

INTRODUCTION

1. Background to the Estimates System

The annual budget of a government operating under the Westminster system represents the authorisation by Parliament of the payments proposed by the government of the day according to its policies and priorities. The budget is in fact an Act (generally termed an Appropriation Act) passed by the Parliament to give legal effect to those payments.

The essence of the appropriation process is the concept that "public moneys" can only be expended by the executive arm of government under the authority of the elected legislative arm. The approach now adopted in New South Wales is that the budgetary process should clearly distinguish between those sources of funds which should only be used following approval by the Parliament (essentially those derived from taxation, Commonwealth grants, borrowings and certain other transactions of a "Crown" nature) and those funds earned by agencies through the sale of their services or through donations, industry grants, etc.

The former category of funds, those appropriated by Parliament, are treated as an income of the Consolidated Fund. The second category, which consists of user charges, grants from other agencies, donations, etc are, under the net appropriation approach, regarded as income of the agency.

Payments from the Consolidated Fund can only be made under the authority of Parliament. In general, this authority is given through the passing of the annual Appropriation Act.

The Appropriation Bill is introduced by the Treasurer and the Budget Speech is, in effect, the "second reading" speech of that Bill. The Bill (printed as Budget Paper No. 5) is supported by the more detailed "Budget Estimates" (i.e. this Budget Paper).

The estimates of payments are grouped together under the agency responsible for administering particular programs and these agencies are grouped under ministerial headings. All estimates are presented in program budget format.

2. Program and Contractual Budgeting in New South Wales

2.1 Background

Program budgeting was fully implemented in New South Wales in 1986-87 when all allocations from the Consolidated Fund (as shown in the Budget Estimates) were appropriated on a program basis. An outline of the background to and stages of implementation of program budgeting is contained in the introductory section in the 1987-88 Budget Estimates. Appropriations continue to be made on a program basis but, as indicated in Section 4.5, substantial flexibility is given to Ministers in allocating their funds.

Contractual budgeting involves the development of explicit linkages between resource allocation, the Government's intended policy outcomes and the outputs (i.e. goods or services) provided by Budget Sector agencies. It is designed to complement program budgeting by linking program objectives with actual results measured in terms of outcomes and outputs.

As announced in the Treasurer's June 1995 Financial Statement, contractual budgeting is being introduced incrementally within the NSW Budget Sector. As a first step, output and in selected cases outcome measures, are now included in this Budget Paper for major service provision and regulatory programs.

Inclusion of this information in the Budget enhances accountability for the goods and services produced by agencies. More importantly, it facilitates clarification of the Government's outcome objectives and assists discussion as to the most cost effective ways of achieving them.

The ongoing development and refinement of output and outcome measures will continue over time as both Ministers and agencies become more familiar with the approach.

Further information regarding contractual budgeting is provided in Chapter 6 of Budget Paper No. 2.

2.2 Program Hierarchies

In the program structure, the various functions of an agency are classified according to their major purposes and then subdivided into various components.

Two hierarchies have been developed for presenting Budget aggregates in New South Wales. The first hierarchy reflects the organisational structure of government, i.e. Ministers being responsible for individual agencies which undertake various activities grouped into programs. These programs in turn are grouped into program areas. This is the basis of the appropriation process and is the underlying structure of this Budget Paper.

Minister: highest level at which funds are appropriated.

Agency: Budget Sector department or authority (e.g. the Department of Agriculture).

Program Area: grouping of programs with common goals (e.g. Agricultural Services).

Program: individual program within a program area (e.g. Food and Fibre Products).

The second hierarchy recognises that Ministerial responsibilities and organisational structures change over time and that a number of agencies may undertake activities directed at common objectives. These factors make it difficult to determine how much the State is spending on "law and order" (for example), to make comparisons over time, or to compare between States often with differing organisational structures.

To overcome these problems, a functional structure has been developed based on the Australian Bureau of Statistics Government Purpose Classification (GPC) codes, which themselves are related to international classifications. This structure consists of policy areas and policy sectors, the latter being the more detailed dissection. The hierarchy is the basis of the dissections of total current and capital payments in Section 4.2 of Budget Paper No. 2.

3. Explanation of Statements

3.1 Financial Estimates by Minister, Agency and Program

Financial estimates are shown in the following format -

- Ministerial Appropriation Summary
- Agency Financial Summary
- Program Statements

Ministerial Appropriation Summary - This summary contains details of the amounts to be appropriated by Parliament to agencies for which the Minister is responsible. These sums are classified by type of appropriation (i.e. recurrent and capital) for each agency. These amounts agree with the allocations sought to be approved by Parliament through the passing of the Appropriation Bill.

