

## **Appendices:**

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# **APPENDIX A: GUIDE TO THE BUDGET PAPERS, THE BUDGET PROCESS AND FINANCIAL DOCUMENTS**

## **INTRODUCTION**

This appendix provides a broad outline of the structure of State finances in order to place the Budget in its proper context. A brief summary of each of the Budget Papers and how they relate to each other is also provided.

More detailed information on the State's accounting and financial procedures is contained in the Treasury publication, "Managing State Finance: The New South Wales Experience".

## **BUDGET AND NON BUDGET SECTORS**

Budget Sector agencies are those predominantly funded from the Consolidated Fund, rather than user charges. In contrast, Non Budget Sector agencies are funded from user charges, but may receive funding from the Budget for "social programs" (i.e. non-commercial activities).

### **Budget Sector**

Budget Sector agencies -

- include all departments and certain statutory bodies (e.g. Ethnic Affairs Commission);
- fund their operating costs mainly from the Consolidated Fund;
- are subject to Ministerial direction, the Public Finance and Audit Act 1983 and audit by the Auditor General; and
- are subject to the Annual Reports (Departments) Act with accrual accounting and budgeting.

### **Non Budget Sector**

Non Budget Sector agencies -

- are self funded, being Government Trading Enterprises (e.g. Electricity Distribution Authorities), State Owned Corporations (e.g. Hunter Water Corporation) and regulatory bodies funded by industry fees (e.g. WorkCover);
- fund their operating costs mainly from user charges and their capital works from borrowings and internal funds;

- are subject to Ministerial direction, the Public Finance and Audit Act 1983 and audit by the Auditor-General (other than State Owned Corporations which are not subject to the Public Finance and Audit Act); and
- are subject to the Annual Reports (Statutory Bodies) Act with commercial accounts (accrual basis) prepared.

## **Budget Coverage**

The Budget incorporates the full current and capital payments of all Budget Sector agencies. On the receipts side, Government receipts obtained by compulsion (i.e. taxes, fines and regulatory fees) are included, unless they are paid to industry regulatory bodies (such as WorkCover) or industry professional bodies such as the Health Proposals Registration Board. The Budget also includes all own source receipts of Budget Sector agencies (user charges, donations, industry contributions, etc). Such revenues are retained by the agency rather than paid into the Consolidated Fund and are not subject to Parliamentary appropriation and control.

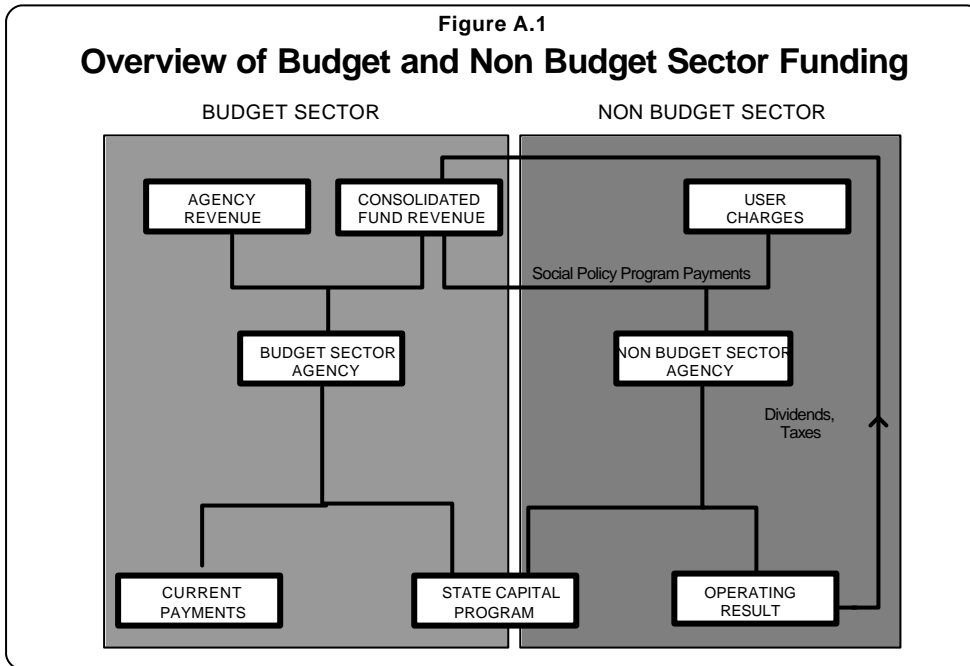
The financial transactions of Non Budget Sector agencies do not generally appear in the Budget. However, there are two exceptions -

- explicit payments for "social programs", which are non commercial requirements imposed on Government Trading Enterprises and State Owned Corporations by the Government - these are shown as a budget payment within the relevant policy agency of the GTE Minister (e.g. Department of Transport in relation to payments to the SRA) or, where there is no relevant policy agency, as a separate payment under the Minister's control (Further details of Social Programs can be found in Chapter 4); and
- dividends, tax equivalent payments and guarantee fees payable by the Non Budget Sector are shown as receipts in the Consolidated Fund.

