INFORMATION PAPER: DEVELOPMENTS IN GOVERNMENT FINANCE STATISTICS

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PREFACE

Government finance statistics (GFS) are important indicators of the financial activity of governments. The Australian Bureau of Statistics (ABS) publishes annual GFS each year, and annual and quarterly GFS are a major component of the Australian National Accounts.

The main statistical publications of GFS are *Government Financial Estimates, Australia* (5501.0), *Government Finance Statistics, Australia* (5512.0) and *Public Sector Financial Assets and Liabilities, Australia* (5513.0). Some government finance statistics are included in the annual *Australian National Accounts: National Income, Expenditure and Product* (5204.0) and the quarterly *Australian National Accounts: National Income, Expenditure and Product* (5206.0) In addition, *Government Finance Statistics, Australia: Concepts, Sources and Methods* (5514.0) is a once off publication issued in January 1995 and now available on CD ROM in the *Statistical Concepts Library* (1361.0).

This information paper discusses some current developments in GFS which will have a considerable effect on the way the statistics are compiled and presented by the ABS. These developments include the planned adoption in GFS of accrual accounting principles, changes to the 'headline' deficit measures used in GFS, and changes in the treatment of central borrowing authorities and universities.

This paper also discusses developments pertaining to the relationships the ABS has with other government bodies, and the relationship GFS has with other statistical systems. These developments include the joint collection of data by the ABS and the Commonwealth Grants Commission and the harmonisation of GFS with whole of government accounts.

The ABS welcomes comments on the issues addressed in this Information Paper. Such comments, or any queries that may arise, should be addressed to:

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ACRONYMS

ABS	Australian Bureau of Statistics
ANA	Australian National Accounts
CBA	central borrowing authority
CGC	Commonwealth Grants Commission
ETF	Economic Transactions Framework
FALS	financial assets and liabilities statistics
FRC	Fiscal Reporting Committee
GFS	government finance statistics
GPC	Government Purpose Classification
GPFR	general purpose financial report
IMF	International Monetary Fund
INW	increase in net worth
NOR	net operating result
NOS	net operating surplus
PFE	public financial enterprise
PTE	public trading enterprise
SNA	System of National Accounts
STE	State trading enterprise
TER	tax equivalent regime
TFFC	Taxes, Fees and Fines Classification
UPA	Uniform Presentation Agreement
URF	Uniform Reporting Framework
WST	wholesale sales tax
WSTE	wholesale sales tax equivalent

CHAPTER 1 INTRODUCTION

This paper provides information on a range of recent and forthcoming developments in Government Finance Statistics (GFS). Some of the developments outlined in this paper are expected to have a considerable effect, both in the way the statistics are presented and in the actual figures presented. Other developments are of lesser impact, but nevertheless reflect the changing nature of government finances.

The most fundamental development is a shift from a cash to an accruals basis of recording GFS. Scheduled for implementation in 1999, this development will entail revised classifications, a new presentation (while still retaining some broad level cash-based information) and new measures to summarise financial activity. Chapter 2 discusses the issues of cash versus accrual accounting in relation to GFS, focusing particularly on the proposed adoption of full accruals recording by the ABS.

Another major change is the removal of lending for policy purposes ('advances' in ABS terminology) from the calculation of the cash-based adjusted deficit. This treatment has been adopted primarily to remove from the deficit various impacts that have recently become pronounced due to the changing role of government and changes in the nature of transactions between the Commonwealth Government and State and Territory Governments. Chapter 3 discusses the various deficit measures used in GFS and focuses particularly on the adjusted deficit measure and the measures proposed for accruals GFS.

Chapter 4 describes a major change in the treatment of universities within GFS. A 'multi-jurisdictional' sector is to be created for universities, and as a result they will no longer be classified to the particular State or Territory under whose legislation they are established.

Chapter 5 describes changes in the treatment of central borrowing authorities (CBAs) and public financial enterprises (PFEs). CBAs are to be classified as PFEs rather than as general government enterprises. This change in treatment will not have the effect of excluding CBAs from GFS because the scope of the collection, which has traditionally been the non-financial public sector, will be broadened to include PFEs.

Chapter 6 describes a change in the classification of general government transactions in respect of public enterprise superannuation which will be introduced with the shift to accruals GFS. The change will have the effect of improving the harmony between GFS and the Australian National Accounts.

A development in the area of microeconomic reform which has implications for GFS is the establishment by State Governments of tax equivalent regimes. State Governments are introducing regimes which require State government business enterprises to make payments to their owner governments equivalent to income tax and wholesale sales tax imposed by the Commonwealth on private businesses. Chapter 7 provides some background information on the subject and discusses how the ABS proposes to classify the financial flows.

During this decade, a greater level of coordination and cooperation between the Commonwealth Government and State and Territory Governments and the ABS has had a profound effect on the way that GFS has been compiled. The Uniform Presentation Agreement (UPA) arising from the 1991 Premiers' Conference heralded this change by promoting the use of ABS GFS standards by Treasury departments in their budget presentations of financial information. The use of uniform standards has promoted the consistency and comparability of budget data and has enabled the ABS to establish efficient electronic bulk data transfer mechanisms which result in the publication of more timely and accurate GFS.

The Fiscal Reporting Committee (FRC) has taken the consultative arrangements further. This forum consists of representatives of the Commonwealth, State and Territory Treasury departments, the Commonwealth Department of Finance and the ABS with the brief of considering issues relating to the presentation of government financial information. Chapter 8 describes the procedures for consultation and then outlines developments arising from the FRC's considerations of major current issues such as 'whole of government accounting' and the impact on the UPA of early budgets and accrual GFS.

Developments in cooperation and consultation extend also to the Commonwealth Grants Commission (CGC), another important user of government financial information. The ABS and the CGC have entered into an arrangement whereby the ABS collection will be modified to satisfy CGC data requirements. This will save the CGC's resources, improve ABS data quality and reduce the reporting load of State and Territory Treasuries. The integration of ABS and CGC data is described in Chapter 9.

All the developments discussed in this paper are due to come into effect during the next few years. The reclassification of universities will take effect in the 1997–98 issue of *Government Financial Estimates, Australia* (5501.0), to be published around November 1997. Data backcast to 1976 will be available on request from that time. Tax equivalents are due to be applied to all eligible enterprises by March 1997, and will also be reflected in the 1997–98 issue of 5501.0.

The change to the classification of CBAs and the inclusion of PFEs within scope of GFS will coincide with the implementation of the *System of National Accounts 1993* (SNA93). For quarterly GFS, it will be in the September quarter of 1998, for annual statistics it will be the 1998–99 issue of 5501.0. The harmonisation of statistical and accounting data is to be achieved before the introduction of the SNA93.

Accrual-based GFS will be published for the first time in the 1999 issue of *Government Finance Statistics, Australia* (5512.0), with respect to 1997–98 data. At this time the changes to general government superannuation outlined in Chapter 6 will also be introduced.

The annual integrated collection of CGC and GFS data is due to commence in September 1997, however the 1999 CGC review is expected to be the first in which integrated data is used.

CHAPTER 2 ACCRUAL-BASED GFS

INTRODUCTION

The ABS proposes to change its recording of general government finances from a cash accounting to an accrual accounting basis. The public trading enterprise (PTE) sector is already recorded on an accruals basis, and under the ABS proposal this would extend to the whole non-financial public sector. It is also intended that sufficient information be collected to enable the derivation of broad level cash-based statistics. The change in recording will be accompanied by changes in presentation, with the ABS proposing to publish a main accrual presentation and a cash-based supplement. Consideration will also be given to integrating GFS and financial assets and liabilities statistics (FALS) into one publication.