Also included in the Ministerial Appropriation Summary is a table detailing the average number of staff employed by each agency (expressed on an equivalent full-time or EFT basis).

Agency Financial Summary - The level of resources which are projected to be expended by each agency which directly receives an appropriation by Parliament are detailed in this summary.

Recurrent resources are indicated in the **operating statement** while capital and financing resources are detailed in the **investing statement**.

Also shown is the **capital program** for the agency which details the asset acquisitions being planned by the agency and grants for capital purposes and advances being made to other agencies and sectors. The capital program includes items from both the operating and investing statements.

An explanation of the format of these statements is given in Section 3.3.

Program Statements - Each program within an agency is the subject of a separate program statement.

The content of the program statements varies, depending upon whether outputs (and in selected cases outcomes) are being published.

For those programs where outputs (and outcomes) information is not being published, the format for each program statement includes narrative material - program objectives and program description - as well as staffing and detailed financial information.

The **program title** is relatively concise, the intention being that it convey sufficient information to enable an interested reader to grasp in general terms what government functions or responsibilities are subsumed under the program.

Program objectives are statements of the broad aims of the program and indicate why the State is involved in the area.

The **program description** explains the activities which are grouped together within the program. The program description differs from the program objectives in that it indicates **how** the program is undertaken, rather than **why**.

Under each program, **activities** are listed. The activities have concise titles which follow logically from the program description. The full range of activities within the program is covered although relatively minor activities may not be discretely specified.

For each activity, or in some cases group of activities, the staff level is noted. These staff figures represent an estimate of annual average staffing, including temporary and short term "casual staffing", expressed on an equivalent full-time (EFT) basis. They are a guide to the **average number** of staff (EFT) who might be employed during the year on a particular program based on the funds intended to be spent on the program as a whole, not only to that component funded from the Consolidated Fund. The figures include staff charged both to recurrent services and to capital works and services. Where program costs consist of contributions to other bodies (e.g. transport authorities), staff figures for these bodies are not included.

For those programs where outputs (and outcomes) are being published, the activities section in the program statements is replaced by the following additional information -

- **outcomes** - the results for the community which the Government is seeking to influence (for example, the number of alcohol related motor vehicle collisions);
- **outputs** - goods and services provided by agencies to assist in the achievement of the Government's desired outcomes (for example, random breath tests); and
- total **average staffing** for the program (on an EFT basis), which replaces activity staffing.

For these program statements, output (and in some cases outcome) results are included (where available) for the period 1993-94 to 1994-95. In addition, estimates are generally provided for 1995-96 and 1996-97.

The financial components for both types of program statements follow the same format as those of the agency summary except that the "grants and subsidies", "other services" and "retained revenues" categories are further dissected.

The Investing Statement and Capital Program follow exactly the same format for a program as they do in the Agency Summary. In addition for each program which receives funding from Commonwealth Specific Purpose Payments or has dedicated funds of a taxation nature raised for activities undertaken by that program, details of such funding are shown as Program Receipts.

3.2 Estimates Presentation

The Budget estimates provided in this Budget Paper reflect the impact of the following factors -

- the adoption of **accrual accounting**, with all Budget Sector agencies now converted to **accrual accounting and budgeting**;
- the adoption of a comprehensive **total funds** approach which provides information on the use of cash resources from all sources; and
- the adoption of **net appropriation** budgeting whereby user charges and certain other items of revenue are retained by agencies and shown as one of the sources of funds supporting the program (with the Consolidated Fund being the other principal source).

The main features of this Budget Paper are -

- revenues retained by agencies are presented within the operating sections of the agency and program statements;
- the **net cost of services** is presented which is the total accrued expense of a program less agency revenue. This is the cost of the service which must be met by the taxpayer - either in the current year or future years. Given that it is an accrual measure, it includes non cash costs such as superannuation (which will be paid in cash in future periods), as well as the use of capital in the form of a depreciation charge;
- "Current Payments" which are in accordance with Government Finance Statistics principles developed by the Australian Bureau of Statistics. The derivation of this sum is detailed in Section 3.3 of this Introduction;
- an investing statement which not only shows the increase in the capital stock, but also other flows of a capital nature such as advances and debt repayments, and shows how these transactions are funded;
- a Capital Program section is shown, combining not only asset purchases by the agency but also grants for capital purposes and advances to other agencies or sectors; and
- details of Commonwealth specific purposes payments relating to activities of the program and Crown revenues which, under legislation, must be passed on to the agency.