The Consolidated Fund is the main banking account of the Budget Sector and is the account which -

- receives virtually all taxes, fines and regulatory fees, as well as Commonwealth payments to the State;
- receives all receipts payable to the Crown from Crown property transactions and dividends and other contributions from Government Trading Enterprises; and
- channels all Parliamentary appropriations for recurrent and capital payments of the Budget Sector.

However, as stated above, the Consolidated Fund does not cover own source receipts of Budget Sector agencies or the expenditures funded from these receipts which are instead reflected through agencies' own bank accounts.



The Budget Papers also provide information on the State Capital Program which is the sum of the Budget Sector and Non Budget Sector Capital Programs, adjusting for funding transfers between the two sectors.

### Comparability with Government Finance Statistics

The Australian Bureau of Statistics adopts a similar classification structure to the Budget and Non Budget Sectors, namely the General Government and Public Trading Enterprises Sectors.

The General Government Sector is broadly similar to the Budget Sector but also includes a number of self funded agencies whose receipts are in the form of regulatory charges. Examples of these agencies include the Motor Accidents Authority and the WorkCover Authority. These agencies are not funded from the Budget but their funding sources nevertheless have the characteristic of a tax in that they are levied by legislative fiat rather than on the basis of voluntary transactions.

The Public Trading Enterprises Sector is broadly similar to the Non Budget Sector but excludes those agencies referred to above that are funded by off Budget regulatory fees.

A list of New South Wales public sector agencies (classified according to sector) appears as Appendix D.

## **THE BUDGET PROCESS**

The major milestones for the annual Budget process as follows -

September	Update forward Budget estimates (i.e. 3 year rolling budget allocation) and release to Ministers.  Treasury seeks capital program proposals and projections for recurrent and capital receipts.
November	Ministers respond to forward estimates and propose program enhancements. Capital programs are also submitted.
December-February	Meetings of Budget Committee to set Budget strategy, set targets for Budget Sector capital program and finalise Budget allocations.
March	Treasurer issues Budget allocation letters.
April	Meeting of Budget Committee to review final Budget position.
May	Presentation of Budget.

The Budget Committee of Cabinet has responsibility for developing Budget strategy, overseeing the budget preparation process and monitoring the budget position within the year. The Committee is also responsible for the preparation of the annual State Capital Program and the monitoring of the program within the financial year.

## **THE BUDGET PAPERS**

The Budget Papers consist of six volumes as follows -

### **Budget Speech (Budget Paper No. 1)**

Sets out the Government's financial program for the year and budgetary strategy.

Particular emphasis is placed on the environment in which the Budget has been framed, the broad strategy adopted and significant new expenditure and revenue measures.

### **Budget Information (Budget Paper No. 2)**

This Budget Paper presents detailed information both on the Budget itself and on State finances more generally. Specific topics covered are -

- **Budget Strategy and Position**

Summary of Budget aggregates, outline of financial strategy and details of expenditure and revenue measures contained in the Budget. The Budget provides information both for the Budget year and the two forward years.

- **The Economy**

Summary of trends in the Australian and New South Wales economies and prospects for the Budget and forward years, together with an outline of the sensitivity of the Budget to the economic parameters.

- **Budget Receipts**

Detailed information on Budget measures, Budget year receipts by category, together with summary information for the two forward years.

- **Budget Recurrent and Capital Payments**

Description of current and capital payments both by policy area and by Minister/agency, covering recent trends, key issues and major measures and initiatives included in the Budget.

- **Financial Arrangements with the Commonwealth**

Outline of recent developments in intergovernmental financial relations and details of the payments from the Commonwealth and Loan Council allocations.

- **Financial Management Reforms**

Overview of reforms with particular relevance to the Budget Sector. Specific areas covered are fiscal reforms, financial management initiatives and reporting, and enhancing public sector efficiency.

- **Debt and Liability Management**

Summary information on debt and other financial liabilities (particularly superannuation) and the framework adopted for their management.

- **Interstate Public Sector Comparisons**

Interstate comparisons of four key variables - outlays, revenue, debt and employment. Also discussion on recent financial strategies of each State and States' credit ratings.

### **Budget Estimates (Budget Paper No. 3)**

The Budget estimates contain the detailed revenue and expenditure information for the Budget Sector on a program, agency and portfolio basis.

Information is provided on both a comprehensive (i.e. accrual) accounting basis with information on the level of support from the Consolidated Fund and from other sources.

The total receipts and payments (cash) information reconciles with the Budget aggregates contained in Budget Paper No. 2, while the Consolidated Fund recurrent and capital appropriations reconcile with the Appropriation Bills (Budget Paper No. 5).

The Budget Paper also includes details of outputs (goods and services) for the majority of service delivery and regulatory programs. Outcome measures have also been published for a select number of programs, with the intention being to publish more in future budgets as measures are developed and refined.