This chapter outlines the recent developments behind the move to accrual recording. It describes the ABS proposal and briefly summarises plans for its implementation.

CURRENT SITUATION

For many years, GFS has been compiled with cash-based general government data and accrual-based PTE data, with the deficit of the PTE sector (and the consolidated government sector) converted to an approximate cash basis.

This approach reflects the fact that the main data sources of GFS have employed different accounting methods. PTEs are businesses which in their structure and activities often bear a close resemblance to their private counterparts, and like them have employed accrual accounting. At the same time, general government entities operating within the public accounts in their jurisdiction have employed a cash basis of recording, and budget data have also been compiled on a cash basis.

DIFFERENCE BETWEEN CASH AND ACCRUAL RECORDING

The differences between cash and accrual-based recording fall into two main categories: recognition of transactions and timing of transactions. In a cash basis of recording, transactions are recognised only where cash flows into or out of an enterprise. Consequently, all intra-unit transactions and accounting adjustments (provisions, revaluations, etc.) are excluded. Accrual accounting records transactions when economic value changes rather than when cash changes hands.

In regard to the timing of transactions, under a cash system transactions are recorded in the reporting period in which they occurred. An accrual system records transactions in the period in which income is earned or expenses incurred, regardless of whether a cash payment is made.

PROS AND CONS OF CASH AND ACCRUAL RECORDING OF GFS

Accrual recording of GFS would cover some financial items of significant size which are not included in cash-based statistics because they do not have an associated cash flow. These include increase in a government's unfunded superannuation liability, provisions for the depreciation of its capital assets, or exchange rate effects on its foreign currency borrowings. The inclusion of these sorts of transactions would arguably enable a more complete analysis of a government's financial situation.

Because an accrual presentation would incorporate changes in the value of physical assets, it would more fully reflect the economic impact of the sale of assets than would a cash presentation which would show only the receipts from the sale.

On the other hand, in order to more accurately measure the flows of money into and out of the government's accounts, it is often more appropriate to exclude non-cash transactions from the statistics. The deficit, which represents the 'call on financing', can only reasonably be produced from cash-based statistics.

Changes in accounting standards are leading to the wider adoption of accrual accounting principles in government:

- The Australian Accounting Standard AAS 29: *Financial Reporting by Government Departments*, requires government departments to produce consolidated financial reports on an accrual accounting basis. As a consequence, governments are developing accrual-based financial reporting systems at the agency level.

- The new Australian Accounting Standard AAS 31: *Financial Reporting by Government*, requires that financial statements for the 'whole of government' be prepared on an accrual basis. AAS 31 will come into effect on 30 June 1999.

International statistical standards upon which GFS is based, or with which GFS is to be harmonised, are being revised and recommend accrual recording:

- The United Nations' *System of National Accounts 1993* (SNA93) has recommended a recording basis which is more closely aligned with the accrual basis used in the Australian accounting standards than was the case with SNA68.

- The International Monetary Fund (IMF) is currently revising *A Manual on Government Finance Statistics*, and is most likely to recommend a shift towards an accrual basis of recording with supplementary cash flow information.

The advantages of accrual recording outlined above, together with developments in government financial reporting and the revision of international standards, have led the ABS towards the view that it would be advisable to change the recording of GFS to an accruals basis.

ABS PROPOSAL FOR ACCRUAL RECORDING WITH A CASH-BASED SUPPLEMENT

ABS proposes to compile GFS on an accruals basis. Sufficient information will be collected to enable the derivation of broad level cash-based statistics and a cash-based deficit measure.

Published GFS will consist of a main accrual presentation and a cash-based supplement. The accruals presentation will be entirely new, albeit using a similar (but updated) structure and transactions framework as is currently employed. The cash presentation will be retained for reasons elaborated below, but it will be changed somewhat from the form in which it is currently published.

The accruals presentation

In the proposed GFS system, all accrued transactions would be recorded. This would include depreciation expense, accrued superannuation expense for both funded and unfunded schemes and revaluations and writedowns of financial and non-financial assets and liabilities.

There will be three new summary measures: Net Lending, the Increase in Net Worth (INW) and the Net Operating Result (NOR) (which equals the INW less revaluations). It is expected that the NOR will be used as the 'headline measure' and commentary in ABS publications will focus on this item when comparing the fiscal outcomes of jurisdictions. Chapter 3, GFS Deficit Measures, offers a discussion of the alternative 'bottom line' measures, including those proposed for the accrual presentation.

Components of the above measures will be provided in sufficient detail to enable users to construct other measures that focus on particular aspects of government activity.

The accrual presentation will contain supplementary detail of splits by purpose, tax classification or fixed asset type. Detailed data disseminated to support the main output aggregates would mainly be on an accrual basis.

The proposed accrual presentation will consist of three statements. An operating statement will describe the flows and feature the three new summary measures mentioned above. A full balance sheet, which will be an extension of FALS, will describe the financial stocks and value of physical assets. In addition, there will be statement of reconciliation of stocks and flows. The proposed accrual presentation is featured in Appendix 1.

Effect on GFS aggregates arising from accrual recording

It is expected that the changed timing of transactions will have a significant, though not major, effect on the annual GFS aggregates. The quarterly aggregates are expected to be affected to a larger degree. The most visible effect will be in relation to the inclusion of non-cash transactions in three main areas:

- *Provisions.* The effect of the recognition of non-cash provision expenses such as provisions for depreciation and for employee entitlements (particularly for superannuation — see below) is expected to be highly significant.

- *Superannuation.* A full accrual system recognises increase in superannuation liability, regardless of whether a scheme is funded or unfunded. It is considered that the effect on the GFS aggregates is likely to be large, except in a jurisdiction where amounts equivalent to the accrued expense are currently being paid to an external superannuation fund.

- *Revaluations.* Revaluations of financial and non-financial assets and liabilities would be recorded in a full accrual GFS system. The three most significant examples of revaluations would be revaluations of land and fixed assets, gains and losses on foreign debt due to exchange rate variations and revaluations of the stocks of commodity marketing authorities.

Cash-based presentation

The ABS will continue to present GFS on a cash basis, at least as a supplement to the accrual-based presentation, for the following reasons:

- there is still demand for accurate measurement of the flows of money into and out of the government's accounts;

- though there are indications of a movement towards accrual budgeting by some governments, it is likely that most parliaments will continue to appropriate funds on a cash basis in the near future thereby generating some ongoing demand for cash-based statistics;

- cash-flow statements are seen as an essential tool for monitoring enterprises of the corporate sector, and accordingly would continue to be useful in producing equivalent data for the public sector; and

- at the present time, Australia is obliged as a member nation to supply cash-based data to the IMF.

The main features of the proposed cash-based presentation are as follows:

- The new cash-based presentation is to be based on gross general government revenue and expenditure, unlike the current presentation where there is considerable netting of transactions. General government charges and receipts from sales of land and fixed assets would be shown as revenue, rather than being netted against expenditure items.

- The surplus or deficit measure would be retained as the 'bottom line' in the presentation but adjusted to remove the distorting effects of asset sales. The adjusted deficit is described in Chapter 3, GFS Deficit Measures.

