

## JCPAA Accrual budget documentation review

### DHAC Follow-up questions

1. Report of the Senate Finance and Public Administration Legislation Committee (SFPALC), *The Format of the Portfolio Budget Statements, Third Report*.

The SFPALC concluded that Senators were 'exhibiting varying levels of patience with the current levels of instability in the reporting frameworks in some portfolios; there is a clear expectation that the frameworks should stabilise sooner rather than later.' (Report, p. 39)

- Do you feel you are achieving year-on-year stability in the outputs/outcomes structure and performance measures which are contained within your Budget documents and annual report?

The 2001-02 Budget was the third Commonwealth Budget under the Accruals framework. In the period since 1999-2000 the Department of Health and Aged Care has made one change to the Outcome structure, reducing from 10 to 9 Outcomes. This change was mainly to ensure corporate activities, previously covered by Outcome 10, were distributed across all Outcomes, consistent with other agency's Outcome Structures. The Output Groups have been refined since 1999-2000. The current structure is designed to bring our Output Groups more in line with the model presented by the Department of Finance and Administration and should lead to greater stability in the number and composition of the Output Groups, and enable greater scope for comparison of the estimates between years.

2. Currently agencies check with ANAO on an ad hoc basis as to whether accounting policy is in accordance with accounting standards. The ANAO has suggested that agencies should be encouraged to consult with it on the accounting policies in respect of new or complex financial arrangements at the time of budget preparation.

- Do you agree with this view?

The Department of Health and Aged Care would agree that it is appropriate to consult with ANAO where there are any queries about whether accounting policies are consistent with accounting standards. However, the Department of Health and Aged Care considers that, in the context of budget preparation, it would be more efficient for these queries to be put by agencies to the ANAO through the Department of Finance and Administration.

3. The PBS does not currently provide forward performance information in addition to forward financial information. This does not assist members and senators to understand how agencies are performing today and how they expect to perform in the longer term.

- Would you discuss the merits and feasibility of providing forward performance information in addition to forward financial information in the PBS?

The purpose of the Portfolio Budget Statements is to provide a guide to Senators and Members of the proposed allocation of funding for the Portfolio's Outcomes along with the objectives and targets for those outcomes for the coming year. The indicators and measures presented in the document largely reflect those provided in the previous 12 months and beyond. Even though specific performance information is not provided for beyond the next financial year, it can be seen that a large majority of indicators, measures and relevant targets presented in the 2001-02 Portfolio Budget Statements build on those presented in previous years. The question of whether or not PBSs should provide specific performance information over a four year period is best addressed by DOFA, who are responsible for the PBS guidelines.

The Department of Health and Aged Care also notes that the performance information provided in its Portfolio Budget Statements is in line with current Department of Finance and Administration guidelines.

4. An annual report is not tabled in Parliament for some time after the Parliament has had the opportunity to consider the Budget estimates. This issue was raised by the Senate Finance and Public Administration Legislation Committee in *The Format of the Portfolio Budget Statements, Third Report (page 41)*.

There appears merit in agencies providing at budget time, an estimated actual performance outcome to allow comparison of that information with the estimated actual financial information in the budget papers.

- Would you comment on this proposal?

The Department of Health and Aged Care does not support the idea of presenting an estimated actual performance outcome to coincide with the production of the department's Portfolio Budget Statements. As stated in question 3, the purpose of the Portfolio Budget Statements is to provide a guide to Senators and Members of the proposed allocation of funding for the Portfolio's Outcomes along with the objectives and targets for those outcomes for the coming year.

The duplication of effort in providing interim (or estimated) performance information at Budget time and having to repeat the exercise a few months later would place an undue strain on agency resources.

5. Many outcomes involve the achievement of a desired state of affairs over a longer-term. It may not be possible to report meaningfully against all aspects of the outcome in the shorter term. The ANAO considers that there are benefits in agencies specifying intermediate outcomes. These include:
  - assisting management to articulate and communicate achievable short-term objectives across the organisation;

- demonstrating practical linkages between outputs and desired outcomes; and
  - assisting in planning, monitoring and performance reporting of long term objectives.<sup>1</sup>
- Would you comment on the use of intermediate outcomes to measure progress towards achieving your longer-term outcomes?

In many areas of Health and Aged Care, Outcomes are achieved over lengthy periods (eg improved health status for Aboriginal and Torres Strait Islander (ATSI) peoples - Outcome 7). However Outcome Statements are generally reported against over a 12 month period through the performance information presented for each Outcome. These measures are generally of “intermediate outcomes” in nature and give an assessment of progress against higher level, longer term Outcomes. For example, in the 2001-02 Portfolio Budget Statements the measures of access to primary health care services are used as a measure of performance against the Outcome Statement. This is a shorter-term measure (or “intermediate outcome) aimed at improving ATSI peoples access to primary health services which is expected to, in part, deliver in the achievement of the Outcome, that is improved health status for ATSI people.

6. It has been suggested that the following could assist departments/agencies to accurately measure their outputs:
- develop a data dictionary of the terminology used in their outcomes and outputs framework;
  - promulgate agency wide measurement methodologies and counting rules to ensure consistent measurement of performance measures particularly, where more than one functional area is involved in reporting agency performance; and
  - set up appropriate audit trails to monitor progress against delivery of their outputs.
- Has the guidance provided by DoFA been useful?
- Do you already use some or all of these methods? If yes, which methods?

The Department of Health and Aged Care appreciates the guidance and advice which is provided by the Department of Finance and Administration and make every effort to ensure that we adhere to that guidance where practicable.

We already use Finance’s dictionary of terms which is included on its website but given the complexity and wide range of programs administered by the department and across the government, we would question the feasibility of developing agency wide measurement methodologies and counting rules.

The Department of Health and Aged Care in the 2001-02 Portfolio Budget Statements aligned our departmental Output Groups with the Finance preferred model. This will

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<sup>1</sup> *ATO Performance Reporting under the Outcomes and Outputs Framework: Australian Taxation Office, Audit Report No.46, 2000-01, p.47.*

in effect allow greater scrutiny and comparison of our Output Groups with other agencies to be made.

7. The main aim of the CUC was to encourage agencies to recognise their assets and promote good asset management.

- Would you discuss whether in practice the CUC has been beneficial?

In practice the operational impact of the CUC on agencies is minimal, due to the fact that agencies are funded for the CUC via the output price appropriation and then pay the charge back to the Department of Finance and Administration, the effect is notional only. Any variance between budgeted and actual net asset positions tends to be driven by the operating loss or surplus for the reporting period rather than any change in asset. We are not in a position to comment on its whole of government financial administrative context.

8. From time to time agencies can achieve a significant operating surplus separate from the Capital User Charge. There appears merit in requiring agencies to specifically identify the details of any surplus to output level with explanations in the agency annual report which can be matched to the audited financial statements.

- Would you discuss the merits and feasibility of this proposal?

Suggested requirement is already being addressed by current level of reporting. The budgeted and actual costs of outputs (output groups) are already being reported by outcome in the Annual Report, notes to the financial statements and the Portfolio Budget Statements. Any variance between the actual and budgeted cost of outputs will effectively explain the composition of any departmental surplus or loss by output.