
The Parliament of the Commonwealth of Australia

Report 388

Review of the Accrual Budget Documentation

Joint Committee of Public Accounts and Audit

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Chairman's Foreword

Since 1999–2000 the Commonwealth's Budget documentation has been based on an accrual-based outcome and outputs framework. This is designed to allow Parliamentarians and the public to see the real cost of delivering benefits to the Australian community (outcomes) and agency goods and services (outputs). The real cost includes indirect costs such as corporate overheads, depreciation and maintenance, and the opportunity cost of capital.

The documentation primarily comprises the Budget papers, portfolio budget statements (PBSs), and agency annual reports. The information they contain is used to ensure government activities are transparent and accountable.

The review was conducted by the Committee in the previous Parliament, and examines the structure of the outcomes and outputs framework, the continuity of financial and performance information, the level of detail in the PBSs, the appropriateness of performance information, and various accounting issues.

The Committee examined the links between the various components of the framework in a sample of agencies. The Committee acknowledges that with any new system there will be a period of adjustment. However, while the Committee is satisfied that agencies have to date endeavoured to achieve consistency, there is still room for improvement.

One area which needs work is that of cross-portfolio information. The Committee believes that some agency outcomes are so broad and far reaching as to be in effect outcomes shared with other agencies. These shared outcomes should be identified. The Committee has recommended that agencies with shared outcomes should determine a lead agency with prime responsibility for the outcome. However, all involved agencies should identify and report on their contribution to the outcome in their PBS and annual report.

The Committee considered two aspects of continuity—the provision of timely information and the year by year continuity of information. Timeliness of information can be enhanced by the provision of earlier annual reports and the Committee has recommended that the tabling of agency annual reports be brought forward by one month to the end of the first quarter of the subsequent financial year.

Where outputs span across several years of funding, consistency is particularly important. Unfortunately, when changes occur, sometimes only a simple statement that there has been a change appears in the documentation. This is insufficient and unacceptable. Agencies need to explain what the change is and how stakeholders can compare the previous format to the current format. There also needs to be an explanation of the underlying reasons for the change and the implications for the funding of agency programs.

Some agency outcome statements do not provide enough detail because they are too highly aggregated to describe agency objectives in a meaningful way. This prevents Parliament adequately assessing proposed resource allocation and agency performance. This is particularly the case with Defence which has a single broad ranging outcome. The Committee has recommended that agency outcome statements should provide more detail. Where agencies have a single broad ranging outcome, or a small number of highly aggregated outcomes, intermediate outcomes should be identified.

The level of disaggregation of agency departmental outputs provided in PBS and annual reports also varied widely. The Committee considers that there would be considerable benefit in agencies providing more disaggregated output information to support transparency and accountability for performance. The Committee therefore strongly encourages Finance, in consultation with relevant Parliamentary Committees, to identify and make available to the Parliament, agencies, and the public, examples of better practice where agencies have provided appropriately disaggregated outcomes and outputs information in a cost-effective manner.

The Committee received evidence that while forward estimates information by outcomes and outputs is not currently included in the PBSs, the information is available and in fact is being provided by one agency in an appendix to its PBS. The Committee concludes there would be benefit in all agencies providing such information in their PBSs.

A practical and informative performance information framework is an integral element of the new outcomes and outputs budget framework as it enables the understanding and monitoring of agency outcomes and outputs. Agency progress in this area is patchy and indeed the Committee noted examples of performance measures which did not provide a target against which performance could be measured. The Committee has recommended that agency performance measures in the PBSs must always be accompanied by a comparative standard. Agencies should report their performance against this comparative standard in their annual reports, with a discussion if actual performance significantly varies from that expected.

The Committee is satisfied that the guidance advice Finance and the ANAO provides to agencies is at an appropriate level. However, it is important to determine whether this guidance is adopted or has some other positive outcome. The Committee therefore considers Finance and the ANAO should monitor the improvements shown by agencies. Further, the Committee recommended that Finance and the ANAO develop performance measures with targets for the advice they provide.

The *Charter of Budget Honesty* requires the Government to publish a Final Budget Outcome (FBO) report within three months of the end of the financial year. The Committee has discovered that the FBO is not audited. The reason given was that auditing the FBO would compromise its timeliness and end of year usefulness. Nevertheless the Committee concluded that the information in the FBO is sufficiently important to warrant an audit to provide additional assurance.

The Committee concludes that the overall structure of the accrual budget documentation framework is sound. However, there will need to be continuous refinement and this may take a number of years. The Committee has a keen interest in accountability and transparency of government and will maintain its interest in the accrual budget documentation into the future.

Bob Charles, MP
Chairman



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Membership of the Committee 39th Parliament

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	Senator John Watson	The Hon Alex Somlyay MP
		Mr Stuart St Clair MP
		Mr Lindsay Tanner MP (from 9/8/99)
		Mr Kelvin Thomson MP (from 10/4/00)



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Committee Secretariat

Secretary Dr Margot Kerley

Inquiry Secretary Dr John Carter

Research Officer Mr Mark Rogala

Research Officer Ms Rebecca Perkin

Administrative Officer Ms Maria Pappas



Duties of the Committee

The Joint Committee of Public Accounts and Audit is a statutory committee of the Australian Parliament, established by the *Public Accounts and Audit Committee Act 1951*.

Section 8(1) of the Act describes the Committee's duties as being to:

- (a) examine the accounts of the receipts and expenditure of the Commonwealth, including the financial statements given to the Auditor-General under subsections 49(1) and 55(2) of the *Financial Management and Accountability Act 1997*;
- (b) examine the financial affairs of authorities of the Commonwealth to which this Act applies and of intergovernmental bodies to which this Act applies;
- (c) examine all reports of the Auditor-General (including reports of the results of performance audits) that are tabled in each House of the Parliament;
- (d) report to both Houses of the Parliament, with any comment it thinks fit, on any items or matters in those accounts, statements and reports, or any circumstances connected with them, that the Committee thinks should be drawn to the attention of the Parliament;
- (e) report to both Houses of the Parliament any alteration that the Committee thinks desirable in:
 - (i) the form of the public accounts or in the method of keeping them; or
 - (ii) the mode of receipt, control, issue or payment of public moneys;

- (f) inquire into any question connected with the public accounts which is referred to the Committee by either House of the Parliament, and to report to that House on that question;
- (g) consider:
 - (i) the operations of the Audit Office;
 - (ii) the resources of the Audit Office, including funding, staff and information technology;
 - (iii) reports of the Independent Auditor on operations of the Audit Office;
- (h) report to both Houses of the Parliament on any matter arising out of the Committee's consideration of the matters listed in paragraph (g), or on any other matter relating to the Auditor-General's functions and powers, that the Committee considers should be drawn to the attention of the Parliament;
- (i) report to both Houses of the Parliament on the performance of the Audit Office at any time;
- (j) consider draft estimates for the Audit Office submitted under section 53 of the *Auditor-General Act 1997*;
- (k) consider the level of fees determined by the Auditor-General under subsection 14(1) of the *Auditor-General Act 1997*;
- (l) make recommendations to both Houses of Parliament, and to the Minister who administers the *Auditor-General Act 1997*, on draft estimates referred to in paragraph (j);
- (m) determine the audit priorities of the Parliament and to advise the Auditor-General of those priorities;
- (n) determine the audit priorities of the Parliament for audits of the Audit Office and to advise the Independent Auditor of those priorities; and
- (o) undertake any other duties given to the Committee by this Act, by any other law or by Joint Standing Orders approved by both Houses of the Parliament.



Terms of reference

The Committee will inquire into the effectiveness of, and options for enhancing the format and content of, the current budget documentation including the Portfolio Budget Statements, Annual Reports and the Portfolio Additional Estimates, for the purposes of Parliamentary scrutiny.

Of particular concern to the Committee are the following:

- ❑ the link between the information contained in the PBSs and annual reports of agencies;
- ❑ the explanatory information in each PBS to assist Members and Senators to understand how funds were expended and the measures used to assess performance in achieving government outcomes;
- ❑ the explanation of significant variations in budgeted program expenditure;
- ❑ the relationship of the outcomes/outputs framework with the existing organisational structure of agencies;
- ❑ the level of aggregation of appropriations within portfolio agencies and in particular for administered items;
- ❑ the level of detail and consistency in the recording of forward estimates for outcomes and outputs;
- ❑ the form of recording of asset values and the capital use charge;
- ❑ the presentation of revenue estimates and variations;

- the presentation of budget aggregates, budget parameters, budget assumptions, forward estimates, reconciliation tables, and historical tables;
- explanations of departures from relevant ABS and accounting standards;
- the level of detail provided in the Mid-Year Economic and Fiscal Outlook; and
- the presentation of budgeted program expenditure and year on year variations.



List of abbreviations

ABS	Australian Bureau of Statistics
ANAO	Australian National Audit Office
ACOSS	Australian Council of Social Service
ATO	Australian Taxation Office
CFS	Consolidated Financial Statements
CPA Australia	Certified Practising Accountants of Australia
Defence	Department of Defence
DETYA	Department of Employment, Training & Youth Affairs
FaCS	Department of Family & Community Services
FBO	Final Budget Outcome
Finance	Department of Finance and Administration
JCPAA	Joint Committee of Public Accounts and Audit
JCPA	Joint Committee of Public Accounts
MYEFO	Mid Year Economic and Fiscal Outlook
PAESs	Portfolio Additional Estimates Statements
PBSs	Portfolio Budget Statements
PM&C	Department of Prime Minister and Cabinet
SFPALC	Sentate Finance and Public Administration Legislation Committee



List of recommendations

Recommendation 1

Agencies with a shared outcome should:

- identify the shared outcome and the contribution of other agencies in achieving that outcome in their PBS and annual report;
- determine a lead agency with prime responsibility for that outcome; and
- consider entering into memoranda of understanding with the other agencies to clarify the responsibilities of each agency in achieving the shared outcome. [Paragraph 2.54]

Recommendation 2

The annual reporting requirements should be amended to require agency annual reports to be tabled by 30 September. [Paragraph 3.22]

Recommendation 3

Agency outcomes statements should be written in clear simple English language to allow for greater transparency. [Paragraph 4.21]

Recommendation 4

Agency outcome statements should:

- completely and clearly define their key objectives to reflect the impacts Government expects from their work;
- completely and clearly define the impacts Government expects from agency administered items; and
- accurately articulate the purpose of the relevant appropriations under the Appropriation Acts of the Commonwealth Budget. [Paragraph 4.35]

Recommendation 5

Agencies with a single broad ranging outcome, or with a small number of highly aggregated outcomes, should identify intermediate outcomes to indicate the shorter term objectives on the path to achieving their higher level outcomes. [Paragraph 4.36]

Recommendation 6

Agency performance measures identified in the portfolio budget statements must always be accompanied by a comparative standard. Agencies should report their performance against this comparative standard in their annual reports, with a discussion if actual performance significantly varies from that expected. [Paragraph 5.14]

Recommendation 7

The Department of Finance and Administration and the Australian National Audit Office should develop performance measures for the advice they provide to agencies. Performance targets should accompany those measures. [Paragraph 5.35]

Recommendation 8

The Department of Finance and Administration should identify and report to the Minister on the risks and benefits of allowing Portfolio Ministers authority to issue amounts out of the Consolidated Revenue Fund directly rather than through the authority of the Minister for Finance. The Department should advise its Minister on the appropriateness of allowing Portfolio Ministers to exercise such an authority. [Paragraph 6.27]

Recommendation 9

The Department of Finance and Administration should amend its guidelines to agencies so that information describing the model used for pricing outputs is included in the agency PBS. [Paragraph 6.44]

Recommendation 10

The Department of Finance and Administration, in consultation with the Australian National Audit Office, should review ways in which agencies should disclose details of any operating surplus to output or output group level. These details should be able to be matched to the agency's audited financial statements. The *Finance Minister's Orders* should be amended to put into effect such a reporting requirement. [Paragraph 6.69]

Recommendation 11

The Final Budget Outcome should be audited by the Australian National Audit Office. [Paragraph 6.84]

Introduction

Background to the inquiry

- 1.1 In 1999–2000 the Commonwealth Government completed its move to full accrual accounting with the release of its first accruals based Budget.
- 1.2 The accruals system of accounting differs from the previous cash based system in that it recognises revenue and expenses in the accounting period in which they occur, irrespective of when cash is paid or received. It aims to match the costs incurred during a particular reporting period with the benefits earned in that period.
- 1.3 'Revenues' and 'expenses' under accrual accounting include items which are not usually covered in 'receipts' and 'payments' under cash accounting, such as:
 - the cost of consuming assets—for example, depreciation;
 - the cost of accruing employee entitlements such as long service leave; and
 - the value of goods and services received free of charge from other bodies.
- 1.4 Accrual information is useful because it provides information about total resource allocation, and enables managers to discharge their accountability responsibilities for overall resource management.

- 1.5 It is important to note that cash accounting and accrual accounting are not alternative systems. Rather, cash accounting is a subset of the more comprehensive full accrual accounting system. This is because one of the accruals based financial statements is a Statement of Cash Flows.
- 1.6 The Budget papers are but one set of accruals based documents provided to Parliament to allow it to scrutinise expenditure and performance by the Executive. Other documents are:
- the associated portfolio budget statements (PBSs) which expand on the Budget papers;
 - the portfolio additional estimates statements (PAESs) which provide, at a later time in the financial year, information about variations in proposed expenditure; and
 - agency annual reports which provide audited financial statements and information about the agency's performance in spending the money appropriated by the Parliament.

The Committee's interest

- 1.7 The Committee has been a long time supporter of the move towards full accrual financial management by Commonwealth agencies. In its report into accrual accounting, tabled in August 1995, the then Joint Committee of Public Accounts recommended that the Government commission a review to consider the merits or otherwise of a move to accrual budgets and appropriations.¹
- 1.8 The Committee's view was confirmed in November 1995 when it recommended, in its report on financial reporting for the Commonwealth, that 'the first accrual budget for the Commonwealth be introduced into Parliament for the 1999–2000 financial year.'²
- 1.9 In March 1996, the newly elected Government established the National Commission of Audit to investigate and report on the financial position of the Commonwealth Government. The Commission found that:

A full accrual accounting framework [was] an essential complement to the structural and cultural change the Government

1 JCPA, *Report 338, Accrual Accounting—A Cultural Change*, APS, Canberra, 1995, Recommendation 9, p. 72.

2 JCPA, *Report 341, Financial Reporting for the Commonwealth: Towards Greater Transparency and Accountability*, Canberra, 1995, Recommendation 15, p. 137.