- Data for the PTE sector would be presented on a business accounting basis (i.e. profit and loss). There has been sufficient demand for this data to require its inclusion in ABS publications as a supplementary table and this practice would no longer be necessary with the proposed presentation.

There will be no supplementary classification detail, such as splits by purpose, tax classification or fixed asset type, published for the cash-based data.

The proposed cash-based presentation of GFS is featured in Appendix 2.

HISTORICAL DATA

Complete accruals-based GFS data will be of little use without a compatible historical series which can be used to place the more recent data in perspective.

The historical series will be based on the cash statistics with some adjustments, mainly relating to depreciation provisions, accrued superannuation expenses and revaluations. Ideally, the historical accruals GFS should encompass the entire recorded time series, that is back to 1961–62. Realistically, however, data availability will be the limiting factor and the ABS expects to backcast at least a 10-year series.

UNIFORMITY ACROSS JURISDICTIONS

The ABS recognises that during the initial stages of the adoption of accrual recording by general government, there may be potential for varying interpretations of the standards applying to the valuation of assets and liabilities. It is expected that any inconsistencies in valuation will be resolved over time.

TIMING OF IMPLEMENTATION

Consultations with respondents have led the ABS to believe that accrual data prepared by jurisdictions is likely to become available in a sufficiently timely fashion to allow the first accrual GFS publication to be produced in 1999, in respect of data for 1997–98.

CHAPTER 3 DEFICIT MEASURES

INTRODUCTION

There is considerable demand for single or aggregate measures which summarise the financial flows and budgetary goals/performance of a government or a sector. The deficit has traditionally been the main such measure in GFS, and is also used by the IMF and by Commonwealth, State and Territory Treasuries.

There are two major developments in deficit measures: the cash-based deficit has been adjusted for net advances, primarily to correct for the distorting effect of asset sales; and summary measures are being considered for the proposed introduction of accrual GFS.

ACTIVITY MEASURES AND FINANCING MEASURES

The Economic Transactions Framework (ETF) used as the basis for GFS incorporates the following relationship between its major aggregates: current outlays *plus* capital outlays *minus* revenue and grants received *equals* financing transactions. That is, if there is an excess of outlays over revenue and grants received, the shortfall must be met by a call on financing (either through liquidation of assets or creation of liabilities). Each side of this equation can be seen as an alternative way of measuring a government's deficit/surplus.

Revenue and outlays are the *activities* that contribute to the deficit. Borrowing or net use of investments are the means used to *finance* the deficit. With full data availability, each side of the equation ideally should be equal and the deficit may be calculated from either side. In practice, however, data from the activity side tends to be of better quality and more readily available. The deficit is 'derived' from the activity side with certain financing transactions estimated residually.

CASH-BASED DEFICIT MEASURES

The GFS deficit has historically been compiled on a predominantly cash basis. The cash-based deficit reflects the net call on financing generated by government activity, and the fiscal stance of the government budget.

The cash-based deficit is derived after subtracting 'provisions', which are included in the ETF as financing transactions. Provisions are recorded for the public trading enterprise (PTE) sector which is compiled on an accruals basis, and some provisions mainly relating to employee entitlements (superannuation, long service leave) are recorded for the general government sector. 'Provisions' are an accrual accounting concept and strictly speaking should not be recorded in a cash-based system, and for this reason are subtracted in the calculation of the GFS deficit.

The use of a cash-based deficit has advantages and disadvantages. For fiscal analysis, it is often more appropriate to exclude non-cash transactions from the statistics in order to more accurately measure the flows of money into and out of the government's accounts. On the other hand, the cash-based deficit does not present a complete picture of a jurisdiction's activities as it excludes such movements as the increase in unfunded superannuation liabilities.

The ABS also produces a disaggregation of the cash-based deficit into its current and capital components, facilitating a particular analysis of a government's budget result. For example, a government may finance a capital deficit by means of a current surplus; the accumulation of fixed assets resulting from capital expenditure representing a form of saving by government. On the other hand, a government may achieve an overall balanced budget by using a capital surplus to finance a current deficit, the divestment of assets behind the capital surplus representing a form of dis-saving.

The sale of assets to finance a deficit is seen as being a source of distortion of the deficit as currently defined.

Cash-based deficit adjusted for net advances

The ETF includes government lending for policy purposes *(advances paid (net)* in ABS terminology) as a capital outlay. Although strictly speaking a financing transaction, such lending has been treated as an outlay because it can be used to carry out government policy as a substitute for actual expenditure.

In the past, advances have mainly comprised lending by the Commonwealth Government to the States, the acquisition or injection of equity into PTEs and lending to particular target groups in the community for social policy reasons. However, in recent years the major components of the advances series relate to asset sales and (for the Commonwealth) the flows associated with the refinancing of State debt under the National Debt Sinking Fund agreement. For several jurisdictions, the net advances category has included large negative or positive values which have had a dramatic impact on the deficit in the years in which they occurred.

While such transactions do reflect government policy decisions (as opposed to liquidity management) they do not correspond to a net increase or decrease in government expenditure as it is normally understood.

Furthermore, it can be argued that transactions in advances involve the replacement of one financial asset or liability with another, and so for the purpose of analysing a government's impact on financial markets it is more appropriate to group advances with financing transactions.

To remove the impact of large 'one-off' transactions such as asset sales and to better reflect the effect of government policy on the Australian capital markets, the ABS has introduced a deficit from which net advances are deducted. This measure is referred to as the *deficit adjusted for net advances*.

The deficit adjusted for net advances makes GFS more consistent with Financial Assets and Liability Statistics, in which advances are grouped with other financial assets in determining total financial assets and net debt.

The deficit adjusted for net advances also reconciles more easily to one of the main comparable measures in the Australian National Accounts — Net Lending of the general government sector. Apart from differences such as timing due to the respective use of cash and accrual recording by the GFS and SNA systems, the two measures are broadly consistent.

The deficit adjusted for net advances was published for the first time in the 1995–96 issue of *Government Financial Estimates, Australia* (5501.0). It has become the principal summary measure for cash-based GFS, commencing with the 1996–97 issue of 5501.0.

ACCRUAL-BASED DEFICIT MEASURES

As described in Chapter 2, the ABS proposes to compile GFS on an accruals recording basis (while retaining enough broad level cash-based information to support the deficit measure).

In an accruals system, the basic structure of the ETF will remain the same, but some specific accruals items such as provisions for depreciation, increase in unfunded superannuation liability and revaluation of assets and liabilities will be included. It will be possible in accruals GFS to derive a 'bottom line' measure as in the current cash system, using the fundamental relationship: current outlays *plus* capital outlays *minus* revenue and grants received *equals* financing transactions. However, the inclusion of non-cash transactions and the different timing of accruals data mean that the bottom line accrual measures will not be strictly comparable with cash-based measures.

The ABS has concluded that the GFS should offer three main accrual-based measures: Net Operating Result (NOR), Net Lending and Increase in Net Worth (INW).

Net Operating Result (NOR)

NOR is defined as the INW (see below) *less* the effects of revaluations. Conceptually, it may also be viewed as the excess of current revenue over current expenditure, plus net transfers, measured on an accruals basis.

Although this measure is not the most complete measure from an economic viewpoint, it has considerable appeal when applied to the task of analysing a government's fiscal performance. As it is an accrual-based measure that excludes revaluations, it can be viewed as being a better measure of a government's financial *activity* in a given period. Although some revaluations are a direct result of government policy, e.g. a decision to increase a government's exposure to currency fluctuations, it can be argued that revaluations are largely outside a government's direct control.

