



AUDITOR-GENERAL
AUSTRALIAN CAPITAL TERRITORY



PA 02/6

23 June 2004

The Speaker
ACT Legislative Assembly
Civic Square, London Circuit
CANBERRA ACT 2601

Dear Mr Speaker

I am pleased to forward to you a Performance Audit Report titled “**Revenue Estimates in Budget Papers 2002-03**”, conducted under the authority contained in the *Auditor-General Act 1996*.

I would appreciate if you could arrange for the tabling of the Report in the Legislative Assembly pursuant to Section 17(4) of the *Auditor-General Act 1996*.

Yours sincerely

Tu Pham
Auditor-General

ACT Auditor-General's Office

Performance Audit Report

Revenue Estimates in Budget Papers 2002-03

June 2004

Table of Contents

CHAPTER 1.	SUMMARY AND RECOMMENDATIONS	1
	INTRODUCTION	1
	BACKGROUND	1
	AUDIT OBJECTIVES.....	2
	AUDIT APPROACH AND SCOPE	3
	AUDIT OPINION.....	3
	BASIS FOR OPINION	5
	RECOMMENDATIONS FOR FUTURE ACTION	9
	DEPARTMENT OF TREASURY RESPONSE TO THE REPORT.....	11
CHAPTER 2.	REVIEW OF TERRITORY BUDGET PROCESSES.....	13
	INTRODUCTION	13
	SIGNIFICANT FINDINGS	13
	TERRITORY REVENUE.....	14
	ECONOMIC OR FORECAST ASSUMPTIONS	15
	BUDGET PROCESSES AND SYSTEMS	25
	RECOMMENDATIONS FOR FUTURE ACTION	27
	CORRECTNESS OF BUDGET INFORMATION.....	29
	CONCLUDING COMMENTS	31
CHAPTER 3.	REASONABLENESS OF BUDGET ESTIMATES.....	32
	INTRODUCTION	32
	SIGNIFICANT FINDINGS	32
	REVENUE FORECASTING PERFORMANCE	32
	RECOMMENDATIONS FOR FUTURE ACTIONS	39
	CONCLUDING COMMENTS	40
APPENDIX A –	AUDIT APPROACH AND SCOPE	43
APPENDIX B –	TERRITORY’S BUDGETARY FRAMEWORK.....	47
APPENDIX C –	REVIEW OF BUDGET INFORMATION	59
APPENDIX D –	TERRITORY’S 2002-03 BUDGETED STATEMENT OF FINANCIAL PERFORMANCE	62
APPENDIX E –	ANALYTICAL REVIEW OF TERRITORY’S REVENUE FROM 1999-00 TO 2002-03	64

1. SUMMARY AND RECOMMENDATIONS

INTRODUCTION

1.1 This report presents a summary of the results of a performance audit which reviewed parts of the Territory's 2002-03 Budget Papers in respect of the estimated revenues for the Whole of Government, General Government Sector (GGS) and Public Trading Enterprises (PTE) over a four-year economic cycle (from 2002-03 to 2005-06).

BACKGROUND

1.2 The annual budget of the Territory is the Government's annual financial, economic and policy statement. It is through the annual budget papers that the Government of the day presents to the Legislative Assembly its proposed budget strategy and policy priorities. It is crucial to good governance and accountability in the financial and economic stewardship of the Territory.

1.3 The annual budget papers are amongst the most important documents presented by the Government to the Legislative Assembly and to the community. The documents are important because they detail the Government's performance in the current year and forecast the financial effects of policies or initiatives that the Government intends to implement in the coming years. The Legislative Assembly and the community can assess a Government's discharge of its accountabilities from the budget papers.

1.4 Section 10 of the *Financial Management Act 1996* (the FMA) requires the Treasurer to present to the Legislative Assembly the annual budget of the Territory. The 2002-03 Budget Papers were presented to the Assembly by the Treasurer on 25 June 2002.

1.5 The Department of Treasury (Treasury) is responsible for preparing the budgeted financial statements of the Territory (Whole of Government), GGS and PTE. The budgeted financial statements include statement of financial performance, statement of financial position and statement of cashflow. Individual departments, statutory authorities and Territory Owned Corporations (TOCs) are required, in consultation with Treasury, to prepare their annual budgeted financial statements. Details

of the Territory's budgeting framework and processes are outlined in **Appendix B**.

1.6 The Territory's General Government Sector revenue in 2002-03 was estimated to be \$2.203 billion, a reduction of \$166 million or 7% from the actual outcome for 2001-02. The following table provides a summary of the actual outcome for 2001-02, 2002-03 budget forecasts and the forward estimates for the Territory's revenues, expenses and operating results.

Table 1.1: Summary of Territory Revenues (\$ million)

	2001-02	2002-03	2003-04	2004-05	2005-06
	Actual	Budget	Estimate	Estimate	Estimate
Revenues	2,369	2,203	2,231	2,328	2,402
Expenses	2,294	2,197	2,251	2,315	2,379
Operating result	75	6	-20	13	23

Source: 2001-02 actual outcome is based on the audited Territory's Consolidated Financial Statements for the year ended 30 June 2002 and 2002-03 to 2005-06 estimates are based on Table 5.5.1 of 2002-03 Budget Paper No. 3 (p 117).

AUDIT OBJECTIVES

1.7 The objectives of this audit were to provide an independent opinion to the Legislative Assembly on whether:

- the methodologies used to arrive at the economic assumptions presented in the budget papers were reasonable;
- the procedures, systems and quality review processes associated with the budget preparation and development were adequate and effective;
- the 2002-03 budget and forward estimates for revenue items in the Territory's estimated consolidated statement of financial performance have been prepared reasonably, based on the economic assumptions; and policies presented in the budget papers and the statement and other relevant information in relation to the revenue items presented in the budget papers were accurate and correct; and
- the 2002-03 budgeted revenue has been reasonably achieved compared to the actual outcome for the year.

AUDIT APPROACH AND SCOPE

1.8 The scope of the audit was limited to a review of the budget information in respect of 2002-03 budget and forward estimates for revenue items presented in chapter 5.2 of the 2002-03 Budget Paper No. 3¹. The review focused on the adequacy, correctness and completeness of the budget documentation maintained by the agencies and the reasonableness of the key economic assumptions and/or the methodologies that supported the revenue estimates.

1.9 Further details regarding audit approach including limitation on scope are at **Appendix A**.

AUDIT OPINION

1.10 The independent opinions drawn against the audit objectives are set out in the shaded box below.

¹ 2002-03 Budget Paper No. 3, Chapter 5.2, *Revenue 2002-03 and Forward Estimates*, pp 79-103.

AUDIT OPINION

Methodology for Economic Assumptions

The methodologies used to arrive at the economic assumptions presented in the budget papers were reasonable.

Procedures, Systems and Quality Review Processes

The procedures, systems and quality review processes associated with the budget preparation and development were generally adequate and effective. However, the documentation and information provided by agencies varied within and across agencies, and several agencies did not maintain adequate budget documentation.

Preparation of Budget and Forward Estimates for Revenue Items

The 2002-03 budget and forward estimates for revenue items in the estimated consolidated statement of financial performance of the Territory have been prepared reasonably on the basis of the economic assumptions and policies presented in the budget papers. The statement and other relevant information in relation to the revenue items presented in the budget papers were materially accurate and correct.

Achievements against Forecasts

Overall, the 2002-03 revenue forecasts have been reasonably achieved. However, the forecast performance for several major revenue items could be improved.

BASIS FOR OPINION

Methodology for Economic Assumptions

The methodologies used to arrive at the economic assumptions presented in the budget papers were reasonable.

1.11 This opinion is supported by the following findings.

Positive Findings

- The methodologies used to estimate the majority of the Territory's revenue were primarily based on prior year's estimated outcome adjusted by the expected movement in Consumer Price Index and Gross State Products. These practices have been consistently applied in previous years.
- The methodologies adopted by the Territory were similar to practices in other jurisdictions.
- Adequate documentation was generally available to support the economic assumptions or models used in the forecast of the major revenue items. Any changes in the economic assumptions and methodologies, such as the current forecasting models for the payroll tax and conveyances, were undertaken in accordance with good practice normally expected in similar review exercises.
- The parameters or variables used in the revenue forecasts were based on the authoritative sources (e.g. Australian Bureau of Statistics).

Procedures, Systems and Quality Review Processes

The procedures, systems and quality review processes associated with the budget preparation and development were generally adequate and effective.

1.12 This opinion is supported, on balance, by the following findings.

Positive Findings

- Treasury has issued Finance Memoranda to provide adequate information and guidelines to agencies and also provided training

sessions to agencies' staff to assist their preparation of the annual budgets.

- The procedures and processes adopted by agencies were generally consistent with the guidelines issued by Treasury.
- Documentation made available for the Audit's review was considered generally satisfactory.
- Adequate quality review processes existed at agencies examined, including evidence of review and certification of the final budgets by the Chief Executive or Agency Head.
- Treasury undertook detailed quality assurance review of the agencies' Budget Development Applications in various stages of budget processes. This was evidenced by various variations or adjustments to agencies' budgets as a result of Treasury's review processes.

Negative Findings

- Several agencies did not maintain adequate documentation to support the basis and the rationales of the budget estimates. In the absence of clear documentary evidence, in most cases agency's staff would be able to provide satisfactory explanations.
- Documentation and record-keeping practices varied within and across agencies. In many cases, agencies did not document properly the basis of the budget estimates, the rationales for any variations/adjustments and the relevant decisions that support the forecasts.
- There is no consolidated, comprehensive reference publication in respect of the Territory's accrual budgeting framework. This may lead to poor understanding of the Government's strategic planning and resource management framework and also affect the acceptance and effective implementation of the framework and the related policies that the Government intends to implement.

Preparation of Budget and Forward Estimates for Revenue Items

The 2002-03 budget and forward estimates for revenue items in the estimated consolidated statement of financial performance of the Whole of Government have been prepared reasonably on the basis of the economic assumptions and policies presented in the budget papers; and the statement and other relevant information in relation to the revenue items presented in the budget papers were materially accurate and correct.

1.13 This opinion is supported by the following findings.

Positive Findings

- The revenue forecasts were prepared properly based on the economic assumptions and policies presented in the budget papers.
- The revenue items presented in the Territory's estimated consolidated statement of financial performance are consistent with the format and presentation of the Territory's annual consolidated statement of financial performance, which are prepared on accrual basis and in accordance with generally accepted accounting practices.
- The budget information and other financial information presented in the budget papers, such as economic assumptions, government decisions and policies, were correct and consistent with the source documentation reviewed by the Audit.

Achievements against Forecasts

The 2002-03 revenue forecasts have been achieved.

1.14 This opinion is supported by the following findings.

Positive Findings

- The forecasting performance for the revenue items has been generally reasonable and reliable.
- The total actual revenue collected was \$315 million or 14% above the budget.

Negative Findings

- Significant variances were noted between the actual outcome and the original budget associated with conveyancing duties, interests received from banks, lease sales and investment gains made by the Superannuation Provision Account.

Summary

1.15 The objective of this review is to provide ‘reasonable’ assurance to the Legislative Assembly whether the revenue budget for 2002-03 and the forward years’ estimates have been prepared on sound basis.

1.16 Overall, the Audit considers that the Territory’s budget development and preparation processes are adequate and effective. Furthermore, the revenue items presented in the Territory’s 2002-03 budgeted statement of financial performance were reasonably estimated in accordance with the economic assumptions and policies presented in the budget papers.

1.17 The results of the review identified that, while the overall revenue outcomes have been achieved compared to the original estimates over the past 4 years (1999-00 to 2002-03), the actual outcomes of several revenue items were consistently above the budget, with significant variances. This may suggest that the budget forecasts are too conservative or the relevant budget risks have not been thoroughly considered in the budget process. To mitigate the risks, it is desirable to review the forecasting methodologies associated with these items.

1.18 The Audit noted that although Treasury provides information to agencies on procedural aspects of the budget preparation, there is no consolidated, comprehensive publication in respect of the Territory’s accrual budgeting and outputs framework. It is recommended that a set of reference material and policy guidelines be developed and issued to assist agencies in better understanding the overall resource management framework; the benefits which it will yield; the conceptual issues and policies; the normal budget cycle and processes and the indicative timetable for the preparation of the budget.

1.19 Deficiencies in maintaining proper budget documentation and record-keeping were noted across most agencies under review. The Audit has suggested that a review of the budget preparation processes, aimed in part at ensuring the adequacy of record-keeping and documentation, is

worthwhile. At the least, agencies should encourage staff with budget responsibilities to apply sound documentation and record-keeping practices.

RECOMMENDATIONS FOR FUTURE ACTION

1.20 The following recommendations are made to address the audit findings detailed in this report. It is recommended that recommendations 1, 3 and 4 be addressed by Treasury while recommendation 2 be actioned by agencies with Treasury's assistance in provision of whole of government policy guidelines.

Recommendation 1 - Policy Guidelines

Treasury should consider consolidating the existing information and developing a set of reference materials or guidelines in respect of the Territory's budget framework. Such documentation would supplement the existing guidelines provided by Treasury's Finance Memoranda and could provide guidance to agencies in better understanding the conceptual framework and policies relating to the development and preparation of their annual budgets.

1.21 The proposed policy guidelines should include the following information:

- the overall conceptual framework of the Territory's budget system;
- the benefits which it yields;
- the conceptual issues and key policies, such as an integrated approach in planning, budgeting and performance management and the recent financial management reforms, for example the contestability program and the competitive tendering and contracts policy;
- financial and budgeting information systems;
- roles and accountabilities of Government and budget sector agencies;
- budgeting cycle and processes; and
- indicative timetable for the annual budgeting cycle.

Recommendation 2 - Adequacy of Budget Documentation and Record Keeping Practices

Treasury should consider developing a common set of guidelines, at a whole-of-government level, to ensure proper record keeping practices are consistently adopted by all agencies in the budget preparation process.

Agencies should review their budget documentation and current record keeping practices to ensure documentation captures a complete, accurate and reliable record of budget activities, such as basis of estimates, history and rationales of variations and adjustments of the budget estimates and any relevant documentation that supports the decision making processes in budget forecasts. Proper documentation and record keeping practices will improve the transparency and accountability of the budget processes.

Recommendation 3 – Review of Forecasting Methodologies

The forecasting assumptions, methodologies and techniques associated with conveyancing duties, interest received from banks, lease sales and other revenue from investment gains made by the Superannuation Provision Account should be reviewed to improve the forecasting performance of these items.

Recommendation 4 – Sensitivity Analysis

Based on the significant variations experienced in forecasting results in recent years, consideration should be given to include a statement of risks in the annual budget papers² to provide and quantify, where possible, risks that could have a material positive or negative impact on the budget projections provided in the Territory's budget papers.