[was] seeking by way of a more competitive, efficient and effective public sector.³

- 1.10 The Commission recommended that the Government should adopt ‘accrual principles as the basis for an integrated budgeting, resource management and financial reporting framework’.⁴
- 1.11 The Government subsequently decided in 1997 to move to an accruals-based framework with the first accrual Budget being for the 1999–2000 financial year. Appropriations would be based on the total financial resources needed to contribute to Government outcomes,⁵ with funds being allocated for departmental items, administered items, and for equity injections.
- 1.12 The Committee has retained its interest in accrual matters. In March 2000, the Committee commented in its *Report 374* that it had noted some concern among members of Parliament concerning the impact of the new budget format on their ability to scrutinise proposed government expenditure.⁶
- 1.13 Further, during its review of Coastwatch, the Committee reviewed the funds expended on Coastwatch during 1999–2000 and 2000–01. The Committee concluded that while Coastwatch information had largely been separated out from other Customs information, there was still some way to go in providing clear and unambiguous information.⁷

Interest by other parliamentary committees

- 1.14 Since 1997, the Senate Finance and Public Administration Legislation Committee (SFPALC) has tabled three reports on the format and contents of the PBS.
- 1.15 The SFPALC’s first report in 1997 presented general principles for PBS preparation but did not recommend specific changes due to the anticipated move to the accrual budget and outcomes/outputs reporting framework.⁸

3 National Commission of Audit, *Report to the Commonwealth Government*, Canberra, 1996, p. 211.

4 National Commission of Audit, *Report to the Commonwealth Government*, p. 211.

5 This includes salaries and operational expenses including depreciation and accruing employee entitlements such as long service leave.

6 JCPAA, *Review of the Financial Management and Accountability Act 1997 and the Commonwealth Authorities and Companies Act 1997*, Canberra 2000, p. 34.

7 JCPAA, *Review of Coastwatch*, Canberra 2001, pp. 37–9.

8 SFPALC, *The Format of Portfolio Budget Statements*, Canberra 1997, pp. 31–6.

- 1.16 The SFPALC's second report in 1999 found difficulties associated with the mechanics of accrual budgeting and with the new reporting framework. It noted in particular that Senators wanted:
- less aggregated financial information;
 - more standardisation across the PBSs; and
 - forward estimates for outcomes and outputs.⁹
- 1.17 Although it did not agree to the publication of more detailed forward estimates, the Government agreed to:
- publish a best practice outcomes and outputs guide;
 - disaggregate appropriations to output level in the PBS;
 - itemise administered expenses;
 - disclose variations from budget predictions to actual expenses; and
 - include explanations of the capital user charge.¹⁰
- 1.18 The SFPALC's third report was tabled in 2000. The call was repeated for greater consistency and comparability of the pricing and performance information contained in the PBS. The SFPALC also sought the provision of forward estimates information and noted that, in relation to performance information, the time between the setting of indicators in the PBS and reporting against them in the annual report was too long. The committee suggested that agencies provide part-year performance information in the PBS for those quantifiable indicators for which the information was readily available.¹¹
- 1.19 The SFPALC also noted that reporting on progress towards outcomes was a weakness of the new system. In particular, few of the 'effectiveness indicators' used were particularly robust and many agencies had indicated that work needed to be done in this area.¹²

9 SFPALC, *The Format of Portfolio Budget Statements—Second Report*, Canberra 1999, pp. 50–1.

10 SFPALC, *The Format of Portfolio Budget Statements—Third Report*, Canberra 2000, p. 1.

11 SFPALC, *The Format of Portfolio Budget Statements—Third Report*, Canberra 2000, pp. 39–42.

12 SFPALC, *The Format of Portfolio Budget Statements—Third Report*, Canberra 2000, p. 41.

The Committee's inquiry

- 1.20 The inquiry was advertised in the national press on 4 April 2001, at which time submissions were invited from the public. In addition, selected agencies, and other interested people were invited to contribute to the inquiry. The Committee received 20 submissions and 1 exhibit. A list of the submissions received by the Committee can be found at Appendix A and details of the exhibit can be found at Appendix B.
- 1.21 The Committee subsequently held a public hearing using a round table format on 22 June 2001. A list of participants at the hearing can be found at Appendix C.

The structure of this report

- 1.22 Chapter 2 of this report continues with a discussion of the structure of the outcomes and outputs framework. The Committee examines the links between the various components of the framework, including the links between agencies.
- 1.23 Chapter 3 addresses the degree of continuity of financial and performance information. Two aspects are discussed: the timeliness of the provision of information, specifically the delay between the portfolio budget statements (PBSs) and the annual reports; and the year by year continuity of information provided by agencies.
- 1.24 Chapter 4 discusses the level of detail in the PBS, namely the level of aggregation of outcomes and outputs and the reporting of forward estimates for outputs.
- 1.25 Chapter 5 discusses performance information, in particular: performance indicators, performance measurement and reporting, and the guidance provided to agencies.
- 1.26 The final chapter, Chapter 6 covers various accounting issues: the use of accrual accounting in the public sector; the implementation of the capital use charge; the explanation of operating surpluses; and the reporting of the final budget outcome.

Structure of the outcomes and outputs framework

Introduction

- 2.1 This chapter focuses on the links between the various components of the Budget documentation. Comments relating to performance information are discussed in Chapter 5.
- 2.2 Since 1999–2000, the Commonwealth Budget has been structured around an accrual-based outcomes and outputs framework. This framework aims to improve how and what is measured for budgeting, accounting and reporting purposes for government agencies. Finance has identified two main objectives for the framework—firstly to improve agencies' corporate governance; and secondly to enhance public accountability.¹

Documents providing framework information

- 2.3 The Budget documentation comprises the four Budget Papers which are tabled in parliament on Budget night each year. Budget Paper No. 4 contains the Appropriation Bills. Additional Budget-related papers are provided throughout the cycle and include, in order, the Portfolio Budget Statements (PBSs), Mid Year Economic and Fiscal Outlook (MYEFO), Portfolio Additional Estimates Statements (PAESs), Final Budget Outcome

¹ Finance, *The Outcomes and Outputs Framework Guidance Document*, November 2000, p. 4.

(FBO), Consolidated Financial Statements (CFS), and agency annual reports.

- 2.4 The main purpose of the budget documentation is to enable Parliamentarians and other users to understand the economic and financial outlook of the Government. It explains the composition of the Budget including new budget measures, and expected outputs and outcomes and performance measures for the budget year. At the end of the cycle the annual reports provide audited financial statements and details of the achievements towards the outcomes proposed in earlier budget papers.
- 2.5 The timeframe for the accrual budgetary cycle spans approximately 18 months. While such an extensive timeframe highlights a significant time lag between estimated and actual reporting, it also demonstrates the need for clear and consistent reporting from the beginning to the end of the budgetary cycle.

Components of the framework

- 2.6 All Commonwealth agencies operate on the basis of an outcomes and outputs framework that was introduced by the Government in 1999–2000. The Government delivers benefits to the Australian community (outcomes) primarily through administered items and agencies' goods and services (outputs) which are delivered against specific performance benchmarks or targets (indicators).²
- 2.7 The framework operates in the following way:
- the Government specifies, via outcome statements, the outcomes it is seeking to achieve in given areas;
 - these outcomes are specified in terms of the impact government is aiming to have on some aspect of society, eg. defence;
 - Parliament appropriates funds, on a full accrual basis, to allow the government to achieve these outcomes through administered items and departmental outputs;
 - items such as grants, transfers and benefit payments are administered on the government's behalf by agencies, with a view to maximising their contribution to the specified outcomes;
 - agencies specify the nature and full accrual price of their outputs and manage them to maximise their contribution to the achievement of the Government's desired outcomes;

2 Finance, *The Outcomes and Outputs Framework Guidance Document*, November 2000, p. 4.

- performance indicators are developed to allow for scrutiny of effectiveness (ie. the impact of the outputs and administered terms on outcomes) and efficiency (especially in terms of the application of administered items and the price, quality and quantity of outputs);³ and
 - agencies discuss in their annual reports their performance against their performance indicators.
- 2.8 The Budget bills contain the outcome statements which define the purpose of appropriations. The portfolio budget statements (PBSs), which form part of the budget papers, are presented by the responsible Ministers and provide explanations to assist the Parliament in considering the annual Appropriation Bills.
- 2.9 The PBS contains details of administered items and departmental outputs.⁴ The main purpose of the PBS is to be a forward-looking document focussing on funding for the coming year and on expected performance.
- 2.10 Annual reports are primarily historical documents from agency heads reporting to Ministers and through them to Parliament on actual performance over the past year.⁵
- 2.11 While the framework provides the context for agencies' corporate governance, management and reporting systems, there is considerable scope for customisation so that each agency can adapt the framework to suit its operations and needs. However, Finance emphasises that the framework is structured in such a way to maximise consistency between agencies.⁶

The link between outcomes and outputs

- 2.12 The framework is designed both as a means of structuring corporate governance and management arrangements, and enhancing public accountability by reporting on planned and actual performance.⁷
- 2.13 The alignment of outcomes and outputs ensures that agency activities fit with the Government's policy agenda. Under this framework Ministers must articulate policy agenda in terms of the outcomes they wish their

3 Finance, *The Outcomes and Outputs Framework Guidance Document*, November 2000, p. 5.

4 Finance, *The Outcomes and Outputs Framework Guidance Document*, November 2000, p. 5.

5 Finance, *Submission No. 8*, pp. 54-5.

6 Finance, *The Outcomes and Outputs Framework Guidance Document*, November 2000, p. 5.

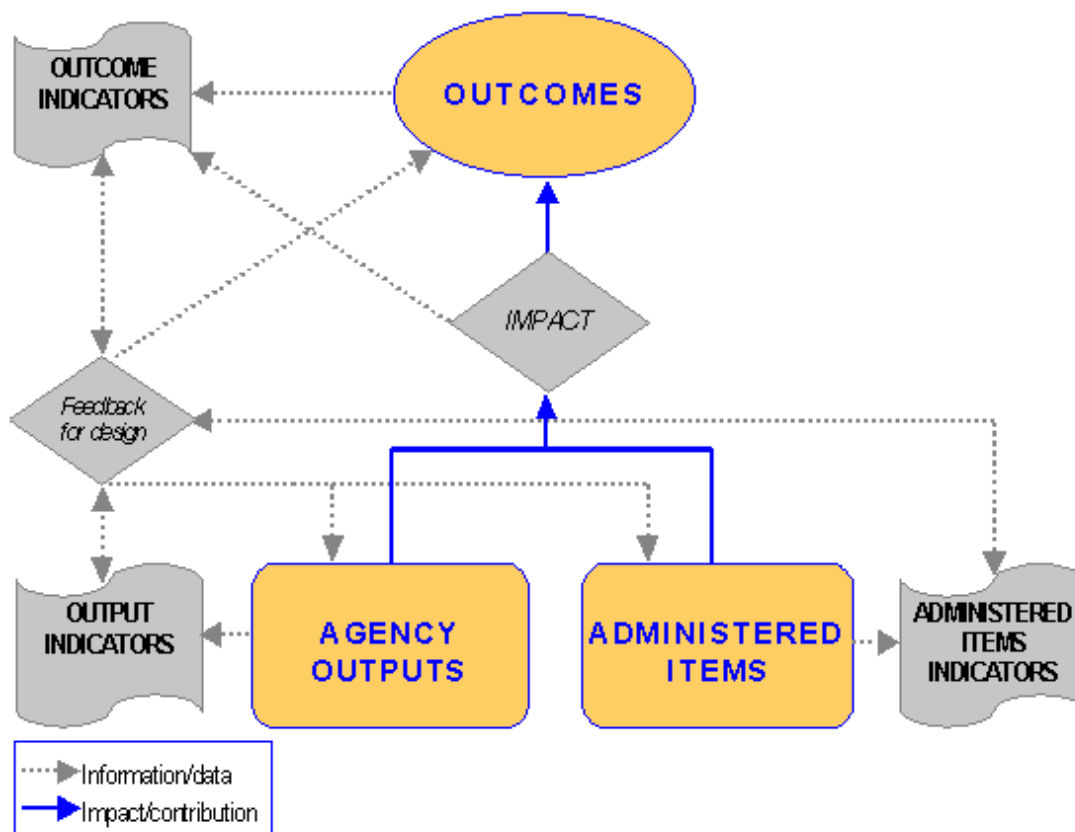
7 Finance, *The Outcomes and Outputs Framework Guidance Document*, November 2000, p. 4.

agencies to achieve. The relevant agencies then can set about producing outputs required to achieve the specified outcomes.

- 2.14 Figure 1, taken from Finance's *Outcomes and Outputs Framework Guidance Document*, illustrates the links between outcomes and agency outputs and administered items.

Figure 1:

Basic Outcome and Output Structure



Source: Department of Finance and Administration

Outcome and outputs

- 2.15 The outcomes and outputs framework is designed to allow Parliamentarians and the public to see the real cost of providing government services. The real cost includes indirect costs such as corporate overheads, depreciation and maintenance, and the opportunity cost of capital. The purpose of linking outcomes with the full costs of outputs demonstrates a clear and accountable contribution to policy formation and service delivery on behalf of the government.
- 2.16 The link between most agency outcomes and outputs is tenuous at present and agencies are aware that there is a need for improvement in this area. The formulation of a meaningful definition for outcomes and outputs is still a challenge for most agencies.
- 2.17 The Committee highlighted several examples of poor output and outcome definitions during the public hearing. There was concern that the outcome statements were too broad and far reaching, whilst some output statements were difficult to comprehend.
- 2.18 Treasury's overall outcome is a good illustration of a generalised high level outcome —*Strong, sustainable economic growth and the improved wellbeing of Australians*.⁸ The Committee questioned Treasury as to how it measured the performance of 'wellbeing'. Treasury admitted that this would be a difficult measure. However it commented that:
- Clearly a whole host of government outputs will contribute to an outcome expressed in those terms —to that overall outcome, well beyond outputs that are produced by Treasury.⁹
- 2.19 In addition to the difficulty of defining outcomes and outputs, many agencies have had difficulties developing meaningful and measurable performance indicators.
- 2.20 The Auditor-General tabled a performance audit report in June 2001¹⁰ which examined performance reporting within the outputs and outcomes framework. The ANAO discussed with the Committee some of its findings from the audit report:
- ... agencies are experiencing difficulties in establishing and demonstrating links between desired outcomes and the outputs to

8 *Portfolio Budget Statements 2001–02, Treasury Portfolio, Budget Related Paper No. 1.17*, p. 3. The overall outcome has remained unchanged in the Treasury PBS for 2002–03.

