

APPENDIX E: STATEMENT OF GOVERNMENT FINANCE STATISTICS AND ACCOUNTING PRINCIPLES AND POLICIES

FINANCIAL STATEMENTS

Chapter 1 of Budget Paper No.2 presents three Budget financial statements that comply with the accrual based government financial statistics (GFS) principles developed by the Australian Bureau of Statistics:

- ◆ Operating Statement;
- ◆ Balance Sheet; and
- ◆ Cash Flow Statement.

In addition, accrual GFS statements complying with the Uniform Presentation Framework are contained in Chapter 9, and statements complying with Australian Accounting Standards (AAS) are contained in Appendix A. Australian Accounting Standards have recently been updated to include Australian Equivalents to International Financial Reporting Standards (AEIFRS), so a reference to Australian Accounting Standards includes a reference to AEIFRS.

GFS Based Reports

The Budget result is defined to be equal to the GFS net operating result. The net operating result represents the amount by which the annual operations of government increase or reduce net worth¹. In arriving at the net operating result, depreciation (or the cost of wear and tear of agencies' assets arising from the delivery of services) is taken into account.

¹ Other factors influence the change in net worth such as asset revaluations, equity restructure payments from PTEs, and direct adjustments to accumulated funds on adopting new or amended accounting standards.

Under GFS reporting a further fiscal aggregate is the net lending result. It represents the balance available to reduce general government sector net financial liabilities. Consequently, the net lending result broadly approximates the movement in net financial liabilities, and links closely with the Government's focus on balance sheet management.

The principal difference between the Budget result (GFS based net operating surplus) and the net lending result is the treatment of capital. The Budget result includes a depreciation charge while the net lending result excludes depreciation but instead reflects agencies' acquisition and sale of non-financial assets.

The Balance Sheet details the financial assets, non-financial assets and liabilities that comprise the Government's balance sheet. The relevant balance sheet indicators are net debt, net financial liabilities and net worth.

The Government uses a GFS statement, rather than the accounting based version. The key difference is that the former includes an equity investment in the PTE and PFE sectors.

The Cash Flow Statement adopts a GFS format and classification approach with the key focus being the cash surplus/(deficit). The result reflects all payments and receipts on a cash basis. Any accrual transactions included in the Budget result, such as accrued dividends, are removed and replaced with the equivalent cash transactions.

Except for the time series break on the adoption of AEIFRS (from 2005-06), historical GFS data has been restated so that the results are consistent with the basis on which the forward estimates have been prepared.

Where GFS results have been impacted by one-off significant discretionary transactions, an underlying or adjusted result has been provided in these Budget Papers. This is provided to assist users compare time series on a consistent basis.

Accounting based reports

Agency statements in Budget Paper No. 3 and the consolidated statements in Appendix A of this Budget Paper, have been prepared in accordance with Australian Accounting Standards and generally accepted accounting principles.

They include all accrued expenses and revenues and reflect the operating result for general government agencies. This differs from the Budget result in Chapter 1 which is prepared on a GFS basis. GFS has an economic focus and for this reason excludes from the operating result any revenues and expenses that are related to the revaluation of assets or liabilities. These types of revenues and expenses are largely outside the control of governments. This different treatment can result in wide variances in the reported results under the GFS and the AAS approaches.

Examples of revenues or expenses included in the accounting operating result but excluded from the Budget result include:

- ◆ superannuation actuarial assessments;
- ◆ gains or losses on the sale of assets;
- ◆ valuation changes for non-financial assets; and
- ◆ gains or losses associated with debt management activities.

While the financial statements included in Appendix A and Budget Paper No. 3 have been prepared under AAS, they do not include the detailed disclosures found in annual audited accounts.

DEPARTURES FROM AUSTRALIAN ACCOUNTING STANDARDS AND GFS

Under the *Public Finance and Audit Act 1983*, the Treasurer is required to present a statement that discusses the nature of and the reasons for any departure from AAS, and from any GFS principles.

Departures from Australian Accounting Standards and Principles

The Budget preparation departs from Australian Accounting Standards as follows:

- ◆ the WorkCover Scheme Statutory Funds have not been consolidated because they are regulated, but not controlled by the NSW Government. This treatment has been confirmed in three separate legal opinions provided by the Crown Solicitor's Office since 1996, including advice given on the matter by the NSW Solicitor General. Despite these opinions the Auditor-General has qualified his recent Independent Audit Report for the 2004-05 Total State Sector Accounts, because he is of the opinion that the State has the capacity to dominate decision making in relation to the scheme's financial and operating policies;

