

# INTRODUCTION

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Budget Paper No. 3 provides information on the performance of general government agencies. Under each Minister's portfolio, commentary and financial statements are provided for each agency within the portfolio. In addition, program statements are provided for those agencies classified as budget dependent general government agencies.

## COMMENTARY

The commentary provides an overview of the agency's expenditure trends and recent developments, strategic directions and 2005-06 Budget.

The *Expenditure Trends and Recent Developments* section explains significant changes in agency functions, responsibilities and operating environment. This section provides information on key results the agency is trying to influence or developments experienced by the agency in the lead up to the Budget.

The *Strategic Directions* section explains objectives or areas of focus for the agency in the Budget year. This section may include information about an agency's planned response to emerging priorities or changes to service delivery mechanisms.

The *2005-06 Budget* section summarises the agency's expenses and capital expenditure for the Budget year. This section provides information on important areas of expenditure or major initiatives that will support the agency in its delivery of services as well as the expected contribution these services will make to results for the community.

## FINANCIAL STATEMENTS

Financial statements on an accrual basis are presented for each agency. These include the Operating Statement, Cash Flow Statement and Statement of Financial Position.

*The Operating Statement* details the major categories of expenses and revenues of agencies. A key aggregate is the Net Cost of Services, which is the difference between expenses, retained revenue and the gain/loss on disposal of non current assets.

For those agencies which receive a direct appropriation from Parliament, the Net Cost of Services is funded by revenue (mainly taxation) raised from the community as a whole.

For those agencies, which do not receive direct appropriations, the difference between revenues and expenses is the surplus (deficit) available to further the objectives of the agency or be distributed to the Consolidated Fund to support core government services to the community. A deficit would need to be funded from the agency's cash holdings or through borrowings.

The Government incurs expenditure as a result of providing services to the community. Under accrual accounting the operating statement of an agency records expenses when they occur. This varies from cash accounting which records expenditure when the payment is made.

The major categories of expenses shown on this statement include employee related costs, operating costs, maintenance of assets<sup>1</sup>, depreciation and amortisation of assets, grants and subsidies provided to other entities, and other expenses.

Similarly, revenues are shown when the agency is entitled to receive the funds although the cash may be received in a different period. Revenues are dissected into sales of goods and services, investment income, grants and contributions and other revenue.

*The Cash Flow Statement* details the cash impacts of agency activities including the cash appropriations sourced from taxation. The movement in cash disclosed in the statement equates to the difference between the opening and closing cash balances in the Statement of Financial Position. In addition, the net cash flow from operating activities shown on the cash flow statement is reconciled to the Net Cost of Services (or surplus/deficit) in the operating statement.

*The Statement of Financial Position* details the assets and liabilities of the agency with the difference being the net investment by the community in the form of equity in that agency. Assets and liabilities are dissected into current (convertible into cash or paid/received within the next 12 months), or non current (paid/received after 12 months).

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<sup>1</sup> Expense on in-house maintenance is typically classified to other line items including employee related expenses. Maintenance expense is thus not a complete estimate of the allocation of expenses to maintenance.

## PROGRAM STATEMENTS

Where agencies receive direct Budget support their activities are grouped into programs. Programs in turn are grouped into program areas. The underlying structure for these agencies is:

Minister: highest level at which funds are appropriated (e.g. the Minister for Roads).

Agency: department or authority (e.g. the Roads and Traffic Authority).

Program Area: grouping of programs with common goals (e.g. Road Network Infrastructure).

Program: individual program within a program area (e.g. Maintenance).

*Program Statements* - The format of the statement varies depending on whether information is published on outputs and outcomes or activities for the program. Each program statement includes narrative material - program objectives and program description – as well as staffing and a detailed operating statement.

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.

From this point on the content of the program statements varies, depending upon whether information on outputs (and in selected cases, outcomes) is being published.