9 Dr Paul Grimes, Treasury, *Transcript*, p. 58.

10 Auditor General, *Audit Report No. 46 2000–2001, ATO Performance Reporting under the Outcomes and Outputs Framework*.

be delivered by the agency as well as in identifying performance indicators which can be used to measure and monitor success in delivering outputs and achieving outcomes.¹¹

2.21 Finance noted that the 'alignment of agency organisational structure with their outcomes/outputs under the framework is best practice because this best defines management accountabilities and responsibilities, and enables agencies to directly translate internal activity reporting to external outcome reporting.'¹²

2.22 Finance informed the Committee that several agencies have aligned their organisational structures with the outcome/output framework. These included the Department of Employment, Workplace Reform and Small Business, the Department of Family and Community Services (FaCS), and Finance. However, it also noted that alignment is not essential—it depends on the circumstances applying within individual agencies.¹³

2.23 In terms of identifying best practice, Finance told the Committee that on its website:

... we look to provide, in different areas, categories of best practice, whether it be in the definition of outcomes, the definition of outputs, or alignment between organisational structures and the outcomes and outputs framework.¹⁴

2.24 The Committee asked Finance what its role was in ensuring various agency outcome and output statements and performance measures are consistent with each other. Finance replied that:

While responsibility continues to rest with relevant portfolio ministers for the specification of outcomes, chief executive officers (CEOs) are now explicitly responsible for the products and services delivered (outputs). Guidance on outcome and output specification, and on changes to these, is available on the Finance website.¹⁵

11 ANAO, *Submission No. 7*, p. 47.

12 Finance, *Submission No. 8*, p. 58.

13 Finance, *Submission No. No. 8*, p. 59.

14 Mr Richard Loudon, Finance, *Transcript*, p. 50.

15 Finance, *Submission No. 13*, pp. 111-112.

The link between portfolio budget statements and annual reports

- 2.25 Finance advised the Committee that it was intended that there be ‘a clear read’ between the PBS and the annual report. The two documents were designed to be complementary. The main purpose of PBS was to be a forward-looking document focussing on funding for the coming year and on expected performance. Through identifying performance indicators and resource needs, it defined the Government’s requirement of agencies.¹⁶
- 2.26 Annual reports are primarily historical documents reporting on actual performance over the past year. They should detail the success or otherwise of each agency’s achievements against the Government’s requirement.¹⁷
- 2.27 The Committee raised concerns during the hearing that there were difficulties in tracking accountability information provided by agencies throughout the budgetary cycle from the PBS to PAES to the annual report and then to the PBS of the following year.
- 2.28 The following example highlights the inconsistencies that are evident in the performance reporting between PBSs and annual reports. The Committee found that the Department of Health and Aged Care (DHAC) Annual Report for 1999-2000 includes performance information on *Outcome 8—Enhanced quality of life for older Australians*. However:
- the effectiveness indicators listed for this outcome in the 1999-2000 PBS, are not reported in the same order in the Annual Report; and
 - in the 1999-2000 PBS the effectiveness indicators are listed as *Indicator 1 to Indicator 10* whereas in the 1999-2000 Annual Report the effectiveness indicators are listed as *Indicator A to Indicator J*.¹⁸
- 2.29 The Committee acknowledges that in the 2000–01 cycle, for the same outcome (now reassigned as *Outcome 3*) there is no inconsistency between PBS and the annual report.
- 2.30 The Committee also raised the problem of PAES getting lost in the process with the current focus pre-dominantly on PBSs and annual reports rather than the whole cycle comprising of PBS to PAES to annual report to PBS the following year.

16 Finance, *Submission No. 8*, p. 54.

17 Finance, *Submission No. 8*, pp. 55.

18 *Portfolio Budget Statements 1999–2000 Health and Aged Care Portfolio, Budget Related Paper No. 1.11*, pp.196-7, DHAC, *Annual Report 1999–2000*, p. 57 onwards.

- 2.31 During the public hearing, Finance commented that it 'acknowledges that there is room for improvement at a practical level in the PBSs, in places and in parts.'¹⁹
- 2.32 A witness from the Certified Practising Accountants of Australia (CPA Australia) stated that 'while it was understandable that the Commonwealth had concerns regarding the lack of continuity between budget papers and annual reports it was not a new and unexpected problem.'²⁰

Conclusion

- 2.33 The Committee acknowledges that with the introduction of a new budgetary framework there will be a period of settling in and adjustment. The Committee is satisfied that agencies have to date endeavoured to achieve consistency.
- 2.34 Nevertheless, the Committee is determined that all agencies achieve consistency in all Budget related reporting.**

The links between agencies

Consistency between agency PBSs

- 2.35 Finance recognised there was room for greater consistency between the PBSs provided by different agencies:
- ... I think there is a case that the guidelines could be not necessarily prescriptive or controlling but made a little more explicit and expressed in a firmer way to try to encourage greater consistency. ... I discerned in this most recent round of PBSs a greater degree of consistency, but I fully accept that there was probably not as much bringing them together into a consistent format as a number of Senators would have liked.²¹
- 2.36 The Committee agrees and encourages Finance to be more proactive in maintaining progress in achieving more consistency in agency PBSs. The Committee believes that an increased level of consistency in PBSs would:
- improve the ease of reading PBSs;

19 Mr Phillip Prior, Finance, *Transcript*, p. 30.

20 Mr Adam Awty, CPA Australia, *Transcript*, p. 16.

21 Mr Stephen Bartos, Finance, *Transcript*, p. 21.

- enhance the comparability of performance and financial information in the agency PBS; and
- encourage agencies to have consistent aims which would be particularly important when agencies had shared outcomes.

Cross portfolio statements

2.37 The link between ministerial cross portfolio budget statements and the PBS was identified as a difficult area for reporting by the SFPALC. The ANAO summed up the difficulties with such reporting:

... it can be difficult to obtain an understanding of the overall program when individual agencies report their own involvement with the program and no organisation is responsible for reporting on the overall program. ... One solution would be the nomination of a lead agency for each major cross portfolio program with designated responsibility for reporting.²²

2.38 The Committee sought comment from Finance which responded that there were:

... a number of Budget-related papers released each year, most of which deal with issues on a cross-portfolio basis. The 2001-02 Budget was accompanied by the release of papers dealing with matters affecting, for example, women, indigenous Australians, people in regional Australia, and our natural and cultural heritage.

Fundamentally, the PBSs are portfolio-specific documents, issued under the authority of the relevant portfolio minister and intended to meet the needs of the particular estimates committee covering the portfolio.²³

2.39 Finance concluded that 'it remains open to the Parliament to commission a Committee or ANAO inquiry into a specific whole of government matter of sufficient concern.'²⁴

Committee comment

2.40 The Committee acknowledges that reporting against cross portfolio statements presents a difficulty at a Ministerial level. Each Minister is wholly responsible for his/her portfolio reporting, however, in the case of cross portfolio reporting, if there were to be a nominated 'lead agency' as was suggested by the ANAO, then one Minister would be responsible for

22 ANAO, *Submission No. 11*, pp. 91-2.

23 Finance, *Submission No. 13*, p. 115.

24 Finance, *Submission No. 13*, p. 115.

reporting and would include information from another Minister's portfolio.

Shared outcomes

- 2.41 While agencies may experience difficulty measuring and assessing performance in achieving government outcomes, problems are much greater where an outcome is so broad as to encompass the activities of one or a number of other agencies. In such situations it is difficult to determine whether progress towards achieving the outcome results from the activities of all or only some of the agencies involved.
- 2.42 An example of a broad outcome is Treasury's overall outcome of *Strong, sustainable economic growth and the improved wellbeing of Australians*. During the public hearing, Treasury admitted that several agencies would contribute to the wellbeing component of its outcome.²⁵
- 2.43 The ANAO suggested to the Committee that there could be more extensive reporting of outcomes within the PBS. Where a portfolio agency makes a major contribution to a shared outcome, such reporting could address:
- progress achieved towards outcomes, including whether planned intermediate outcomes had been met;
 - the actions taken by the agency to influence the actions of such other parties, where applicable; and
 - expected outcomes in the budget and forward years.²⁶
- 2.44 The ANAO added that this would improve the present lack of cross-portfolio information available on outcomes.²⁷
- 2.45 The ANAO suggested that the agency with the most significant role in relation to the outcome should report on it. That agency would 'include in its report how other parties, including other government entities, had contributed towards the achievement of the outcome.'²⁸
- 2.46 The Department of Transport and Regional Services was provided as an example of a department taking prime responsibility for reporting on the outcomes relating to the Government's regional Australia agenda.²⁹

25 Dr Paul Grimes, Treasury, *Transcript*, p. 57.

26 ANAO, *Submission No. 7*, p. 48.

27 ANAO, *Submission No. 7*, p. 48.

28 ANAO, *Submission No. 7*, p. 48.

29 ANAO, *Submission No. 7*, p. 48.

2.47 In *Audit Report No. 46, 2000–2001, ATO Performance Reporting under the Outcomes and Outputs Framework*, the Auditor-General discussed the issue of cooperation between agencies working towards common or shared outcomes. He suggested that:

MOUs [memorandums of understanding] could be used as a strategy to improve overall performance whilst managing individual, as well as shared risks, corporate governance and reporting of performance information.³⁰

2.48 However, from another perspective Mr Tony Harris, appearing in an individual capacity, raised a difficulty he had with shared outcomes. He commented that:

... budgeting on outcomes can only work when there is responsibility for those outcomes that can be figured and when there is no overlap between the outcomes so as to dilute the responsibility chain.³¹

2.49 When the issue of shared outcomes was raised with Finance, it responded that ‘under the outcome-output framework, there are no outcomes shared between portfolios.’ There were, however, agencies such as Centrelink which had business partnership agreements with other agencies with the aim of achieving a particular government outcome.³²

Committee comment

2.50 The PBSs are not currently designed to provide cross portfolio information as the information they contain is focussed on single agencies. The Committee, while noting Finance’s response that there are no shared outcomes, believes that some outcomes are so broad and far reaching as to be in effect outcomes shared with other agencies.

2.51 The Committee therefore considers that agencies should acquaint themselves with the outcomes of other agencies to identify areas of overlap and synergy. Where shared outcomes are identified they should be indicated as such in the PBS and agency annual report. Agencies with shared outcomes should determine a lead agency with prime responsibility for the outcome, but all involved agencies should identify and report on their contribution to the outcome in their PBS and annual report.

30 Auditor General, *Audit Report No. 46 2000–2001, ATO Performance Reporting under the Outcomes and Outputs Framework*, p. 75.

31 Mr Tony Harris, *Transcript*, p. 15.

32 Finance, *Submission No. 13*, p. 115.

- 2.52 To ensure good communication and understanding between agencies sharing outcomes, the Committee encourages the use of MOUs as these will lead to a clarity in contribution towards the outcome and accountability when progress in achieving the outcome is reported.
- 2.53 Such MOUs would identify the shared outcome and the agencies which contribute to that outcome; and identify the agency with prime responsibility for the shared outcome which would be responsible for reporting progress in achieving that outcome.

Recommendation 1

2.54 **Agencies with a shared outcome should:**

- **identify the shared outcome and the contribution of other agencies in achieving that outcome in their PBS and annual report;**
- **determine a lead agency with prime responsibility for that outcome; and**
- **consider entering into memoranda of understanding with the other agencies to clarify the responsibilities of each agency in achieving the shared outcome.**

- 2.55 An alternative would be for agencies with broad and far reaching outcomes to redefine them so as to remove any overlap with the outcomes of other agencies. The Committee discusses the appropriate level of disaggregation of outcomes in Chapter 4.

Conclusion

- 2.56 The structure of the accrual budget documentation framework aims to link information in the budget papers with the PBS, PAES, and annual reports. The Committee is of the view that while the overall structure of the framework is sound, there will need to be continuous refinement. The Committee acknowledges that this may take a number of years.
- 2.57 The Committee notes that reforms to the public sector have provided much benefit by freeing agencies from central control. Inevitably there will be a tendency for the new system to go beyond that which is desirable. This will require central agencies to reassert some

control. The Committee believes that initially this can be achieved with a 'light touch' through Finance providing agencies with continuous advice in the form of better practice guides aimed at achieving consistency across the public sector.

- 2.58 The Committee believes that consistency within the outputs and outcomes framework is at the heart of accountability and transparency of government. The Committee will maintain a watching brief to see this is delivered in the longer term.

Continuity of financial and performance information

Introduction

- 3.1 This chapter discusses the degree of continuity of information available in the accrual budget documentation. Continuity of information is essential to support transparency and accountability by assisting the Parliament to compare proposed agency performance levels with actual performance. Such comparison also assists decisions concerning future allocation of resources to agencies to enable delivery of their outputs to achieve government outcomes.
- 3.2 The PBS and annual reports are the principle external reports produced by agencies to report on their projected and actual performance and to demonstrate accountability for their expenditure of public monies. The PBS are authorised by Ministers for use by Parliament when it considers the Budget. The PBS describes agency outcomes and effectiveness measures as well as outputs and performance measures when funds are appropriated. Annual reports describe and comment on the achievement of these measures.

- 3.3 In November 2000, Finance issued guidance to government agencies to assist them to develop their outcomes and outputs frameworks.¹ Advice in this regard, was also made available through Finance's internet web site.²
- 3.4 The Department of Prime Minister and Cabinet (PM&C) is responsible for providing information to agencies about the content of their annual reports. This is in the form of PM&C's *Requirements for Annual Reports*, which require the approval of the Committee.³ The requirements apply to annual reports for departments of state pursuant to the *Public Service Act 1999*.⁴ As a matter of policy, the requirements also apply to prescribed agencies under the *Financial Management and Accountability Act 1997*.⁵
- 3.5 The requirements for annual reports are designed to ensure that annual reports contain a core set of information to ensure that accountability requirements are met and to provide consistency for readers. Revised guidelines, issued in May 2000, required agencies to include in their annual report:
- the agency's outcomes and outputs structure;
 - as a transitional requirement for the 1999–2000 financial year, a map from the former program structure and how it aligns with the new outcomes and outputs structure; and
 - a report on performance against the specific performance measures or assessments set out in the PBS.
- 3.6 The Committee identified two key issues relating to the continuity of accrual budget documentation information:
- the delay between the provision of the agency PBS at Budget time and the subsequent reporting of achievements in the annual report; and
 - the year by year continuity of information for comparative purposes, particularly where agencies change their outcomes and outputs structures.

1 Finance, *The Outcomes and Outputs Framework Guidance Document*.

2 <http://www.dofa.gov.au/budgetgroup/>

3 The current requirements were approved by the JCPAA on 5 April 2000.

4 *Public Service Act 1999*, s. 63 (2) and s. 70 (2).

5 *Financial Management and Accountability Act 1997*, s. 5.

The delay in agency reporting

The nature of the problem

3.7 The provision of information to Parliament on agency proposed performance levels and actual performance needs to occur in a timely manner. Such timeliness supports accountability and allows scrutiny of agency resource allocation decisions for their outputs which have been designed to achieve the Government's outcomes.

