

LEGISLATIVE COUNCIL PANEL ON FINANCIAL AFFAIRS

Accrual-based Consolidated Financial Statements of the Government

Supplementary Information

Purpose

At the meeting of 5 January 2004 when we briefed Members on the publication of the first set of accrual-based Consolidated Financial Statements of the Government (for 2002-03), Members sought clarification on -

- (a) budgetary practices in Canada, Australia and New Zealand where accrual accounting has been adopted in preparation of budgets; and
- (b) the value of land among the fixed assets of the Hong Kong Housing Authority as at 31 March 2003.

Budgetary practices

2. We have collected some information on the practices of New Zealand, Australia and Canada in the preparation of the respective Government's accrual-based budgets through their websites. Given the complexities of the budgetary systems of these countries, the key features summarized at the Annex are based on our understanding of the intricacies.

Value of land held by the Hong Kong Housing Authority as at 31 March 2003

3. According to Hong Kong Housing Authority's published audited accounts for the year ended 31 March 2003, which are drawn up on an accrual

basis of accounting, the value of land among the fixed assets on the Authority's Balance Sheet amounted to \$197 million at 31 March 2003, this being the total land premia paid by the Authority for domestic public rental housing estates (\$141 million) and office buildings (\$56 million).

4. In addition, the Government has provided land to the Authority for which no land premium has been paid. The values of such land are not shown in the Authority's balance sheet but are disclosed in a note to the Authority's accounts as the Government's contribution to domestic housing and non-domestic equity. The land values are based on Government's own assessment of the market value at the time of completion of the relevant construction works or at the date of grant to the Authority, except for the land for carparks completed before 1 April 1988 which has been assessed at nil value. As at 31 March 2003, the total value of such land plus the excess of market value over the land premium at a reduced rate paid by the Authority for some housing estates stood at \$192,314 million, broken down as follows-

	\$million
Public rental housing estates	
- Domestic	158,214
- Non-domestic	19,454
Home Ownership Scheme	
- Domestic	11,700
- Non-domestic	2,798
Buy or Rent Option Scheme	
- Non-domestic	8
Office buildings	140
	<u>192,314</u>

Key Features of Budgetary Practices in New Zealand, Australia and Canada

(A) New Zealand

1. With the passing of the Fiscal Responsibility Act 1994, New Zealand started to prepare its budgets on an accrual basis from 1994 (i.e. financial year 1994-95).
2. Instead of granting appropriations to departments for different categories of cash expenditure (inputs) in the past, Parliament authorizes Ministers to purchase the outputs (at prices including non-cash costs such as depreciation and accrued employee benefits) necessary to achieve the outcomes they want from different sources (including the private sector and government departments).
3. Departments are responsible for delivering outputs that Ministers have agreed to purchase, and for the use of resources appropriated by Parliament for that purpose. Departmental chief executives allocate resources (i.e. inputs such as capital, personnel, accommodation and equipment) to the production of those outputs according to the agreed performance standards specified in the purchase agreements. They are empowered to manage all the resources at their disposal including the sale of the fixed assets used in service delivery and retaining the proceeds, employment of staff and fixing the pay and conditions, etc.
4. Most appropriations are limited to one year. Multi-year appropriations are provided for in the Public Finance Act. Such appropriations would be approved where Parliament wishes to signal commitments that require authorization over a period longer than one year. The maximum term specified in legislation for a multi-year appropriation is five years.
5. The key budget processes are summarised below -
 - (a) Strategic phase: Ministers determine their Budget strategic objectives for the coming three years. Decisions

taken during the strategic phase are the basis for the content of the Budget Policy Statement.

