1997
THE LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

Financial Management (Amendment) Bill (No. 2) 1997

EXPLANATORY MEMORANDUM

Circulated by the authority of
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Chief Minister and Treasurer

ACT GOVERNMENT

Financial Management (Amendment) Bill (No. 2) 1997

OUTLINE

The objective of this Bill is to make a number of amendments to the *Financial Management Act 1996* in the light of the first twelve months of operation of the Act. The Bill:

a) redefines banking institutions;
b) requires additional information to be included in departmental budgets concerning capital injections;
c) increases the amount of money which can be transferred within and between appropriations;
d) reclassification of certain appropriations;
e) deals with the position of end of year balances of departmental bank accounts;
f) clarifies the investment of public money; and
g) makes provision for unclaimed trust moneys.

Revenue Cost Implications

The Bill will not impact on the 1997/8 Budget.

DETAILS OF THE BILL

Short title, Commencement, Principal Act

These are formal provisions. The "principal act" is the *Financial Management Act 1996*.

Interpretation

The principal act contains a number of references to the conduct of banking for the Territory and to the use of bank accounts. These terms are to be changed to avoid the inference that the Territory's financial transactions must be conducted with a bank instead of other types of institutions offering "banking" facilities. This amendment is consistent with the terms of the national Competition Principles Agreement.

Departmental Budgets

While some capital injections are used for specific purposes, other capital injections are in the form of a working capital advance or 'loan'. It is proposed that where a capital injection is to be repaid, budget papers should provide additional information about the conditions of the advance and the period in which it is to be repaid.

Transfer of funds between appropriations
Transfer of funds within appropriations

Sections 14 and 15 of the principal act deal with transfers of funds between and within appropriations respectively. In the case of the former, a 3% threshold limits the amounts by which appropriations may be varied. In the latter case the 3% forms part of a threshold above which notice of a transfer must be tabled in the Assembly by instrument of the Treasurer. It is proposed to change the threshold percentage to 5% in both sections. 5% is generally accepted and endorsed in the Australian Accounting Standards as the materiality recognition point - other things being equal. Accordingly, it is proposed to revise the existing threshold levels in accordance with generally accepted accounting practice.

Insertion
Reclassification of certain appropriations

Where an appropriation has been incorrectly classified as an appropriation for payments to be made by a department on behalf of the Territory or where an appropriation has been incorrectly classified as payment of outputs that should be appropriation for payments to be made by a department on behalf of the Territory, there is no provision for correction of these errors. This provision permits the Treasurer, by instrument in writing tabled in the Assembly, to correct these errors.

Insertion
End of year balances of departmental bank accounts

Under accrual accounting, closing balances in accounts (whether positive or negative) are carried forward at the end of each financial year rather than zeroed. If positive, the resulting balance is to be available for expenditure without further appropriation for the general purposes for which the money was originally appropriated (even though the formal period of the original appropriation may have expired). If the balance is negative, a debt reduction strategy will be prepared.

Investment of public money

Subsection 38(4) prevents the passing of more interest to departmental bank accounts than accrues to the Territory Bank Account. Because the Territory Bank Account is so managed to keep a low balance, this account earns very little interest. At the same time, however, departmental bank accounts may have notionally high account balances. This amendment removes the restriction in section 38(4).

Insertion
Unclaimed trust moneys
Review of decisions
Notification of decisions

These provisions allow money which is unclaimed to be removed from Departmental Trust Accounts to the Territory Bank Account after a period of time. The provisions allow subsequent proven claims to be honoured.

Consequential amendment - *Canberra Institute of Technology Act 1987*

Past practice has been to appropriate to the Canberra Institute of Technology as though it were a department. This amendment removes this anomaly from the *Canberra Institute of Technology Act 1987.* The Institute may be funded by appropriation passed to it through a department.