NOR is intended to be the principal 'bottom line' measure of GFS once it moves to an accruals basis.

Net Lending

The Net Lending measure may be defined as NOR, *less* net acquisition of non-financial assets, *plus* consumption of fixed capital. It represents an increase in the net financial asset position, not including revaluations. Conceptually, it may also be viewed as the resources that government could potentially make available for use by other entities in the economy, or additional resources that a government requires.

Increase in Net Worth (INW)

The INW measure may be defined as the increase in the net asset position, including non-financial assets (*financing* measure). It may also be defined as the retained surplus, including revaluations (*activity* measure). Note that, as the INW includes the effects of revaluations, the *financing* measure may also be compiled in two ways, from the *flows* (net borrowing, net investment, etc.) or from the *stocks* (end-of-year balance sheet position less beginning-of-year balance sheet position).

The INW is the most complete measure of a government's fiscal performance. However, there has been some concern over the inclusion of revaluations and holding gains in the principal measure used to compare the performance of governments, and for this reason the ABS intends to give greater prominence to the NOR.

Advantages of accrual-based measures

In summary the main advantages of these accrual measures are:

- they represent a more complete measure of government financial activity;
- they include all transactions recognised under the accrual accounting standards (e.g. unfunded superannuation);
- asset sales are reflected only in the difference between the sale price and the asset value; and

- like the deficit adjusted for net advances, these measures are additive across subsectors.

CHAPTER 4 TREATMENT OF UNIVERSITIES

PAST TREATMENT

To date, universities have been classified in GFS as general government non-budget units in the jurisdiction under whose legislation they were established. Thus, for example, the University of Sydney has been included in the New South Wales general government sector.

There has been discussion over the validity of this treatment, for unlike other general government enterprises, universities as a rule are not mainly funded or directly controlled by the government of the jurisdiction in whose statistics they have been included.

Universities are partly financed through user fees (Higher Education Contribution Scheme) which are collected by the Commonwealth and on-passed directly to them. The State Governments also provide some funding (except for the Australian National University), however the bulk of funding comes from Commonwealth consolidated revenue.

State and Territory Governments have some legislative powers over universities and exert prudential supervision over them. The Commonwealth Government can exert some control through funding. There are, however, arrangements in place which effectively insulate universities from direct government control.

NEW TREATMENT

The question of how best to classify universities is to be resolved in the following manner.

Institutional sector

Universities will remain in the general government sector to reflect the role that the Commonwealth Government and State Governments have in controlling their activity, and in providing their funding. They will be classified to a universities subsector of the general government sector.

Jurisdiction

Because direct control cannot be attributed to any one jurisdiction, a multi-jurisdiction category will be created for universities. There are other government entities which could potentially be classified to a multi-jurisdictional sector, and so a *university* category will be created within the multi-jurisdictional sector.

Level of government

Universities will be classified as belonging to the 'national' level of government.

As a result of these classification changes, universities will no longer be included in the GFS statistics for the Commonwealth Government or any State and Territory Government. Instead, universities will be grouped together in the multi-jurisdiction sector and consolidated with the statistics of the combined Commonwealth Government and State and Territory Governments.

BACKCASTING OF DATA

The new treatment will be backcast in GFS tables to 1976, when the Commonwealth assumed major responsibility for university funding.

TIMING OF IMPLEMENTATION

The reclassification of universities should take place in the 1997–98 issue of *Government Financial Estimates, Australia* (5501.0), to be published around November 1997.

CHAPTER 5 TREATMENT OF CENTRAL BORROWING AUTHORITIES AND PUBLIC FINANCIAL ENTERPRISES

INTRODUCTION

The appropriate treatment of central borrowing authorities (CBAs) has been under review by the ABS.

CBAs have been classified to the general government institutional sector. Although CBAs were formed by governments and act on their behalf, they undertake financial intermediation which is a fundamentally different function from that performed by other general government entities.

Although doubt has been expressed over the validity of the institutional sector classification of CBAs, it is acknowledged that CBAs perform functions important to government and should be included in GFS.

After a process of consultation, and consideration of several options, the ABS has decided to classify CBAs as public financial enterprises (PFEs) rather than as general government enterprises. This change in the institutional sector classification of CBAs will not have the effect of excluding them from GFS because the scope of the collection is to be broadened to include PFEs.

CENTRAL BORROWING AUTHORITIES (CBAs)

CBAs are State Government enterprises formed to manage funds on behalf of other authorities within their State.

When most authorities need to borrow money or repay existing debt, they do so through the CBA. The CBA borrows money by issuing securities in its own name. It then on-lends the proceeds to its clients. Some CBAs also operate short-term deposit and placement facilities for their clients' liquid assets. These collective functions enable CBAs to gain the benefits of economies of scale such as lower interest rates on borrowing.

In managing their debt pools, CBAs undertake various refinancing and arbitrage activities with a fair degree of freedom.

PAST TREATMENT OF CBAs

Despite their involvement in financial intermediation, CBAs have been classified to the general government sector because their activities were regarded as being primarily on behalf of government. At the same time, to limit the impact on GFS of CBA borrowing undertaken on behalf of public sector clients, the ABS has 'netted off' CBA on-lending and interest receipts against their borrowing and interest payments. (Note that this 'netting' treatment has been applied only in GFS and Financial Assets and Liabilities Statistics, and not in any other ABS series.)

OPTIONS FOR TREATMENT OF CBAs

Several options have been canvassed for separating the functions of CBAs from general government, while still retaining them in the scope of GFS:

- split general government into two subsectors — CBAs and Others;
- classify CBAs as PFEs but extend the scope of GFS to cover CBAs; and
- classify CBAs to the PFE sector but extend the scope of GFS to the whole of government. This would mean including the PFE sector in GFS.

The ABS has decided to adopt the third option for the following reasons.

TREATMENT OF CBAs AS PFEs

CBAs in their normal operations do not meet any of the SNA93 criteria for treatment as general government units. In addition, there is insufficient justification for regarding CBAs as ancillary corporations of government or agents of government for the reasons that:

- although they are closely identified with their parent governments, the activities and purpose of CBAs address economic realities, rather than seek to gain tax or legal advantage; and

- they operate with a fair degree of autonomy, engaging in transactions on their own account.

CBAs do, however, generally satisfy most criteria for being a corporation:

- they are separate legal entities which are independent of (although controlled by) other government units;

- they operate on a commercial basis, i.e. they recover the full cost of their services from client authorities via interest margins or fees and are not dependent on government transfers; and

- they are legally responsible for their own activities. (Of course CBAs are explicitly or implicitly guaranteed by their owning governments, but this is also true of State banks and public trading enterprises).

CBAs appear to fit the criteria for inclusion in the financial corporations sector, specifically:

- they engage in financial transactions in the market;

- they channel funds from lenders and transform them to suit the requirements of borrowers; and

- they issue securities on their own account and acquire financial assets both by making loans to other government units in the same jurisdiction and also by purchasing securities.

In summary, according to SNA93 guidelines CBAs are 'corporations' (rather than general government units) and they fit into the financial corporations sector (public financial corporations sub-sector). They should be classified as PFEs to better reflect the nature of their activities.

ABS investigations have determined that treatment of CBAs as PFEs would have a significant effect on some GFS series, especially interest paid and received, advances paid and received and financing transactions. Overall, there would be relatively little impact on the deficit or most revenue and expenditure items.

