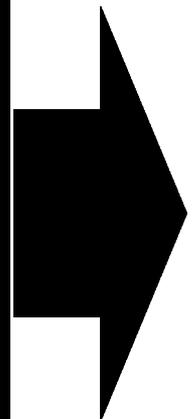
Other

Liabilities

Current

Non-current

Net Assets / Total Equity



### Statement of Cash Flows

Operating Cash Flows

Payments

Receipts

Investing Cash Flows

Payments

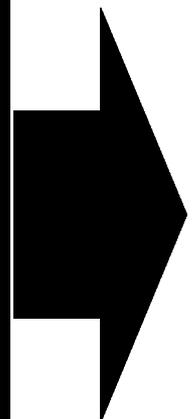
Receipts

Financing Cash Flows

Payments

Receipts

Net Movement in Cash Held



Otherwise known as the Profit and Loss Statement.

Includes taxes, fines and fees, financial distributions from Government businesses and

Incorporates expenses incurred, even if not yet paid.

Expenses include salaries and wages and employee entitlements such as superannuation and long service leave.

Includes all other operating expenses, maintenance of fixed assets, interest, depreciation and other expenses. Does not include expenditure on the purchase of assets.

Includes revenue earned in the period, even if not yet received.

Includes revenues from sale of goods and services, investment income and grants at individual agency level.

Measures the net cost of providing Government services. It equals the Operating Expenses less Operating Revenue.

This is the overall result for the current financial year, which corresponds to profit or loss in private sector reports. It equals State Revenues less the Net Cost of Services.

Also known as the Balance Sheet.

Assets are controlled by the entity and provide future economic benefits.

Current assets include cash investments, debtors and other assets expected to be converted to cash in the next financial

Non-current assets includes fixed assets and other assets not expected to be converted to cash in the next financial year.

Fixed assets include infrastructure, land and buildings and plant and equipment. The amount shown is net of accumulated depreciation which is charged on those assets with finite useful lives.

Includes non current investments and debtors and the Government's interest in infrastructure developed in partnership

Liabilities are amounts owed to other parties.

Current liabilities are those outstanding amounts which are expected to be paid during the next financial year. Includes wages and salaries and employee entitlements unpaid at end of the year but expected to be paid next financial year.

Includes also amounts payable to suppliers and short-term loans.

Non current liabilities are outstanding amounts which are not expected to be paid during the next financial year.

Total equity represents total assets less total liabilities and represents the Government's interest (or equity) as 'owner' of the agency/ies.

Also known as the Cash Flow Statement.

Shows all payments and receipts relating to normal business operations.

Is not the same as expenses and revenues because the receipts or payments may relate to transactions which occur in the previous or next financial year.

Shows all payments and receipts relating to maintaining the agency/ies' asset base. This includes purchases of new assets, new investments and proceeds from the sale of assets and investments.

Shows all payments and receipts relating to changing the size or composition of the agency's financial structure.

Changes to borrowings will be shown in this section.

Shows the net result of all cash receipts and payments for the current financial year. This amount, together with the opening cash balance gives the expected closing cash balance at the end of the current financial year.

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**This section:**  
◆ Lists the major items of each financial statement

◆ Provides a brief description of each item

# GFS and Accrual

## Presentations

Commencing with the 1998-99 Budget, the NSW Budget Papers have been prepared on two bases. First, an accrual presentation in accordance with Australian Accounting Standards and Principles. Second, on a cash basis in accordance with Government Financial Statistics (GFS) principles as defined by the Australian Bureau of Statistics. This dual presentation is continued in the 1999-2000 Budget.

The focus in the 1999-2000 Budget Papers is mainly on the accrual presentation. In particular, the assessment of the Fiscal Position and Outlook (BP2 Chapter 4) is based on the accrual based Operating Statement, rather than the traditional cash-based format.

The accrual financial statements are presented at both the General Government Sector and individual agency levels. These financial statements include:

- ◆ Operating Statement;
- ◆ Statement of Financial Position; and
- ◆ Statement of Cash Flows.

The Operating Statement shows the full cost of providing agency services by including non-cash expenses such as depreciation and increases in employee entitlements.

The Statement of Financial Position shows the assets, liabilities and net worth of the Government.

The Statement of Cash Flows details how the cash has been spent and where the cash has come from, divided into operating, investing and financing activities.

The Budget Papers also include a GFS cash presentation. The GFS cash presentation is provided to indicate the economic impact of the activities of the State Sector. It provides information on each of General Government agencies, Public Trading Enterprises and Public Financial Enterprises. The GFS cash information is prepared in accordance with an internationally recognised statistical framework developed by the International Monetary Fund (IMF). This allows greater transparency and permits comparison to other Government jurisdictions.

The GFS format is included because:

- ◆ The cash deficit/surplus result corresponds to the government's call on national savings and thus gives an indication of the impact of Government expenditure and taxation policies on the economy.
- ◆ It provides time series data that enables analysis of past trends.

