

**2003**

**THE LEGISLATIVE ASSEMBLY FOR THE  
AUSTRALIAN CAPITAL TERRITORY**

**FINANCIAL MANAGEMENT AMENDMENT BILL 2003 (NO. 2)**

**EXPLANATORY STATEMENT**

Circulated by the authority of the Treasurer

Ted Quinlan MLA

## Financial Management Amendment Bill 2003 (No. 2)

### Outline

Some Australian jurisdictions have implemented a Charter of Financial Integrity to provide the community with as much information as possible regarding the true financial state of the Territory in a timely and accessible way. The Government broadly supports the principles of these Charters.

Rather than having separate Charter legislation, the Government considers it more appropriate, being a small jurisdiction, to incorporate the provisions into existing financial management legislation. The *Financial Management Act 1996* is the cornerstone upon which the effective financial management of the Territory rests and incorporation of the proposed improved financial management provisions into this Act will provide a single cohesive financial framework for the Territory.

This Bill is considered to be an appropriate means for the Territory to address the principles contained in other jurisdictions' Charters of Budget Honesty and Financial Responsibility

The Bill provides for changes to be made in the following areas:

#### 1. New requirements for inclusion in the Territory Budget

The Bill requires the following to be included in the Territory budget:

- a financial policy objectives and strategies statement;
- a statement of economic or other assumptions;
- a statement about the sensitivity of the budget estimates to changes in assumptions; and
- a statement of risks.

#### 2. Expansion of the principles of responsible fiscal management

The Territory budget must be prepared taking into account the principles of responsible fiscal management. The existing four principles have been expanded to include a spending and taxing principle and a disclosure principle. A definition of 'fiscal risks' has also been inserted.

#### 3. Budget Review

The Bill introduces the requirement for a mid-year budget review, to be presented to the Assembly not later than 15 February. This review will provide an estimated end of financial year position for the General Government Sector, as well as updated budget estimates for the next three financial years. A review of the financial policy objectives and strategies statement will also be included in the mid-year report.

#### 4. Pre-election Update

The pre-election update requires updated budget estimates for the Territory, General Government Sector and Public Trading Enterprises at least 30 days before the polling day for an ordinary election.

#### 5. Timing of Audited Financial Statements

The Bill requires audited Territory annual financial statements to be completed within three months after the end of the financial year, if an ordinary election is being held in that year.

### **Details of the Financial Management Amendment Bill 2003 (No. 2)**

#### **Formal Clauses**

**Clauses 1, 2 and 3** are formal requirements. They refer to the name of the Act, the commencement date of the Act and declare that it is the *Financial Management Act 1996* which is being amended by this Act.

#### **Changes to the Budget Requirements**

**Clause 4** proposes heading amendments.

The Part 2 heading is being amended to ‘Budget Management’ to better reflect the inclusion of the new budget reporting requirements. To separate the budget process from budget reporting, Part 2 is being divided into two divisions. Division 2.1 covers appropriations and budgets. Clause 6 contains Division 2.2 which addresses budget reviews and pre-election budget updates.

**Clause 5** proposes amendment to section 11.

Due to the extent of the changes to this section, the whole section, with amendments, has been included.

#### **New requirements for inclusion in the Territory Budget**

This clause expands the proposed budget requirements in subsection 11 (1) to include financial management practices already being performed, but for which there is no legislative requirement for them to be done. It is considered prudent for these practices be included in the *Financial Management Act*. The requirement for these statements is based on the premise that any financial estimate is only as good as the policy and factual assumptions that underlie it.

The new subsection 11 (1) requirements are:

- a financial policy objectives and strategies statement;
- a statement of economic or other assumptions;

- a statement about the sensitivity of the budget estimates to changes in the economic or other assumptions; and
- a statement of the risks that may affect the budget estimates.

Given the expansion of the budget requirements in subsection 11 (1), subsection 11 (3) has been amended to clarify that it pertains to the proposed budget financial statements required under subsection 11 (1) (e).

#### Expansion of the principles of responsible fiscal management

Subsection 11 (4) has been amended to require the proposed budget for the Territory to be prepared taking into account the principles of responsible fiscal management. It also requires that the budget be prepared taking into account the object of providing a basis for sustainable social and economic services and infrastructure fairly to all ACT residents.

The principles of responsible fiscal management in subsection 11 (6) have been expanded to include a spending and taxing policy and a disclosure policy. Fiscal risk has also been defined to clarify the prudent fiscal risk principle.

Section 11A outlines the purpose and content of the financial policy objectives and strategies statement that must be included in the Territory budget in accordance with subsection 11 (1). The purpose of a financial policy objectives and strategies statement is to make transparent the Government's financial strategies and to establish a benchmark for evaluating the Government's financial performance.

#### New Budget Reporting

**Clause 6** proposes insertion of a Division 2.2

Division 2.2 is a new division mandating budget reviews and pre-election updates.

#### Budget Review

This clause introduces section 20A requiring a mid-year budget review to be presented to the Assembly no later than 15 February in that financial year. This review will provide to the Legislative Assembly updated budget estimates to take account of any changed circumstances since preparation of the original budget. The proposed timing will align presentation of this information to the Legislative Assembly with the quarterly financial statements.

The purpose of the budget review, contained in section 20B, is to provide updated information to allow assessment of the Government's financial performance against the financial policy objectives and strategies set out in the financial policy objectives and strategies statement.

Section 20B requires the budget review to include an estimated end of financial year position for the General Government Sector, as well as updated budget estimates for the next three financial years. A review of the financial policy objectives and strategies statement is also to be included in this mid-year report.

### Pre-election Update

Section 20C requires a pre-election update to be prepared by the Under Treasurer and given to the Parliamentary Counsel for notification at least 30 days before the polling day for an ordinary election. Where an election results from a dissolution of the Assembly by the Governor-General or a resolution of non confidence in the Chief Minister, the pre-election update must be prepared at least 20 days before the polling day. The duties of the section are vested in public officers rather than the political office of the Treasurer, so that the document can be prepared without political influence.

Section 20D specifies that the purpose of the pre-election update is to allow the assessment of the government's financial performance and to give the electorate an accurate picture of the Territory's financial position before the election.

In accordance with section 20D, the pre-election update requires updated budget estimates for the Territory, General Government Sector and Public Trading Enterprises. It must also include a statement of assumptions, a statement about the sensitivity of the updated financial statements and budget estimates to changes in the assumptions and a statement of risks.

### **Timing of Audited Financial Statements**

**Clause 7** proposes amendment to section 24

Section 24 has been amended to require audited Territory annual financial statements to be completed within three months after the end of the financial year, if an ordinary election is being held in that year.

**Clauses 8 and 9** propose amendments to section 25

Section 25 has been amended to require the distribution of the Territory annual financial statements within 7 calendar days after the audit opinion is received. This requirement ensures that audited financial statements are available prior to the polling day.