For those programs where information on outputs and outcomes is being published, the program statement is presented on the following basis:

- ◆ *Outcomes* – the intended effects or impacts on the community, environment or economy which the Government is trying to influence through agency activities. Outcomes may be stated qualitatively or quantitatively and the information published is usually an indicator of the actual effect or impact on the community and reflects the degree of influence achieved. For example, a road safety outcome could be described quantitatively as road fatalities not exceeding x number per 100,000 of population. In this case, the outcome indicator would be the actual number of road fatalities per 100,000 of population.
- ◆ *Outputs* – programs, goods and services or a response capacity produced by agencies to contribute to achieving the Government’s desired outcomes. Outputs can be described very specifically (individual outputs) or more collectively (output groups). The output information published usually indicates the number of key outputs produced. In the road safety example cited above, one group of outputs could be driver and vehicle licensing services, with key outputs including driver/rider tests conducted and registered vehicles.
- ◆ Total average staffing for the program which represents the number of staff engaged on outputs produced by the program. 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 who might be employed during the year on a particular program based on the funds intended to be spent on the program. 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.

Where outcome/output information is not published, the total average staffing is dissected into major activities undertaken and the level of EFT staff involved in these activities. 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.

From this point onwards the format of the program statements converges, with an operating statement being presented in the same format as the agency presentation except that “grants and subsidies”, “other expenses” and “retained revenues” categories may be further dissected to provide insight into the nature of the payment or receipt.

Also shown is the amount of capital expenditure for each program, which details the total level of purchases of property, plant and equipment being planned by the agency.

In 2005-06 all Budget-funded general government agencies prepared *Results and Services Plans (RSPs)*. The RSP demonstrates the relationship between the services that an agency delivers and the results that it is working towards, and sets out how resources will be deployed to achieve those results and services. The RSP is prepared by agencies specifically to support decision making by the Budget Committee of Cabinet.

The RSP process is a long term strategy to improve resource allocation and management by:

- ◆ clarifying performance expectations that Ministers agree with the Budget Committee of Cabinet;
- ◆ providing a means for agencies to identify performance indicators that are useful for decision making and which can also meet performance reporting needs; and
- ◆ assisting agencies to integrate strategic and operational planning, including their physical asset management and planning.

The RSP process reflects current good practice in public sector financial management. In particular, Treasury believes that a long term commitment to this planning approach will improve the range and quality of non-financial performance information. As the RSP process beds down, Treasury expects that information on agencies' contribution to results as well as their service delivery performance will increasingly supplement program statement information.

## **ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Australia is adopting international financial reporting standards in 2005-06. As a result, agency financial statements in Budget Paper 3 are presented in the following way:

- ◆ The 2004-05 Budget and Revised columns are presented in accordance with Australian Accounting Standards. This is consistent with the presentation of the 2004-05 Budget and the way agencies are required to prepare their 2004-05 audited financial statements.

- ◆ The 2005-06 Budget column is presented under an Australian Equivalent to International Financial Reporting Standards (AEIFRS) basis. This is consistent with the way agencies are required to prepare their 2005-06 audited financial statements.

For many agencies the adoption of AEIFRS will result in minimal changes.

The main changes in Budget Paper 3 impact upon the Statement of Financial Position. They include:

- ◆ An increase in defined benefits superannuation liabilities in 2005-06 due to the adoption of a lower accrued benefits discount rate under AEIFRS. Prior to AEIFRS the estimates of superannuation liabilities was made using a discount rate based on the long-term expected rate of return on plan assets. Under AEIFRS, the discount rate is the 10 year Commonwealth Government bond rate which is effectively a risk-free rate. This affects those general government agencies that hold defined benefit superannuation liabilities.
- ◆ The reclassification on the face of the Statement of Financial Position of certain assets previously disclosed under Property, Plant and Equipment including:
  - assets classified as held for sale become a current asset;
  - investment properties become a new disclosure; and
  - intangible assets (including certain software assets and easements over property) become a new disclosure.

The 2004-05 comparatives have not been reclassified, as the original budget for these items was included within Property, Plant and Equipment, and cannot be readily dissected.

AEIFRS has not resulted in any change to the presentation in Budget Paper 3 of agency Operating Statements or Cash Flow Statements.

Refer to Appendix F of Budget Paper 2 for further information on the Government's AEIFRS implementation strategy and the financial impact of AEIFRS on the Budget aggregates.