3.8 Finance has acknowledged the difficulties in reducing the delay between the provision of the PBS at Budget time and the annual report:

... in effect, there is something like 18 months between what is promised in the PBS to be performed and what is actually delivered in the annual report. Short of changing the entire budgetary timetable, I am not sure that there is that much that can be done about that time lag.⁶

3.9 However, Finance added that the Commonwealth's timeliness in the preparation of agency annual reports compared favourably with private sector companies. Finance stated:

... we have a table ... that compares the performance in annual reporting between the Commonwealth—and the preparation of our whole-of-government reports on financials—with those of Australia's top 20 companies. We are about eighth.⁷

3.10 While acknowledging progress relating to agency annual reporting, the Committee notes a difference between the private and public sector reporting—a public company board has a financial statement in July, whereas the Parliament receives public sector annual reports in the second quarter after the end of the financial year.

Part-year performance information in the PBS

3.11 Since 1997, the Senate Finance and Public Administration Legislation Committee (SFPALC) has tabled three reports on the format and content of the PBS. The SFPALC third report tabled in 2000,⁸ noted among other things that, in relation to performance information, the delay between the setting of indicators and reporting against them was too long.

6 Mr Stephen Bartos, Finance, *Transcript*, p. 5.

7 Mr Stephen Bartos, Finance, *Transcript*, p. 9.

8 SFPALC, *The Format of the Portfolio Budget Statements Third Report*, November 2000, p. 1.

- 3.12 The SFPALC suggested that agencies provide part-year performance information in the PBS for those quantifiable indicators for which the information was readily available. The Government has yet to respond to this suggestion.
- 3.13 The Committee has discussed in Chapter 5 the possibility of agencies providing in their PBSs part-year performance information for the previous financial year.

The provision of earlier annual reports

- 3.14 There are two major divisions within an annual report—the audited financial statements and information about the agency’s activities and performance. Under accrual accounting it should be possible to obtain financial statement information relatively close to the end of the financial year. The compilation of content additional to the financial statements may, however, result in production delays for the final annual report.
- 3.15 Finance noted that although the annual report timetable has been brought forward considerably, there was room for improvement. Some of the world’s best companies were able to produce accurate financial reporting within a day of closure and that such a timeframe would be something to aim for. It would be useful for agencies, and also for Parliamentary scrutiny.⁹
- 3.16 Finance also considered that at the moment, agency systems were not able to achieve this degree of timeliness in financial reporting. It suggested that it would be the next generational change—when agencies introduce new financial management information systems—that might allow them to achieve this level of timeliness.
- 3.17 Finance also drew attention to barriers to achieving more timely financial reporting for a number of agencies, including:
- statutory reporting requirements which might need to be met; and
 - collecting of information from the states, for example in relation to payments from the Commonwealth, which would need to be reported.¹⁰
- 3.18 Finance concluded that these issues made the reporting by some agencies’ a little more difficult than in the private sector, and this would have to be taken into account.¹¹

9 Mr Stephen Bartos, Finance, *Transcript*, p. 9.

10 Mr Stephen Bartos, Finance, *Transcript*, p. 9.

Conclusion

- 3.19 Accrual accounting systems, if being used effectively should be providing agency managers with regular financial information. It is therefore not unreasonable to expect earlier end of year financial statements, as agencies become more familiar with accrual accounting systems and the capacity of those systems improves as technology advances. There is an audit stage to be completed before the financial statements are provided to Parliament, but auditing should be able to be completed within approximately four to six weeks of agencies finalising their accounts.
- 3.20 Regarding performance information, managers should also be collecting information throughout the year. Such progressive information would enable them to recognise under-performance early in the financial year and allow the application of resources to boost performance. Therefore final performance information should also be available close to the end of the financial year.
- 3.21 Currently agency annual reports have to be tabled by 31 October. Despite Finance's reservations the Committee concludes there is room for the earlier tabling of annual reports and it is reasonable for reports to be tabled by the end of the first quarter of the following financial year, ie by 30 September.

Recommendation 2

- 3.22 **The annual reporting requirements should be amended to require agency annual reports to be tabled by 30 September.**

Other ways to provide more timely information

- 3.23 The Committee has also considered the possibility of dividing the annual report information into:
- audited financial statements—to be tabled as soon as possible after the end of the financial year; and
 - agency activity and performance information—to be tabled as soon as possible, but at a later time.

3.24 Finance responded to the suggestion in a supplementary submission:

Given the annual report is a report on performance Finance would be concerned if efforts to achieve more timely reporting resulted in the divorce of financial from non-financial reporting.¹²

3.25 The Committee considers the gains in timeliness (a matter of one or two months) would not warrant the cost in terms of money spent and administrative difficulties in publishing two documents to meet this requirement.

3.26 The Committee has also considered the possibility of the provision to Parliament, on a monthly basis, the portfolio management accounts. Responding to this suggestion, Finance commented:

At the portfolio level, departments report to Ministers on progress in formats and at frequencies that meet the needs and preferences of individual Ministers. Whether to report to Parliament at a greater frequency than at present would be a decision for Government.¹³

3.27 The Committee believes there is no need to pursue the matter further. If as implied by Finance's comment, there is variation in the detail within those reports and the frequency with which they are produced, the ability of Parliament to compare agency performance would be limited. If the reports were aggregated, the lack of detail would again make them of limited value.

3.28 The Committee has discussed the issue of the level of detail in the Budget documentation in Chapter 4.

Year by year continuity of information

Introduction

3.29 If Parliament is to effectively scrutinise executive government there is a need for continuity in the information provided throughout the budgeting cycle. This should change little from year to year to enable Parliament to continuously track expenditure over time. If this is not achieved Parliamentarians will have difficulty explaining to the public that

12 Finance, *Submission No. 21*, p. 161.

13 Finance, *Submission No. 21*, p. 160.

Commonwealth funds, that is to say taxpayer funds, have been spent appropriately.

- 3.30 The need for stable outcomes and outputs frameworks for budgetary and reporting purposes was emphasised by the SFPALC in its third report on the PBSs. The report noted 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.¹⁴

- 3.31 The Committee acknowledges that from time to time in response to government initiatives there will be changes to portfolio structures. This will result in the reallocation of responsibilities from one agency to another with consequent impact on the reporting framework. The discussion that follows concerns situations where such changes have not occurred.

Stability in the outputs and outcomes structure

- 3.32 The Committee sought views from witnesses on whether they felt year-on-year performance measures contained within Budget documents and annual reports were effective.

- 3.33 Finance's submission noted that in the initial years of a new system there could be significant variations in the numbers of outcomes and outputs as portfolio structures settle down. However, it was desirable that there be greater stability. Performance reporting was most effective when trends could be compared over time. Finance added that reporting could be expected to evolve with experience, changing needs, and the availability of more relevant or more reliable information.¹⁵

- 3.34 Finance commented during the public hearing that the experience of other jurisdictions is that it might take up to five years 'to bed these things down.'¹⁶

- 3.35 Finance told the Committee that some changes in outcomes and outputs structures were inevitable because:

... the needs of the Australian community change, and quite rapidly, and therefore the structure of organisations and the way

14 SFPALC, *The Format of the Portfolio Budget Statements Third Report*, November 2000, p. 39.

15 Finance, *Submission No. 13*, p. 108.

16 Mr Phillip Prior, Finance, *Transcript*, p. 51.

programs are put together changes to deal with them. Those [changes], I think, are legitimate.¹⁷

- 3.36 However, Finance warned that it was not legitimate to introduce changes 'to obscure otherwise embarrassing information'. The problem, Finance added, was to identify such changes.¹⁸ The Committee notes the advice provided on Finance's website that:

... changes to outputs should only be undertaken if there will be a material improvement in the specification and such improvements are not outweighed by the need for year-on-year consistency.¹⁹

- 3.37 Comments provided to the Committee by various agencies indicated that a degree of stability had been achieved in agency outcomes and outputs.²⁰ FaCS stated that it recognised the importance of maintaining stability in its outcomes and outputs structure and performance indicators. However, FaCS reinforced the following point:

... that it is important to continue to identify and make improvements to its outcomes and outputs structure and to introduce change where the benefits of improved clarity and accountability outweigh the potential disadvantage of change.²¹

- 3.38 The quality of FaCS information advising of its budgetary changes was noted by ACOSS, which stated that FaCS:

... provides better budgetary information, on the whole, than most other Federal Government Departments. Its annual budget publication 'What's New, What's Different' is a very useful budget-night summary of policy measures in the portfolio that should be emulated by others.²²

- 3.39 In its submission, the CPA Australia commented that variations to the information presented in the PBS from period-to-period can be confusing but could be partly addressed if 'maps or notes are provided to highlight the changes in outputs, outcomes and performance measures.'²³

- 3.40 Finance advised the Committee that in relation to outcomes and outputs structures, the guidelines did indicate that if there is a change in structure
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17 Mr Stephen Bartos, Finance, *Transcript*, p. 10.

18 Mr Stephen Bartos, Finance, *Transcript*, p. 10.

19 Finance, *Submission No. 13*, p. 112.

20 DETYA, *Submission No. 17*, p. 137; ABS, *Submission No. 14*, p. 122; DHAC, *Submission No. 16*, p. 133; Treasury, *Submission No. 19*, p. 151.

21 FaCS, *Submission No. 15*, p. 128.

22 ACOSS, *Submission No. 1*, p. 2.

23 CPA Australia, *Submission No. No. 5*, p. 37.

it should be clearly spelt out and indicated in the PBS. Finance added, however, that it was not a requirement but a guideline.²⁴

- 3.41 Regarding responsibility for the provision of information concerning changes to agency outcomes and outputs, Finance argued that whether there was a central responsibility or devolved responsibility was a fundamental issue. Finance concluded that responsibility lay with the agency chief executive officer (CEO):

The legislation that parliament has passed—the Financial Management and Accountability Act and the Commonwealth Authorities and Companies Act—makes it clearly the responsibility of the CEO of an agency to get those things right. Unless and until that legislation is changed, it is not something that we see a role for central control of.²⁵

- 3.42 The ANAO told the Committee that the framework information provided by Finance clearly indicated that its guidance documentation contained what Finance regarded as minimum requirements. The ANAO added that agencies needed to respond to the feedback they were getting from the Parliament and other places to refine or improve the information that was provided.²⁶

- 3.43 The ANAO also suggested that agencies including the ANAO itself, would value some indication from Parliament, particularly in the area of determining the level of disclosure, some idea of materiality and what was important for the Parliament and what was not. The ANAO fully accepted that there would always need to be changes within government programs. However, the issue was how agencies could assist Members and Senators to follow the changes through in the transitional phase. That is where specific guidance would be useful.²⁷

Conclusion

- 3.44 Consistency in reporting is crucial in order for the Parliament and the public to be able to scrutinise the budget documents fully and accurately. This is particularly important when analysing outputs which span across several years of funding.
- 3.45 The Committee considers that agencies making changes to their outcomes and outputs framework from one year to the next need to provide more

24 Mr Stephen Bartos, Finance, *Transcript*, p. 21.

25 Mr Stephen Bartos, Finance, *Transcript*, p. 10.

26 Mr Ian McPhee, ANAO, *Transcript*, p. 10.

27 Mr Ian McPhee, ANAO, *Transcript*, p. 10.

transparent and detailed information to allow the Parliament to properly monitor changes across financial years. Specifically, the Committee considers that a simple statement that there has been a change in structure is insufficient and unacceptable. Agencies need to explain what the change is and how stakeholders can compare the previous format to the current format to clearly establish a link between structures. There also needs to be an explanation of the underlying reasons for the change and the implications for the funding of agency programs.

3.46 The Committee believes the issue could be addressed by:

- Finance assisting agencies by providing more comprehensive information through identifying and publishing examples of better practice. The approach would provide centrally suggested direction rather than prescriptive central control;
- Finance providing a guidance model for best practice in relation to reporting on variations; and
- agencies reporting fully on any variations in the content and or formatting of budget documents, particularly in their PBSs.

3.47 The provision of detailed explanations about changes to agency outcomes and outputs frameworks will enhance transparency and accountability to Parliament for agency performance. However, if agencies do not embrace such identified better practice, it may be necessary to implement such practice as a requirement rather than as a guideline.

3.48 Finance should also:

- monitor whether agencies are adopting the better practice identified in the advice it provides; and
- bring to the attention of Parliament and relevant Parliamentary committee's where agencies appear not to be adopting better practice.

Historical data

3.49 The submission from ACOSS drew the Committee's attention to a problem that had arisen in the budget papers due to the implementation of the accrual-based outcomes and output framework. ACOSS found that there was a break in the historical data on outlays by function and sub-function in the 1999–2000 budget papers:

Prior to 1999, the Statistical Appendix to Statement 4: "Outlays" in Budget paper Number 1 contained tables detailing outlays by

function and sub-function over the previous 10 years, and the next 3 years. However, the 1999 Budget Paper Number 1 only provided aggregate historical data for expenses by portfolio. The situation improved somewhat in 2000. In that year the statistical appendix included data on expenses by function and sub-function for the five years commencing 1999-2000.²⁸

3.50 ACOSS concluded that the break in the series in 1999 meant that 'the Budget Papers [could] no longer be used to track long-term trends in social expenditures.'²⁹

3.51 Finance recognised that there was a break in historical series due to the change from the cash to the accrual framework, and commented that 'the department is examining the potential to overcome this.'³⁰ During the public hearing Finance provided the following comment:

Certainly, in the first year of the budget documentation, for what were good reasons at the time, we took a decision to have the primary concentration in the budget statements on portfolio rather than function. In the light of experience, in this budget we move back to having the primary discussion and presentation in Budget Statement No. 6 based on a functional basis, which does allow for greater continuity.³¹

3.52 CPA Australia pointed out that 'of key concern at most levels is the continuity between outputs from year to year.' However, CPA Australia reasoned that the initial levels of discontinuity were to be expected after a monumental shift and that there 'is going to be some trade-off between the benefit of continuity and improved specifications.'³²

Conclusion

3.53 The Committee believes it is important for all agencies to strive to achieve consistency in the information they provide to Parliament under the outcomes outputs framework, both within and between budgetary cycles. The Committee agrees with the sentiments of CPA Australia and acknowledges that there will always need to be a balance between consistency of information and change due to continuous improvement as agencies become more familiar with the framework.

28 ACOSS, *Submission No. 1*, p. 2.

29 ACOSS, *Submission No. 1*, p. 2.

30 Finance, *Submission No. 8*, p. 62.

31 Mr Stephen Bartos, Finance, *Transcript*, p. 5.

32 Mr Adam Awty, CPA Australia, *Transcript*, p. 16.

The level of detail in the Portfolio Budget Statements

Introduction

- 4.1 This chapter focuses on the level of detail provided by agencies in their PBSs. The concern of the Committee is whether the financial and performance information in the PBS is meeting the needs of the Parliament. The Committee has considered the following issues:
- the appropriate levels of disaggregation of outcomes for appropriation and performance measurement purposes;
 - the appropriate levels of disaggregation of outputs to support measurement of the efficiency by which agencies deliver outputs to achieve outcomes, including information relating to portfolio organisations and programs; and
 - the reporting of forward estimates for outputs.
- 4.2 The level of detail contained within the PBS is one of a number of issues considered previously by the SFPALC.¹ The SFPALC's second report noted among other things, that Senators wanted less aggregated financial

¹ SFPALC, *The Format of Portfolio Budget Statements, Second Report*, October 1999 and *Third Report*, November 2000.

information and forward estimates for outcomes and outputs.² The SFPALC's third report noted that reporting on agency progress towards achieving its outcomes was a weakness of the new system.³

The appropriate level of disaggregation of outcomes

Introduction

- 4.3 The Committee has considered two key issues relating to the disaggregation of agency outcome statements:
- defining the expected impacts of agency activity; and
 - articulating the purpose of the relevant appropriations under the Appropriation Acts of the Commonwealth Budget.