1.22 The Audit noted that general government revenue and operating surplus are sensitive to a range of economic and financial factors. These factors include economic activity (Gross State Product and employment), inflation, wages growth and investment markets. Although the recent budget papers have included statements of the sensitivity of budget

² Reference is made to Victoria State's Budget Papers 2002-03 Budget Update, Chapter 5 titled *Statement of Risks*.

estimate, and of risk³, consideration should be given to including an enhanced statement of risk and sensitivity analysis in the annual budget papers.

1.23 Many of the budget risks, such as economic and fiscal risks, will not materialise and other upside and downside risks may emerge over time. However, provision of the sensitivity analysis of budget projections to both upside and downside movements allows the Legislative Assembly and the community to assess the impact of any changes in key economic and financial indicators. The identification of risks allows for appropriate risk management, which is an important part of contemporary public sector management. It also enhances the accountability and transparency of the Government's budget processes.

DEPARTMENT OF TREASURY RESPONSE TO THE REPORT

1.24 In accordance with section 18 of the *Auditor-General Act 1996*, a final draft of this report was provided to the Acting Chief Executive of the Department of Treasury (Treasury) for consideration and comments. The Acting Chief Executive's response is set in the following paragraphs.

“Treasury noted the main finding that budget processes are adequate and effective, and that revenue items presented in the Territory's 2002-03 Financial Statements were reasonably forecasted.

Notwithstanding this, considerable effort has occurred over the past year to re-examine and further improve revenue forecasts, and in particular, conveyancing revenue.

Treasury acknowledges the audit comment on the need for consolidated policy guidelines on the financial framework. This is not an insignificant task, and work has already occurred through the development of an internal guide, which provides an overview of the budget development process, has been developed for use within Treasury. The guide will be subsequently expanded to provide guidance to agencies in improving their understanding of the conceptual framework and policies in relation to annual budget development and preparation.

³ 2004-05 Budget paper No.3 Chapter 1.4 titled 'Statement of the Sensitivity of Budget Estimate' and Chapter 1.5 titled 'Statement of Risk'.

Treasury acknowledges the importance of providing information about the risk impact on budget projections. To meet the requirements of recent amendments to the Financial Management Act 1996, Treasury, as noted by the Audit Office, has provided a Statement of the Sensitivity of Budget Estimates and Statement of Risks within 2004-05 Budget Paper No. 3 (chapters 1.4 and 1.5)."

2. REVIEW OF TERRITORY BUDGET PROCESSES

INTRODUCTION

2.1 This Chapter presents the results of the review of the Territory's budget processes in respect of the 2002-03 revenue budget and the forward forecasts for the next three years (2003-04 to 2005-06).

2.2 The review is primarily to assess, for the major revenue items, whether:

- the methodologies used to arrive at the economic assumptions presented in the budget papers were reasonable;
- the supporting budget documentation maintained by the agencies was adequate, correct and complete;
- information collected and collated by Treasury was correct and complete;
- the quality review processes undertaken by the agencies and Treasury were adequate and effective; and
- the relevant budget information in relation to revenue items presented in the budget papers was accurate, correct and consistent with the revenue items included in the Territory's 2002-03 estimated consolidated statement of financial performance, which was prepared on the basis of the economic assumptions, government decisions and policies presented in the budget papers.

SIGNIFICANT FINDINGS

Positive Findings

- *The methodologies used to develop the economic or forecast assumptions for major revenue items were reasonable.*
- *The procedure, systems and quality review processes were generally adequate and effective.*
- *The 2002-03 budget and forward estimates in respect of the revenue items presented in the Territory's estimated consolidated statement of financial performance have been*

properly prepared in accordance with generally accepted accounting practices and on the basis of the economic assumptions and/or policies presented in the budget papers.

- *The Territory’s estimated consolidated statement of financial performance and other relevant budget information presented in the 2002-03 budget papers are materially accurate and correct.*

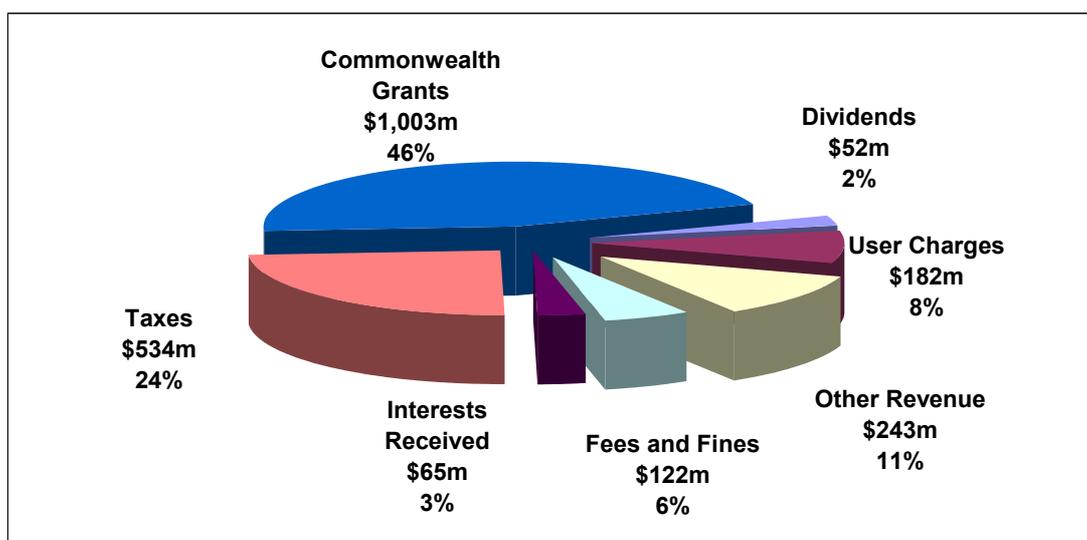
Negative Findings

- *Several agencies did not maintain adequate budget documentation.*
- *The level of documentation and information maintained by the agencies varies within and across the agencies under review.*
- *There is a lack of consolidated, comprehensive policy guidelines in respect of the Territory’s budget framework.*

TERRITORY REVENUE

2.3 The estimated revenue in 2002-03 was \$2.203 billion. The major sources of the Territory’s 2002-03 revenue are Commonwealth grants, taxes, fee and fines, user-charges (ACT Government and non ACT Government), dividends, interests received and other revenue. Details of the budgeted revenue (in \$ million and percentages of total budgeted revenue) are shown in the following Diagram 2.1.

Diagram 2.1 - 2002-03 Government Revenue



Source: ACT Audit Office and 2002-03 Budget Paper No. 3 Table 5.2.1 p. 80.

ECONOMIC OR FORECAST ASSUMPTIONS

Commonwealth Grants

2.4 Total funding of \$1,003 million was forecasted to be provided by the Commonwealth in 2002-03 to assist the Territory in meeting general or specific service delivery obligations. Table 2.1 summaries the amount and purposes of grants provided by the Commonwealth in 2002-03.

Table 2.1: 2002-03 Commonwealth Grants Estimates

	\$ Million	%	Purposes
General Purpose Funding	646.3	64	For competition payments, special revenue assistance and Goods and Services Tax (GST) revenue grants.
Specific Purpose Payments	328.9	33	For education, health, social security and welfare, public housing assistance under the Commonwealth State Housing Agreement and other specific project funding.
Other Payments	27.8	3	For vocational education and training and other miscellaneous funding.
Total Grants	1,003.0	100	

Source: 2002-03 Budget Paper No. 3 Table 5.2.11 (pp 102-103)

Forecast Assumptions

2.5 The forecast receipt of financial assistance from the Commonwealth is determined on the latest available advice from the Commonwealth at the time of preparing the budget papers, taking into account the payment schedules and escalation factors relevant to each type of grant.

Taxes

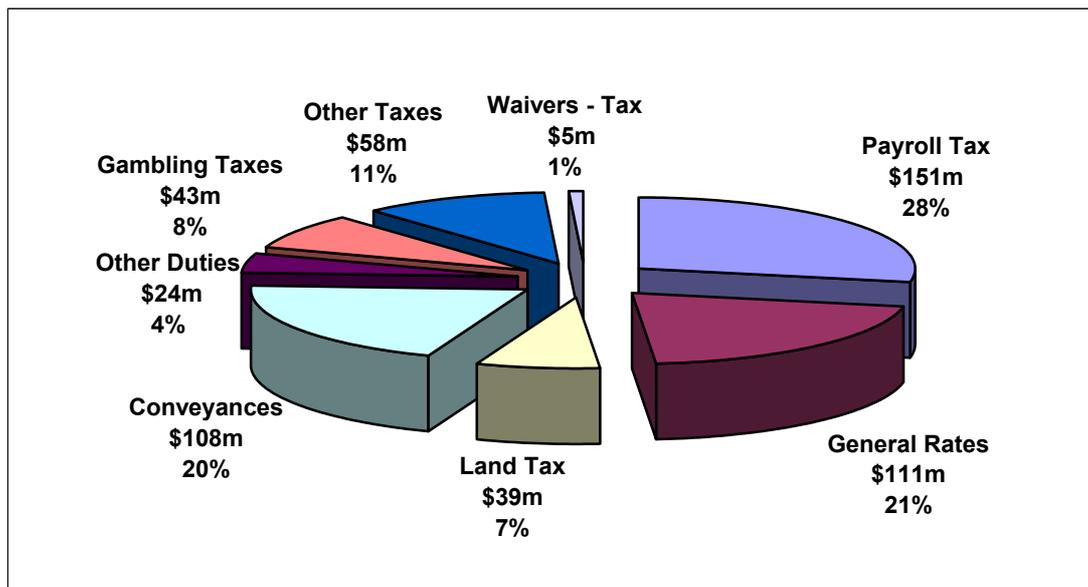
2.6 Taxation revenue, \$534 million or 24% of total budgeted revenue, represents the second largest source of Territory's revenues. The types of taxation and fee revenue included in the estimates are as follows:

- payroll tax;
- general rates;

- land tax;
- debit tax;
- duties – including conveyances (which accounts for 20% of total budgeted taxation revenue); general insurance, hiring, leases, life insurance, motor vehicle registration and transfer, shares and marketable securities and others;
- gambling taxes - including ACTTAB Licence Fee, bookmakers turnover tax, taxes from gaming machines and interactive gaming, casino and interstate lotteries;
- other taxes – including ambulance levy and TOCTAX⁴; and
- tax waivers.

2.7 Diagram 2.2 provides the details of the Taxation revenue.

Diagram 2.2 – Components of 2002-03 Taxes Revenue



Source: ACT Audit Office and 2002-03 Budget Paper No. 3 Table 5.2.4 p. 88.

⁴ TOCTAX are income tax equivalent payments made by some Territory's PTEs. In 2002-03, ACTTAB, Gungahlin Development Authority and ACT Insurance Authority were the PTEs required to pay TOCTAX which was equivalent to 30% of the agency's 2002-03 budgeted operating results from ordinary activities.

Forecast Assumptions

2.8 Taxation revenues are forecast by a process, which involves:

- assessment of demand and supply conditions in the markets from which the taxes are sourced. For example, in the case of payroll tax, the factors considered are prior years' March outcome, State Final Demand⁵, and employment and wage outlooks;
- analysis of historical information and relationship using econometric and other statistical methods;
- application of Treasury's economic forecasts where there is a relationship between taxation variables and economic variables; and
- estimation of revenue forecast in accordance with relevant legislation, for example, payroll tax rate at 6.85% and the threshold of \$1.25 million are determined in accordance with the *Payroll Tax Act 1987*.

Fees and Fines

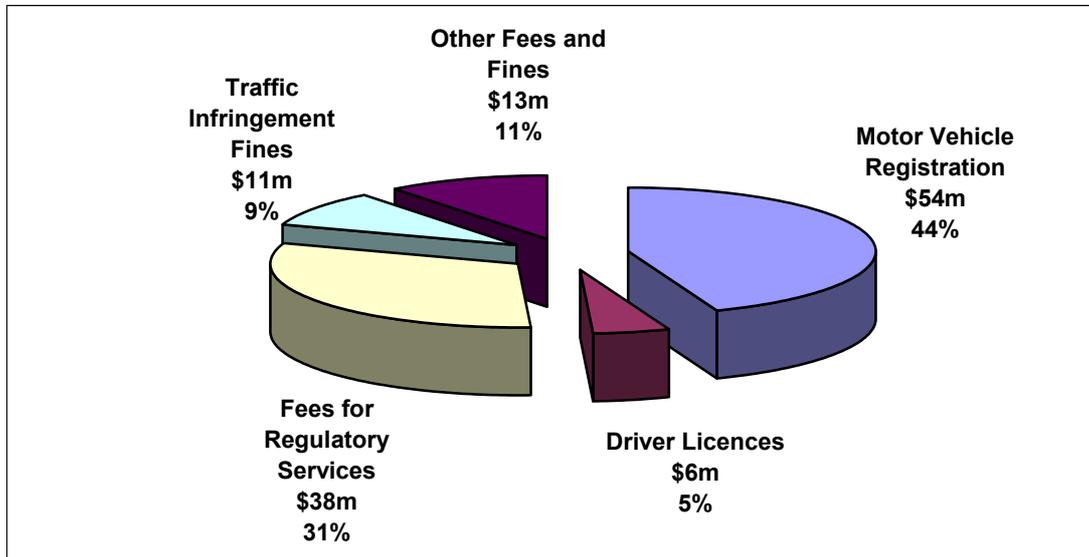
2.9 Fees and Fines are estimated at \$122 million for 2002-03 and expected to produce 6% of total Territory's budgeted revenue. The regulatory fees and the fines comprise the following major components:

- motor vehicle registration;
- drivers' licences;
- fees for regulatory services – including waste management fees, motor transport regulation and building control fees;
- traffic infringement fines; and
- others – including change of use charge (a charge that is payable on the increased value of a block of land due to a development application) and other fines primarily collected from courts and parking.

⁵ State Final Demand (SFD) is used in the analysis to provide an indication of growth in revenue that is not associated with changes in the other more direct parameters such as changes in earnings or employment.

2.10 Diagram 2.3 depicts the composition of fees and fines budget for 2002-03.

Diagram 2.3 - 2002-03 Fees and Fines Budget



Source: ACT Audit Office and 2002-03 Budget Paper No. 3 Table 5.2.7 p.95.

Forecast Assumptions

2.11 The forecasts of regulatory Fees and Fines are prepared by collecting agencies, including Department of Urban Services, Department of Justice and Community Safety and ACT Workcover. The forecasts of most revenue items are primarily based on the prior year’s outcome adjusted by expected movement in Consumer Price Index (CPI). The forecast CPI for 2002-03 is 2.75% and 2.5% for 2003-04 to 2005-06⁶.