BRINGING PFEs WITHIN SCOPE OF GFS

The ABS intends to retain CBAs within GFS because they carry out virtually all State and Territory Government financing activity and are regarded by analysts and users as extensions of those governments. Inclusion of CBAs will be achieved by broadening the scope of GFS to include PFEs.

Inclusion of PFEs will have the benefit of making GFS consistent in scope with the new accounting standard for whole of government accounts (AAS 31). It will also bring into coverage of GFS a number of PFEs which carry out government social policies (e.g. home finance schemes, rural finance schemes).

The impact on GFS of the inclusion of PFEs will be significant, for although most of the State banks and insurance offices have been sold, some financial institutions remain.

In addition to consolidated data for the total public sector, consolidated data for the non-financial public sector will continue to be published. It should be noted, however, that a narrower range of data will be published for the PFE sector than for the remainder of the public sector. Specifically, GFS will not include PFE forward estimates.

TIMING OF IMPLEMENTATION

Introduction of the changes described in this chapter will be timed to coincide with the implementation of SNA93. For quarterly GFS it will be in the September quarter of 1998; for annual statistics it will be the 1998–99 issue of *Government Financial Estimates, Australia* (5501.0).

CHAPTER 6 TREATMENT OF GENERAL GOVERNMENT SUPERANNUATION PAYMENTS AND RECEIPTS IN RESPECT OF PUBLIC ENTERPRISES

INTRODUCTION

In GFS, general government receipts from public enterprises to finance pensions and general government payments of superannuation pensions in respect of former employees of public enterprises have to date been classified as provisions. This treatment is no longer considered appropriate and will be replaced by a revised treatment when accrual-based GFS for general government is introduced.

CURRENT TREATMENT

Provisions represent expenses recognised in a current period for future payments such as for superannuation. Because they are internally generated transactions that represent movement of funds within an enterprise, provisions are applicable to accrual accounting but not to cash accounting which only recognises flows into or out of an enterprise. Consequently, provisions are viewed as not contributing to the cash-based deficit and the change in the balance of provisions is deducted during its calculation. For a full account of the treatment of superannuation transactions in GFS, refer to *Concepts, Sources and Methods* (5514.0) Appendix 4.

Transactions reflecting the operation of superannuation schemes by general government in respect of public trading and financial enterprises have been treated as provisions in the general government sector. The transactions include contributions and reimbursements received by general government from public enterprises, and superannuation pensions paid by general government to former employees of public enterprises. In more recent years, it has also included payments of 'deferred transfer values' in relation to employees transferring to superannuation schemes set up under the auspices of PTEs.

These receipts and payments by general government in respect of public enterprise superannuation are currently relevant for several jurisdictions, but are only significant for the Commonwealth where large flows are involved. In recent times, due to changing arrangements in respect of Commonwealth superannuation, the net change in general government provisions is of the order of $1 billion, the deduction of which has the effect of increasing the Commonwealth deficit.

The current treatment of these general government payments and receipts as provisions is considered to be inappropriate for two reasons.

Firstly, the transactions do not reflect amounts set aside or recognised as current expenses by the general government sector and consequently do not meet the definition of provisions. Secondly, the treatment is inconsistent with that recommended in SNA93.

PROPOSED FUTURE TREATMENT

The proposed future treatment of general government superannuation transactions in respect of PTEs will be based on accrual accounting concepts. Thus, transactions will be recorded when they are earned, accrued or incurred regardless of when payments are made or received. This will reflect the nature of the underlying transactions more directly, and will also be consistent with SNA93. The future treatment can best be illustrated by a sequence of transactions, commencing with the remuneration of employees by PTEs.

Treatment in accrual-based statistics

Superannuation expenses incurred by PTEs under an accrual system are recorded by them as compensation of employees (which forms part of that sector's operating expenditure). In national accounts statistics of the household sector, these are recorded as income accrued from the provision of labour, even though the would-be superannuants do not receive the employer component as cash at the time.

Further transactions will be imputed, in GFS and the national accounts, to reflect the fact that the general government sector has assumed responsibility for the superannuation liabilities accrued by the PTE sector. These are:

- A current transfer from the household sector back to general government, equivalent to the employer component of the accruing entitlement. This will be reflected in the general government sector as *other current revenue*.
- An expense accrued by the general government sector relating to the superannuation it will ultimately pay. This accruing expense will be recorded as *other current transfers* to households, and as an increase in payables, to reflect the accruing liability to the household sector.

When the general government sector pays the superannuation, it will be treated as a decrease in liability (i.e. as a financing item). Any deferred transfer values relating to employees who opted to join superannuation schemes set up under the auspices of PTEs will also be regarded as financing transactions. Deferred transfer values will be shown as paid to the Public Financial Enterprise sector (into which the superannuation schemes have been classified) via the household sector.

The classification of superannuation transactions in respect of PTE employees as current revenues and as current transfers in the general government sector means that they will be included in the operating statement in GFS and in the net lending measure. As these transactions will also be included in the ANA general government distribution of income account and the capital account, they will also be reflected in the corresponding ANA net lending measure.

The classification of employer contributions received into the general government sector and its payment of pensions to former PTE employees as transfers described above is consistent with SNA93 treatment of unfunded superannuation schemes.

Treatment in cash-based statistics

After GFS has been changed to an accrual basis, a limited range of cash-based statistics, including the deficit, will continue to be compiled. The treatment of general government superannuation relating to PTE employees in the cash-based statistics will follow essentially the same form as for the revised accruals treatment above, except that the timing of transactions will be different, and the additional financing transactions reflecting changes in government's liability to the household sector will not be relevant.

The cash-based statistics will include as receipts the amounts paid by PTEs to general government to compensate the general government sector for assuming PTE superannuation liabilities. The cash-based statistics will include as payments the superannuation paid to
The payments will also include the deferred transfer values relating to employees opting to move to other superannuation schemes.

Effect on statistics

Although the cash-based revenue and outlay series will change, there will be no impact on the GFS deficit. The reason is that the changes to the revenue and outlay series will equal in value and sign the transactions formerly treated as provisions and deducted in the calculation of the deficit.

However, as a consequence of the different timing in the recording of transactions, and the classification of pension payments and deferred transfer values as financing transactions, the accrual values are expected to be very different from the cash-based values at any particular point of time.

The major impact on the cash-based deficit has occurred in recent periods with increasing pension payments and deferred transfer transactions, coupled with a reduction in payments by PTEs, leading to a substantial increase in the deficit. In the accrual system, however, although these transactions will still be recognised, they will be treated as financing (i.e. as a decrease in liabilities) and will not effect the NOR or net lending.

TIMING OF IMPLEMENTATION

Introduction of the changes described in this chapter will be timed to coincide with the implementation of SNA93. For quarterly GFS it will be in the September quarter of 1998 and for annual statistics it will be in the 1998–99 issue of *Government Financial Estimates, Australia* (5501.0).

CHAPTER 7 TREATMENT OF TAX-EQUIVALENT PAYMENTS AND RECEIPTS

INTRODUCTION

During recent years, the Commonwealth and the States have moved towards placing their trading entities on a more equal footing with privately-owned entities. In some instances, this has resulted in State Governments imposing tax-equivalent regimes (TERs) on State-owned entities that were exempt from income tax or wholesale sales tax (WST).

