

GOVERNMENT FINANCIAL RESPONSIBILITY BILL 1998

Committee Notes

PART 1 — PRELIMINARY

Clause 1 : Short title

Short title.

Clause 2 : Commencement

Provides for this Act to come into operation on the day on which it receives the Royal Assent.

Clause 3 : Purposes of this Act

Self explanatory.

Clause 4 : Interpretation

Contains the definitions required for the purposes of the Act.

Clause 5 : Obtaining information from public sector bodies

- (1) Authorises the Under Treasurer to ask for, in writing, any information needed to prepare a statement, report or policy costing for the purposes of this Act. It ensures that affected agencies are required to provide information to the Under Treasurer for the purposes of the Act.
- (2) Allows the Under Treasurer to specify the format and timeframes in which agencies are required to provide information.

Clause 6 : The financial management principles

Specifies principles – broadly speaking, prudence and stability – within which the Government of the day will form its medium term financial strategy. These principles should remain appropriate in most conceivable circumstances and form the basis of the framework of financial accountability. Government may diverge from the principles but if it does so it must explain why, and how it expects to return to them.

Clause 7 : The financial elements

Financial elements form the next tier of accountability under the financial principles. They are the fundamental components of the State's financial health and help to illustrate whether the strategy in place is consistent with the principles of responsible financial management.

- (1) As there is no generally accepted definition of a financial element, and on the advice of the Parliamentary Counsel, the term has been defined by listing some of the more commonly accepted elements, such as the net assets of the State and the operating balance of the State. Governments are not limited to these elements and may employ other elements as circumstances warrant.
- (2) This requires that the amount or value of any financial element used in relation to a financial target shall be calculated in accordance with the Australian Accounting Standards or Government Finance Statistics methodology.

Clause 8 : Matters to be addressed in statements and reports

- (1) Requires that, as a minimum, the financial projections and results report are to include a general purpose financial report as detailed in Australian Accounting Standard 31 (AAS 31). Currently this standard requires that the financial report comprises an operating statement, statement of financial position (balance sheet) and a cash flow statement.
- (2) Is worded to permit several methods of accounting consolidation but requires that whatever method is used, the reported "bottom line" should be the same as if it were arrived at using a methodology which strictly complies with AAS 31.

Clause 9 : Releasing financial statements and reports

Self explanatory.

PART 2 — GOVERNMENT FINANCIAL PLANNING AND REPORTING

Clause 10 : Government financial planning

Self explanatory.

Clause 11 - Government Financial Strategy Statements

Requires the Government to publish, at least once in each calendar year, a Financial Strategy Statement setting out the Government's medium term targets. This Statement should explain how the targets are to be achieved and their relationship to the financial management principles.

The financial strategy presented each year may contain medium term targets to address financial elements. Targets may address a cross-section of elements to provide comprehensive and meaningful information on the financial performance and outlook of the State. The targets may address the circumstances and objectives prevailing at the time they are employed. They have not, therefore, been specified in this Bill but are to be specified and monitored in the Budget Papers, the various Projections Statements and the Results Report.

The Government's Financial Strategy Statement, including targets, can be found in Chapter 1 of Budget Paper 3 of the 1998/98 Budget Papers. Some examples of financial targets published in the 1998/99 Budget Papers are:

- Net assets of government to be maintained or increased;
- A declining net interest cost as a proportion of gross own source revenue for the total public sector; and
- An accrual based operating surplus, before extraordinary items, for the whole of government be achieved on average over the forward estimates period.

Clause 12 - Government Financial Projections Statements

- (1) Requires the Treasurer to release a Government Financial Projections Statement with each budget or supplementary budget.
- (2) Specifies the minimum information to be included in the Government Financial Projections Statement. The information includes financial projections (forward estimates) for the budget year and following three years.
- (3) Self explanatory.
- (4) Establishes the budget planning cut-off date as the date on which the Treasurer notifies the Under Treasurer that the budget planning process has been finalised.
- (5) Self explanatory.
- (6) Self explanatory.

(7) Self explanatory.

Clause 13 : Government Mid-year Financial Projections Statements

(1) and (2) require the Under Treasurer to release a Government Mid-year Financial Projections Statement not later than 15 February of that budget year. The Statement will provide an update of the information provided in the budget (the Government Financial Projections Report) taking into account actual performance for the period on which information is available, new policy decisions and any changes to economic and other assumptions since the budget was brought down.