3.3 Explanation of Agency and Program Statements

The table on the following pages explains the format of the Budget Estimates tables in detail (figures are for illustrative purposes only).

OPERATING STATEMENT**Expenses**

Operating expenses -	
Employee related	642,933
Other operating expenses	411,442
Maintenance	100,309
Depreciation	283,470
Grants and subsidies	213,050
Other services	223,415
	<hr/>

Accrual cost of providing services during the period in accordance with accrual accounting principles. Dissected into major categories of expenses.

Total Expenses **1,874,619**

Less:

Retained Revenue

User charges revenue	8,654
Other departmental revenue	5,107
	<hr/>

Revenues able to be retained by agencies under net appropriation budgeting.

Total Retained Revenue **13,761**

Net Cost of Services **1,860,858**

Accrual cost to the taxpayer of the services provided during the period.

The following adjustments reconcile between the accrual cost and the cash support from the Consolidated Fund.

Plus: Increase in inventories and prepayments	969
Increase in receivables	187
Increase in agency cash balances	50

Transactions that are funded in the current period but which do not reflect in expenses.

Revenues not yet received as cash.

Extent to which cash received from the Consolidated Fund and agency sources exceeds cash outflows.

Less: Non funded expenses -	
Depreciation	283,470

A non cash expense which does not have to be funded.

Crown acceptance of agency liabilities	80,972
--	--------

The Crown assumes direct funding responsibility for superannuation, etc for individual agencies.

Increase in accrued expenses	759
------------------------------	-----

Expenses not requiring a cash payment in the period.

Decrease in agency cash balances	...
----------------------------------	-----

Extent to which cash outflows in the period exceed cash received from the Consolidated Fund and from agency sources.

Consolidated Fund Recurrent Appropriation **1,496,863**

Level of cash support appropriated by Parliament for operating purposes.

Total Current Payments **1,467,826**

Cash payments of a current nature according to Government Finance Statistics principles. (Refer Note 1 for details of how this amount is determined.)

INVESTING STATEMENT**Outflows**

Acquisition of property, plant and equipment	113,472	Cash outflows of a capital nature (e.g. purchase of assets) or financing nature (e.g. debt repayments).
Advances paid to other organisations	335	
Advances repaid to other organisations	11	
Assets sales proceed transferred to the Crown	6,768	

Less:

Inflows

Advances paid to other organisations	49	Cash inflows of a capital nature (e.g. asset sales) or financing nature (e.g. advances received).
Advances received from other organisations	335	
Proceeds from sale of property, plant and equipment	13,868	

Net Inflows 106,334

Less: Decrease in agency cash balances	1,471	Extent to which cash inflows in the period exceed cash received from the Consolidated Fund and from agency sources.
--	-------	---

Consolidated Fund Capital Appropriation	<u>104,863</u>	Level of cash support appropriated by Parliament for capital purposes.
--	----------------	--

CAPITAL PROGRAM

Acquisition of property, plant and equipment	113,472	Purchase of assets plus grants for capital purposes and advances made to other agencies. (Capital grants appear in the operating statement as they are an expense for accrual accounting purposes.)
Capital grants and advances	335	
Total Capital Program	<u>113,807</u>	

NOTE 1:

Current Payments are derived as follows -

Total expenses

Less:

- Non funded expenses (cash payments do not arise in the agency for these items).
- Increases in accrued expenses (payments are made in a subsequent period).
- Capital grants (included as a capital payment and appear in the capital program).
- Transactions with other Budget Sector agencies. (As the reporting entity is the Budget Sector, a payment can only be counted if funds move to/from another sector, i.e. the Non Budget Sector, other levels of government or the private sector. The principal intrasector transaction is Payroll Tax which is an agency expense but, as funds are paid into the Consolidated Fund, is not a Budget Sector payment.)

Plus:

- Decrease in accrued expenses (expense incurred in a previous period which is funded in current period).
- Increase in prepayments (expense for a future period which is funded in current period).

4. Budget Controls

4.1 Net Cost of Services Constraint

Agencies are not permitted to incur net cost of services in excess of a predefined limit. This Net Cost of Services constraint is designed to ensure that future taxpayers are not disadvantaged by having to fund services provided to current taxpayers.

Excluded from this constraint is a limited number of expense items which are considered to be outside the control of individual agencies. The main items are superannuation and long service leave expenses, as the levels of these largely reflect government policy decisions.