At the March 1994 Premiers' Conference the Commonwealth Government and the State and Territory Governments signed a Statement of Policy Intent on the taxation treatment of State trading enterprises (STEs). The main points of this agreement were that:

- the Commonwealth Government would legislate to ensure that all wholly-owned STEs were exempt from income tax and WST;
- State and Territory Governments would apply TERs to all wholly-owned STEs by 25 March 1997; and
- compensation payments would be made between governments to ensure that no government would be financially advantaged or disadvantaged by the changes in the taxation arrangements.

The Competition Principles Agreement, made by the Commonwealth Government and all State and Territory Governments at the April 1995 Council of Australian Governments meeting, requires the Governments to impose full Commonwealth, State and Territory taxes or tax equivalent systems on their significant business enterprises. The parties also agreed that agencies undertaking significant business activities as part of a broader range of functions (for example, a business unit within a government department) would, where appropriate, also be subject to the full range of taxes or tax-equivalent systems.

IMPLICATIONS FOR GFS

A result of these developments is that most wholly-owned STEs will be required to make tax-equivalent payments to their parent governments. Such enterprises are, in GFS terminology, most likely to belong to the PTE or PFE sectors. The general government sector will also be affected to the extent that it contains significant business units, however, tax-equivalent payments within the general government sector would be netted out of published GFS.

With the establishment of TERs, State government businesses could now make the following kinds of payments to their parent government:

- income tax equivalents;
- wholesale sales tax equivalents (WSTEs);
- dividends; and
- State taxes and charges.

CURRENT TREATMENT OF PAYMENTS BY PTEs

Prior to the introduction of TERs, State PTEs made payments to their parent government based on net operating surplus (NOS) and/or based on production.

Payments based on net income

Payments based on fixed proportions of NOS are equivalent to a company tax on profits, however in GFS they have been classified as transfers of income rather than as direct taxes.

Some payments by PTEs to their parent government reflect a transfer of profit or a return on equity. These payments, which are a variable rather than fixed portion of the NOS, are like dividends and are also treated as transfers of income.

Payments based on production

Payments by PTEs assessed in respect of the production, sale, purchase or use of goods and services are considered to be indirect taxes. They are treated as PTE operating expenditure and general government indirect taxes received.

GFS TREATMENT OF TAX EQUIVALENTS

Income tax-equivalents

Income tax-equivalents could arguably be classified as direct taxes because Commonwealth income tax assessment and eligibility criteria are used, and because such a treatment would reflect the spirit of 'competitive neutrality'.

The preferred treatment, however, is to classify income tax-equivalents as 'income transfers' for the following reasons:

- they appear to supplant similarly classified payments levied on the NOS of PTEs by their parent governments; and

- the inclusion within ABS publications of State 'income taxes' has the potential to cause confusion, for it has been accepted that the power to levy income taxes is exercised only by the Commonwealth.

To acknowledge their distinctiveness from other transfers such as dividends, a specific category of income transfers will be created for income tax-equivalents.

The tax-equivalent flows will contribute to receipts and payments of the general government and PTE sectors respectively, however they will consolidate at the State Government sector. Given that income tax-equivalents appear to be replacing the levy on NOS, the overall impact on GFS will not be large.

WST-equivalents

The WSTEs appear to be quite new, in terms of existing State Government imposts. The WST is an indirect tax, generally levied at the point of last wholesale sale on non-exempt goods or goods bought by non-exempt users. In contrast, the WSTE payable by a PTE in most cases is self assessed and based on samples of expenditure, with payments being made to the State Government on a monthly or quarterly basis.

There are two options for the treatment of WSTEs:

- classify the payment by PTEs as 'other operating expenditure' and the receipt by general government as 'indirect taxes received'; or

- classify both payment and receipt as a separately identified component of 'income transfers'.

The second option is preferred for a similar reason to that outlined above regarding the treatment of income tax-equivalents. That is, the inclusion of State 'wholesale sales taxes' within ABS publications is deemed to be inappropriate, given that it is accepted that the power to levy wholesale sales tax is exercised only by the Commonwealth.

The WSTE may have a considerable numerical impact on GFS because it is a new flow. There will be an increase in receipts and payments for the general government and PTE sectors respectively, however these flows will consolidate at the State Government sector level.

TIMING OF GFS TREATMENT

TERs are due to be applied to all eligible enterprises by March 1997, and will be reflected in the 1997–98 issue of *Government Financial Estimates, Australia* (5501.0).

CHAPTER 8 PROCEDURES FOR CONSULTATION AND HARMONISATION OF STATISTICAL AND ACCOUNTING DATA

PROCEDURES FOR CONSULTATION

The Commonwealth Treasury and State and Territory Treasuries are important stakeholders in GFS, being the main data suppliers, major users, and contributors to discussion on classification and conceptual issues. There are a number of avenues through which the ABS can consult with Treasuries on areas of mutual interest. These include the Fiscal Reporting Committee (FRC) and the annual GFS Conference.

The FRC is a forum of representatives of the Commonwealth, State and Territory Treasury departments, the Commonwealth Department of Finance and the ABS. Its brief is to consider issues relating to the presentation of government financial information. The FRC reports to Heads of Treasury, which in turn may report on certain issues to the Premiers' Conference.

The annual GFS Conference is organised by the ABS and is a forum for the discussion of a broad range of issues related to GFS. Beside the Treasuries and the Commonwealth Department of Finance, the conference is also attended by other stakeholders in GFS, such as the Commonwealth Grants Commission (CGC).

UNIFORM PRESENTATION AGREEMENT

A major development in the statistical relationship between the States, the Commonwealth and the ABS came with the agreement at the 1991 Premiers' Conference that the Commonwealth Government and State and Territory Governments would present as part of their budget documentation a minimum set of statistics on a standard (ABS) GFS basis, as well as financial asset and liability data according to an agreed format. As a consequence of the so called Uniform Presentation Agreement (UPA), the ABS and Treasuries have adopted a cooperative approach to the collection, classification and editing of data.

The 'core' data specified by the UPA are sourced electronically by the ABS, consolidated and then published around early November each year in the publications: *Government Financial Estimates, Australia* (GFE), (5501.0); and *Public Sector Financial Assets and Liabilities, Australia* (5513.0).

The UPA was a landmark in the cooperation between the ABS and the Treasuries and it has improved the quality, timeliness and consistency of GFS and the comparability of budget data from different jurisdictions. A number of developments have occurred, however, which have changed the circumstances under which the UPA was negotiated. These developments are the introduction of 'early' budgets, the planned move by the ABS to accrual GFS, and the expected introduction of whole of government accounting standards.

EARLY BUDGETS

The current situation is that some jurisdictions have moved to early budgets while others have retained the traditional budget timing. Also, in some cases the timing of elections or other events has resulted in budgets moving from an early to later time frame with indications that they will change again the following year. The result is that the timing of budgets for all Australian government jurisdictions is spread out over an approximate six-month period, and this situation is likely to continue.

One of the reasons for adopting the UPA was to provide comparable data between jurisdictions to assist in interpreting budget documentation. With early budgets, full classification detail for the most recent year may not be available, and the sort of detail available would vary between jurisdictions. Furthermore, the statistics produced for early budgets are necessarily based on part-year data.

The use of incomplete and part-year data would hinder the comparability of data for the various jurisdictions. These data would be unsuitable for GFS purposes such as benchmarking the quarterly data used in compiling national and State accounts, and would also be unsuitable for the integrated ABS and CGC data collection discussed in Chapter 9.