- ◆ certain reserve trusts created under the *Crown Lands Act, 1989* have been excluded. There are approximately 37,000 Crown reserves in New South Wales. Some of these reserves are managed by the NSW Government and others by local governments and trusts. A project has commenced to identify and value Crown reserves controlled by the NSW Government. The likely value of the reserves controlled by the NSW Government cannot be estimated with any certainty. First estimates based on preliminary data are that the total value of these reserves may be between \$1 billion and \$7 billion. However, the total value may even be outside of this range. The NSW Government will recognise the value of Crown reserves it controls in future Total State Sector Accounts once this project is complete. The Auditor-General has also qualified his opinion on the 2004-05 Total State Sector Accounts. In his opinion, “Australian Accounting Standard AAS 31 *Financial Reporting by Governments* requires the fair value of the Reserves to be recognised because the State has the capacity to benefit from their use and can regulate the access of others to that benefit.”;
- ◆ the presentation in Budget Paper No. 3, of agency Operating Statements, is more concise than required under accounting standards. The Budget Paper No.3 presentation has been prepared to focus on agency operations and their net cost of services. Therefore Operating Statements exclude government contributions that are normally required under accounting standards.

Further, the recent adoption of AEIFRS requires a new primary financial statement, the Statement of Changes in Equity, which reports on non-operating movements in equity such as changes in reserves and direct equity adjustments from adopting new accounting standards. There is no disclosure in Budget Paper No.3 of agency *Changes in Equity*, as most agencies have minimal equity changes, aside from their operating results; and

- ◆ AEIFRS require that comparative financial information be restated in accordance with the new standards. Throughout the 2006-07 Budget Papers, information for the 2004-05 and previous financial years has not been restated on an AEIFRS basis:
 - 2003-04 and earlier year financial information is not available on an AEIFRS basis.
 - For 2004-05, the information presented is on a pre-AEIFRS basis, which is consistent with the presentation in the 2004-05 Budget Papers and in the 2004-05 audited financial reports.

Departures from GFS Principles

The Budget as summarised in Chapter 1 of Budget Paper No. 2 has been prepared in accordance with GFS principles except as discussed below:

- ◆ the Australian Bureau of Statistics requires that selected payments that pass through the State's accounts e.g. transfer payments for non-government schools from the Commonwealth, be included in the Operating Statement and Cash Flow Statement. Reports in the Budget Papers exclude these receipts and payments as the NSW Government has no control over them;
- ◆ GFS requires the general government sector to record an investment in the equity of the PTE and PFE sectors. The equity investment has been excluded from the general government's net financial liabilities as the investment is supported largely by physical infrastructure and in practical terms is not in the true nature of a financial asset;
- ◆ GFS Operating Statements disclose a reconciliation from the Net Operating Result to Net Lending. As the Budget is prepared on a Net Operating Result basis, this additional reconciling information (on the Net Acquisition of Non-Financial Assets) has not been reported in the Chapter 1 Operating Statement. However, the relevant information is available for users in Chapter 9 of Budget Paper No.2; and
- ◆ current GFS principles as followed by the ABS statistical standards require a premium on a loan to be classified as a negative interest payment in the year the loan is raised. New South Wales disagrees with this approach since it results in an asymmetric treatment with discounts on loans that are treated as a balloon interest payment on the maturity of the loan.

Whilst strict accordance with GFS standards requires the ABS approach to be adopted, the ABS has recognised the accounting difficulties of this approach. Given this, a compromise has been reached which involves all jurisdictions and the ABS departing from GFS principles and recording the premium as a negative interest payment in the final year of the loan.

The first three of the above four transactions have, however, been treated in accordance with GFS principles in Chapter 9, *Government Finance Statistics and Uniform Reporting Framework*.

BUDGET SCOPE

The Budget incorporates all general government sector agencies as defined by the Australian Bureau of Statistics (ABS) subject to a materiality threshold. A list of NSW public sector agencies (classified according to sector) appears in Appendix C.

The general government sector covers all agencies that receive parliamentary appropriations or are regulatory in nature.

Defining the budget sector as equal to the general government sector improves transparency and accountability by providing:

- ◆ a comprehensive picture of the non-commercial operations of the Government; and
- ◆ an independent definition of the Budget's scope.

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 public trading enterprises by the Government; and
- ◆ dividends, tax equivalent payments and guarantee fees payable by the public trading and financial enterprise sectors which are shown as revenues in the general government sector.

Another important measure of the Government's performance is how the Government is managing the total state sector balance sheet. Chapter 4 *Assets, Liabilities and Net Worth* includes commentary on the management of total state sector financial assets and liabilities, including net debt and superannuation liabilities.

Similarly, Chapter 9 *Government Finance Statistics and Uniform Reporting Framework* includes information presented on a GFS format for the general government sector, the public trading enterprise sector, and the non-financial public sector. This fulfils uniform presentation framework requirements agreed between the Commonwealth and state governments.