User Charges (ACT Government and Non ACT Government)

2.12 User Charges are revenues or fees received from the sale of goods and services to the community (Non ACT Government) and ACT Government entities. The major components of the user charges include:

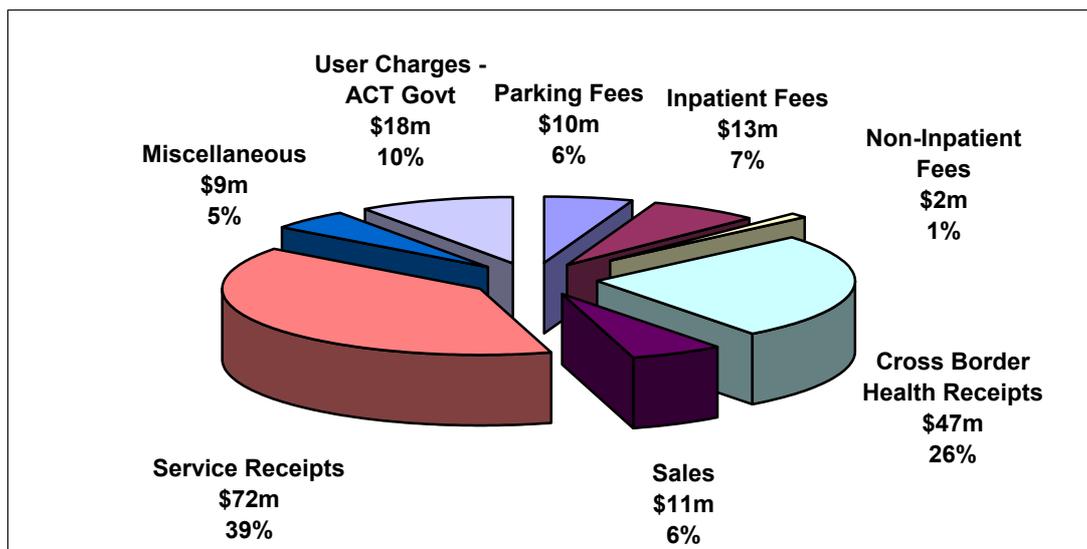
- parking fees;
- inpatient and non-inpatient fees (payments for the provision of hospital and related services);

⁶ Refer Treasury’s Finance Memorandum 2001/23 titled ‘2002-03 Budget Stage One Technical Adjustments’ issued in October 2001.

- cross border health receipts (payments for medical services by other State and Northern Territory Governments to the ACT Government for their residents at ACT public hospitals);
- sales (fees collected by Exhibition Park in Canberra, Australian International Hotel School, Public Trustees, Cultural Facilities Corporation and Canberra Cemeteries Trust);
- service receipts;
- miscellaneous receipts; and
- user charges from ACT Government entities.

2.13 Details of User Charges are illustrated in Diagram 2.4.

Diagram 2.4 – 2002-03 User Charges (ACT and Non-ACT Government)



Source: ACT Audit Office and 2002-03 Budget Paper No. 3 Table 5.2.8 p. 97.

Forecast Assumptions

2.14 The forecasts of User Charges are estimated by the collecting agencies primarily based on the prior year's outcome adjusted by any proposed fee increase, projected variations in activities, and expected movement in CPI.

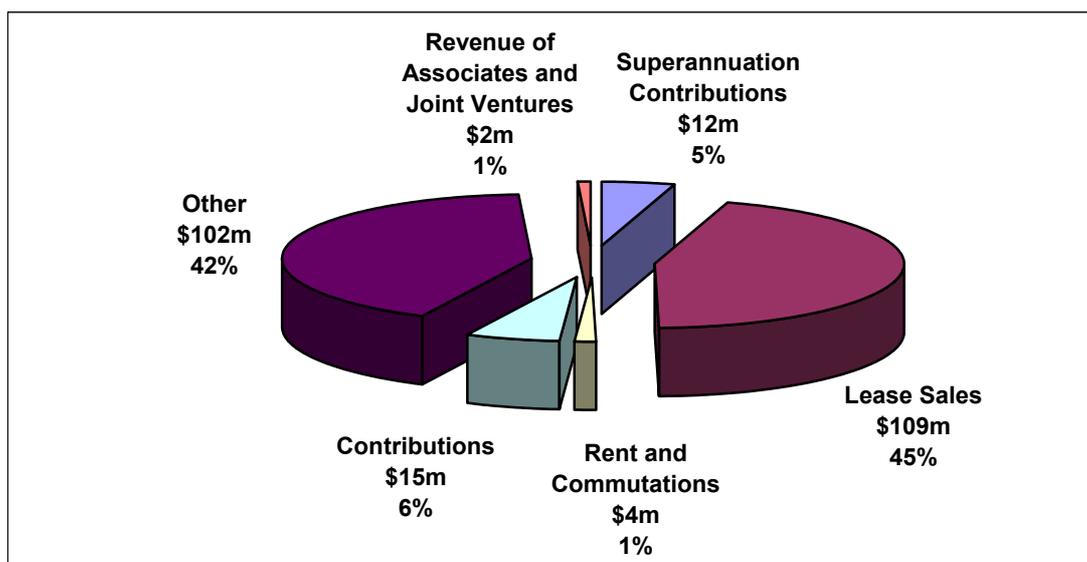
Other Own Source Revenue

2.15 Other Own Source Revenue mainly comprises the following items:

- lease sales (land revenue from lease sales);
- other – including market gains on investments made by the Superannuation Provision Account which is managed by the Superannuation Unit;
- contributions (primarily collected by the Department of Education, Youth and Family Services in respect of voluntary contributions, fundraising and excursion funds and revenue from hire of school buildings and facilities);
- superannuation contributions collected by the Superannuation Unit from the PTE entities;
- rent and commutations (land rental collected by the former Land Group); and
- revenue from associates and joint ventures (only from the Harcourt Hill land development joint venture in 2002-03).

2.16 Diagram 2.5 below shows the detailed breakdowns of Other Own Source Revenue.

Diagram 2.5 – 2002-03 Other Own Source Revenue



Source: ACT Audit Office and 2002-03 Budget Paper No. 3 Table 5.2.10 p. 100.

Forecast Assumptions

2.17 'Lease sales' is the major revenue item which accounts for 45% of total Other Own Source Revenue. This revenue item includes cash sales of leased land (57% of total budgeted revenue from lease sales) and transfer of infrastructure assets from private developers to the Territory entities (43%).

2.18 The forecast revenue of lease sales (primarily cash transactions) is based on the estimated market value of land to be released by the former Land Group, the Gungahlin Development Authority (GDA) and the Kingston Foreshore Development Authority (KFDA)⁷ in accordance with the Government's 2002-03 Land Release Program. The market value of land to be released is based on the independent valuations adjusted by a discount of 10-30% based on expected market conditions and economic factors, such as demand for land and location of land.

2.19 'Other' represents 42% of the total Other Own Source Revenue. This item includes market gains on investments mainly in domestic and international equities made by the Superannuation Provision Account. The forecast revenue from the investment of superannuation funds is based on prior years' outcomes and expected rate of returns of the investment assets provided by external fund managers.

2.20 Revenues from contributions, superannuation contributions, rent and commutations and revenue of associates and joint ventures are primarily based on the prior year's estimated outcome adjusted by any expected change in revenue estimates.

Interest Received

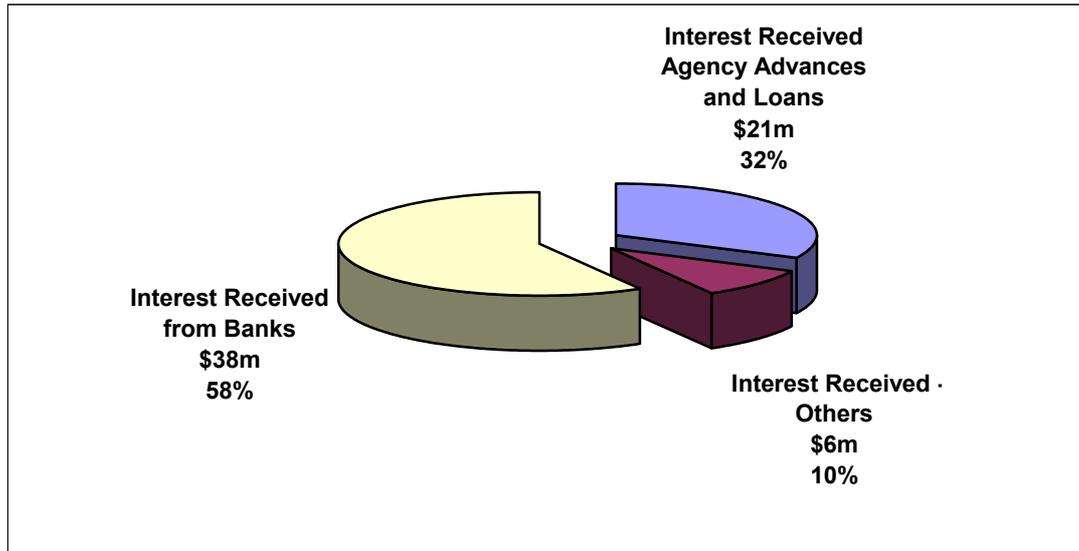
2.21 As shown in Diagram 2.6, this revenue item includes interest received from:

- banks (for general government investments made by the Central Financing Unit on behalf of other agencies and by the Superannuation Unit for investments made in respect of the Superannuation Provision Account);

⁷ The Land Group, the GDA and the KFDA were merged as a new Land Development Agency in accordance with the *Planning and Land Act 2002* since 1 July 2003.

- advances/loans to PTE entities with majority of interest received from ACTEW; and
- others - including interest received from Home Loan Scheme and ACT Law Society.

Diagram 2.6 – 2002-03 Interest Received



Source: ACT Audit Office and 2002-03 Budget Paper No. 3 Table 5.2.9 p. 99.

Forecast Assumptions

2.22 Forecast interest revenue to be received by agencies is based on their projected cash budget surpluses being invested. In accordance with Treasury’s Finance Memorandum⁸, the following interest rates should be applied to estimate interest received for the 2002-03 budget:

- 2002-03 5.40%
- 2003-04 5.90%
- 2004-05 6.15%
- 2005-06 6.15%

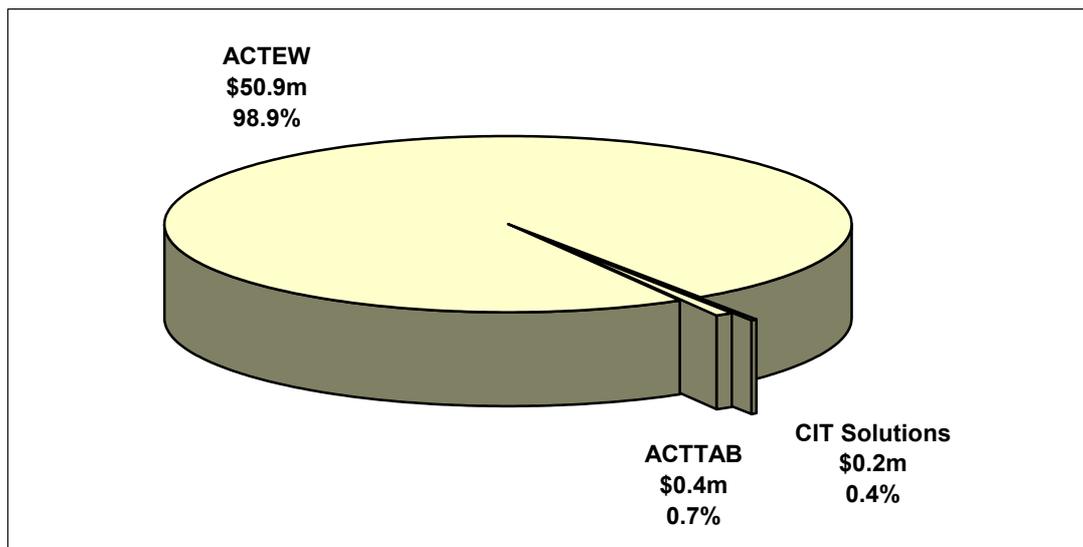
2.23 In respect of the estimated interest received by the Superannuation Unit for investments made in respect of the Superannuation Provision Account, it is based on the expected rate of return (5% for 2002-03) on the projected investments.

⁸ Department of Treasury’s Finance Memorandum 2002/08 issued in April 2002.

Dividends

2.24 Dividends from the Public Trading Enterprises (PTEs) are payable by ACTEW, ACTTAB and CIT Solutions Pty Ltd. The forecast dividend payments to be received by the Territory in 2002-03 are shown in the Diagram 2.7 below.

Diagram 2.7 – 2002-03 Dividends from PTE’s



Source: ACT Audit Office and 2002-03 Budget Paper No. 3 Table 5.2.10 p 100.

Forecast Assumptions

2.25 The forecast dividends are primarily based on the PTE’s projected net profit for the year.

2.26 The Audit has reviewed the economic and forecast assumptions that are used to estimate the major revenue items presented in chapter 5 of the 2002-03 Budget Paper No. 3. The majority of the 2002-03 revenue items under review, except for taxation revenues, were primarily estimated by the agencies based on the estimated outcome for 2001-02, i.e. March actual outcomes and the estimated results for the remaining quarter of 2001-02, plus the expected change in CPI for 2002-03.

2.27 The forward years’ estimated revenues (2003-04 to 2005-06) were based on the previous year’s budget or estimates adjusted by any future government initiatives and the expected change in CPI applicable for the estimated year.

2.28 The Audit reviewed the methodologies used by Treasury to develop the economic and forecast assumptions for the taxation revenues. The Audit noted that Treasury had undertaken a review of the economic assumptions and models in estimating the taxation revenues for payroll tax, conveyances and gaming machine tax during 2001-02. As part of its review process, Treasury had engaged a consultant to undertake a review of revenue forecasting methods for these taxation revenues⁹. As a result of the review, Treasury has adopted its own developed forecasting methodology in estimating the payroll tax and conveyances. The forecasting methods for other taxation revenues remained unchanged.

2.29 Based on the results of the review, which is not an audit, the Audit considered that *the methodologies used to arrive at the economic or forecast assumptions for major revenue items presented in the budget papers were reasonable*. This positive opinion is based on the following findings:

- Methodologies used to estimate the majority of the Territory's revenue, which were primarily based on prior year's estimated outcome adjusted by the expected movement in CPI, were built on practices applied in previous years.
- Methodologies adopted by the Territory were similar to other jurisdictions' practices.
- Adequate documentation was made available to support the changes in the economic assumptions or models used in the current forecast of the payroll tax and conveyances. The new methodologies adopted in 2002-03 for estimating these taxation revenues were the result of the Treasury's review of the relevant forecast models. The review, which involved consideration of alternative forecast models and methodologies proposed by the consultant, was undertaken in accordance with a good practice normally expected in similar review exercises.
- The parameters or variables used in the revenue forecasts were based on the authoritative sources (e.g. Australian Bureau of Statistics).