The statement should not include interim, indicative or in-principle decisions taken through the budget process for the purposes of developing the following budget.

The Under Treasurer determines the cut-off date for this Statement.

Clause 14 : Government Financial Results Report

The Government Financial Results Report completes the circle of accountability by providing an "after the event" comparison and evaluation of the financial result against the forward estimates and the Government's medium term targets applying at the beginning of the financial year.

Clause 14 requires the Government to publish, within three months of the end of the financial year, a Government Financial Results Report prepared in accordance with the Australian Accounting Standards and containing:

- The budget result for the total public sector;
- An explanation of the factors and considerations which may have contributed to any material differences between the financial result for that year and the budget estimates and medium term financial targets applying at the beginning of that budget year.

Clause 15 : Pre-election Financial Projections Statement

Requires that within 14 days of the dissolution (that is, on calling of an election) or expiry of the Legislative Assembly, the Under Treasurer is to publish updated Financial Projections. These Statements are to take account of all Government decisions up to the time of the dissolution or expiry.

The requirements for the Pre-election Financial Projections Statement are the

same as for the Government Financial Projections Statement except for the following considerations:

- The information in the Statement is to take into account, to the fullest extent possible, all Government decisions and all other circumstances that may have a material effect on a Pre-election Financial Projections Statement, but should not include interim, indicative or in-principle decisions taken through the budget process for the following budget;
- The Treasurer is to disclose to the Under Treasurer within three days of the Legislative Assembly being dissolved, details of any Government decision, or any other information which could materially affect the Statement;
- The Under Treasurer is to specify the finalisation date of the economic assumptions on which the financial projections in the statement are based; and,
- Where a Pre-election Financial Projections Statement follows a Government Mid-year Financial Projections Statement the Treasurer may issue a Pre-election Financial Projections Statement which states there is no variation from the Government Mid-year Financial Projections Statement.

Clause 16 : Costing pre-election commitments

Provides that during the caretaker period following the calling of an election the Under Treasurer is to provide, in certain circumstances, costings of election policies announced by the Government and any party represented in the Legislative Assembly immediately prior to the Assembly being dissolved. Requests are required to be channelled through the Treasurer as a screening process for potentially unreasonable calls on the Treasury's resources. Placing the obligation for refusal with the Treasurer also removes the Under Treasurer from the political arena.

(1) - (5) Self explanatory.

(6) Where there is insufficient time or the Under Treasurer has insufficient information to provide a costing before Election Day the Under Treasurer is to notify the requestor in writing through the Treasurer.

(7) - (8) Self explanatory.

ADDITIONAL EXPLANATORY NOTES

Clause 13 : Government Mid-year Financial Projections Statements

The nature of this statement is that of an "update" to budget estimates incorporating any decisions taken since the publication of the budget statements (which are historically minor) and any changes to economic forecasts and assumptions.

The Under Treasurer retains the flexibility to determine the cut-off date based on his or her knowledge of circumstances likely to impact on the Mid-year Statement. As there is unlikely to be a policy decision process related to the Mid-year Statement, the involvement of the Treasurer in determining a cut-off date and providing a certification that all decisions have been communicated to the Under treasurer is considered to be less necessary than for Financial Projections Statement (the budget).

Clause 13 : Government Mid-year Financial Projections Statements - para 3 Clause 15 : Pre-election Financial Projections Statement - para 3

Interim, indicative or in-principle decisions: Depending on the timing of the release of the Government Mid-year Financial Projections Statement or the Pre-election Financial Projections Statement, it is possible that the process for determining the following year's budget could be underway with policy decisions being considered but not finalised or fully ratified. It is also possible that an incoming government may not ultimately adopt interim, indicative or in-principle decisions taken by the Government and current at the date of dissolution of the Legislative Assembly. Therefore, the inclusion of such decisions in this Statement could be misleading.

Clause 15 : Pre-election Financial Projections Statement

Para 1 - Cut off for decisions to be included in this Statement: The date of "dissolution or expiry of the Legislative Assembly" is the chosen cut-off date for inclusion of decisions in the Pre-election Financial Projections Statement. This date was used in preference to the date of "issue of writs" or other alternatives. Following the dissolution or expiry of the Legislative Assembly, the Government assumes a "caretaker" role and should not take any decisions that would materially impact on the outcome of this Statement. The information available at the date of dissolution or expiry is therefore the appropriate information needed to provide an accurate Pre-election Financial Projections Statement.