Defining the expected impacts of agency activity

- 4.4 For the purposes of transparency, accountability, and the measurement of performance, it is important that outcome statements:
- specify the key business objectives of the agency;
 - are clear and simple, making it easy to understand what the agency seeks to achieve; and
 - are measurable or assessable, to the maximum practical extent—this will assist stakeholders to form an opinion on the extent to which an outcome has been achieved.

Specifying key business objectives

- 4.5 It is important that agencies specify their core objectives completely and at an appropriate level of disaggregation to assist Parliament in understanding precisely the impacts Government expects from the work of the agency. Where this does not occur, reduced transparency and accountability for performance may result.
- 4.6 In evidence to the Committee, Finance indicated it had 'some sympathy for the view that some outcomes are presented at too high a level of aggregation.'⁴

2 SFPALC, *The Format of Portfolio Budget Statements, Second Report*, p. 17.

3 SFPALC, *The Format of Portfolio Budget Statements, Third Report*, p. 40.

- 4.7 The Committee noted that in some instances, agencies have only one high level outcome statement to explain their core objectives. For example, in its PBS for 2001–02, the Department of Defence (Defence) has identified the single outcome, *The defence of Australia and its national interests*.⁵
- 4.8 In addressing the issue of disaggregating outcomes to support transparency and accountability, both DETYA and DHAC told the Committee that they were providing significant levels of disaggregation in their outcomes and outputs frameworks to assist the Parliament in its decision-making processes.⁶
- 4.9 DETYA advised the Committee:
- We have provided, for the past couple of years, a disaggregation of our outcomes in appendix 4 of our PBS. It is a reasonably extensive disaggregation and it does cover the forward estimates years as well. We have done this because of our relationship with the Senate estimates committee. They were most interested in this information and were asking the question on notice. We thought it reasonable to provide the information rather than just get it as a question on notice in any case.⁷
- 4.10 The Committee notes that this practice has continued in the 2002–03 PBS for the Department of Education, Science and Training.⁸

Clarity and simplicity of information

- 4.11 Although an agency may report completely on its progress towards achieving its core objectives, if the objectives were not clearly stated in the first place, that is, within the budget context, Parliament has no basis on which to compare the agency's performance. This scenario also weakens accountability to Parliament for agency performance.
- 4.12 To support clarity, outcome statements need to be expressed in plain English.⁹ For example, the ANAO has reviewed the Australian Taxation Office (ATO) single outcome statement: *Effectively managed and shaped*

4 Mr Stephen Bartos, Finance, *Transcript*, p.26.

5 *Portfolio Budget Statements 2001–02, Defence Portfolio, Budget Related Paper Nos 1.4A and 1.4C*, p. 3. This outcome has been retained for 2002–03, *Portfolio Budget Statements 2002–03, Defence Portfolio, Budget Related Paper Nos 1.4A and 1.4C*, p. 3.

6 Mr Pat Watson, DETYA and Mr Craig Storen, DHAC, *Transcript*, p. 39.

7 Mr Pat Watson, DETYA, *Transcript*, p. 39.

8 *Portfolio Budget Statements 2002–03, Education, Science and Training Portfolio, Budget Related Paper No. 1.5*, pp. 97–9.

9 Plain English attempts to eliminate jargon and technical terms, and to simplify structure and syntax etc, to make a document or communication more understandable to the general public.

systems that support and fund services for Australians and give effect to social and economic policy through the tax system.

- 4.13 The ANAO criticised the clarity of the phrases '*effectively managed*' and '*shaped systems*' on plain English grounds. It also considered that the ATO should elaborate on the systems it was referring to in its outcome statement as this would enhance stakeholder understanding.
- 4.14 The ANAO concluded that the ATO could revise the language used in its outcome statement to more clearly and simply describe its objectives.¹⁰ The Committee notes that in its PBS for 2002–03 the ATO has defined the systems it was referring to in its outcome statement.¹¹
- 4.15 The Committee has reviewed the clarity of some performance measures. For example, at the public hearing the Committee sought clarification from FaCS on its environmental indicators for Outcome 3, *Economic and Social Participation*. The indicators were:
- Disability ratios: and
 - Relativities between income units headed by a person aged 65 years and over as a proportion of the mean gross weekly income of all income units.¹²
- 4.16 The Committee suggested that the performance indicators were written in an overly shorthand way, their meaning was unclear, as was how they related to the outcome, *Economic and Social Participation*.
- 4.17 FaCS responded:
- If you are raising an issue in terms of the description of the indicators then that suggests that some of them need to be clarified if there is some ambiguity there.¹³
- 4.18 The witness proceeded to explain the meaning of the indicators and how they related to the outcome, but conceded that they 'could be written a bit more transparently, a bit more clearly.'¹⁴
- 4.19 The Committee notes that in the FaCS PBS for 2002–03, the environmental indicators have been replaced by a detailed and comprehensive *Operating*

10 Auditor-General, Audit Report No. 46 2000–2001, *ATO Performance Reporting under the Outcomes and Outputs Framework*, p. 48.

11 *Portfolio Budget Statements 2002–03, Treasury Portfolio, Budget Related Paper No. 1.16*, p. 164.

12 *Portfolio Budget Statements 2001–02, Family and Community Services Portfolio, Budget Related Paper No. 1.8*, p. 135.

13 Mr Alexander Dolan, FaCS, *Transcript*, p. 61.

14 Mr Alexander Dolan, DFACS, *Transcript*, p. 61.

*Environment Statement.*¹⁵ The Committee considers this to be a significant improvement.

Committee comment

4.20 The Committee notes that the issue of the clarity with which outcome effectiveness measures are articulated is not unique to the examples discussed—like FaCS, other agencies could also improve their performance in this area.

Recommendation 3

4.21 **Agency outcomes statements should be written in clear simple English language to allow for greater transparency.**

Outcome measurability

4.22 The SFPALC noted that the extent to which outcomes are achieved is to be assessed through effectiveness indicators. It noted that:

Few narrative 'effectiveness indicators' proffered to date are particularly robust and many agencies have indicated that they have work to do in this area. Given that funding is now directed to outcomes, the importance of assessing progress towards outcomes is of paramount importance.¹⁶

4.23 Finance advice to agencies is that outcome performance information relates to the specific impact that an agency's outputs and administered items have had on the community. Outcomes are often long-term in nature, and performance information in this area must focus on effectiveness. There needs to be a balance between addressing progress against milestones, intermediate targets and ultimate long-term impacts.¹⁷

4.24 The Committee sought advice from witnesses on whether all agencies will have in the future a reasonably sophisticated set of reference points to show links between the expenditure of public money and progress towards achieving outcomes.

15 *Portfolio Budget Statements 2002–03, Family and Community Services Portfolio, Budget Related Paper No. 1.8*, pp. 144–7.

16 SFPALC, *The Format of the Portfolio Budget Statements Third Report*, p. 41.

17 Finance, *The Outcomes and Outputs framework Guidance Document*, p. 29.

4.25 The ANAO supported the use of intermediate outcomes. During the hearing ANAO commented that:

In our submission we certainly encourage agencies, even if they cannot measure outcomes, to try and measure intermediate outcomes. That is a concept that Finance has promoted—a very good concept—to try and say, ‘If you cannot measure the actual outcome, try and get some measures along the way to see whether you can gauge whether you are being successful or not.’^{18, 19}

4.26 In *Audit Report No. 46 2000–01*, the Auditor-General commented that specifying intermediate outcomes can:

- assist agencies to identify transition strategies towards their ultimate outcomes;
- assist management to articulate and communicate achievable short-term objectives across the organisation;
- demonstrate practical linkages between outputs and desired outcomes;
- assist agencies to report meaningfully on their achievement of outcomes in the shorter term; and
- assist planning, monitoring and performance reporting of long-term objectives.²⁰

4.27 The Committee sought information from various agencies on the issue of using intermediate outcomes.

4.28 The ABS told the Committee that they considered that the ANAO proposal of using intermediate outcomes was sound. They stated that the reporting on intermediate outcomes would not represent a major shift for them as the ABS currently reports on the progress of medium term initiatives and are reflected in the ABS Annual Report.²¹

4.29 FaCS commented that it supported the concept of intermediate outcomes and informed the Committee that it provided effectiveness performance

18 Mr Ian McPhee, ANAO, *Transcript*, p. 48.

19 Some higher level outcomes describe objectives which are only achievable in the long term and have a tenuous link to agency outputs. Intermediate outcomes can be developed which, by describing shorter term objectives, provide a link between agency outputs and this higher level outcome.

20 Auditor-General, *Audit Report No. 46, 2000–2001, ATO Performance Reporting under the Outcomes and Outputs Framework*, p. 47.

21 ABS, *Submission No. 14*, p. 124.

indicators which could for practical purposes be seen as a type of intermediate outcome.²²

- 4.30 FaCS continued to explain to the Committee that 'by definition, the term "effectiveness" is an outcome concept so that the existing performance reporting principles and guidelines already provide for intermediate outcomes.'²³
- 4.31 Treasury supported the concept of intermediate outcomes, but advised it did not currently make use of them. Its supplementary submission added that Treasury was 'continuing to consider how it can best measure progress towards achieving Treasury's longer term outcomes.'²⁴
- 4.32 The Committee asked Defence to comment on the use of intermediate outcomes as a way of measuring progress towards achieving its single long-term outcome. Defence was not receptive to the idea of intermediate outcomes. The following reason was provided to the Committee:

The Government has provided Defence with a single outcome: the defence of Australia and its national interests. The achievement of this outcome is ongoing, without any intermediate steps.²⁵

Conclusion

- 4.33 The Committee considers that some agency outcome statements are too highly aggregated to describe agency objectives in a meaningful way and assist Parliament in assessing proposed resource allocation and agency performance. This is particularly the case with large agencies that have single outcome statements.
- 4.34 Regarding Defence's single outcome, the Committee considers it is possible for Defence to identify intermediate outcomes that would indicate its progress towards achieving its existing single outcome.

22 FaCS, *Submission No. 15*, p. 130.

23 FaCS, *Submission No. 15*, p. 130.

24 Treasury, *Submission No. 19*, p. 152.

25 Defence, *Submission No. 18*, p. 147.

Recommendation 4

4.35 Agency outcome statements should:

- completely and clearly define their key objectives to reflect the impacts Government expects from their work;
- completely and clearly define the impacts Government expects from agency administered items; and
- accurately articulate the purpose of the relevant appropriations under the Appropriation Acts of the Commonwealth Budget.

Recommendation 5

4.36 Agencies with a single broad ranging outcome, or with a small number of highly aggregated outcomes, should identify intermediate outcomes to indicate the shorter term objectives on the path to achieving their higher level outcomes.

Appropriate level of output disaggregation

Introduction

4.37 It is important that agencies appropriately disaggregate their outputs to support transparency and accountability relating to the efficiency with which they deliver their outputs to achieve outcomes.

4.38 Finance notes that it is important that agencies:

- ‘develop their outputs and output groups with considerable care, especially consulting with major stakeholders, such as client groups, related agencies, the relevant Senate Legislation Committee and Finance’; and
- provide sufficient detail to not only identify what government is paying for but to be measurable in a meaningful way in terms of price, quantity and quality. In particular, outputs need to be ‘amenable to comparison

between actual or potential suppliers (especially through price analysis).'²⁶

Disaggregating outputs to reflect agency organisations and programs

4.39 The Committee has considered the level of output disaggregation and how this affects information about organisational structure and the ability to track the expenditure on particular programs.

Information about the organisation structure

4.40 The Committee noted that in some cases it was no longer possible to identify specific outlays or the total budget for some discrete organisations in an agency PBS. For example, information in the PBS for the Department of Agriculture, Fisheries and Forestry Australia (AFFA), does not provide specific information about the Australian Quarantine and Inspection Service.²⁷ Also in its recent review of the Coastwatch organisation the Committee concluded it was difficult to determine the true costs of Coastwatch before final figures were provided in the Customs Annual Report.²⁸

4.41 The Committee considers that high levels of aggregation in some agency outputs is a major problem making it difficult for the Parliament and the community to track the level of funding of particular organisations and what they are doing with those funds.

4.42 Finance advice to agencies relating to specifying outputs includes among other things, that outputs need to be 'specified so that the agency's organisational structure and management systems can be mapped to its outputs (in practice this may be achieved over time).'²⁹

4.43 Further, Finance has noted that:

Across the Commonwealth, there is considerable variation in the level of specificity on outputs. In 2000-2001, the number of outputs per agency ranges from one to 58, with an average of about seven. This is not of itself a concern, although it may raise questions as to

26 Finance, *The Outcomes and Outputs Framework Guidance Document*, pp. 19-20.

27 *Portfolio Budget Statements Agriculture, Fisheries and Forestry Portfolio, Budget Related Paper No. 1.1*, p. 63.

28 JCPAA, *Report 384, Review of Coastwatch*, Canberra 2001, p. 39. The Committee notes that its criticism has not been addressed in the Customs PBS for 2002-03.

29 Finance, *The Outcomes and Outputs Framework Guidance Document*, p. 20.

the scope for genuine comparisons of performance between outputs and agencies.³⁰

4.44 For example, the number of outputs specified by Defence in its accrual based outcomes and outputs framework has fluctuated from twenty two outputs in 1999-2000 to five outputs in 2000-2001 and six outputs in 2001-2002.^{31,32}

4.45 In explaining the variation in the number of Defence's outputs Defence drew attention to the alignment of its current outputs to its organisation structure:

Indeed, the organisational chart in the minister's PBS, at page 13, indicates a structure for the organisation that reflects accountability to the secretary and the CDF in discharging their responsibility to deliver to the government outputs. There are six output executives who are largely responsible for the internal delivery of services and products that allow the organisation to deliver the external products. The remainder of the executives, whom we style as 'owner support', assist the secretary and the CDF with the governance of the organisation, and there are 'enabling executives' who are essentially internal providers to other executives.³³

4.46 Agency advice from Finance suggests one way forward may be for agencies to use output groups:

About half the agencies that published outputs in the Portfolio Budget Statements for the 1999-2000 used output groups in one form or another. While agencies are still required to report at the output level, grouping outputs can allow aggregated reporting at a business or program level.