REVISED UNIFORM PRESENTATION AGREEMENT

The UPA has been revised in response to the problems posed by early budgets, and to take account of developments in GFS, and the need to improve uniformity between budget presentation, Loan Council and National Fiscal Outlook reporting.

The new Uniform Reporting Framework (URF) has established core data formats and a two stage presentation that will accommodate early budgets, while ensuring that the ABS is supplied with its minimum required data by mid-September each year.

Other main features of the URF of relevance to GFS are as follows:

- inclusion of information on public financial enterprises;
- adoption of the deficit adjusted for net advances in the cash-based presentation; and
- an expectation that uniform presentation tables published by Treasuries will continue to reflect presentation and terminology used in ABS publications.

The revised framework has been endorsed by Heads of Treasury, and subject to endorsement by Premiers, is expected to be implemented in the 1998–99 budget round.

ACCRUAL GFS

As outlined in Chapter 2, the ABS is planning to compile and present GFS on a full accruals basis. Although the ABS will retain a limited range of cash-based GFS data, the current cash-based core information specified in the URF will become inconsistent with ABS accruals data requirements. In any case, given that Treasuries are also moving to accrual accounting in their ledger systems and budget presentations, the core data required for the current (cash-based) URF may not be fully available.

It is envisaged that the URF will be revised when GFS moves to an accrual basis to ensure that budget and ABS presentations remain consistent in content and format and reflect the changed accounting basis.

HARMONISATION OF STATISTICAL AND ACCOUNTING DATA

A new accounting standard, AAS 31: *Financial Reporting by Government*, recommends that all governments prepare and publish general purpose accrual-based reports for the consolidated sum of all entities controlled by each government, as well as for their general government, PTE and PFE sub-sectors. The standard will come into effect on 30 June 1999.

Data included in these so called General Purpose Financial Reports (GPFRs) will overlap to a significant degree with that shown in uniform presentation outputs and ABS publications. This could lead to the problem of conflicting official data being presented on government finances.

Ideally, the data presented in the various reports, budget documentation and ABS publications should provide users with a consistent view of government finances. If different data sources are used to compile budget reports and GPFRs, it is unlikely that the resulting numbers will be in close agreement. Moreover, it will be difficult to explain what has led to the differences. This will reduce confidence in both sets of numbers and create confusion as users 'shop around' for what they consider the most appropriate data.

To address these concerns, the FRC has investigated the areas of difference between the two sets of data. It has found that the primary data sources will be the same for GFS and GPFRs. There may be some differences in terms of timing and auditability. The respective presentations may be different, reflecting their different purposes and the audiences they address.

The FRC also found that there will be some minor differences in concepts and definitions, reflecting the differences in the analytical purpose served by the two frameworks. The following differences or potential differences have been identified, some of which require further investigation by the ABS:

- Traded-debt securities and their associated interest streams will be valued at current market prices in the Australian National Accounts (ANA) when they are compiled on an SNA93 basis, but GPFRs will use a contractual valuation of interest flows. The ABS will take account of the views of users and the availability of data before deciding whether GFS will adopt the ANA or GPFR treatment in this area.

- Non-operating provisions, such as bad and doubtful debts, are excluded from expenses in GFS whereas in GPFRs they are included.

- GPFRs treatment of defence capital expenditure cannot be harmonised with the treatment to be used in the ANA when they are compiled on an SNA93 basis.

- While the consolidation basis is largely consistent, GFS does not eliminate all consolidatable transactions such as subsidies and taxes affecting production costs, so as to align with the presentation adopted for national accounting purposes.

- GFS may classify some capital grants as advances.

It is expected that the issues requiring investigation will be resolved before the introduction of SNA93 in 1998.

CHAPTER 9 INTEGRATION OF DATA COLLECTION AND PROCESSING BY ABS AND COMMONWEALTH GRANTS COMMISSION

INTRODUCTION

ABS and the Commonwealth Grants Commission (CGC) have agreed that the two organisations integrate some aspects of their data collection and processing systems, with the aim of improving data quality and reducing collection costs and provider load. Integration is currently well advanced into the trial stage.

REASONS FOR INTEGRATION

To determine States' shares of the grant pool during its annual review, the CGC uses government financial data, specifically in areas of recurrent revenue and expenditure, with special emphasis on purpose or function. The data are placed in a framework called a 'standard budget' within which each jurisdiction can be compared on a uniform basis. The data used for the compilation of its 'standard budget' are supplied by State and Territory Treasuries.

State and Territory Treasuries also supply budget data to the ABS for the compilation of GFS. The ABS has an arrangement with the Treasuries (refer to Chapter 8, Procedures for Consultation and Harmonisation of Statistical and Accounting Data) whereby the Treasuries provide budget data, classified uniformly according to ABS classifications, in an electronic form which can then be aggregated and consolidated with other data.

The CGC has determined that with certain modifications to the GFS collection, and to the definitions used by the CGC in its standard budget, data collected for GFS could broadly satisfy the CGC requirements.

An integration of the CGC and ABS collections has advantages for all parties involved. It will enable the CGC to take advantage of the bulk data transfer employed by the ABS and reduce its collection costs. From the ABS' perspective, it is expected to improve the quality of GFS data classified according to government purpose. From the Treasuries' perspective an integrated collection will be expected over time to reduce their burden as data providers.

CREATION OF A JOINT CLASSIFICATION SYSTEM

Integration will involve the adoption of a single consistent classification framework for the collection and processing of both ABS and CGC data.

The level of detail required for the Economic Transactions Framework and the Taxes, Fees and Fines Classification is not substantially greater than currently required for GFS purposes. However, significantly more detail is required in some areas of the Government Purpose Classification (GPC) to allow CGC standard budget categories to be derived.

The GPC provides a secondary classification of selected financial transactions according to their purpose i.e. defence, education and health. There will be some changes to the classification structure and levels, most notably in the areas of health and transport. The health major group is to be changed to agree with the classification structure proposed by the Australian Institute of Health and Welfare.

The CGC will use these GPC details along with other GFS classifications as far as possible to define its standard budget categories.

A single set of data will be used to provide both ABS and the bulk of CGC requirements. It will be provided to the ABS by Treasuries in accordance with GFS timetables.

TIMING OF IMPLEMENTATION

A trial collection was conducted in September 1996 with participating jurisdictions, and annual integrated collections are scheduled to commence in September 1997. The CGC 1999 Review is expected to be the first in which the integrated data is to be used, and by this time it is expected that classification and treatment issues will have been settled.

Impact of accrual accounting

The ABS intends to move GFS to a (predominantly) accruals basis (for more information refer to Chapter 2, Accrual-based GFS). The timing of this move is subject to further discussions with State and Territory Governments and is not likely to occur before 1999 (in respect of 1997–98 data). The CGC considers that accrual data will generally provide a satisfactory basis for grants determination.

Access to CGC data

The ABS has obtained consent from each State and Territory to enable the ABS to provide unit-level data to the CGC. The CGC will make data available to all States in the normal way as part of the output relating to its inquiries. However, all requests for State data outside that process will be the responsibility of the ABS. Because consent has not been obtained to release the data more broadly, the ABS will not release detailed data except to the CGC and to the State Treasury from which the data were provided.

