

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:

- ◆ budget operating statement;
- ◆ statement of financial position; and
- ◆ statement of cash flows.

In addition, accrual GFS statements complying with the Uniform Presentation Framework are contained in Chapter 8, and statements complying with Australian Accounting Standards (AAS) are contained in Appendix A.

A reconciliation of the operating surplus derived under AAS and the budget result reported on a GFS basis appears in Appendix A.

GFS Based Reports

The budget result (GFS basis) in the budget operating statement is the key indicator of change in the State's financial position. It represents the balance available to reduce general government sector net liabilities. Consequently, the budget result broadly approximates the movement in net financial liabilities, underscoring the Government's focus on balance sheet management.

The principal difference between the net operating surplus and the budget result is the treatment of capital. The net operating surplus includes a depreciation charge that reflects the cost of wear and tear of agencies' assets arising from the delivery of services. The budget result excludes depreciation but instead reflects agencies' acquisition and sale of non-financial assets.

The statement of financial position 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 statement of cash flows 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.

The cash result is fully detailed in the GFS statement of cash flows and is one of the measures of performance against the fiscal targets and principles in the *General Government Debt Elimination Act 1995*.

Historical GFS data has been restated so that the results are consistent with the basis on which the forward estimates have been prepared.

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 generally accepted accounting principles and Australian Accounting Standards.

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:

- ◆ depreciation;
- ◆ 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.

In addition, the budget result includes asset acquisition and asset sales to reflect the funds available to reduce financial liabilities.

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

Departures from Australian Accounting Standards and Principles

The Budget preparation departs from Australian Accounting Standards and principles 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 2002-03 Total State Sector Accounts, because he is of the opinion that the State has the capacity to control decision making in relation to the scheme's financial and operating policies; and
- ◆ the presentation in Budget Paper No. 3, of agency statements of financial performance, 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 and movements in equity that are normally required under accounting standards.

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 statement of cash flows. 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;
- ◆ in 2002-03 the Statement of the Budget Result included a provision for land remediation and other works amounting to \$109 million. The Auditor-General qualified his Independent Audit Report for the 2002-03 Statement of the Budget Result, that the expense should not have been recognised in 2002-03, because the amount could not be measured reliably; 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 two of the above four transactions have, however, been treated in accordance with GFS principles in Chapter 8, Uniform Presentation Framework.

BUDGET SCOPE

The Budget incorporates all general government sector agencies as defined by the Australian Bureau of Statistics (ABS). A list of New South Wales 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 *Net Worth, Assets and Liabilities* includes commentary on the management of total state sector financial assets and liabilities, including net debt and superannuation liabilities.

Similarly, Chapter 8 *Government Finance Statistics and Uniform Reporting Framework* includes information presented on a GFS format for both the general government sector and the public trading enterprise sector. This fulfils uniform presentation framework requirements agreed between the Commonwealth and state governments.