⁹ A report titled 'Review of Revenue Forecasting Methods for Payroll Tax, Gaming machine Tax and Conveyance Duty' prepared by Access Economics in June 2001.

BUDGET PROCESSES AND SYSTEMS

2.30 The annual budget papers are developed primarily by the Government through strategic and policy planning processes taking into account the Government's vision and desired outcomes, budget objectives and key result areas.

2.31 Treasury is responsible for co-ordinating and managing the development and preparation of the Territory's annual budget, including the integrity of the data contained in the budget papers. The preparation of the 2002-03 Budget Papers Nos 1, 2 and 3 is the responsibility of Treasury. Treasury and individual agencies are jointly responsible for the preparation of Budget Paper No.4.

2.32 Departments and PTEs are required to prepare their annual budgets in accordance with section 12 and 12A of the *Financial Management Act 1996* (FMA) respectively. Territory's authorities, which are established by their own legislation, may be classified as either a department or a PTE for budgeting and financial reporting purposes. Agencies are required to ensure their budget estimates are accurate and timely.

2.33 Budget estimates are collected from each agency through the 'Budget Development Application' (BDA). Most agencies can access BDA via the secured network for downloading budget information. Information collected from the BDAs, which may involve several staged update processes, will be used by the Government for planning and decision making purposes, and budget paper documentation.

2.34 The final BDAs allow data collected from agencies to be verified and checked by Treasury for basic accounting reconciliations before being uploaded into the Whole of Government reporting system (Oracle Financial System) for preparation of the Territory's consolidated budgeted financial statements. All financial tables in the annual budget papers are produced from the Oracle Financial System.

2.35 The Territory's budget cycle and processes is discussed in **Appendix B**.

2.36 The Audit has reviewed the documentation supporting the budget forecasts provided by agencies. The results of the review of the majority of the revenue items concluded that *the procedures, systems and quality review processes associated with the budget preparation and development were generally adequate and effective*. This opinion is based on the following observations:

- Treasury issued several Finance Memoranda¹⁰ to provide guidelines and details of timing for the preparation of the annual budget papers. These Finance Memoranda provided adequate information to assist agencies in preparing their budget estimates in accordance with the required timetable. It was understood that Treasury also provided training sessions to agencies' staff to assist their preparing of the annual budgets.
- The procedures and processes adopted by agencies were generally consistent with the guidelines issued by Treasury.
- Documentation available for audit review was considered generally satisfactory.
- Evidence available suggests that quality review processes existed at agencies, including an evidence of review and certification of the final budgets by the Chief Executive or Agency Head.
- Treasury also undertook a detailed quality assurance review of the agencies' BDAs in various stages of budget processes. This was evidenced by various variations or adjustments to agencies' budgets as a result of Treasury's review processes.

2.37 Although the Audit has reached a positive opinion regarding the adequacy and effectiveness of the budget systems and processes, the Audit found the following deficiencies:

- Several agencies did not provide documentation to support the basis of their budget forecasts.
- The Audit consistently found deficiencies in documentation and record-keeping practices, which while not affecting the integrity of the information presented in the budget papers, impacted on

¹⁰ Finance Memorandums relevant to the preparation of 2002-03 budget cycle include Finance Memorandum (FM) 2001/23 titled 'Budget Stage One Technical Adjustments', FM 2002/01 titled '2002-03 Budget: Budget Development Application (BDA) Update 2'; FM 2002/12 titled 'Guidelines for the Preparation of 2002-03 Budget Papers'; FM 2002/13 titled '2002-03 Budget: BDA Update 4 and Revised Timetable'; and FM 2002/18 titled '2002-03 Budget: BDA Update 5 (Administrative Arrangement Orders)'.

accountability and transparency of decision-making. The Audit noted, for example, that in many cases agencies did not document adequately the basis of their budget estimates and the rationales for any variations and adjustments to their estimates.

RECOMMENDATIONS FOR FUTURE ACTION

2.38 The Audit considers that these deficiencies may be due to a lack of clarity in the roles, responsibilities and accountabilities of agencies and Treasury. For example, the Audit noted that most agencies' staff were not fully aware of the Government's conceptual budget framework, which is not fully documented and easily accessible by the agencies. An incomplete understanding of the budgeting concepts and framework may affect the acceptance and effective implementation of the budget framework and related policies that the Government intends to implement.

2.39 The Audit acknowledges that the Finance Memoranda issued by Treasury during the annual budget years have provided adequate guidance to agencies in compiling their budget documentation. Although these Finance Memoranda provide adequate information to the agencies' staff in meeting the procedural requirements of their budget preparation and development, a lack of understanding by the agencies of the Territory's accrual output budgeting framework and the related conceptual issues and key policies may lead to an inconsistent approach in strategic planning and resource allocation processes.

2.40 The Audit noted that Treasury issued various policy guidelines and Finance Memoranda in prior years in respect of the implementation of the accrual budgeting framework. However, this information is not consolidated. It may be useful for Treasury to consolidate this reference material into a comprehensive, definitive publication, for use by agencies. This is also in line with better practices, as other jurisdictions have issued similar policy guidelines in recent years.

2.41 The Audit found that most jurisdictions have published and provided comprehensive guidelines and reference materials in respect of their budget management framework or policy to guide their agencies in budgeting and resource management. For example, all major States¹¹ except South Australia have issued budget management framework and guidelines to assist their agencies in the implementation of their recent financial and budget management reforms. Similar documents have also been prepared by the smaller jurisdictions, such as Tasmania's Department of Treasury and Finance¹² and Northern Territory's Department of Treasury¹³.

Recommendation for Better Practices (1) – Policy Guidelines

Treasury should consider consolidating the existing information and developing a set of reference materials or guidelines in respect of the Territory's budget framework. Such documentation would supplement the existing guidelines provided by Treasury's Finance Memoranda and could provide guidance to agencies in better understanding the conceptual framework and policies relating to the development and preparation of their annual budgets.

The Audit recommends that the proposed policy guidelines should include the following information:

- the overall conceptual framework of the Territory's budget system;
- the benefits which it yields;
- the conceptual issues and key policies, such as an integrated

¹¹ Commonwealth Department of Finance and Administration's *Outcomes and Outputs Framework* (refer <http://www.finance.gov.au/budgetgroup/>);

New South Wales Department of Treasury's *Financial Management Framework for the General Government Sector* (TTP-04) (refer <http://www.nsw.gov.au/>);

Victoria Department of Treasury and Finance's *Budget and Financial Management Guide* (refer <http://www.dtf.vic.gov.au/Servlet/rwp-ps?Bfmrwp.nsf/webna2/budgeting>);

Queensland Department of Treasury's *Performance Management Framework* (refer <http://www.qld.gov.au/office/knowledge.docs/manage-for-outcome/index.sh>), and

Western Australia Treasury Department's *Output Based Management* (refer http://www.dtf.wa.gov.au/cms/tre_content.asp?id=615).

¹² Tasmania Department of Treasury and Finance issued *Budget Management Guidelines* in September 2003 (refer [http://www.treasury.tas.gov.au/domino/dtf.nsf/LookupFiles/Budget_Management-guidelines_September_2003.pdf/\\$file/Budget_Management-guidelines_September_2003.pdf](http://www.treasury.tas.gov.au/domino/dtf.nsf/LookupFiles/Budget_Management-guidelines_September_2003.pdf/$file/Budget_Management-guidelines_September_2003.pdf))

¹³ Northern Territory Department of Treasury's *Working for Outcome Information Manual* issued in September/October 2002.

approach in planning, budgeting and performance management and the recent financial management reforms, for example the contestability program and the competitive tendering and contracts policy;

- financial and budgeting information systems;
- roles and accountabilities of Government and budget sector agencies;
- budgeting cycle and processes; and
- indicative timetable for annual budgeting cycle.

Recommendation for Better Practices (2) – Adequacy of Budget Documentation and Record Keeping Practices

The Audit found that several agencies did not provide any budget document to substantiate their estimates. Further, the level of documentation and information provided in the agencies' supporting documentation varied within and across the agencies under review.

The Audit recommends that:

- Treasury should consider developing a common set of guidelines, at a whole-of-government level, to ensure proper record keeping practices being consistently adopted by all agencies in the budget preparation processes.
- Agencies should review their budget documentation and current record keeping practices to ensure documentation captures a complete, accurate, and reliable record of budget activities, such as the basis of estimates, history and rationales of variations and adjustments of the budget estimates, and any relevant documentation that supports the decision making processes in budget forecasts.

CORRECTNESS OF BUDGET INFORMATION

2.42 The Audit verified the revenue forecasts prepared by the agencies and confirmed that the forecasts were correctly calculated in accordance with the economic assumptions, government initiatives and policies that should be applied in preparing the revenue forecasts.

2.43 The Audit has reviewed the estimated consolidated statements of financial performance for the Territory, GGS and PTE Sectors in respect of the revenue items presented in the 2002-03 Budget Paper No. 3¹⁴ against the supporting documentation maintained by agencies and Treasury. The results of the Audit's review confirmed that information included in these statements agreed with agencies' budget documentation. The Audit also verified the financial data compiled by Treasury against the source documentation provided by agencies and noted that the budget information collected and collated by Treasury was correct and complete.

2.44 Relevant budget information, such as economic assumptions, government decisions and policies in relation to the major revenue items presented in the 2002-03 Budget Paper No. 3, was consistent with the source documentation and relevant cabinet papers reviewed by the Audit. Reference should be made to **Appendix C** for the parts of budget papers the Audit has confirmed as accurate and correct.

2.45 The Audit's review confirmed that *the 2002-03 budget and forward estimates for revenue items in the estimated consolidated statement of financial performance of the Whole of Government have been prepared reasonably on the basis of the economic assumptions and policies presented in the budget papers and the statement and other relevant information in relation to the revenue items presented in the budget papers were materially accurate and correct.* This opinion is based on the following findings:

- The revenue forecasts were prepared properly based on the economic assumptions and policies presented in the budget papers.
- The revenue items presented in the estimated consolidated statement of financial performance of the Territory (refer **Appendix D**) are consistent with the format and presentation of the Territory's annual consolidated statement of financial performance.
- The revenue items presented in the estimated consolidated statement of financial performance of the Territory are prepared on an accrual basis and in accordance with generally accepted accounting practices.

¹⁴ Refer the Statements of Financial Performance for GGS (Tables 5.5.1 at p. 117) and Appendix C, PTE Sector (Tables 5.5.4 at page 121) and the Total Territory (Tables 5.5.7 at p. 125) of 2002-03 Budget Paper No. 3.

- The budget information, such as 2001-02 budgeted revenue and estimated outcome, 2002-03 budget and forward estimates, was agreed to 2001-02 budget papers and agencies' source documentation.
- Other financial information presented in the budget papers, such as economic assumptions, government decisions and policies, was consistent with the source documentation reviewed by the Audit.

CONCLUDING COMMENTS

2.46 The Audit considers that the 2002-03 budget and the forward estimates for the revenue items presented in the 2002-03 Budget Paper No. 3 were reasonably estimated based on the economic or forecast assumptions, relevant government initiatives and policies. Relevant budget information presented in the budget papers was also accurate and correct. Overall, the budget preparation procedures, systems and quality review processes were generally adequate and effective.

2.47 However, the Audit considers that provision of a comprehensive publication, which explains the overall budgeting framework, the benefits it yields, policies and guidelines, budget systems and processes, roles and responsibilities of public budget sector agencies, the indicative timetable of annual budget cycle and other relevant information, will assist the agencies in better understanding the conceptual framework of the Territory's resource management system. Consolidation of various publications and guidelines issued by Treasury into a single document may provide easy and useful reference to the agencies.

2.48 Agencies should remind staff with budget preparation responsibilities of the importance of sound administrative practice, which is often demonstrated by sound record-keeping and documentation.

3. REASONABLENESS OF BUDGET ESTIMATES

INTRODUCTION

3.1 This Chapter discusses the results of the analytical review of the original budget estimates and the actual outcomes of the revenue forecasts over a 4-year period from 1999-00 to 2002-03.

3.2 The objectives of the analytical review are to assess whether:

- the Government's forecasting performance for the revenue items has been reasonable and reliable; and
- the 2002-03 budgeted revenue has been achieved.

SIGNIFICANT FINDINGS

Positive Findings

- *Territory's estimated revenue for 2002-03 has been achieved, as the actual outcome is \$315 million or 14% above the original forecasts.*
- *Overall, 2002-03 revenue forecasting performance has been reasonable.*

Negative Findings

- *There have been significant variances between the actual outcome and the original forecast associated with conveyancing duties, interests received from banks, lease sales and other revenue from investment gains made by the Superannuation Provision Account.*

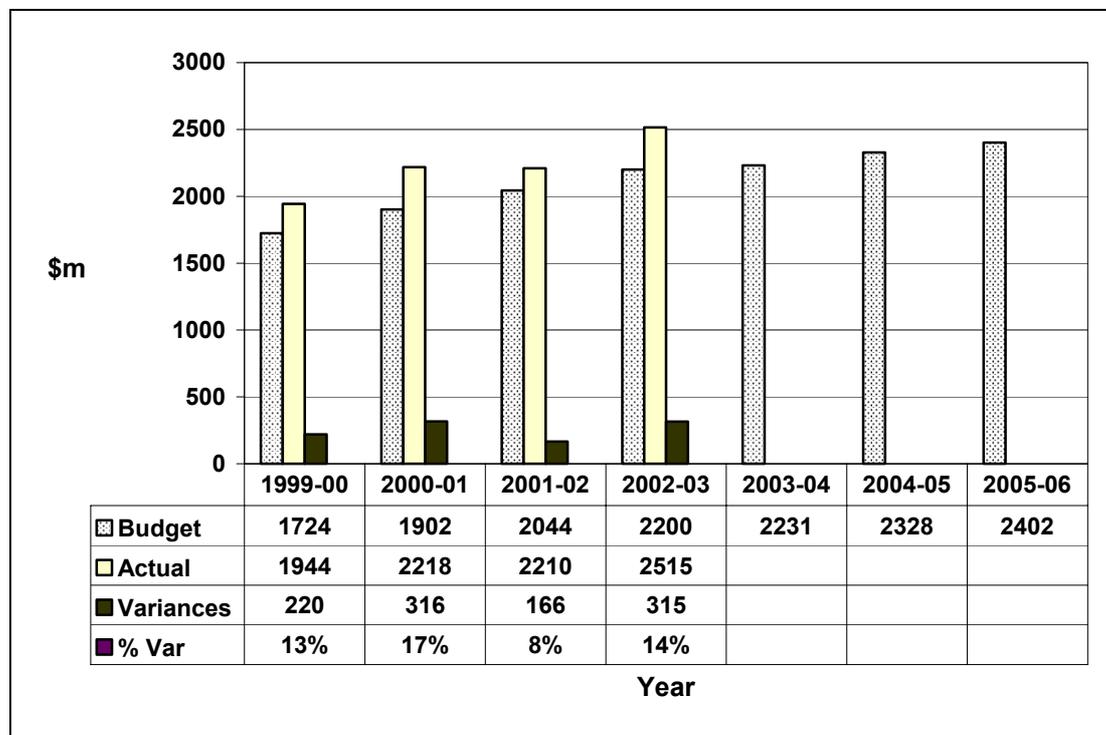
REVENUE FORECASTING PERFORMANCE

Total Government Revenue

3.3 The variance analysis of the Territory's original forecasts and the actual outcome of the major revenue items from 1999-00 to 2002-03 is summarised at **Appendix E**.