4.2 Consolidated Fund Support

In addition to complying with the Net Cost of Services constraint, agencies are not to exceed the level of Consolidated Fund Recurrent and Capital support provided for in the Budget unless the Treasurer's prior approval is obtained. The additional support is only provided in exceptional circumstances and is funded from the Treasurer's Advance or under the provisions of Section 22 of the Public Finance and Audit Act.

4.3 Capital Program Authorisation Limits

The Authorisation Limit is the level of cash payments which agencies can make in forward years relating to approved capital works projects.

The Authorisation Limits applying to an agency's capital program are designed to allow Ministers to alter their projects within set parameters provided that there is no net impact on future years' funding needs.

4.4 Forward Estimates

In August 1989, for the first time, forward estimates of Consolidated Fund recurrent expenditures were released, covering the period 1989-90 to 1991-92. With certain minor adjustments, the 1990-91 forward estimates became the 1990-91 Budget allocations. Similarly, for each year, the forward estimates published in the preceding year's Budget Papers become (again with adjustments) that year's Budget allocations. Section 4.4 of Budget Paper No. 2 details the forward estimates for 1997-98 to 1998-99. The forward estimates enable an ongoing assessment of Governments' expenditure commitments relative to their financial strategy and at the same time provide a framework within which Budget Sector agencies can develop broad financial plans.

The forward estimates are adjusted on a regular basis to reflect additional initiatives approved by Government. The forward estimates, revised to reflect post Budget changes, and with the addition of one year, are advised to Ministers and their agencies in September each year.

4.5 Global Budgeting

In accordance with the policy of adopting a more global approach to budgeting, Ministers have been progressively given greater flexibility in deciding how to allocate their available funds between programs and line items.

With the change to a total payments presentation of the Budget from 1992-93, Consolidated Fund appropriations are no longer linked to individual line items or line item categories.

Ministers are now free (subject to any specific restrictions imposed by the Treasurer) to utilise funds within each program as best achieves the program aims. Allocations may also be transferred between programs under delegation from the Treasurer.

Transfers are not to occur where the resulting changes are inconsistent with any relevant Government policy or where they create unsustainable future commitments.

4.6 Funding Transfers

Ministers are able to seek approval of the Treasurer for the transfer forward of savings from the current year to the following year or the transfer backward from future years' allocations to the current year to cover a funding shortfall.

The transfer forward facility provides an incentive for agencies which underspend their allocation in the current year to utilise such monies in the following year on adequately planned once up items.

The transfer backward facility is directed at assisting agencies to overcome problems associated with temporary funding shortfalls.

4.7 Staff Number Monitoring

As part of the budgetary process, an Average Staff Number and Year End Staff Number are advised by each Budget Sector agency.

The Average Staff Number is the average staffing level for the year as shown in the Budget Estimates, while the year end staff number is the projected staff number for the following 30 June, including casual staff and temporary assistance. Both staff numbers are calculated on the basis of full time equivalent staff numbers. For example, 10 temporary or casual employees each working for half the normal working week would be shown as 5 staff units.

Staff number controls were abolished from 1 July 1991. Monitoring of staff numbers is continuing as an element in determining the ability of agencies to live within the level of funds available to them and to track the results of the efforts of the Government at improving efficiency.

4.8 Reporting Requirements

Budget Sector agencies report on a monthly basis on actual year-to-date revenues, expenses and staffing. Reports are also provided on the projected year-end financial position on a monthly basis for those agencies which have a significant impact on the Budget and on a less frequent basis for smaller agencies. In either case where there is a potential variation from the Budget estimate of Net Cost of Services, Consolidated Fund recurrent or capital support or Capital Program Authorisation Limits, agencies are required to advise Treasury immediately, identifying reasons for the variation and indicating the remedial action to be undertaken.

ESTIMATES OF PAYMENTS
BY PROGRAM

AND

AMOUNTS TO BE
APPROPRIATED

FROM THE

CONSOLIDATED FUND

Note: On 1 July 1996 the Department of Fair Trading will be established through the amalgamation of the activities of the former Department of Consumer Affairs with those of the Office of Real Estate Services, the Motor Vehicle Repair Industry Council and the Building Services Corporation. Comparatives for 1995-96 are only shown for the Department of Consumer Affairs as the other entities forming the new Department of Fair Trading were not part of the Budget in 1995-96.

The Office of Marine Safety and Port Strategy, and the Waterways Authority have been included in the Budget from 1 July 1996 as part of the Government's restructure of the former Maritime Services Board.

In previous years the Budget only reflected the net rentals received from the lease of office space to government agencies. From 1 July 1996 the rentals received and rentals paid on these properties have been included in Crown Transactions.