Output groups tend to reflect the more business-specific aspects of an agency's operations, while outputs within output groups tend to be more generic in nature.³⁴

30 Finance, *The Outcomes and Outputs Framework Guidance Document*, p. 22.

31 *Transcript*, p. 12.

32 In 2002-03, Defence retained its 6 outputs. *Portfolio Budget Statements, Defence Portfolio, Budget Related Paper No. 1.4A and 1.4C*, p. 27.

33 Mr Greg Harper, Defence, *Transcript*, p. 12.

34 Finance, *The Outcomes and Outputs Framework Guidance Document*, pp. 20-1.

Committee comment

- 4.47 The Committee considers that although the Defence outputs may reflect its organisation at the highest level, the outputs are too highly aggregated and could be further disaggregated to provide more transparency and accountability to Parliament by enabling specific items and expenditure to be traced. Despite this focus on Defence, the Committee is aware that this problem is not confined to that agency.
- 4.48 Where agencies have highly aggregated outputs, the Committee suggests that a possible solution to enhance transparency and accountability, is for agencies to use existing outputs as output groups and then disaggregate these groups to lower level outputs in their framework. This approach would allow for a degree of continuity in the provision of Budget and actual financial and performance information while improving transparency and accountability for performance.

Expenditure on particular programs

- 4.49 The Committee is aware that criticisms of the accrual based outcomes and outputs framework documentation include the complaint that observers are unable to track the expenditure on particular programs.
- 4.50 The Committee is concerned that there has actually been a regression in the level of detail relating to programs provided in the Budget papers, and the PBS. This has led to a situation where it becomes impossible to determine what is actually happening with respect to a particular function or program. This had been possible under the previous arrangements.
- 4.51 The Committee sought advice from witnesses on whether it would be possible for agencies to report program level information under the accrual based outcomes and outputs framework.
- 4.52 Finance advised the Committee that the ability of agencies to report program level information would be dependent on the way in which agencies were structuring their operations and their financial management.³⁵
- 4.53 Treasury, observed that the answer may be:
- ... in the way in which outputs are specified by departments and agencies. Effectively, the task would be to align the output specification with the material at the level of detail you were wishing to report. So the answer may be that there is quite a bit of

35 Mr Brett Kaufmann, Finance, *Transcript*, p. 36.

work that needs to be done to ensure that the output specifications are meeting the reporting requirements that the government might have. I suspect also that it may take some time for departments and agencies to be able to cope out on the ground with respecifying their outputs, if the government wanted to change the output structure in some way.³⁶

4.54 In addition to the possibility of aligning the outputs or outcomes with programs, Finance advised the Committee that another way agencies could report information on programs would be through a hierarchy using outcome, output, and program.³⁷

4.55 The ANAO observed that the Department of Transport and Regional Services PBS disaggregated the agency's output groups:

They have a number of output groups and then they slice the salami fairly thinly, with more detail at individual levels of services, which I think is really getting to the issue that you are raising. So there is some good experience around. Not everyone does it. As I think Finance and Treasury are saying, it relies on agencies disaggregating information in their own systems to be able to systematically produce this information, but it is fundamentally achievable.³⁸

4.56 The Committee suggested to witnesses that it was the sophistication of agency costing systems which determined their ability to provide more disaggregated information. The ANAO responded:

I think it does go to that issue. It is the level of sophistication agencies have in their current costing arrangements. ... Our audit work is showing that agencies are certainly getting a handle on their management information systems. ... [It] is much more achievable now than it was a couple of years ago.³⁹

Conclusion

4.57 The level of disaggregation of agency departmental outputs provided in PBS and annual reports varies widely. It is the degree of sophistication of agency costing systems which appears to determine their ability to provide disaggregated information relating to their outputs.

36 Dr Paul Grimes, Treasury, *Transcript*, p. 37.

37 Mr Phillip Prior, Finance, *Transcript*, p. 37.

38 Mr Ian McPhee, ANAO, *Transcript*, p. 37.

39 ANAO, *Transcript*, p. 40.

- 4.58 The Committee recognises that there is a cost associated with agencies establishing and maintaining disaggregated data in their costing systems. However, the Committee considers that there would be considerable benefit in agencies providing more disaggregated output information to support transparency and accountability for performance. The Committee considers the challenge for agencies is to:
- more clearly determine the information needs of the Parliament and other stakeholders;
 - design their outcomes and outputs frameworks to provide the requisite information; and
 - develop costing systems that will capture and report the requisite information in a cost-effective manner.
- 4.59 **The Committee therefore strongly encourages Finance, in consultation with relevant Parliamentary Committees, to identify and make available to the Parliament, agencies, and the public, examples of better practice where agencies have specified outcomes and outputs frameworks that support the provision of appropriately disaggregated information in a cost-effective manner to meet the scrutiny needs of Parliament.**

Reporting of forward estimates for outputs

Estimated forward financial information

- 4.60 Currently, agency PBSs include budgeted financial statements in accrual format covering the budget year, the previous year and the three subsequent financial years (forward estimates) for agencies. In relation to the level of detail provided as forward estimates in the PBS, the ANAO observed:

... when you look at the forecast financial statements you get the estimated actual for the current year, you get the budget estimates and you get three forward years. So you get quite a lot of information in the financial statements. When you go to the resourcing for the outcomes by the various output groups you get the estimated actual for the current year and you just get one budget estimate figure, without any forward positions. And when you go to the performance information, you tend to just get the

information for the budget year. So within the papers provided by agencies there is quite a variation in the information provided.⁴⁰

4.61 In its reviews of the format of the PBS, the SFPALC has twice recommended that the PBS include forward estimates for outcomes and outputs.⁴¹ The Government has not agreed with the recommendation.

4.62 During its review in 2000, the SFPALC discovered that forward estimates information at output level was held within Finance, but was withheld from the PBS because the focus of the PBS was the current Budget year. In making its recommendation the SFPALC commented:

In approving the Appropriation Bills, Senators have to satisfy themselves that previous expenditure has been wise. Were detailed forward estimates available in the PBS, they might disclose that, in two years' time, a given output required a huge injection of money, one explanation for which might be wastage or inefficiency in the past. At the very least, the proposed changing expenditure pattern would be worthy of examination.⁴²

4.63 The SFPALC also noted that DETYA in fact included forward estimates as an appendix to its PBS.⁴³

4.64 The Committee has raised the issue with Finance which responded in a supplementary submission:

... the purpose of the PBSs is to explain the annual Appropriation Bills before the Parliament. As such, forward estimates information by output and for each administered item (or by programme prior to the introduction of outcome-output budgeting) has never previously been included in the PBS, nor in the Explanatory Notes.

The PBS Guidelines represent minimum requirements for the document, across all portfolios. The guidelines do not prevent agencies responding to the particular information needs of individual committees in estimates or other contexts.⁴⁴

40 ANAO, *Transcript*, p. 48.

41 SFPALC, *The Format of the Portfolio Budget Statements, Second Report*, October 1999, p 50; *The Format of the Portfolio Budget Statements, Third Report*, November 2000, p. 40.

42 SFPALC, *The Format of the Portfolio Budget Statements, Third Report*, pp. 16–17.

43 SFPALC, *The Format of the Portfolio Budget Statements, Third Report*, p. 17.

44 Finance, *Submission No. 13*, p. 114.

Estimated forward performance information

4.65 The ANAO suggested that given that annual reports are not provided until some time after the Parliament has considered the budget estimates for the following year, there may be benefit in agencies providing in their PBS, as a minimum, an estimated outcome in terms of some of the performance information. The ANAO told the Committee:

There is then a second question about whether the forward performance information should be provided as well as the forward estimates, ... The question really is: is there enough information ... for members to get a grip on trends and get a handle on program performance over time? I think one answer would be that it is pretty difficult to understand how the program is performing today and also how it is expected to perform in the longer term. ... we certainly encourage agencies, even if they cannot measure outcomes, to try and measure intermediate outcomes.⁴⁵

4.66 Finance's response to this suggestion, provided in its supplementary submission, was that while quantifiable performance information such as specific benchmarks, targets or activity levels would be appropriate for the Budget year, 'in line with the Government's position on forward financial information, the publication of quantified performance information for the forward years would not be appropriate in the PBS.'⁴⁶

4.67 However earlier in its submission Finance noted that the 'guidelines do not prevent agencies responding to the particular information needs of individual committees in estimates or other contexts.'⁴⁷

4.68 The Committee asked agencies to discuss the merits and feasibility of providing forward performance information in their PBSs.

4.69 The Department of Family and Community Services (FaCS) told the Committee that it would be technically possible to provide future performance information in the PBS. However, they questioned the utility of providing forward estimates for each performance indicator given the additional efforts required to produce the estimates.⁴⁸

45 Mr McPhee, ANAO, *Transcript*, p. 48.

46 Finance, *Submission No. 13*, p. 114

47 Finance, *Submission No. 13*, p. 114.

48 FaCS, *Submission No. 15*, p. 129.

4.70 Defence stated that the provision of forward non financial performance information was a complex and sensitive task. However Defence was establishing a planning framework and:

... will work to a rolling corporate plan that will bring together strategic investment priorities, operational requirements, corporate business strategies, and proposed funding arrangements with appropriate performance and accountability measures. This will put Defence in a position to provide forward non-financial performance information ...⁴⁹

Conclusion

4.71 The Committee notes that in the past under the cash accounting system, it was possible to identify proposed government expenditure with respect to particular agencies and programs and therefore engage in debate about whether that was adequate. It was also possible to identify from year to year what projected changes to those forward estimates governments had made, and engage in debate about their significance.

4.72 Regarding the new accrual Budget framework, the delivery of outputs is designed to lead to the achievement of longer term outcomes. Therefore the provision of forward estimates of financial and performance information in agency PBS for outcomes and outputs would assist Parliament to better understand and track:

- agency progress towards achieving those outcomes; and
- the appropriateness of agency resourcing strategies to achieve their outcomes.

4.73 The Committee notes the evidence provided by Finance to the SFPALC that forward estimates information is available and the fact that DETYA has provided such information as an appendix to its PBS. The Committee recognises that agency costing systems may find the provision of accurate forward information a challenge, but considers it is a goal worth striving for.

4.74 In an accrual environment managers should be aware of medium and longer term performance goals, because they will want to monitor movement towards achieving those goals and be in position to apply additional resources if warranted. Releasing such information to the Parliament will provide reassurance that agencies are concentrating on

49 Defence, *Submission No. 18*, p. 146.

their outcomes and provide an incentive to managers to maintain that focus.

- 4.75 The Committee therefore concludes there would be benefit in agencies providing forward estimates of financial and performance information by outcomes and outputs in agency PBSs to support transparency and accountability and assist Parliament in identifying trends over time.**
- 4.76 The Committee has considered the alternative way in which forward estimates information might be published—as an appendix to agency annual reports. (The Committee notes that guidelines for annual reports have to be approved by the Committee before they can take effect.) However, at this point of time, the Committee considers forward estimates, as essentially forecasting information, would sit better in an *ex-ante* document such as the PBS rather than in the *ex-post* annual report.

Performance information

Introduction

- 5.1 As stated by Finance, the development of a practical and informative performance information framework is an integral element of the new outcomes and outputs budget framework as it enables the understanding and monitoring of agency outcomes and outputs.¹
- 5.2 The Finance submission commented that 'performance information, promised and then reported, is important to the cohesion of accountability documentation, as well as for the internal management of agencies.'²

Performance indicators

- 5.3 Finance's *Outcomes and Outputs Framework Guidance Document* states that the performance indicators should reflect:
- the effectiveness of contributions to outcomes;
 - the price, quality and quantity of outputs; and
 - the desired characteristics of relevant administered items.³

1 Finance web site: http://www.dofa.gov.au/budget_group/

2 Finance, *Submission No. 8*, p. 54.

3 Finance, *The Outcomes and Outputs Framework Guidance Document*, November 2000, p. 8.

- 5.4 Finance subsequently advised the Committee that agencies were 'investing considerable effort to identify robust performance management techniques under the framework, including continuous improvement of performance indicators for their outcomes.'⁴
- 5.5 That there has been progress is evidenced by the comment from CPA Australia that there was 'a greater understanding by government and the broader community of what is actually being purchased by government and what are the minimum specifications that the purchaser should expect upon delivery of the output.'⁵ However at the hearing CPA Australia witnesses commented that there was still room for improvement, especially in year by year consistency. The witness added that as agencies became more familiar with what they were delivering, their performance measures would improve.⁶
- 5.6 Nevertheless, progress has been patchy. The ACOSS submission was critical of the way performance information on social expenditure was presented. ACOSS suggested that the presentation of information on social expenditures in the Budget Papers had not been implemented in a meaningful way. It stated:
- If governments are really committed to the effective measurement of the outcomes of social programs, then they must be prepared to devote more substantial resources to social research and community consultation in order to:
- identify the need, or potential demand, for social programs (for example, the extent of unmet need for Intensive Employment Assistance through the Job Network);
 - establish clear, objective targets or benchmarks against which to measure performance (for example, benchmarks for the adequacy of social security payments);
 - regularly assess program outcomes against those benchmarks.⁷
- 5.7 The Committee was also concerned about the lack of reporting on performance measurements and during the hearing raised with DHAC witnesses a problem it had identified with the department's PBS. In this document there were several performance indicators, (for example one which referred to the 'reduction in incidence, prevalence and mortality

4 Finance, *Submission No. 8*, p. 56.

5 CPA Australia, *Beyond Bean Counting 2000*, p. 3.

6 Mr Adam Awty, CPA Australia, *Transcript*, p. 62.

7 ACOSS, *Submission No. 1*, p. 3.

rates of diseases or conditions addressed in national programs') which did not provide target levels.⁸

5.8 The DHAC witness responded:

I would be nervous about putting in, say, the current level of incidence or prevalence of a disease and then putting in a target for one year. It is more of a trend issue. ... I suppose it is a question of judgment as to how much you would want to be able to say, 'It is 79 per cent this year, and we think it will reduce to 77.6 per cent in the following year.'⁹

5.9 The Committee also notes a lack of performance indicator targets in the AFFA 2002–03 PBS for Output 6, Quarantine and Export Services. In this instance the performance indicators for the delivery of effective quarantine services is measured by:

- Intervention levels at the border (%)
- Border interception effectiveness (%).
- The level of awareness of AQIS quarantine services.¹⁰

5.10 The Committee notes that neither activity levels nor target rates are provided. Consequently, no precise assessment of performance is possible when figures are provided in the agency's annual report.

5.11 The ANAO has recently reviewed the performance information in the PBSs for a sample of 10 agencies. It concluded that:

A common limitation in the performance information ... related to effectiveness indicators which did not actually measure outcome performance. In particular, outcome effectiveness indicators were often influenced by factors beyond the agencies' control ...