3.4 Diagram 3.1 below shows the estimated budget, the actual amount of the revenue collected and the variances (in \$million and percentages) between the original budget and the actual outcome for a 4 year period.

Diagram 3.1 - Total Government Revenue – Budget vs Actual



Source: Territory’s Annual Budget Papers and Annual Financial Reports for the ACT.

3.5 The variance analysis (refer Appendix E and Diagram 3.1) identifies that the total actual revenue received by the Territory, when compared to the original budget estimates over the past 4 years, was above the budget by an annual average of 13%. In 2002-03, the variation between the actual outcomes and the budgeted estimates was 14%, which is considered material based on the materiality level determined in accordance with the Australian Accounting Standard¹⁵. However, in view of the uncertainties of the prospective information available at the time of preparing the estimated forecasts, the variations between the actual outcomes and the revenue forecasts over the past 4 years were considered material but still within the acceptable level since the variations were only slightly above the materiality level of 10%.

¹⁵ Australian Accounting Standard AAS 5, *Materiality*, an amount which is equal to or greater than 10 per cent of the appropriate base amount may be presumed to be material.

3.6 Overall, based on the results of the analytical review, it is noted that the Territory has achieved its expected outcome in revenue forecasts over the past 4 years. The operating revenues of the Territory in 2002-03 totalled \$2,515 million, \$315 million or 14% higher than the original budgeted revenue of \$2,200 million.

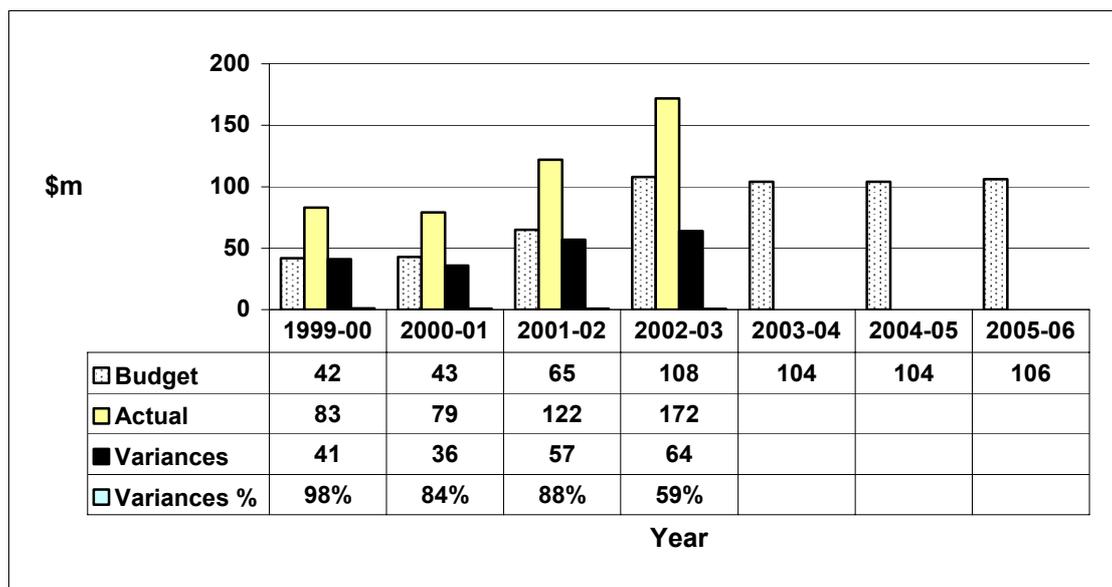
3.7 Nevertheless, the variance analysis of the major components of the Territory’s revenue (refer Appendix E) indicates that there have been substantial variations between the actual outcomes and the budget estimates associated with Duties on Conveyances, Interests Received from Banks, Lease Sales and Other Own Source Revenue from investment gains made by the Superannuation Provision Account which is managed by the Superannuation Unit.

3.8 The Audit found that the less reliable forecasting performance for these revenue categories has contributed to material variations between the actual outcomes and the budget estimates in the recent years.

Conveyance Duty

3.9 In 2002-03, duties on conveyances accounted for 28% of total taxation revenue collected by the Territory (\$613 million). The revenue collected from conveyancing duty in each of the past 4 years was substantially above the original budgeting forecasts as shown in Diagram 3.2.

Diagram 3.2 – Conveyances – Budget vs Actual



Source: Territory’s Annual Budget Papers and Annual Financial Reports for the ACT.

3.10 In each of the past four years, the substantial variation between the actual revenue collections from conveyancing duties reflected the continued growth in the property market, especially house prices. This indicates that the impact of property price increases and the sustained strength of the property market value have been under-estimated.

3.11 It should, however, be acknowledged that the difficulty of forecasting property movements and accordingly conveyancing duty is not confined to the Territory. It is noted that other jurisdictions also significantly under-estimated the revenue predictions from this revenue collection in recent years. As a result, Treasury reviewed its forecast model for forecasting conveyancing duty during 2001-02. Treasury also commissioned an external consultant to undertake a review of the Territory's revenue forecasting methods for payroll, gaming machine tax and conveyance duty.

3.12 The consultant's review identified that the underlying methodology is 'fairly sound'¹⁶. The modelling of both average prices and sales volumes would appear to be reasonable. The external consultants considered that there is a limitation on the methodology since there is no allowance for changing turnover levels¹⁷.

3.13 The current conveyance duty forecasting methodology splits collections into a residential and a non-residential component. The non-residential is a fixed amount with adjustments for Commonwealth sales. The Audit understood that the current forecasting model for conveyancing duties was primarily developed to predict revenue from residential collections. The Audit's review of the current forecast methodology noted that the model used by Treasury would produce reasonably reliable revenue predictions for residential conveyancing duty.

3.14 However, the Audit considers that the current methodology for forecasting non-residential conveyancing revenue, which is simply based on constant value from commercial property transactions and Commonwealth sales, may not produce reliable forecast for revenue collections from commercial conveyancing duties.

¹⁶ Access Economics, 'Review of Revenue Forecasting Methods for Payroll Tax, Gaming machine Tax and Conveyance Duty' issued in June 2001, p 20.

¹⁷ Access Economics, 'Review of Revenue Forecasting Methods for Payroll Tax, Gaming machine Tax and Conveyance Duty' issued in June 2001, p 20.

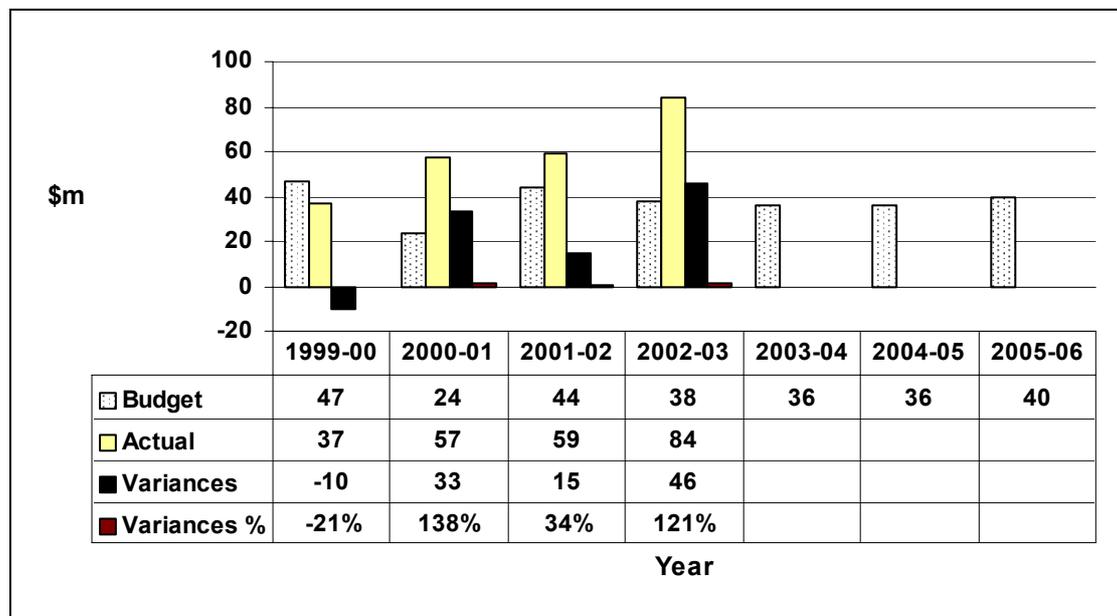
3.15 The inherent difficulties in forecasting conveyancing duty and the absence of timely, cost-effective data, such as the reliability of data from Commonwealth agencies and a comprehensive model, will continue to hinder the Government’s ability to produce accurate forecasts for this revenue item. To mitigate this risk, the forecasting methodology and data availability issues should be addressed in future budgets.

Interests Received from Banks

3.16 This revenue item relates to interest received from general government investments made by the Central Financing Unit on behalf of other agencies and by the Superannuation Unit for investments made in respect of the Superannuation Provision Account. Interest received from banks is interest earnings on cash, short-term securities and fixed interest assets.

3.17 In 2002-03 financial year, interests received from banks totalled \$84 million, which accounted for 3% of the Territory’s total actual operating revenue (\$2,515 million). Although the amount of revenue received is not material to the total revenue of the Territory, Diagram 3.4 shows that there have been substantial variances between the actual outcome and the original budget for the past 4 years.

Diagram 3.3 – Interests from Banks – Budget vs Actual



Source: Territory’s Annual Budget Papers and Annual Financial Reports for the ACT.

3.18 The variances shown in Diagram 3.4 demonstrate that the original forecasts were substantially under-estimated since 2000-01. In 2002-03,

the variance between the actual amount of interests received and the original forecast was \$46 million, 121% above the budget. The increased revenue in the past 3 years since 2000-01 was largely attributable to higher than expected investment levels. This indicates that the amount of surplus funds held by agencies and in the Superannuation Provision Account during these years was substantially higher than what originally budgeted for.

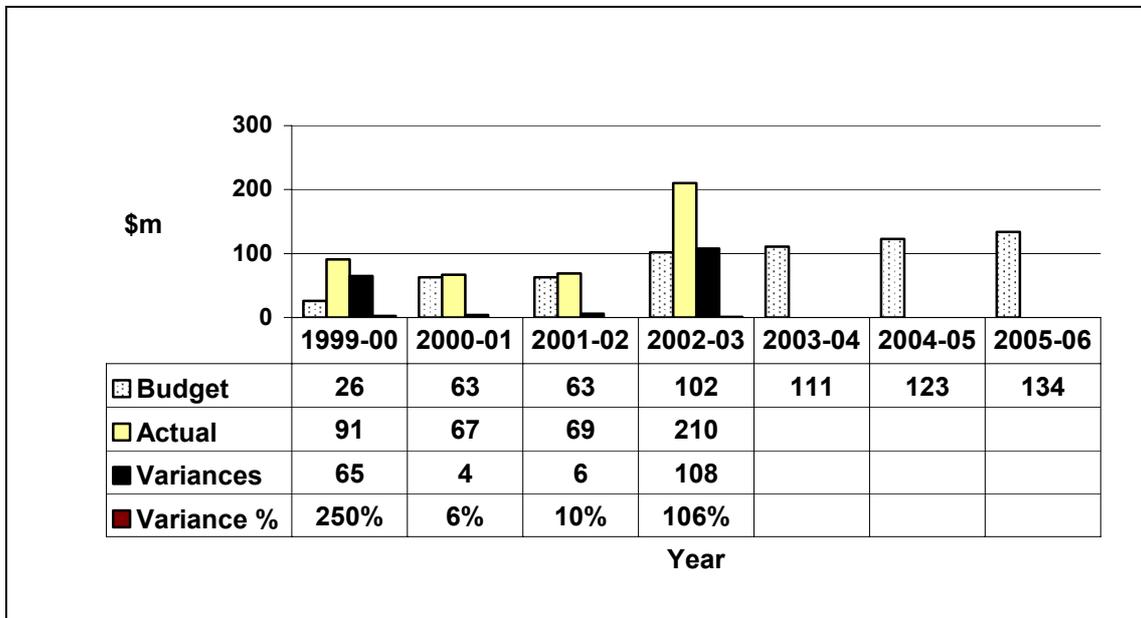
3.19 Given the interest revenue received from banks in the recent years has continued to be significantly higher than the estimated budget, the current forecasting methodology for this item should be reviewed in order to produce more reasonable and reliable estimates.

Lease Sales

3.20 Lease sales include revenue from sales of leased land and transfer of infrastructure assets by private developers to the Territory.

3.21 Diagram 3.4 illustrates the results of the variance analysis of the actual revenue generated from lease sales and the original forecasts over the past 4 years.

Diagram 3.4 – Leases Sales – Budget vs Actual



Source: Territory’s Annual Budget Papers and Annual Financial Reports for the ACT.

3.22 The analysis shows the continuing upward trend in land sales over the recent years, except in 2000-01.

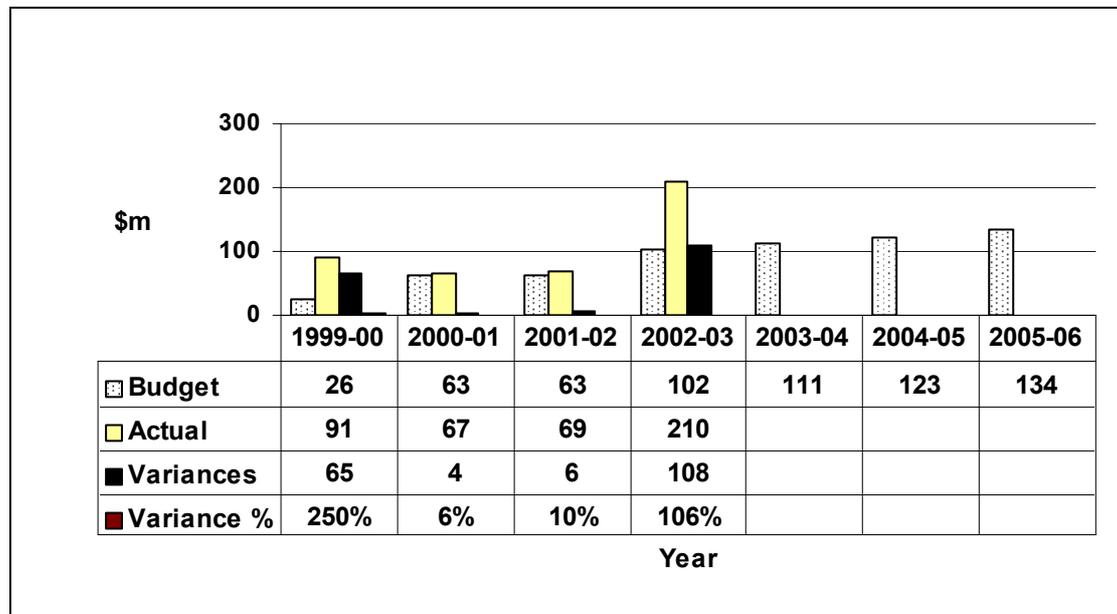
3.23 Revenue from lease sales was budgeted to decrease from the estimated outcome of \$118 million in 2001-02 to \$109 million in 2002-03¹⁸. However, the 2002-03 actual outcomes from land sales and infrastructure related transactions contributed \$176 million to the Territory’s operating revenue, an increase of \$67 million or 61% from the original budget. The increased revenue in 2002-03 was largely attributed to increased land sale prices and a higher return of infrastructure assets by developers to the Territory.