APPENDIX 1 PROPOSED PRESENTATION OF GFS ON AN ACCRUAL ACCOUNTING BASIS

OPERATING STATEMENT

Net operating result
Revenue
Taxes
Fees and charges
Interest earned
Grants received
Other
Total revenue

Less Expenses
Gross operating expenditure
Depreciation
Superannuation
Other operating expenses
Total gross operating expenditure
Interest expense
Current Transfers
Grants to other governments
Other current transfers
Capital transfers
Grants to other governments
Other capital transfers
Total expenses

Total net operating result

Application/financing of net operating result
Increase in net worth
Increase in net non-financial assets
Gross fixed capital formation
Other movements in non-financial assets
Less Depreciation
Total net capital formation

Plus Revaluations of non-financial assets
Total increase in net non-financial assets

Increase in net financial assets
Advances paid (net)
Less Borrowing (net)
Less Advances received (net)
Plus Other movements in financial assets and liabilities
Total net lending

Plus Revaluations of financial assets and liabilities
Total increase in net financial assets

Total increase in net worth
Less Effects of revaluations

Net operating result

Assets	
Financial assets	
Cash, deposits and investments	
Advances paid	
Other non-equity assets	
Equity	
Total financial assets	
Non-financial assets	
Land	
Fixed assets	
Other non-financial assets	
Total non-financial assets	
Total assets	
Liabilities	
Deposits held	
Advances received	
Borrowing	
Provisions (other than depreciation and bad debts)	
Employee related	
Other	
Other non-equity liabilities	
Total liabilities	
Net worth	

RECONCILIATION OF STOCKS AND FLOWS

	Opening balance	Net result of transactions	Revaluations and other changes	Closing balance
Assets				
Financial assets				
Cash, deposits and investments				
Advances paid				
Other non-equity assets				
Equity				
Total financial assets				
Non-financial assets				
Land				
Fixed assets				
Other non-financial assets				
Total non-financial assets				
Total assets				
Liabilities				
Borrowing & deposits held				
Advances received				
Provisions				
Employee related				
Other				
Other non-equity liabilities				
Total liabilities				
Net worth				

APPENDIX 2 PROPOSED PRESENTATION OF GFS ON A CASH ACCOUNTING BASIS

CASH FLOW STATEMENT

Revenue and grants
Revenue
Current revenue
Taxes
Fees and charges
Other current revenue
Capital revenue
Total revenue

Grants
Current
Capital
Total grants

Total revenue and grants

Expenditure
Current expenditure
Goods and services
Interest and property income
Grants and other transfers
Total current expenditure

Capital expenditure
Grants
New fixed assets
Land
Other capital expenditure
Total capital expenditure

Total expenditure

Deficit (a)
Current deficit
Capital deficit
Total deficit

Financing of deficit
Advances received (net)
Advances paid (net)
Borrowing (net)
Other financing (net)
Total financing of deficit

(a) This item is equivalent to the 'deficit adjusted for net advances' in the current system

GLOSSARY

Accounting standards Australian Accounting Standards ("AAS's") are specific accounting policies developed and promulgated by the Australian Accounting Standards Board and the Public Sector Accounting Standards Board.

Accrual accounting An accounting method in which revenue, expenses, lending and borrowing are recorded as they earned, accrued or incurred regardless of when payment is made or received.

Australian national accounts A set of statistics, compiled in accordance with the principles expounded by the SNA (see below), which include annual and quarterly estimates of national income and expenditure, input-output tables, State accounts, estimates of capital stock and financial accounts.

Bottom line measure A term used to describe summary measures of fiscal performance that are usually derived as the difference between major statistical aggregates, e.g. the deficit measure.

Capital outlays Refers to expenditure which results in the acquisition of fixed assets, land and intangible assets. Includes unrequited grants intended to contribute to the cost of such expenditure by the recipients. Also includes net advances (lending with the aim of achieving policy objectives).

Cash accounting An accounting method in which transactions are recorded when payment is made or received.

Central borrowing authority Resident public enterprises established by State and Territory governments to coordinate and administer the borrowing of their own State authorities.

Commonwealth Grants Commission A statutory authority established by *The Commonwealth Grants Commission Act 1973* whose main task is to recommend to the Commonwealth Government, for consideration at annual financial Premiers' Conferences, the shares for each State and Territory of the pool of general revenue and hospital funding grants made available by the Commonwealth.

Current outlays Expenditure by general government other than on the acquisition of fixed assets, land and intangible assets. Current outlays also include payment for property rights (e.g. interest payments) and unrequited transfers such as subsidies and personal benefit payments.

Deficit/surplus A measure used in cash-based GFS of the extent to which a government's outlays exceed its revenue and grants received.

Depreciation Refers to the cost of reproducible fixed assets used up during a period of account.

Economic Transactions Framework A hierarchically structured classification, used in GFS, for categorising transactions into economic groups.

FALS Statistics produced to describe the financial assets and liabilities of the non-financial public sector.

Financing transactions The means by which governments finance their deficits or invest their surpluses.

General government Resident public enterprises which are mainly engaged in the production of goods and services outside the normal market mechanism for consumption by governments and the general public. Costs of production are mainly financed from public tax revenues. Goods and services are provided free of charge or at nominal charges well below costs of production.

Government finance statistics (GFS) Statistics that are compiled by summarising the individual financial transactions of governments, and the organisation of these transactions into meaningful categories appropriate for analysis, planning and policy determination.

Increase in Net Worth (INW) A measure, to be used in accrual-based GFS, defined as the increase in the net asset position, including non-financial assets. It may also be defined as the retained surplus, including revaluations.

Net Lending A measure, to be used in accrual-based GFS, defined as the net operating result (see below), *less* net acquisition of non-financial assets, *plus* consumption of fixed capital. It represents an increase in the net financial asset position, not including revaluations.

Net Operating Result A measure, to be used in accrual-based GFS, defined as the INW (see above) *less* the effects of revaluations. Conceptually, it may also be viewed as the excess of current revenue over current expenditure, plus net transfers received.

Public financial enterprises (PFEs) Resident public enterprises mainly engaged in both incurring liabilities and acquiring financial assets in the financial market on their own account.

Public trading enterprises (PTEs) Resident public enterprises mainly engaged in the production of goods and services of a non-financial nature for sale in the market place at prices which aim to recover most of the costs involved.

Provisions Expenses recognised in a current period for future payments such as superannuation.

Revenue and grants Refers to the receipts of government which are used to fund expenditure. Includes taxes, fees, fines, net operating surpluses of PTEs, property income and grants.

SNA93 *System of National Accounts* 1993 (SNA93) is a framework for the production of macroeconomic accounts, developed jointly by the Commission of European Communities, the International Monetary Fund, the Organisation for Economic Cooperation and Development, the United Nations and the World Bank. SNA93 supersedes SNA68.

Tax equivalent regimes A regime of payments by eligible PTEs and PFEs to their State (or Territory) Government, equivalent to income tax or wholesale sales tax exacted by the Commonwealth.

Uniform Presentation Agreement An agreement at the 1991 Premiers' Conference that the Commonwealth Government and State and Territory Governments would present as part of their budget documentation a minimum set of statistics on a standard (ABS) GFS basis, as well as financial asset and liability data according to an agreed format.

Whole of government accounting Refers to the recommendation of a new accounting standard, AAS 31: *Financial Reporting by Government*, that all governments prepare and publish general purpose accrual-based reports for the consolidated sum of all entities controlled by each government, as well as for their general government, PTE and PFE sub-sectors.