

Chapter 1: BUDGET POLICY AND POSITION

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1.1 CHANGES TO BUDGET PRESENTATION

The General Government Debt Elimination Act was passed by Parliament in late 1995.

In addition to setting targets over time for the reduction and elimination of net debt, the Act contains a number of provisions dealing with the coverage of the Budget and the standards to be used in presenting Budget data. These changes are designed to improve the accountability and transparency of the Budget process.

BUDGET COVERAGE

In relation to coverage, the Budget is now presented on a *General Government Sector* basis rather than the former *Budget Sector* basis. This change in coverage was foreshadowed in the provisions of the Act.

The General Government Sector is one of the three categories used by the Australian Bureau of Statistics in classifying government agencies (the other categories being the *Public Trading Enterprise Sector* and the *Public Financial Enterprise Sector*). This classification system is part of the *Government Finance Statistics (GFS)* system used by the Australian Bureau of Statistics to classify the financial transactions of governments and measure their impact on the rest of the economy. The system is based on international statistical standards developed by the International Monetary Fund in consultation with its member countries and the United Nations System of National Accounts.

The 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. The major form of financing of these goods and services is by taxation, imposed by the State or by the Commonwealth and subsequently on passed to the State. In New South Wales most government departments and a number of statutory authorities (for example City West Development Corporation) fit into this category.

In contrast, Public Trading Enterprises (PTEs) charge for services provided and hence have a broadly commercial orientation. They do not, however, necessarily operate in competitive markets. While PTEs are not required to be *fully* self-funding, a substantial portion of their costs must be met by user charges. The major PTEs in New South Wales are Pacific Power, Sydney Water Corporation and the State Rail Authority.

The former *Budget Sector* coverage of the Budget reflected the classification used by the NSW Treasury to distinguish between those agencies that relied on a direct Consolidated Fund appropriation for the greater part of their income and those that did not.

While this categorisation may be useful, each State had its own version of what constituted the Budget Sector, making comparisons difficult. In addition, the coverage under this definition changed over time as a result of administrative changes. For example, the introduction by a Budget Sector agency of charges for the services it previously provided free to other agencies (and the consequent removal of the Consolidated Fund appropriation) would cause it to be reclassified as outside the Budget Sector.

Adoption of the ABS classification largely overcomes these problems of data comparability between States and over time. While all States are already publishing supplementary financial data on the ABS basis, the move to presenting the main Budget Paper tables on this basis will further assist comparability.

In moving to the General Government Sector coverage, the Budget now includes many additional agencies. A list of the agencies in each of the ABS categories is shown in Appendix D of this Budget Paper.

FORMAT OF BUDGET STATEMENTS

Government Finance Statistics (GFS) Data

The traditional way of presenting aggregate Budget results is on the basis of the classification of transactions set out in the *Government Finance Statistics* (GFS) system. As indicated above, this system of classification is that used by the Australian Bureau of Statistics.

At present this system is largely cash-based and is designed to measure the economic impact of government operations, by the change in the government's overall financial position as revealed by the surplus or deficit.

This Budget Paper presents the GFS result for the General Government Sector. Budget Paper No. 6 also shows GFS data for the Public Trading Enterprise (PTE) Sector, as well as the Total State Sector.

Accrual Accounting Statements

Under the provisions of the General Government Debt Elimination Act 1995, the 1998-99 Budget includes for the first time, financial statements for each General Government Sector agency and for the Sector as a whole, prepared on an accrual accounting basis. These statements consist of an *Operating Statement*, a *Statement of Financial Position* and a *Cash Flow Statement*.

These statements are effectively the same as those used in the commercial sector and have a number of features that distinguish them from GFS-based results.

Firstly, the accrual statements are a combination of flow-based data (Operating Statement, Cash Flow Statement) and stock data (Statement of Financial Position). GFS presentations on the other hand are largely flow-based.

Secondly, the Operating Statement includes non-cash items such as depreciation and actuarial adjustments to superannuation. Also, the Statement reflects movements in accrued items such as accounts receivable and accounts payable. This means that the net result for an agency will incorporate both the full cost of the agency's activities as well as all revenue earned for the period, regardless of when the related cash transactions take place. These non-cash items and movements do not impact the GFS cash result in the year in question.

Thirdly, the accrual result in the Operating Statement is only concerned with transactions of an operating nature whereas the GFS result is more broad-based and includes the impact of capital outlays.

Fourthly the Statement of Financial Position shows assets, liabilities and equity for each agency. This provides information on what resources are available for use in the future and how the agency is being financed from sources external to the Government.

Finally, the Cash Flow Statement shows cash inflows and outflows from the agency's main operations together with cashflows derived from both investing and financing activities providing a clearer picture of the agency's funding position.

The three accrual-based statements are also shown in a consolidated form for the General Government Sector as a whole.

Both the GFS and accrual presentations are necessary at this stage as most inter-State comparisons are still on a GFS basis. From 1999-2000 GFS will itself move to an accrual presentation. The NSW Government, however believes a dual presentation in the interim will provide the readers with a more complete and transparent picture of the State's finances.

It is important to understand that the different coverage and classification of transactions between GFS and accounting can give significantly different measures of the Budget "result". For example the GFS result includes both current *and capital* transactions (on a cash basis). The accrual Operating Statement however *excludes* most capital transactions, such as asset acquisitions, but includes the depreciation of those assets as they are "consumed" over time.

These and other differences between the two systems account for the substantial variation between the GFS surplus for 1998-99 of \$45 million and the Operating Statement surplus of nearly \$2.0 billion.