3.24 Although it would be difficult to predict the property markets which have been volatile in the recent years, the significant variations between the actual revenue received and the forecast estimates indicates that further work is required to improve the budget performance of this item.

Other Own Source Revenue – Other

3.25 Major components of this revenue item include unclaimed monies, donations, payments from ACTTAB, market gains and dividends earned from investments made by the Superannuation Provision Account, and other various revenue. Diagram 3.5 below shows the results of the variance analysis over the past 4 years.

Diagram 3.5 – Other Own Source Revenue – Budget vs Actual



Source: Territory’s Annual Budget Papers and Annual Financial Reports for the ACT.

¹⁸ Refer 2002-03 Budget Paper No. 3 p 102.

3.26 In 2002-03, this revenue item contributed more than 8% of the Territory's total revenue. While the increases in revenue in 2000-01 and 2001-02 were within the materiality level of 10%, revenue from this source totalled \$210 million, an increase of \$108 million or more than 100% compared to the budget in 2002-03. This has raised an additional \$141 million of revenue or 204% more than the amount collected in the previous year.

3.27 The Audit understood that the increased revenue in the year was primarily attributed to insurance recoveries of \$108 million from the Territory's reinsurers due to the January 2003 bushfire. This was not included in the original estimate. Such extraordinary revenue from insurance recoveries received by ACT Insurance Authority due to the January 2003 bushfire would not be predicted during the budget preparation processes because of the inherent uncertainty in forecasting revenue of any unforeseeable events, such as the January 2003 bushfire.

3.28 However, further analysis of the major components of this revenue item identified significant variances between the original budget and the actual outcome in respect of change in net market value of investments made by the Superannuation Unit (budget \$45.2m and actual \$nil due to negative movements in net market value of investments) and dividends earned from investments made by the Superannuation Provision Account (budget \$25.6m and actual \$14.6m). In view of the significant variances between the original budget and the actual outcome, it is recommended that the forecasting methodology relating to this item be reviewed.

RECOMMENDATIONS FOR FUTURE ACTIONS

3.29 The following recommendations are made to address the budget risks in relation to these four revenue items.

Recommendation 3 – Review of Forecasting Methodologies

The forecasting assumptions, methodologies and techniques associated with conveyancing duties, interest received from banks, lease sales and other revenue from investment gains made by the Superannuation Provisions Account should be reviewed to improve the forecast performance of these items.

Recommendation 4 – Need for Sensitivity Analysis

Based on the significant variations experienced in forecasting results in recent years, consideration should be given to include a statement of risks in the annual budget papers¹⁹ to provide and quantify, where possible, risks that could have a material positive or negative impact on the budget projections provided in the Territory's budget papers. The general government revenue and operating surplus are sensitive to a range of economic and financial factors. These factors include economic activity (Gross State Product and employment), inflation, wages growth and investment markets.

3.30 The Audit considers that the identification of the associated risks, such as economic and fiscal risks, allows for appropriate risk management, which is an important part of contemporary public sector financial management. It also provides useful information to the Legislative Assembly and the community in assessing the sensitivity of budget projections to both upside and downside movements. Provision of such information in the annual budget papers will enhance the accountability and transparency of the Territory's budgeting processes.

3.31 The Audit noted that the Territory's 2004-05 Budget Papers have included risk and sensitivity analysis²⁰ for the first time. However, the analysis included is at a high level emphasising qualitative analysis. The Audit considers there is benefit in including an enhanced statement of risk and sensitivity analysis with additional sensitivity assessment of budget projections to both positive and negative impacts of major revenue items.

CONCLUDING COMMENTS

3.32 Overall, the results of the analytical review revealed that the forecasting performance for the revenue items has been generally reasonable and reliable because the variation between the actual outcomes and the original estimates was at an annual average of 13% in the recent years, which is acceptable in view of the inherent uncertainty and

¹⁹ Reference is made to Victoria State's Budget Papers 2002-03 Budget Update, Chapter 5 titled *Statement of Risks*.

²⁰ The 2004-05 Budget Paper No. 3, which was tabled to the Assembly on 4 May 2004, includes similar analysis for the first time. Reference should be made chapter 1.4 titled 'Statement of the Sensitivity of Budget Estimates' and chapter 1.5 titled 'Statement of Risk'.

difficulty in budget forecasting. It also revealed that *the Territory's budgeted operating revenue for 2002-03 has been achieved* since the actual revenue collected during the year was \$315 million or 14% more than the budget.

3.33 Nevertheless, the variance analysis highlighted that there were significant variances between the actual outcome and the original budget associated with the following four items:

- Duties on Conveyances;
- Interests Received from Banks;
- Lease Sales; and
- Other Own Source Revenue from investment gains.

3.34 Further work needs to be done to improve the reliability of forecasts of these items.

Appendix A – Audit Approach and Scope

AUDIT OBJECTIVES

The objectives of this audit were to provide an independent opinion to the Legislative Assembly on whether:

- the methodologies used to arrive at the economic assumptions presented in the budget papers were reasonable;
- the procedures, systems and quality review processes associated with the budget preparation and development were adequate and effective;
- the 2002-03 budget and forward estimates for revenue items in the Territory's estimated consolidated statement of financial performance have been prepared reasonably, based on the economic assumptions; and policies presented in the budget papers and the statement and other relevant information in relation to the revenue items presented in the budget papers were accurate and correct; and
- the 2002-03 budgeted revenue has been reasonably achieved compared to the actual outcome for the year.

FOCUS AND SCOPE

The scope of the audit was limited to a review of the budget information in respect of 2002-03 budget and forward estimates for revenue items presented in chapter 5.2 of the 2002-03 Budget Paper No. 3²¹. The audit is primarily directed at the Whole of Territory, General Government Sector (GGS) and Public Trading Enterprises (PTE) Sector consolidated statements of financial performance and consolidated information presented in other parts of the Budget Papers.

The audit covered a review of the budgetary processes across all major ACT Government departments, statutory authorities and TOCs (the agencies). The agencies examined in detail are:

²¹ 2002-03 Budget Paper No. 3, Chapter 5.2, *Revenue 2002-03 and Forward Estimates*, pp 79-103.

- Chief Minister’s Department;
- ACT WorkCover;
- Department of Treasury;
- Department of Disability, Housing and Community Services;
- Department of Health and Community Care;
- Department of Education, Youth and Family Services;
- Department of Justice and Community Safety;
- Department of Urban Services;
- ACT Housing;
- Land Group (currently known as Land Development Agency);
- ACTEW Corporation Limited (ACTEW);
- ACT Gambling and Racing Commission;
- ACTTAB Limited;
- Australian International Hotel School;
- Exhibition Park in Canberra;
- Kingston Foreshore Development Authority;
- Totalcare Industries Limited;
- Cultural Facilities Corporation;
- Gungahlin Development Authority;
- Legal Aid Commission; and
- Canberra Institute of Technology.

The review focused on the adequacy, correctness and completeness of the budget documentation maintained by the agencies and the reasonableness of the key economic assumptions and/or the methodologies that supported the revenue estimates. This performance audit did not address the merits of government policies and decisions.

METHODOLOGY

The broad approach applied consisted of:

- identifying those documents that set down the policies and procedures to be followed when preparing budget estimates and

forecasts. This involved researching documents and discussion with Treasury representatives in relation to the Territory's budgetary framework;

- developing a test program for each major revenue item presented in the whole of Territory, GGS and PTE consolidated statements of financial performance;
- determining whether 2002-03 budget and the forward estimates for revenue items prepared by the agencies were accurate, correct and reliable. This was undertaken through the detailed examination of all major revenue items using the Audit's test programs;
- determining whether 2002-03 budget and the forward estimates for revenue items presented in the consolidated statements of financial performance and other financial information presented in the budget papers were materially accurate and correct. This involved a review of procedures, systems and quality review processes used by Treasury for collecting and collating financial estimates and other information from the agencies;
- undertaking analytical review of major revenue items, including trend and ratio variance analysis between the actual outcome and the budget for 2002-03 and the previous three years (1999-00 to 2001-02);
- briefing, interviews and correspondence with relevant Treasury, and agencies' representatives; and
- preparation and finalisation of a report to the Legislative Assembly and to specific agencies (as required).

The Audit developed a test program for each major revenue item. The test programs consider whether:

- forecasts of revenue were prepared reasonably taking into account the relevant economic assumptions, government decisions and policies presented in the budget papers;
- methodologies used to arrive at the economic assumptions presented in the budget papers were reasonable;
- supporting documentation maintained by the agencies was adequate, correct and complete;
- data collected and collated by Treasury was correct and complete; and

- budget information presented in the budget papers was accurate, correct and consistent with the estimated consolidated statements of financial performance.

LIMITATION ON SCOPE

The review has been conducted in accordance with Australian Auditing Standards applicable to review assignments, and has been limited primarily to inquiries of relevant personnel and assessments of the reasonableness of key methodologies and processes followed to support the assumptions and underlying data upon which the 2002-03 budget and forward estimates are based, and appropriate analytical review.

It should be noted that evidence may be available to support the assumptions and underlying data upon which estimated financial information is based, but such evidence is generally future oriented and therefore less certain in nature. As a result, the Audit is not in a position to obtain the level of assurance necessary to express a positive opinion on those assumptions and the underlying forecast information included in the estimated consolidated statements of financial performance of forward years. Accordingly, **no opinion is provided on whether the forecasts will be achieved beyond 2002-03.**

Appendix B – Territory's Budgetary Framework

LEGISLATIVE REQUIREMENTS

Financial Management Act

The *Financial Management Act 1996* (FMA) is the core legislation which establishes and defines the Territory's financial management policies.

Section 5 of the FMA requires the Government, except as otherwise provided by a resolution of the Legislative Assembly, to introduce the first Appropriation Bill relating to a financial year into the Assembly not later than 3 months after the beginning of the financial year.

Pursuant to section 10 of the FMA the Treasurer is required to present to the Legislative Assembly the budget papers of the Territory for each financial year immediately after the presentation of the first Appropriation Bill. The budget papers for the year shall include:

- (a) the proposed budget for the Territory;
- (b) the proposed budget for each department;
- (c) the proposed budget for each public trading enterprise; and
- (d) the consolidated financial statements in relation to the general government sector and the public trading enterprises sector.

Section 11 of the FMA specifies the forms and principles for the preparation of the Territory's budget. A proposed budget for the Territory should include the following budgeted financial statements required under the financial management guidelines issued under the FMA²²:

- a statement of financial performance;
- a statement of financial position; and
- a statement of cash flows.

These statements should be prepared in a form that facilitates a comparison between the budget for the previous financial year and the

²² Financial Management Guidelines are disallowable instruments issued by the Treasurer in accordance with section 67 of the *Financial Management Act 1996*.

proposed budget²³. The proposed budget shall include budget estimates, for each class of output or a group of output classes, for each of the next three financial years²⁴. The legislation also requires a proposed budget for the Territory to be prepared in accordance with the principles of responsible fiscal management specified in subsection 11(5) of the FMA.

Principles of Responsible Fiscal Management

The principles of responsible fiscal management are to:

- ensure and maintain the Territory's total liabilities at prudent levels so as to avoid any adverse impact on its total liabilities in the future;
- pursue and maintain the total operating expenses of the Territory in each financial year to be less than its operating revenue until the total liabilities of the Territory are at prudent levels;
- achieve and maintain the Territory's net worth (total assets less total liabilities) at levels that provide a buffer against factors that may impact adversely on its net worth in the future; and
- manage prudently the financial risks of the Territory.

Any departure from the above principles must only be temporary. The Treasurer is required to report to the Assembly the reasons for a departure, the approach intended to be taken to return to the principles and the period of time expected to be taken to return to the principles²⁵.

Types and Classifications of Government Entities

Government entities vary in the nature of their operations and the source of funding. The FMA broadly classifies Government entities as either departments or public trading enterprises (PTEs). A third classification, Territory authority, is also used. Territory authorities are established by their own legislation and may be classified as either departments or PTEs.

General Government Sector (GGS) entities, by definition, are those public sector entities, such as departments and authorities, which primarily provide non-market goods and services (such as education,

²³ Subsection 11(2) of the *Financial Management Act 1996*.

²⁴ Subsection 11(3) of the *Financial Management Act 1996*.

²⁵ Subsection 11(6) of the *Financial Management Act 1996*.

police or health services) to the community at large²⁶. They are also responsible for the transfer or redistribution of income and wealth for public policy purposes (such as subsidies, grants or welfare payments). These entities are funded from Territory's appropriations and are budget-funded. The funding provided is used to deliver programs and services of a public policy nature at either no cost to users or at subsidised rates.

The PTEs are primarily commercial in focus and operation. These organisations are set up by the Government with primary function of providing goods or services for sale in the market with the aim of recovering all, or at least a significant proportion of, their operating costs. They provide goods and services and are funded by user charges. Some government goods and services of a public policy nature, such as reduced-price public transport, electricity and water for selected members of community, are delivered through these commercial agencies. The Government's funding of these goods and service is identified as Community Service Obligations (CSOs).

Departmental and PTE Budgets

The requirements for departments and PTEs to prepare and present budgets are specified in sections 12 and 12A of the FMA respectively. Similar to the requirements for the Territory's budget, departments and PTEs have to prepare the budgeted financial statements in accordance with the financial management guidelines issued under the FMA. However, departments are also required to prepare and present in the budget papers a statement of the classes of outputs that the department proposes to provide during the budget year and the performance criteria to be met by the department in providing the outputs.