#### **State Capital Program (Budget Paper No. 4)**

Works-in-progress and new capital works are listed individually for major projects undertaken by both Budget and Non Budget Sector agencies, with a total capital program figure for each agency also shown.

The listing is arranged under the Ministers and agencies responsible for each project. Details of estimated total cost, expenditure in previous years, estimated expenditure in the Budget year and locations are given.

Smaller works are not separately shown; however totals are included.

The more important capital works in the Budget Sector may be referred to in the Budget Speech and/or in Chapter 4 of Budget Paper No. 2.

#### **Appropriation Bills (Budget Paper No. 5)**

This Budget Paper 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; and a general Appropriation Bill covering the remaining Budget Sector agencies.

The Appropriation Bills seek legislative authority for expenditure from the Consolidated Fund.

The Appropriation Bills include requests for parliamentary approval for -

- payments from the Consolidated Fund for the Budget year; and
- various rules proposed to permit flexibility in program payments.

A reconciliation is provided between the Consolidated Fund appropriation and the aggregates shown in Budget Paper No. 2.

#### **Government Finance Statistics and Loan Council Reporting (Budget Paper No. 6)**

This Budget Paper contains details of outlays, revenues and financing transactions for the entire New South Wales financial public sector (excluding financial enterprises).

Information is presented for the general government and public trading enterprises sectors rather than the Budget and Non Budget Sectors. As such, the presentation differs from the Budget Sector presented in Budget Paper No. 2.

In addition, details of the State's Loan Council Allocation are also provided.

### **Other Budget Information**

In addition to the formal Budget Papers, there are two additional sets of papers provided -

- Budget Summary, which sets out in simple diagrammatic form the key elements of the Budget; and
- Social Justice Budget Statement, which identifies the principle social justice initiatives that are currently being implemented or are proposed for implementation during 1996-97.

### **KEY BUDGET AGGREGATES**

The Budget refers to a number of key measures including total payments, net cost of services, outlays and Consolidated Fund payments.

Budget estimates for programs of individual agencies are prepared on an accrual basis, with a reconciliation shown to the cash position.

In addition, information is provided on the dissection of cash funding between Consolidated Fund and other sources.

The term outlays refers to net payments after deducting from total payments, receipts from user charges, asset sales and any advances repaid to the agencies.

These concepts are discussed in more detail in the Introduction to Budget Paper No. 3.

### **FINANCIAL REPORTING AND ACCOUNTING IN THE BUDGET 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.

#### **Monthly Financial Statement**

The Financial Statement is released monthly to provide cumulative summaries of the outlays, revenue and grants received by, and the financing transactions of, the Budget Sector for that part of the financial year completed. 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.

The statement is required to comply with Government Finance Statistics principles set down by the Australian Bureau of Statistics.

The statement issued in February of each year provides a provisional projection of the likely outcome for the Budget for the full financial year based on the revenue and expenditure trends in the first half of the year.

### **Quarterly Gazette**

The quarterly gazette includes -

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

### **The Public Accounts**

The Public Accounts comprise a Consolidated Statement of Financial Position, Operating Statement and Cash Flow Statement for the Budget Sector.

The Public Accounts also include -

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

In addition, the Public Accounts also include supplementary unaudited information on financial assets and liabilities relating to the General Government Sector, the Public Trading Enterprises Sector and the two sectors combined.

### **Consolidated Financial Statements for the New South Wales Public Sector**

The Consolidated Statements are released each year around December and present comprehensive (i.e. accrual) information on the Budget, Non Budget and Total State Sectors. An Operating Statement, a Statement of Financial Position (i.e. balance sheet) and a Cash Flow Statement are produced.

In addition, an abbreviated set of consolidated financial statements on the Budget Sector are published for the six month period to 31 December in about March of the following year.

## **The Auditor-General's Reports**

The Public Finance and Audit Act 1983 requires the Auditor-General to audit 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.

Volume I covers the State's Consolidated Financial Statements and those statutory bodies with a non 30 June balance date.

Volume II of the Report covers the reviews of the financial operations of Budget Sector agencies.

Volume III of the report provides comments and reports on the Treasurer's Public Accounts and the State's statutory bodies.

The Auditor-General may include in his report suggestions to improve the financial management of departments and statutory bodies.

## **Annual Reports - Departments and Statutory Bodies**

Both departments and statutory bodies are required by legislation to prepare annual reports. The reports are to include the 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.

Statutory bodies have to provide a detailed budget for the financial year and an outline budget for the following year. Other information required in annual reports includes statements of the organisation's charter, aims and objectives, a summary review of its operations, and a description of its activities including performance indicators. The annual reports must be submitted to the appropriate Minister, and simultaneously to the Treasurer, no later than four months after the end of the financial year.

## **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.

The Committee has a wide charter to report on financial management and related matters. As mentioned above it can act on its own initiative. The recommendations of the Committee generally are directed at improving the efficiency and effectiveness with which Government policy is implemented.