# GFS to Accrual

## GFS Cash Result to Accrual Operating Surplus/Deficit

*Current Outlays -*  
*Current Receipts = Current Result*

+

*Capital Outlays -*  
*Capital Receipts = Capital Result*

=

## GFS Cash Budget Result Surplus/(Deficit)

*Less: Items **included** in the GFS cash budget result but **not** in the accrual based operating result*

Asset sale proceeds  
Gross fixed capital expenditure  
Movement in other operating assets and liabilities

*Plus: Items **included** in the accrual based operating result but **not** in the GFS cash budget result*

Depreciation and amortisation  
Downward adjustment of asset values  
Gain on asset disposals  
Other

*Equals: Accrual based operating result after abnormal and before extraordinary items*

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These sections:

- ◆ Explain the differences between accrual and GFS terms
- ◆ Convert the Budget from GFS cash to accrual

# Financial Reporting and Accounting

## in the General Government Sector

*A number of financial statements are issued during the course of the year and at year-end to report on progress against Budget Estimates and to account to Parliament and the Public.*

### Monthly Financial Statement

This Statement is released monthly to provide cumulative summaries of the outlays, revenue and grants received and financing transactions for the General Government Sector for the financial year to date. There is also a statement of the balances of cash and securities held by the Treasurer. These figures are shown against the Estimates made for the year.

### Quarterly Gazette

The quarterly gazette includes -

- ◆ a quarterly summary of the outlays, revenues and grants received and the financing transactions of the General Government Sector, and a statement of the balances of trust money held by the General Government Sector, as at 30 September, 31 December and 31 March in each financial year; and
- ◆ quarterly balances as at the above dates, summarised and distributed into cash and securities.

### Mid Year Budget Update

A statement is issued each February which provides an update of the latest economic and Budget projections for the current financial year as at the end of the previous December. The statements are prepared on both an accrual and GFS basis and include an explanation of significant variations in major aggregates from the projections included in the Budget Papers.

Also included are 3 year Forward Estimates of the Budget on a cash

### The Consolidated Financial Statements and the Public Accounts

For the first time in 1998, the Public Accounts and the Consolidated Financial Statements of the New South Wales Government were produced as a combined presentation.

The Public Accounts cover the General Government Sector.

The Public Accounts are prepared on an accrual accounting basis and include -

- ◆ the financial statements for the Crown Transactions Entity (covering service-wide transactions of both a core and commercial nature);
- ◆ the Budget result for the past year determined in accordance with Government Finance Statistics principles; and
- ◆ notes covering such matters as a Summary Statement of the Consolidated Fund, trust funds and loan liabilities owing to the Commonwealth.

The Consolidated Financial Statements cover the Total State Sector.

The Consolidated Financial Statements present accrual accounting information on the General Government, Public Trading Enterprise and Public Finance Enterprise Sectors. These financial statements include an Operating Statement, a Statement of Financial Position (i.e. balance sheet) and a Statement of Cash Flows. Detailed notes are included to comply with Australian Accounting Standards and the Public Finance and Audit Act.

### The Auditor-General's Reports

The Public Finance and Audit Act 1983 requires the Auditor-General to audit the Consolidated Financial Statements of the NSW Public Sector, including the Public Accounts, and provide an audit opinion to the Treasurer. Each year, the Auditor-General also submits to Parliament a comprehensive Report comprising three Volumes.

These Volumes include;

- ◆ A review of the State's Consolidated Financial Statements;
- ◆ a review of the financial operations of General Government Sector agencies; and
- ◆ a report on the Treasurer's Public Accounts and the State's statutory bodies.

### Annual Reports - Departments and Statutory Bodies

Government Departments and statutory bodies are required by legislation to prepare annual reports. The reports include audited financial statements prepared in accordance with the Public Finance and Audit Act 1983 and a narrative report as specified in the Annual Reports Acts and Regulations.

### NSW Parliamentary Public Accounts Committee Reports

The Public Accounts Committee comprises five members of the Legislative Assembly. It is appointed to examine the Public Accounts, the accounts of authorities and the Auditor-General's Reports and to report to the Legislative Assembly on any matter connected with those accounts or reports either on its own initiative or as a result of a reference from the Legislative Assembly, a Minister or the Auditor-General. A report by the Committee is printed and published once it has been transmitted to the Clerk of the Legislative Assembly. Thus publication is not dependent on Parliament being in session.

# Budget Scope

The Budget incorporates all General Government Sector agencies as defined by the Australian Bureau of Statistics (ABS). A list of New South Wales public sector agencies (classified according to sector) appears as an Appendix to BP2.

The General Government Sector covers all agencies that receive Parliamentary appropriations or are regulatory in nature.

Prior to last year's Budget, the Budget Papers only included Budget Sector agencies that received direct Parliamentary appropriations.