²⁶ General Government Sector (GGS) is an Australian Bureau of Statistics categorisation of certain public sector entities. In 2002-03 most ACT public sector entities are categorised as GGS entities except ACTEW Corporation Ltd, ACTTAB, ACT Forests, ACT Housing, ACTION Authority, Stadium Authority and CIT Solutions Ltd, which are classified as PTEs. The classification of ACT public sector entities is shown at page 263 of 2002-03 Budget Paper No. 3.

Forms of Appropriations

Departments are not allowed to spend public money except in accordance with an appropriation²⁷. There are three appropriation types for which the Government is able to allocate funding to each department for:

- provision of outputs;
- capital injection; and
- expenditure made on behalf of the Territory²⁸.

BUDGETARY FRAMEWORK AND PROCESSES

Accrual Budgeting and Accounting

The Territory's financial statements are prepared in accordance with the generally accepted accounting principles by consolidating the audited financial results of most public sector entities²⁹. The financial statements do not consolidate the financial results of some reporting agencies because they are not Government controlled. Territory agencies are also responsible for a number of other Boards and Trusts, which have not been included in the consolidation as they are immaterial to the reporting of the Territory's financial results.

The FMA requires departments and authorities to prepare their annual financial statements in accordance with the generally accepted accounting principles and in a form that facilitates a comparison between their financial operations during the year and their budget³⁰.

The budgets for the Territory, departments and other public sector entities are prepared on an accrual basis and consist of similar statements to those required for financial reporting. An underlying principle is that the budget statements for a year and the financial statements, which report the actual results for that year, should be prepared using the same accounting basis. This is to facilitate the accountability by ensuring that budgets and actual results can be readily compared.

²⁷ Section 6 of the *Financial Management Act 1996*.

²⁸ Section 8 of the *Financial Management Act 1996*.

²⁹ Section 22(2) of the *Financial Management Act 1996*.

³⁰ Sections 27(2) and 59(2) of the *Financial Management Act 1996* for departments and Territory's authorities respectively.

Budget Papers

The annual Territory's budget is the Government's key annual economic statement. It is crucial to good governance and confidence in the financial and economic stewardship of the Territory. It is through the annual budget papers that the Government of the day presents to the Legislative Assembly and to the community its proposed fiscal strategy and policy priorities.

The annual budget papers are developed primarily by the Government through strategic and policy planning processes taking into account the Government's vision and desired outcomes, budget objectives and key result areas.

The Government's 2002-03 budget strategy³¹ was the:

- maintenance of a balanced budget over the economic cycle (from 2002-03 to 2005-06);
- adequate provision for long-term liabilities;
- provision of the highest possible standard of government services, and maintenance of service level having regard to growth and monetary inflation;
- strategic approach to capital work program;
- relative conservatism in investment policies;
- maintenance of low level of debt; and
- retention of a high international credit rating.

This strategy is complemented by the Government's vision "Shaping Canberra's Future", which is at Part 2 of 2002-03 Budget Paper No. 3³².

Structure of Budget Papers

The 2002-2003 budget was presented in the following four budget papers.

- Budget Paper No. 1, *Speech*, presents Treasurer's speech to the Legislative Assembly highlighting the Government's strategies and key features of the Budget;

³¹ 2002-03 Budget Paper No. 3 p.3.

³² 2002-03 Budget Paper No. 3 p.9-12.

- Budget Paper No. 2, *Budget at a Glance*, provides a summary of the overall budgetary position together with information on the Government's expenditure in key service delivery areas. It provides cross references to other budget papers to assist readers in locating details of specific budget measures;
- Budget Paper No. 3, *Overview*, contains summaries of the 2002-03 budget and forward estimates for the GGS sector, the PTE sector and the total Territory Government. Details of the projected 2002-03 Budget results are provided, as well as background information on the development of the 2002-03 budget; and
- Budget Paper No. 4, *Budget Estimates*, provides information on each department and their respective output classes, including description of functions, roles and responsibilities, together with major strategic highlights. It also provides budget information on the Territory authorities and the Territory Owned Corporations (TOCs). Full accrual financial information is provided for the GGS sector as well as details of the Territory's PTEs.

Budget Framework

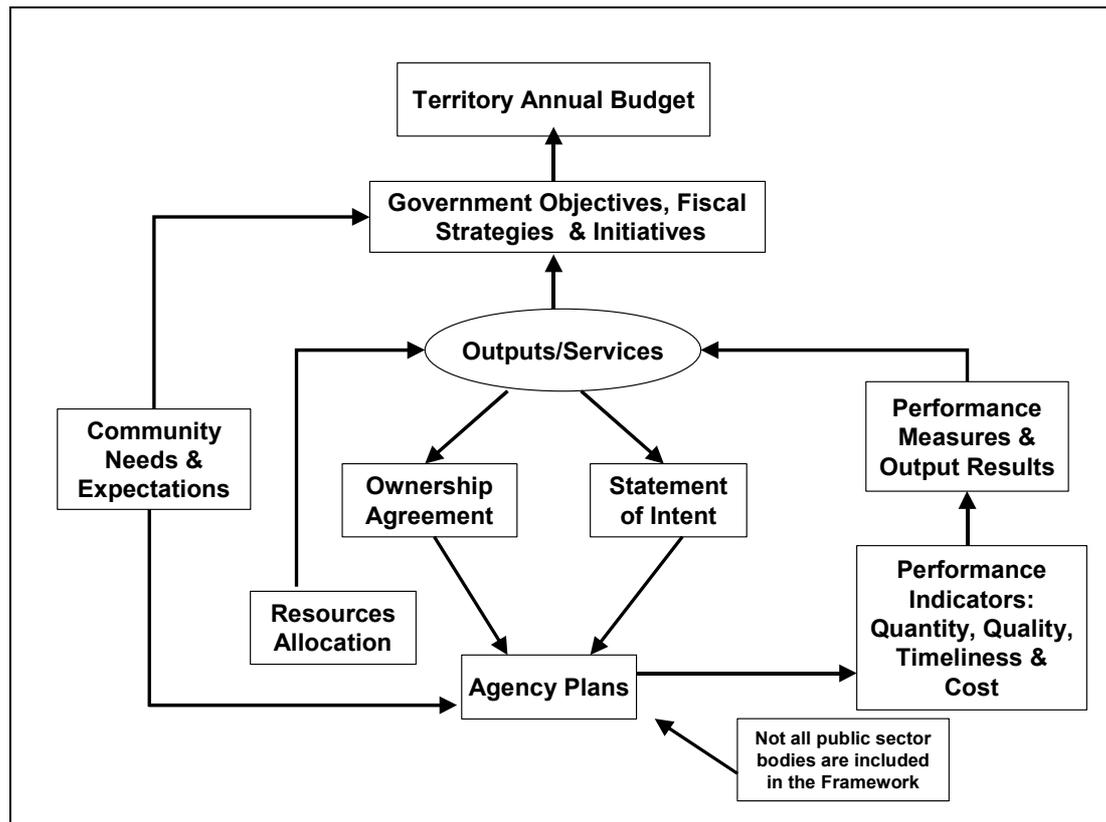
Government programs and service delivery is driven by community needs and expectations. The Territory's budget, which sets overall program and service funding and expenditure constraints, is planned and developed by prioritising and allocating resources between competing demands for government program and service delivery. This is reflected in the decisions the Government takes about what outputs it wants to deliver to the community and what level of outputs in terms of quantity, quality, timeliness and cost.

Agencies undertake strategic and operational planning to determine how the Government's outputs (initiatives) are to be delivered. Because of the knowledge and experience gained from their daily operations, agencies have to consider the nature and extent of community needs and the most appropriate service delivery strategies to address these needs.

As part of the budget process, these deliverables are incorporated into the Ownership Agreement, which is endorsed between the Treasurer and the Chief Executive of each department. For the Territory's authorities, a

statement of intent³³ is agreed between the Treasurer and the Board of Management or the Chief Executive of the authority. Each TOC is also required to submit a statement of corporate intent³⁴ to the Government (voting shareholders) in accordance with section 19 of the *Territory Owned Corporations Act 1990*. The following diagram illustrates the Territory’s Budget Framework.

Diagram B.1. – The Territory’s Budget Framework



Source: ACT Audit Office

Budget Cycle and Processes

The Territory’s budget is developed primarily by the Government (the Cabinet) which decides on the overall budget strategy and priorities. Agencies are responsible for construction of accurate and timely budget

³³ A statement of intent, which contains annual budgeted financial statements, is intended to specify the performance framework for the authority, protect the interest of the Government as owner of the authority and fulfil its accountability to the Legislative Assembly.

³⁴ TOCs’ statement of corporate intent contains similar information as required in a statement of intent for Territory’s authorities.

estimates. The Department of Treasury (Treasury) is responsible for the integrity of the data contained in the budget papers.

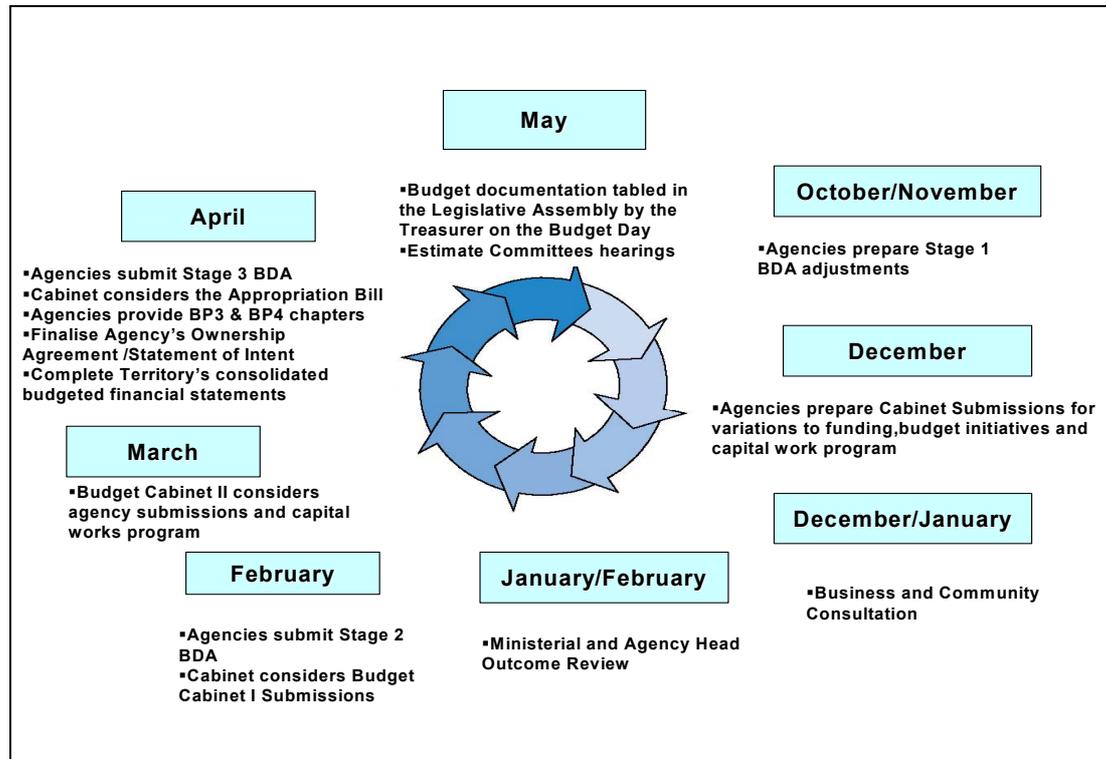
Treasury is responsible to prepare Budget Papers Nos 1, 2 and 3, in consultation with agencies as necessary. The preparation of Budget Paper No.4 is the joint responsibility of agencies and Treasury.

Budget estimates are collected from each agency through 'Budget Development Application' (BDA). Most agencies can access the BDA via the secured network for downloading budget information. Information collected from the BDA, which may involve several staged update processes, will be used by the Government for planning and decision making purposes, and budget paper documentation.

The final BDAs allow data collected from agencies to be verified and checked by Treasury for basic accounting reconciliations before being uploaded into the Whole-of-Government reporting system (Oracle Financial System) for preparation of the Territory's consolidated budgeted financial statements. All financial tables in the annual budget papers are produced from the Oracle Financial System.

The process through which the annual Territory budget is formulated is a cyclical activity covering the full year, with various phases overlapping from year to year. The precise nature and timing of BDA processes undertaken each year are determined to some degree by the economic and political circumstances existing at the time, such as the change of Government that affected the composition of departments and ministerial responsibility. However, there are a number of features consistently present. Diagram Appendix B.2 illustrates the main elements and approximate timing of a typical budget cycle.

Diagram B.2 – Main Elements of Typical Budget Cycle



Source: Treasury's Finance Memorandums issued in 2001 and 2002 (2001/23, 2002/01, 2002/12, 2002/13 and 2002/18) and ACT Audit Office's analysis.

Treasury issues Finance Memorandums to provide guidelines and details of timing for the preparation of the annual budget papers. The main elements of the budget cycle is summarised below.

Stage 1 BDA Update – October/November

Stage 1 update involves a number of technical adjustments to the last year's published Budget and forward estimates which form the starting base for the upcoming budget development process. The technical adjustments required at this stage usually are:

- last year's audited outcome and flow on effects;
- removal of funding initiatives which do not continue after the third year's forward estimates reported in the last year's Budget;
- revised economic parameter, such as Consumer Price Index (CPI);
- indexation based on the forecast CPI;
- revised Territorial revenue;
- variations under the FMA (signed instruments only); and

- any known and agreed adjustments of technical nature, such as elimination of errors.

Cabinet Submissions - December

Departments and other agencies are required to prepare and submit to Treasury any proposed changes to funding, request for additional funding for budget initiatives and draft capital work programs.

The Cabinet (Expenditure Review Committee) considers the submissions, budget timetable and overview of agency financial plans.

Business and Community Consultation – January

The Chief Minister's Department invites Business and Community groups to participate in budget consultation.

Stage 2 BDA Update –February

Stage 2 update usually relates to adjustments for

- variations under the FMA (signed instruments only);
- revised Territorial revenue;
- Commonwealth grant update;
- update to current end of year estimates and flow on effects; and
- impact of current year's Supplementary Appropriation Act;
- update to budget and forward estimates by TOCs.

Budget Cabinet Submissions – February/March

Treasury provides Budget Cabinet I Submissions to the Cabinet in early February to consider the revised forward estimates; budget strategy; budget presentation and overview of agency initiatives.

In March, the Budget Cabinet II considers agency submissions and capital works program.

Stage 3 BDA Update –March/April

Stage 3 update includes adjustments for:

- budget initiatives;
- budgeted capital works program;
- changes to current year's capital work;
- update to Territorial revenue;
- update to current end of year estimates;
- update to reflect Government decisions; and
- final update to budget and forward estimates by TOCs.

Budget Documentation – April

The Cabinet considers the Appropriation Bill for the upcoming year and finalises the budget.