... the PBS performance information did not always include targets, or the targets that were provided were often vague and/or ambiguous.'¹¹

8 *Portfolio Budget Statements 2001–02, Health and Aged Care Portfolio, Budget Related Paper No. 1.11, pp. 57–8.*

9 Dr Robert Wooding, *Transcript*, pp. 62–3.

10 *Portfolio Budget Statements 2002–03, Agriculture, Fisheries and Forestry Portfolio, Budget Related Paper No. 1.1, p. 65.*

11 Auditor-General, *Audit Report No. 18, 2001–2002, Performance Information in Portfolio Budget Statements*, p. 14.

Committee comment

- 5.12 The Committee is of the firm view that if agencies provide administrative performance indicators in their PBS, they should provide target information against which performance can be assessed.
- 5.13 The effectiveness indicators should be within the agency's control and the targets that are set should be reasonable. Agencies falling short of their targets have not necessarily failed—for example, circumstances beyond agency control may have changed, or the target may subsequently have been found to have been unreasonable. The annual report provides ample opportunity for agencies to discuss their performance against their performance targets and why they have experienced variations. Indeed, excessive over achievement in some areas could be regarded as an indicator of poor management, because it could result from a disproportionate use of resources in one area to the neglect of other areas.

Recommendation 6

- 5.14 **Agency performance measures identified in the portfolio budget statements must always be accompanied by a comparative standard. Agencies should report their performance against this comparative standard in their annual reports, with a discussion if actual performance significantly varies from that expected.**

Performance measurement and reporting

- 5.15 Measurement and reporting are intimately linked. Agencies might have well defined performance indicators with achievable targets, but if they are unable to measure progress against those parameters they will not be able to report on their performance in a meaningful way.
- 5.16 The point was conceded by ACOSS when it commented that it was:
- ... genuinely difficult to measure the outcomes of many social programs, since they usually have a range of objectives that may conflict (for example, social security payments should be adequate without undermining work incentives). In addition, the programs are usually only one factor among many that influence the desired

outcomes (for example, child care is only one factor affecting female labour force participation).¹²

- 5.17 The challenge, therefore, that all agencies face is to be able to successfully quantify, measure and report on outputs. Finance reported to the Committee that ‘performance reporting relating to departmental outputs is of a good overall standard, and improvements are evident in outcomes and administered items reporting.’ Finance also referred to favourable comments made by the Institute of Public Administration Australia (IPAA) about the quality of agency annual reports. IPAA commented that there had been a ‘quantum leap’ in performance reporting in the 1999–2000 annual reports compared to the previous year.¹³
- 5.18 Finance identified the annual reports of the Department of Immigration and Multicultural Affairs (DIMA) and itself as good practice examples of agency reporting on performance indicators and targets for outcomes and outputs. Finance commented that DIMA’s PBS had identified performance indicators and targets and reproduced the same material in its annual report, but with an additional results column.¹⁴
- 5.19 Finance noted that performance reporting was most effective where trends could be compared over time. It added that reporting could be expected to evolve with experience, and the availability of more relevant or more reliable information.¹⁵
- 5.20 On the other side of the spectrum, the ANAO has been critical of the reporting of performance information by the Australian Taxation Office (ATO). Deficiencies identified by the ANAO included:
- some performance indicators were reported in graphs, which were ambiguous in that it was not clear what the data was representing, and many had only minimal explanatory commentary;
 - the performance measure in the PBS was listed at the beginning of a section on each output, but ‘in numerous instances there was no further mention or report on performance against that measure’; and
 - reports on performance against output measures were included in other parts of the annual report, but with no cross-reference to the chapter on performance.¹⁶

12 ACOSS, *Submission No. 1*, p. 3.

13 Finance, *Submission No. 8*, p. 56.

14 Finance, *Submission No. 8*, p. 55.

15 Finance, *Submission No. 13*, p. 108.

16 Auditor-General, *Audit Report No. 46, 2000–2001, ATO Performance Reporting under the Outcomes and Outputs Framework*, p. 81.

5.21 One of the limitations to performance measurement appears to be the systems and procedures in agencies. The ANAO commented:

... not all agencies have implemented systems and processes necessary to cost accurately and measure the delivery of all outputs. It can be difficult to define precisely what outputs have been delivered and at what cost or price. ... the current ANAO audit of performance information within agencies has indicated widely ranging practice with some agencies collecting performance information only on an annual basis and conducting little quality control over that information, instead of relying on the operational areas to provide accurate data. Conversely, better practice organisations are utilising techniques such as monthly updates of intranet based records for collecting and monitoring performance information, and for executive reporting.¹⁷

Committee comment

5.22 The Committee believes the scrutiny by Parliamentary committees, the ANAO, and others, such as IPAA's annual assessment of agency annual reports, will serve to encourage agencies to improve their performance reporting. The pace of improvement will be influenced by the systems introduced by agencies to capture the necessary information, and the willingness of agencies to adopt better performance management practices.

5.23 In providing costing information in their reports, it is important that agencies provide accurate information. Agency financial management systems must be able to capture relevant and accurate information. Moreover, agency employees must be in a position to be able to provide accurate information, if meaningful information is to be generated by those systems. Inaccurate costing data may be worse than no data at all, because it can lead to misinformed decisions which can compound the original error.

5.24 The Committee recalls its comment made in Chapter 3 that Finance should monitor whether agencies are adopting the better practice identified in the advice it provides, and bring to Parliament's attention where agencies appear not to be adopting better practice. The Committee acknowledges the contribution in this regard of the performance audits of agency performance reporting conducted by the ANAO.

17 ANAO, *Submission No. 7*, p. 51.

Guidance provided to agencies

- 5.25 Finance advised the Committee that it ‘comprehensively revised its website advice on outcomes and outputs in November 2000, and continues to identify better practice in performance reporting.’¹⁸ It added that this information was continuously updated.¹⁹
- 5.26 Finance also advised the Committee that its Minister had consulted his colleagues on an updated *Performance Management Principles* which ‘aimed to identify the main features of good practice in performance reporting and management.’²⁰
- 5.27 The ANAO has conducted several performance audits on APS agencies to assess performance information in the 2000–2001 PBSs and annual reports for 1999–2000.
- 5.28 During one of the audits in the series—on the ATO’s reporting of its performance, the ANAO developed a number of principles for better practice in specifying outputs, performance measures; and measuring, assessing and reporting performance.²¹ The ANAO recommended the publishing of clear performance targets in the PBS,²² and recommended the following to improve clarity and accuracy of performance measurement:
- the development of a data dictionary of the terminology used in the outcomes and outputs framework;
 - the promulgation of agency-wide measurement methodologies and counting rules; and
 - ensuring appropriate audit trails are maintained of progress against outputs.²³
- 5.29 The Committee sought a comment from Finance in relation to this guidance provided by the ANAO. Finance responded by referring to the guidance it presented on its web site and added that the areas were ‘best addressed by CEOs in a manner appropriate to the operations of their agencies.’ There were, Finance continued, ‘a range of private sector

18 Finance, *Submission No. 8*, p. 56.

19 Finance, *Submission No. 13*, p. 116.

20 Finance, *Submission No. 8*, p. 56.

21 Auditor-General, *Audit Report No. 46, 2000–2001*, p. 63.

22 Auditor-General, *Audit Report No. 46, 2000–2001*, Recommendation 7, p. 70.

23 Auditor-General, *Audit Report No. 46, 2000–2001*, Recommendation 8, p. 72.

advisers offering performance management and audit services, and these issues are aired at conferences.’²⁴

- 5.30 Finance also commented that its PBS guidelines included a dictionary of terms which was reproduced in all PBSs, and its other website guidance together with that provided or foreshadowed by the ANAO, was ‘considered an appropriate level of central guidance in the Commonwealth’s devolved environment.’²⁵
- 5.31 The ANAO has concluded its series of audits of performance information provided by agencies by releasing its *Better Practice Guide: Performance Information in Portfolio Budget Statements*. The guide also contains advice concerning performance assessment and reporting. The Committee commends this guide to agencies.

Committee comment

- 5.32 The Committee is satisfied that Finance and the ANAO are providing the appropriate level of guidance to agencies. However, the corollary of providing such guidance is the need to determine whether the guidance is adopted or has some other positive outcome. Consequently, it is incumbent on Finance and the ANAO to seek feedback from agencies on the usefulness or otherwise of the guidance that is provided. One practical form of feedback is whether agency performance in the area has improved.
- 5.33 Therefore, the Committee considers Finance and the ANAO should monitor the improvements shown by agencies in areas related to the outputs and outcomes framework. Indeed, changes in agency performance in this area could be considered as performance measures for the quality of the guidance provided.²⁶ As such, these performance measures should have associated targets, and progress towards the achievements of those targets should be discussed in the Finance and ANAO annual reports.
- 5.34 The Committee acknowledges that the ANAO through its performance audits is in part giving effect to the Committee’s suggestion.

24 Finance, *Submission No. 13*, p. 116.

25 Finance, *Submission No. 13*, p. 116.

26 While Finance’s PBS for 2002–03 notes that its Outcome 1 evaluations include its Budget Group seeking feedback from a range of stakeholders on its budget processes and advice, there are no associated performance measures with targets. *Portfolio Budget Statements 2002–03, Finance and Administration Portfolio, Budget Related Paper No. 1.9*, pp. 31–2.

Recommendation 7

- 5.35 **The Department of Finance and Administration and the Australian National Audit Office should develop performance measures for the advice they provide to agencies. Performance targets should accompany those measures.**

The balanced scorecard model

- 5.36 Emphasis is now being placed on the measurement of outputs through mechanisms such as the balanced business scorecard. These mechanisms are being adopted to give management a better way of identifying achievements against 'targets' and to create real linkages to the planning cycle.

- 5.37 The balanced scorecard concept was developed by Professor Robert Kaplan of the Harvard Business School. In his book on the topic, Professor Kaplan states:

The objectives and the measures for the Balanced Scorecard are more than just a somewhat ad hoc collection of financial and non financial performance measures: they are derived from a top-down process driven by the mission and strategy of the [organisation].²⁷

- 5.38 The Management Advisory Board (MAB), in its publication, *Beyond Bean Counting*, made the further comment:

The balanced scorecard also serves to focus management attention on a smaller number of truly critical performance indicators, getting away from measuring everything, to deciding what are the key measures for the particular organisation, perhaps including more of the 'soft' qualitative indicators, abandoning some and altering the frequency of others.²⁸

- 5.39 The MAB also commented that the balanced scorecard was 'a valuable tool for organisations in both the public and private sectors that wish to

27 R S Kaplan and D P Norlan, *Translating Strategy into Action—The Balanced Scorecard*, Harvard Business School Press, 1996, pp. 9–10.

28 Management Advisory Board, *Beyond Bean Counting—Effective Financial Management in the APS—1998 & Beyond*, Management Advisory Board, 1997, p. 51.

drive a process of strategic change', and it had 'a number of potential benefits for [Australian Public Service] departments and agencies.'²⁹

- 5.40 In its report of its review of Coastwatch operations, the Committee discussed the usefulness of the balanced scorecard approach to performance indicator setting, performance measurement, and performance reporting.³⁰
- 5.41 The Committee developed a possible mission statement for Coastwatch which is the starting point for a scorecard. The scorecard approach would use the mission statement to identify the performance information which would be collected. Each category of performance information would have a performance target and achievement against this target would attract a numerical score. These would be weighted and be added to provide a total score. The actual weighting to be used would be determined through discussions between the agency and its Minister.
- 5.42 The Committee considered the value of a balanced scorecard approach is that the agency focuses on the full range of its activities and also has to decide the relative importance of those activities. This leads to a recognition that to achieve overall improvement, effort may be better spent on activities which have a greater weighting. The weightings will in large part be determined by the expectations of Government and the public and as these change, the weighting given to particular activities can be adjusted and if necessary effort redirected.
- 5.43 The Committee believes the information collected for a balanced scorecard would form the basis of information included in the PBS and PAES and reported against in the annual report.
- 5.44 In its review of Coastwatch the Committee emphasised that in adopting such an approach it would be important to keep the performance measures unchanged for a number of years so that trend information can be obtained.

29 Management Advisory Board, *Beyond Bean Counting—Effective Financial Management in the APS—1998 & Beyond*, Management Advisory Board, 1997, p. 54.

30 JCPAA: *Report 384, Review of Coastwatch*, Canberra 2001, pp. 20–1, 31–3.

Conclusion

- 5.45 It is the Committee's view that agencies still have some way to go in improving performance information. The Committee encourages Finance and the ANAO to publish better practice guides in relation to measuring, assessing and reporting agency performance.

Accounting issues

Introduction

6.1 This chapter discusses accounting issues relating to the suitability, operation and reporting of the accrual based outcomes and outputs framework in the public sector. In particular, the Committee has considered:

- the appropriateness of accounting standards for the public sector;
- accrual-based appropriations and cash management;
- the appropriation process;
- the use of 'price' in the resource management framework;
- the implementation of the Capital User Charge (CUC);
- the explanation of operating surpluses; and
- the reporting of the Final Budget Outcome (FBO).

Use of accrual accounting in the public sector

6.2 In general, witnesses appearing before the Committee endorsed the Commonwealth's adoption of the accrual based outcomes and outputs

framework. CPA Australia commented that overall ‘the CPA’s position is very positive towards the accrual shift at the Commonwealth level.’¹

- 6.3 Emeritus Professor Allan Barton, appearing in a private capacity, noted advantages including the provision of relevant information for the control of resources and costs of departments and programs, and for the management of government assets and liabilities.²

Appropriateness of accounting standards for the public sector

- 6.4 Professor Barton argued that the accrual accounting system used by business needed significant modification before being used by the public sector. This was because of a fundamental difference in the nature of the two sectors:

The accrual accounting systems used by business are designed to suit the specific market environment of business operations which are profit seeking, self-funding and very much concerned with solvency, et cetera. Businesses sell goods with several technical characteristics; that is, the goods are rival and excludable ... Public goods are non-rival and non-excludable. The typical examples of public goods are defence, law and order—and good government, ... public broadcasting and so on.³

- 6.5 Professor Barton added there were also problems in accounting for cultural and heritage assets, and he concluded:

The present business accounting standards do not readily cover these types of situations because they were never intended for application to them, so we need accrual accounting—but it has to be modified.⁴

- 6.6 The ANAO responded by stating:

... I can say with some authority that the accounting bodies did seek to take into account the differences between the public sector and the private sector, so we have a specific series of accounting standards dealing with public sector matters: we have standards on local government reporting, departmental reporting and whole of government reporting, which do seek to address the public sector. That said, I think people would probably accept that it is

1 Mr Adam Awty, CPA Australia, *Transcript*, p. 16.

2 Emeritus Professor Allan Barton, *Transcript*, p. 13.

3 Emeritus Professor Allan Barton, *Transcript*, p. 13.

4 Emeritus Professor Allan Barton, *Transcript*, p. 14.

probably time that the Australian Accounting Standards Board has another look at that particular series of standards. Recent discussions I had with the chairman of that board suggest that they are likely to look at that downstream.⁵

- 6.7 The Committee notes the ANAO's comment that the Australian Accounting Standards Board was likely to be revisiting the issue in the future, and considers such a move would be timely.