The approach adopted last year improves transparency and accountability by providing:

- ◆ a comprehensive picture of the non-commercial operations of the Government
- ◆ an independent definition of the Budget's scope
- ◆ direct comparability of the NSW Budget result against the results of other governments.

The financial transactions of Public Financial Enterprise (PFE) Sector and Public Trading Enterprise (PTE) Sector agencies are not generally reflected in the Budget aggregates.

However, there are two exceptions to the above which the Budget aggregates DO include. These are -

- ◆ explicit payments for "social programs", which are non-commercial functions required of Government Trading Enterprises by the Government; and
- ◆ dividends, tax equivalent payments and guarantee fees payable by the Public Trading Enterprise Sector which are shown as receipts in the Consolidated Fund.

Another important measure of the Government's performance is how the Government is managing the net worth of the Total State Sector. In Budget Paper No.2 Chapter 5, *Asset and Liability Management* includes commentary on the management of Total State Sector (ie including PTE and PFE Sectors) assets and liabilities including net debt and superannuation liabilities.

Similarly, BP2 Chapter 11 entitled *Government Finance Statistics and Uniform Reporting Framework* includes information presented on a GFS format for an extended coverage, that is, both the General Government Sector and the Public Trading Enterprise Sector. This fulfils uniform presentation framework requirements agreed between the Commonwealth and State Governments.

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These sections:

- ◆ Detail reporting against the Budget throughout the year
- ◆ Define the scope of the Budget Papers in 1999-00

# Terminology

## **Accrual Accounting Statements**

Consist of an Operating Statement, a Statement of Cash Flows and a Statement of Financial Position. These are prepared in accordance with accrual accounting principles and Australian Accounting Standards.

## **Appropriations**

The process by which monies are allocated by Parliament to Ministers for the purposes of funding agencies to provide goods and services to the public.

## **Budget-Dependent Agencies**

Agencies that are predominantly funded from the Consolidated Fund, rather than user charges.

## **Consolidated Fund**

The main banking account of the Government. It records -

- ◆ taxes, fines, fees collected;
- ◆ Commonwealth grants;
- ◆ financial distributions from non-General Government agencies;
- ◆ appropriations made to agencies; and
- ◆ Recurrent and capital appropriations to agencies

## **Equivalent Full-Time (EFT)**

Standard measure of staffing which measures an agency's labour force in terms of an equivalent number of full-time positions.

## **General Government Debt Elimination Act 1995**

The Act contains a number of provisions dealing with the coverage of the Budget and the standards to be used in presenting Budget data. Sets targets over time for the sound financial management of the State.

## **General Government Non Budget-Dependent Agencies**

Agencies that do not rely on the Consolidated Fund for ongoing financial support.

## **General Government Sector**

Consists of those public sector entities, which provide, in the main, goods and services outside the market mechanism as well as providing for the transfer of income for public policy purposes, in accordance with ABS definitions.

## **Government Finance Statistics (GFS)**

A system developed by the International Monetary Fund and used by the Australian Bureau of Statistics to classify the financial transactions of governments and measure their impact on the rest of the economy.

## **Net Appropriations**

Whereby sales of goods and services and other items of revenue are retained directly by the agencies rather than being passed through the consolidated fund.

## **Net Cost of Services**

Total expenses less user charges revenue and other revenues retained by agencies.

## **Operating Statement**

Details the major categories of expenses and revenues of agencies and includes non-cash items such as depreciation and accruing superannuation entitlements. Also, the Statement reflects movements in accrued items such as accounts receivable and accounts payable.

## **Outcomes**

The results for the community which the Government is seeking to influence.

## **Outputs**

Goods and services provided by agencies to assist in the achievement of the Government's desired outcomes.

## **Program Description**

Explains the activities which are grouped together within the program.

## **Program Objectives**

Statements of the broad aims of the program.

## **Program Statements**

Each program statement includes narrative material - program objectives and program description - as well as staffing and detailed financial information.

## **Public Financial Enterprise (PFE)**

Agencies which have one or more of the following functions: that of a central bank, the acceptance of demand, time or savings deposits, or the authority to incur liabilities and acquire financial assets in the market on their own account.

## **Public Trading Enterprise (PTE)**

Agencies that charge for services provided and hence have a broadly commercial orientation.

## **Social Programs**

Non commercial requirements imposed on Public Trading Enterprises by the Government.

## **Statement of Cash Flows**

Contains cash inflows and outflows from the agency's main operations together with cashflows derived from both investing and financing activities.

## **Statement of Financial Position**

Shows assets, liabilities and equity and is prepared for each agency and at a consolidated sector level.

## **Total Average Staffing**

Represents the number of staff engaged on outputs produced by the program.

## **Total Expenses**

The total amount incurred in the provision of goods and services, regardless of whether a cash payment is made to meet the expense in the same year.

## **Total State Sector**

Comprises the General Government Sector, the Public