Agencies provide their final draft Budget Papers Nos. 3 and 4 chapters and their draft Ownership Agreement (for departments) or Statement of Intent (for authorities and TOCs) to Treasury.

Treasury prepares the budgeted financial statements for the Territory and its GGS and PTE Sectors, which are cleared by the Treasurer.

Budget Day – May

The Treasurer presents the Budget Papers to the Legislative Assembly on the Budget Day, usually in early May.

Agency prepares for Estimates Committee hearings after the tabling of the Budget Papers in mid May.

Appendix C – Review of Budget Information

Table C.1 outlines the budget information presented in 2002-03 Budget Paper No. 3 (BP3) that the Audit has reviewed and confirmed as accurate and correct.

Table C.1 – Budget Information Verified By Audit

Revenue Items	Descriptions	BP3 Page Number.
<i>Taxes</i>		
Payroll Tax	Threshold (Initiatives) and Table 5.2.3	85
	Treatment of Fringe Benefits and Eligible Termination Payments (Initiatives)	85
	Detailed taxes	88
General Rates	Detailed taxes	89
Land Tax	Changes to Exemption Status for Residential Land Tax (Initiatives) and Increase in Land Tax for Non-residential Properties (Initiatives)	86
	Detailed taxes	89
Debit Tax	Detailed taxes	90
Duty on Conveyances	Increase in Stamp Duty on Conveyances (Initiatives)	83
	Detailed taxes	90
Duty on Hiring Arrangements	Detailed taxes	90
Duty on General and Life Insurance	Exemption of Public Liability Insurance Duty (Initiatives)	83
	Detailed taxes	91
Duty on Leases	Detailed taxes	91
Duty on Motor Vehicle Registration	Increase of Motor Vehicle Registration Fees (Initiatives)	87
	Detailed taxes	91
Duty on Marketable Securities	Detailed taxes	91
Other Duties	Detailed taxes	91
ACTTAB Licence Fee	Detailed taxes	91
Bookmakers' Turnover Tax	Detailed taxes	92
Gaming Tax	Detailed taxes	92
Casino Tax	Detailed taxes	92
Interstate Lotteries Tax	Detailed taxes	92
Ambulance Levy	Detailed taxes	92
TOCTAX	Detailed taxes	92
Tax Waivers	Detailed taxes	93

Table C.1 – Budget Information Verified By Audit (Cont.)

Revenue Items	Descriptions	BP3 Page Number
Casino Licence Fees	Detailed taxes	95
Drivers' Licences	Detailed taxes	95
Change of User Charges	Detailed taxes	96
Fees for Regulatory Services	Detailed taxes	96
Fines	Increased Revenue from Red Light and Speed Cameras (Initiatives)	87
	Detailed taxes	96
<i>User Charges</i>		
Parking Fees	Pay Parking in Belconnen and Tuggeranong (Initiatives)	87
	Detailed taxes	97
Patient Fees	Detailed taxes	97
Cross Border Health Receipts	Detailed taxes	97
Sales	Detailed taxes	98
Services Receipts	Waste Pricing Strategy (Initiatives)	87
	Detailed taxes	98
Miscellaneous	Detailed taxes	98
<i>Interest Received</i>		
Interest Received from Banks	Detailed taxes	99
Interest from Advances/Loans	Detailed taxes	99
Other Interests Received	Detailed taxes	99
<i>Other Own Source Revenue</i>		
Dividends	Detailed taxes (ACTEW and ACTTAB)	100
Superannuation Contributions	Detailed taxes	100
Other	Detailed taxes	101
Lease Sales	Detailed taxes	101
Contributions	Detailed taxes	101
Revenue of Associates and Joint Ventures	Detailed taxes	101

**APPENDIX D – TERRITORY'S 2002-03 BUDGETED STATEMENT OF
FINANCIAL PERFORMANCE**

Appendix D – Territory's 2002-03 Budgeted Statement of Financial Performance

**Table 5.5.1
Australian Capital Territory
General Government Sector
Statement of Financial Performance**

2001-02 Budget \$'000		2001-02 Est. Outcome \$'000	2002-03 Budget \$'000	Var %	2003-04 Estimate \$'000	2004-05 Estimate \$'000	2005-06 Estimate \$'000
Revenue							
582 212	Taxes Fees and Fines	658 171	658 391	..	667 709	686 647	692 219
163 041	User Charges - Non ACT Government	164 292	164 088	..	161 136	161 050	164 140
18 328	User Charges - ACT Government	20 211	17 651	-13	18 570	19 477	20 242
954 432	Grants from the Commonwealth	993 926	1 002 895	1	1 034 009	1 069 838	1 115 104
76 591	Interest	80 997	65 075	-20	61 013	59 853	62 670
32 719	Revenue of Associates and Joint Ventures	23 394	2 302	-90	4 027	0	0
41 624	Dividend Revenue	46 056	51 510	12	56 062	59 835	61 670
173 715	Other Revenue	201 247	241 086	20	228 294	271 257	286 105
2 042 662	Total Ordinary Revenue	2 188 294	2 202 998	1	2 230 820	2 327 957	2 402 150
Expenses							
658 272	Employee Expenses	686 218	724 307	6	730 494	742 963	753 576
165 399	Superannuation Expenses	198 096	201 933	2	217 238	231 950	250 514
451 067	Administrative Expenses	423 587	467 518	10	485 300	488 668	500 496
148 842	Depreciation and Amortisation	144 903	156 188	8	168 360	167 386	169 462
51 172	Borrowing Costs	46 851	44 497	-5	44 860	44 462	43 477
36 969	Cost of Goods Sold	34 007	31 217	-8	39 863	48 752	43 664
404 533	Grants and Purchased Services	428 924	435 981	2	442 651	461 588	481 279
88 347	Other Expenses	194 880	133 905	-31	116 973	125 356	133 176
20 286	Expenses of Associates and Joint Ventures	15 569	100	-99	0	0	0
5 490	Transfer Expenses	17 643	1 640	-91	5 690	3 690	3 600
2 030 377	Total Ordinary Expenses	2 190 678	2 197 286	..	2 251 429	2 314 815	2 379 244
12 285	Operating Result	-2 384	5 712	340	-20 609	13 142	22 906
-875	Increase/(Decrease) in asset revaluation reserve	22 441	10 001	-55	-10 000	0	0
-3 007	Increase/(Decrease) in other reserves	5 485	400	-93	-50	300	300
3 008	Transfer to/from Reserves	199	-345	94	10 105	-245	-245
-874	Change In Equity Other Than Those Resulting From Transactions With Owners As Owners	28 125	10 056	-55	55	55	55
4 887 669	Total Equity From Start of Period	4 922 044	4 947 803	..	4 963 570	4 943 015	4 956 212
0	Distributions to Government	18	0	-100	0	0	0
4 899 080	Total Equity At The End of Period	4 947 803	4 963 570	..	4 943 015	4 956 212	4 979 173

Source: 2003-03 Budget Paper No. 3 Table 5.5.1 p.117.

**APPENDIX D – TERRITORY'S 2002-03 BUDGETED STATEMENT OF
FINANCIAL PERFORMANCE**

**APPENDIX E – ANALYTICAL REVIEW OF TERRITORY’S REVENUE
FROM 1999-00 TO 2002-03**

Appendix E – Analytical Review of Territory’s Revenue from 1999-00 to 2002-03

Table E.1 : Variance Analysis of Territory’s Major Revenue Items (\$m)

	1999-2000			2000-2001			2001-2002			2002-2003		
	Bud \$m	Act \$m	Var %	Bud \$m	Act \$m	Var %	Bud \$m	Act \$m	Var %	Bud \$m	Act \$m	Var %
Payroll Tax	131	137	5	145	152	5	153	144	-6	151	165	9
General Tax	101	92	-9	102	98	-4	105	101	-4	111	106	-5
Land Tax	27	29	7	29	29	0	29	31	7	39	38	-3
Other Taxes	199	202	2	89	137	54	67	69	3	62	64	4
Conveyances	42	83	98	43	79	84	65	122	88	108	172	59
Other Duties	64	66	3	66	70	6	55	55	0	63	68	8
Total Fees	88	97	10	96	96	0	90	94	4	102	102	0
Total Fines	16	11	-31	15	22	47	20	20	0	20	21	5
User Charges	138	179	30	172	197	15	181	203	12	182	185	2
Interest from Banks	47	37	-21	24	57	138	44	59	34	38	84	121
Interest from Others	15	22	47	37	39	5	33	29	-12	27	26	-4
Dividends	47	67	43	43	67	56	42	47	12	52	49	-6
Lease Sales	73	121	66	105	61	-42	82	121	48	109	176	61
Other Own Source Revenue – Superannuation Unit Investment Gains	26	91	250	63	67	6	63	69	10	102	210	106
Other Own Source - Other Commonwealth Grants	31	31	0	32	62	94	61	50	-18	32	32	0
Total Revenue	1724	1944	13	1902	2218	17	2044	2210	8	2200	2515	14

Note: Bud = Budget figures are sourced from the Budget Papers for the year.

Act = Actual figures are based on the audited financial statements for the year.

Var = Variance in %.

Positive % = Actual > Budget (i.e. Budget was under-estimated).

Negative % = Budget > Actual (i.e. Budget was over-estimated).

PREVIOUS AUDIT REPORTS³⁵

Reports Published in 2004

1. Administration of Policing Services
2. Travel Arrangements and Expenses

Reports Published in 2003

1. Effectiveness of Annual Reporting
2. Belconnen Indoor Aquatic Leisure Centre
3. Emergency Services
4. Management of Fraud and Corruption Prevention in the ACT Public Sector
5. Lease of FAI House
6. Allegations of Financial Mismanagement University of Canberra Union
7. Compliance Performance Audit – Recruitment Processes
8. Financial Incentive Package for Fujitsu Australia Ltd (FAL)
9. Annual Management Report for the Year Ended 30 June 2003
10. Financial Audits with Years Ending to 30 June 2003

Reports Published in 2002

1. Special Purpose Review of Part of the Commission of Audit Report on the State of the Territory's Finances at 31 October 2001
2. Operation of the Public Access to Government Contracts Act
3. Governance Arrangements of Selected Statutory Authorities
4. Frameworks for Internal Auditing in Territory Agencies
5. V8 Car Races in Canberra – Costs and Benefits
6. Annual Management Report for the Year Ended 30 June 2002
7. Financial Audits with Years Ending to 30 June 2002

Reports Published in 2001

1. Financial Audits with Years Ending to 30 June 2000
2. Enhancing Professionalism and Accountability
3. Market Research and Marketing (Second Report)

³⁵ 46 Reports were issued prior to 1996. Details can be obtained from the ACT Auditor-General's Office or the ACT Auditor-General's homepage: <http://www.audit.act.gov.au>.

Reports Published in 2001 (Con't)

4. Peer-Based Drug Support Services Tender – 1998
5. The Administration of Payroll Tax
6. Annual Management Report for the Year Ended 30 June 2001
7. Managing Canberra Urban Parks and Open Spaces
8. Canberra Tourism and Events Corporation – Relocation to Brindabella Business Park
9. Agents Board – Financial Administration of Training Grant Program
10. Corrective Services – Review of Certain Allegations
11. Financial Audits with Years Ending to 30 June 2001
12. The Freedom of Information Act

Reports Published in 2000

- 1 Bruce Stadium Redevelopment — Summary Report
- 2 Bruce Stadium Redevelopment — Value for Money
- 3 Bruce Stadium Redevelopment — Costs and Benefits
- 4 Bruce Stadium Redevelopment — Decision to Redevelop the Stadium
- 5 Bruce Stadium Redevelopment — Selection of the Project Manager
- 6 Bruce Stadium Redevelopment — Financing Arrangements
- 7 Bruce Stadium Redevelopment — Stadium Financial Model
- 8 Bruce Stadium Redevelopment — Actual Costs and Cost Estimates
- 9 Bruce Stadium Redevelopment — Market Research and Marketing
- 10 Bruce Stadium Redevelopment — Stadium Hiring Agreements
- 11 Bruce Stadium Redevelopment — Lawfulness of Expenditure
- 12 Bruce Stadium Redevelopment — Governance and Management
- 13 Annual Management Report for the Year Ended 30 June 2000

Reports Published in 1999

- 1 Stamp Duty on Motor Vehicle Registrations
- 2 The Management of Year 2000 Risks
- 3 Annual Management Report for Year Ended 30 June 1999
- 4 Financial Audits With Years Ending to 30 June 1999

Reports Published in 1998

- 1 Management of Preschool Education
- 2 Lease Variation Charges - Follow-up Review
- 3 Major IT Projects - Follow-up Review
- 4 Annual Management Report for Year Ended 30 June 1998
- 5 Management of Housing Assistance
- 6 Assembly Members' Superannuation and Severance Payments to Former Members' Staffers
- 7 Magistrates Court Bail Processes
- 8 Territory Operating Losses and Financial Position
- 9 Financial Audits with Years Ending To 30 June 1998
- 10 Management of Schools Repairs and Maintenance
- 11 Overtime Payment To A Former Legislative Assembly Member's Staffer

Reports Published in 1997

- 1 Contracting Pool and Leisure Centres
- 2 Road and Streetlight Maintenance
- 3 1995-96 Territory Operating Loss
- 4 ACT Public Hospitals - Same Day Admissions
Non Government Organisation - Audit of Potential Conflict of Interest
- 5 Management of Leave Liabilities
- 6 The Canberra Hospital Management's Salaried Specialists Private Practice
- 7 ACT Community Care - Disability Program and Community Nursing
- 8 Salaried Specialists' Use of Private Practice Privileges
- 9 Fleet Leasing Arrangements
- 10 Public Interest Disclosures - Lease Variation Charges and Corrective Services
- 11 Annual Management Report for Year Ended 30 June 1997
- 12 Financial Audits with Years Ending to 30 June 1997
- 13 Management of Nursing Services

Reports Published in 1996

1. Legislative Assembly Members – Superannuation Payments/Members’ Staff – Allowances and Severance Payments
2. 1995 Taxi Plates Auction
3. VMO Contracts
4. Land Joint Ventures
5. Management of Former Sheep Dip Sites
6. Collection of Court Fines
7. Annual Management Report For Year Ended 30 June 1996
8. Australian International Hotel School
9. ACT Cultural Development Funding Program
10. Implementation of 1994 Housing Review
11. Financial Audits with Years Ending to 30 June 1996

Availability of Reports

Copies of Reports issued by the ACT Auditor-General's Office are available from:

ACT Auditor-General's Office
Scala House
11 Torrens Street
BRADDON ACT 2612

or

PO Box 275
CIVIC SQUARE ACT 2608

Phone (02) 62070833 / Fax (02) 62070826

Copies of Reports are also available from the
ACT Auditor-General's Homepage: <http://www.audit.act.gov.au>