- (b) Preparation of Vote Budgets: Ministers and chief executives prepare draft budgets and purchase agreements for the coming year. Draft outputs and departmental budgets are also prepared for the two subsequent years.
- (c) Development of Budget initiatives: Ministers and their departments develop budget initiatives which will have an impact on revenue and expense levels.
- (d) Review of Budget baselines: Ministers are expected to keep total expenses for each Vote within approved levels. These levels, called baselines, contain amounts for the coming year and the following two years.
- (e) Consideration of proposed Budget initiatives: Cabinet reviews Ministers' policy proposals. After the House of Representatives has debated the Finance and Expenditure Committee's report on the Budget Policy Statement, Cabinet makes final Budget decisions.
- (f) Presentation of Budget documents: On Budget day, the Minister of Finance presents to the House of Representatives the following documents -
 - the first Appropriation (Estimates) Bill for the new fiscal year;
 - Budget speech and Fiscal Strategy Report;
 - the Budget Economic and Fiscal Update;
 - the main (Budget) Estimates; and
 - departmental forecast reports
- (g) Passage of the Appropriation Bill: Parliamentary select committees examine the Budget documents. The debate on the third reading of the main Appropriation Bill must be completed within three months of the delivery of the Budget. When the Bill has been read a third time, it is passed by the House and becomes law with the assent of the Governor-General and the Government's annual Budget becomes law through an Appropriation Act.

(B) Australia

1. The first accrual-based budget (for 1999-2000) was published on 11 May 1999.
2. The Charter of Budget Honesty Act 1998 requires that the Budget be based on external reporting standards (which in the Budget have been identified as the Australian Accounting Standards) and that departures from applicable external reporting standards be identified.
3. The key budget processes are summarised below -
 - (a) The Prime Minister, the Treasurer and the Minister for Finance and Administration establish policy priorities and strategy for the next financial year.
 - (b) Agencies prepare Portfolio Budget Submissions detailing new funding requested and areas where savings can be made. The Submissions are required to be provided to Department of Finance and Administration for agreement of the costings.
 - (c) The Submissions will then be considered by the Cabinet's Expenditure Review Committee (ERC) which will determine the proposals to receive funding and for how much.
 - (d) After the conclusion of the ERC, the Ad Hoc Revenue Committee meets to make decisions about the revenue aspects of the Budget.
 - (e) Preparation of the Budget documentation starts after the ERC process is completed.
 - (f) All Budget papers, including the Portfolio Budget Statements, are tabled in the Parliament. Once the Budget is tabled in Parliament, the Appropriation Bills, along with the other documentation are scrutinised by the relevant Senate Legislative Committees. This is usually concluded

in time for Parliament to pass the Appropriation Bills before the end of the financial year.

- (g) Approximately six months after the Budget, the Additional Estimates process is undertaken, which enables reassessment of funding requirements be made and, if necessary, requests for additional funding be submitted.
- (h) The final stage in the Budget process occurs three months after the end of the financial year when the Final Budget Outcome documents are tabled in the Parliament. This is required under the Charter of Budget Honesty Act 1998 to provide information on the Government's fiscal outcomes for the financial year.

(C) Canada

1. Commencing from 2003-04, the Federal Government's Budget is presented on a full accrual basis but the full accrual budgets are not yet prepared for individual departments and agencies. Appropriations for departments and agencies are largely made on a cash basis with items (e.g. depreciation, provision for employee leave benefits) not requiring immediate funding being taken out from the appropriated amounts.
2. The key budgetary processes are summarised below -
 - (a) Preparation and review of departmental business plans: Each department must submit a business plan to the Treasury Board Secretariat. The plans include proposed expenditure for the upcoming year, the department's strategies, goals and targets and measures for program and management changes over the next three years.
 - (b) Cabinet review of priorities and consultations.
 - (c) Tabling of Departmental Performance Reports before the Parliament: The reports are an in-year performance review by each department for the outcomes achieved, associating performance with earlier commitments, and explain any changes thereof.

- (d) Delivery of the Budget Speech and tabling of Estimates before the Parliament.
- (e) Passing of the Appropriation Act by the Parliament: Before the commencement of a new financial year, an interim Appropriation Act is passed to provide funding for three months while the Estimates are under review.

References

The following websites -

- (a) New Zealand
www.treasury.govt.nz
- (b) Australia
www.dofa.gov.au
www.budget.gov.au/2003-04
- (c) Canada
www.fin.gc.ca/fin-eng.html
www.tbs-sct.gc.ca
www.edu.psc-cfp.gc.ca/tdc/learn-apprend/psw/hgw/how-gov4_e.htm

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