Accrual-based appropriations and cash management

Accrual based appropriations

- 6.8 In 1996, the newly elected Government established the National Commission of Audit to investigate and report on the financial position of the Commonwealth Government. The Commission considered two options for appropriations:

- Option 1, appropriating accrual based amounts; and
- Option 2, appropriating only the cash amount required based on the cash flow budget.⁶

- 6.9 While the Commission favoured Option 2, in the event the Government decided to adopt the other option. However, Mr Anthony Harris, appearing in a private capacity, considered appropriations should be on a cash needs basis. He told the Committee:

... it is probably better that the appropriations be cash based, which can be deduced from the accrual accounts, rather than paying for expenses that are not going to require any expenditure in the year ahead, for example. The department will have very considerable expenses that will be accrual based not cash based, but you are funding them as if they were cash based, as I understand it, in the current year.⁷

- 6.10 The ANAO took a contrary view:

I am sure that that would have been one of the models that Finance contemplated at the time. But, like many things in life, there is always a downside to every model that you choose. One of the downsides of that model is that you would not necessarily

5 Mr Ian McPhee, ANAO, *Transcript*, p. 18.

6 National Commission of Audit, *Report to the Commonwealth Government*, AGPS, Canberra 1996, pp. 235-6.

7 Mr Anthony Harris, *Transcript*, p. 15.

have the read-through. Also, you do not necessarily signal to public sector managers that they have to take into account the full resource costs of decisions. I suspect that, if you went from an accrual based budget to cash appropriations, the whole system would still drive off cash, because that was a clear control point.⁸

Cash management

6.11 Prior to the introduction of the accrual-based framework, financial resources were managed on a cash accounting basis. The introduction of full accrual accounting has not diminished the need to effectively manage cash within the budget context. As Professor Barton explained:

... because of the nature of the role of government, cash budgeting and cash accounting are still absolutely vital to its information needs—and there is no problem in theory and in practice about running cash accounting budgets and reports alongside full accrual accounting reports. Cash accounting is merely a subset of full accrual accounting.⁹

6.12 He added that he believed, however, that when accrual accounting was adopted the decision to drop the cash accounting statements was a basic mistake.¹⁰

6.13 Finance responded to Professor Barton's comment:

I should reassure the committee that we have a very good handle on cash. We know the Commonwealth's total cash balance and the cash balance for each agency. I am told that within a few minutes after midnight ... all of that information is available.¹¹

6.14 However, Finance did agree with Professor Barton on the issue of managing agencies' cash positions:

I agree entirely with Professor Barton that you cannot manage unless you have a good handle on both what your cash position is and what your likely cash requirements are going to be.¹²

6.15 Treasury supported the comments from Finance:

There is a full cash flow statement produced at the whole of government level which enables the underlying cash and headline

8 Mr Ian McPhee, ANAO, *Transcript*, pp. 17–18.

9 Emeritus Professor Allan Barton, *Transcript*, p. 14.

10 Emeritus Professor Allan Barton, *Transcript*, p. 14.

11 Mr Stephen Bartos, Finance, *Transcript*, p. 22.

12 Mr Stephen Bartos, Finance, *Transcript*, p. 22.

cash balances to be tracked so they can be tracked on a consistent basis over a number of years. We think that is very important. Cash will continue to be a very key focus both of government policy makers and financial markets.¹³

- 6.16 Finance also drew attention to the monthly financial statements prepared by Finance. Finance commented they were available on its web site and were valuable documents used by the financial markets.¹⁴

Conclusion

- 6.17 The Committee considers there is no compelling reason to discontinue the present system of appropriations on a full accrual basis. The Committee is also satisfied in relation to cash management, that Finance monitors and reports on the Commonwealth's cash position in a timely manner. However, the Committee considers it would be useful if commentary in the form of explanatory notes from Finance were provided to support its monthly financial statements.

The appropriation process

Background

- 6.18 For the current Budget for 2002–03, Appropriation Act No.1 authorises the Finance Minister to issue out of the Consolidated Revenue Fund (CRF) the sum of \$43 445 965 000 in accordance with the Schedule to the Act.¹⁵ The Committee considered an alternative whereby each portfolio Minister was authorised to issue from the CRF.
- 6.19 The potential benefits of this more devolved arrangement may include:
- highlighting of Portfolio Ministers' accountability for appropriations provided for the delivery of departmental outputs and administered items to achieve Government outcomes; and
 - achieving greater efficiencies in the Commonwealth's cash management as compared to the current centralised arrangement.
- 6.20 Finance advised the Committee that while agency chief executives were responsible for managing the cash resources coming within agency control, the Finance Minister, in collaboration with the Treasurer, was

13 Dr Paul Grimes, Treasury, *Transcript*, p. 23.

14 Mr Stephen Bartos, Finance, *Transcript*, pp. 28-9.

15 *Agency Resourcing 2002–03, Budget Paper No. 4*, p. 34.

responsible for managing the Commonwealth's overall cash position. One of the key objectives of Commonwealth central cash management policy was to minimise the overall cost of Commonwealth borrowing, that is, public debt interest costs.¹⁶

6.21 Finance continued by stating that:

In recognition of the time value of money, an important element of the Commonwealth's central cash management framework was the Finance Minister's capacity to manage the timing of funding to Commonwealth agencies. Under the arrangements in place since 1 July 1999, the Finance Minister's delegate negotiates and agrees the timing of the cash to be transferred to agencies in respect of, *inter alia*: outputs; departmental equity injections; departmental loan drawdowns; departmental special appropriations, administered capital injections; administered grants, benefits and subsidies; specific purpose payments to the States and Territories; payments to be made from special accounts; GST funding; and refunds of taxes, excise, fees and charges.¹⁷

6.22 Finance added that the agreed timing of the funding flows to agencies was based upon agencies' business needs. By carefully managing the timing of funding to agencies, the central pool of cash available to fund the emergent needs of all Government programs was optimised, with minimal borrowing costs. Less than optimal cash management in this area could significantly impact on public debt interest cost.¹⁸

6.23 Finance concluded that central management afforded the Government an important degree of flexibility in the reprioritisation of Government programs throughout the year, within clear accounting and budgeting rules.¹⁹

Conclusion

6.24 The Committee agrees that sound cash management is necessary to reduce any impact on public debt interest cost. However, this does not of itself preclude portfolios from being responsible for managing cash. Portfolios could for instance, manage cash with clearly specified statutory rules (*Finance Minister's Orders*) and appropriate incentives for sound management and sanctions for poor management. With an appropriate

16 Finance, *Submission No. 13*, p. 109.

17 Finance, *Submission No. 13*, p. 109.

18 Finance, *Submission No. 13*, p. 109.

19 Finance, *Submission No. 13*, p. 109.

governance structure for the management of this function, it may be possible to achieve greater efficiencies for the Commonwealth's cash management in a devolved environment with elements of competition, rather than in a centralised, totally controlled environment. For instance, Finance could set the optimal governance structure, cash management and public interest cost reduction performance targets, and portfolios could manage the function accordingly.

- 6.25 The Committee acknowledges that Government priorities may change through the budget year. The renegotiation of Government priorities should take place within the established governance structure of Cabinet Government, and Parliamentary approved appropriations. As with the management of cash, with the appropriate governance structure, incentives and sanctions and guidance from Finance, the ongoing process of priority review can proceed. With clear accounting and budgeting rules, better outcomes may be achieved than perhaps is possible through central control.
- 6.26 Finally, the Committee notes the trend towards 'letting the managers manage'. To this end there has been increasing responsibility placed on agency CEOs and the devolution of functions from central agencies such as banking, purchasing, central pay and accounting systems. Trends in public administration often conform to 'the pendulum rule', and the Committee conjectures whether with Finance wishing to retain control of cash management, the pendulum has reached the limit of its current swing.

Recommendation 8

- 6.27 **The Department of Finance and Administration should identify and report to the Minister on the risks and benefits of allowing Portfolio Ministers authority to issue amounts out of the Consolidated Revenue Fund directly rather than through the authority of the Minister for Finance. The Department should advise its Minister on the appropriateness of allowing Portfolio Ministers to exercise such an authority.**

Use of 'price' in the resource management framework

- 6.28 Under the accrual based outcomes and outputs framework, agencies nominate in their PBS, the 'price' of outputs for purchase by the Government. Such arrangements pre-suppose the existence of a functioning market for the outputs. However, most public sector expenditure occurs in the general government sector which provides 'public services which are mainly non-market in nature.'²⁰
- 6.29 The Committee sought advice from Finance and the ANAO about the appropriateness of using the 'price' concept within the accrual based outcomes and outputs framework given that there may be no market.
- 6.30 Finance acknowledged in a supplementary submission that there were a large number of Commonwealth activities, such as grants, transfers and benefits payments, which were not delivered in a competitive market. These constituted some 80 per cent of the Budget and were classified as administered items. However, the concept of 'price' was generally not applied to administered items.²¹
- 6.31 The term 'price' was applied only to departmental outputs which were generally contestable in nature and thus open to price comparison. Some outputs, such as corporate services or other administrative activities, were increasingly exposed to direct competition.²²
- 6.32 The Finance submission continued:

In other cases even where governments have taken a decision to source an activity solely from a public sector agency, a clear comparison with other providers can generally be made. For example, in relation to policy advice, a number of private policy advisers exist, or in relation to assessing and administering grants programs, comparisons can be drawn with private sector assessment processes or indeed between different Commonwealth agencies with similar processes. In these cases the concept of price

20 Consolidated Financial Statements, Commonwealth Government of Australia, circulated by the Honourable John Fahey, M.P. Minister for Finance and Administration, for the information of Honourable members, October 2000, Glossary, p. 136.

21 Finance, *Submission No. 21*, p. 159.

22 Finance, *Submission No. 21*, p. 159.

remains applicable as a guide to whether the Commonwealth is paying the right amount for the output delivered.²³

- 6.33 Finance also advised that the use of benchmarking comparisons was one way to evaluate whether the price for an output was reasonable. A range of benchmarking diagnostics was available to agencies to use.²⁴
- 6.34 The supplementary submission from the ANAO noted that:
- ... a market pricing model is only one of a number of ways in which pricing structures can be set. The absence of an active market can make it difficult to determine market prices: it does not, in itself, mean that market prices cannot be estimated or that other pricing models are not appropriate.²⁵
- 6.35 The submission also commented that a more significant issue was the question of how to deal with the difference between prices and costs. Government agencies were established to deliver services on behalf of the Government, so eventually these variations have to be funded (if costs exceeded prices) or returned (if prices exceeded costs). This raised the question, therefore, as to what was the benefit in differentiating between price and cost.²⁶
- 6.36 The ANAO suggested that funding agencies for the 'market price' of services delivered would drive efficiencies and lead to lower costs—if market prices were below existing government cost levels, then efficiencies would follow when agencies are funded at these lower levels. The concept of price had been introduced to provide an important message to agencies that funding would not always be given on the basis of costs.²⁷

Conclusion

- 6.37 The Committee notes that although many departmental outputs are generally contestable in nature and thus open to comparison on the basis of price, not all departmental outputs readily lend themselves to benchmarking comparisons for the purpose of contestability.
- 6.38 For example, in the audit of the Australian Taxation Office's (ATO's) management of tax debt collection, the Auditor-General identified the

23 Finance, *Submission No. 21*, p. 159.

24 Finance, *Submission No. 21*, p. 159.

25 ANAO, *Submission No. 20*, p. 156.

26 ANAO, *Submission No. 20*, p. 156.

27 ANAO, *Submission No. 20*, pp. 156–7.

- relationship between the Government and the ATO as one between a monopsony purchaser²⁸ and a monopoly provider—‘the Government can only ‘purchase’ this output from the ATO, and the ATO can only ‘sell’ this output to the Government.’²⁹
- 6.39 The Committee notes that Finance has a pricing agreement in place with the ATO for the delivery of its departmental outputs.
- 6.40 The Committee considers that while such agreements provide the agency with a degree of certainty over its future funding, they may have limited value in cases of a monopsony relationship between the Government and the agency, or where agency outputs are not readily able to be fairly and accurately benchmarked for the purpose of contestability. In some cases therefore there may be difficulties in establishing the appropriate market price for the agency’s outputs.
- 6.41 The Committee concludes that, as with the comments concerning the transferability of the accrual accounting model from the private to public sector, the use of price may not always be appropriate in relation to expenditure in the general government sector.
- 6.42 The Committee notes the ANAO’s suggestion that if there was concern with the reference to ‘price’ in the PBS, the term could be replaced with ‘funding’ or a similar term.³⁰
- 6.43 The Committee considers it would be worthwhile to identify in the PBS the pricing model used to derive the price of agency outputs, for example, whether the price simply represents the cost of output delivery or is based on ‘cost plus’, or on some other model. This would assist Parliament’s understanding of the basis on which funding is sought and indicate the extent to which it is considered that a market exists for the output.

Recommendation 9

- 6.44 **The Department of Finance and Administration should amend its guidelines to agencies so that information describing the model used for pricing outputs is included in the agency PBS.**

28 A monopsony purchaser refers to a situation where there is only one possible purchaser for a good.

29 ANAO, *Audit Report No. 23, 1999-2000, The Management of Tax Debt Collection*, Australian Taxation Office, pp. 66-7.

30 ANAO, *Submission No. 20*, p. 157.

Implementation of the Capital Use Charge

Background

- 6.45 The Capital Use Charge (CUC) was introduced as part of the Government's intention that agencies operate on a more commercial basis. There is a cost related to the use of capital resources and the CUC is a mechanism whereby this cost is recognised. The net assets (equity) charging basis has been adopted as the way to include a cost of capital in the price of agency outputs.
- 6.46 With the introduction of accrual budgeting, the CUC was imposed upon the 'departmental' net assets of budget funded agencies.³¹ Agencies are funded for the CUC at the beginning of the year by Budget appropriation, and the CUC is imposed at the end of the year on the net assets of the agency at that time. The CUC is disclosed as a 'below the line' adjustment on operating statements.³²

Relevance and effectiveness of the CUC

- 6.47 Professor Barton, while acknowledging that capital funds have an opportunity cost, questioned the relevance of the CUC for government operations. He argued that the rate which is set is not the actual cost to Government but was roughly the cost of capital to the private industry, which was significantly higher. He suggested a specific financial charge was unnecessary if managers recognised resources always have an internal opportunity cost.³³ He continued:

In economics, all these things are developed initially as internal opportunity costs. You can only use a resource at one time for one purpose, and you cannot use it for something else, so you always have those choices. I doubt whether you would get any extra benefits from having this fictitious and notional charge imposed on top of that. I think it complicates your accounting system no end and ... it is paid up front and then it is recalled back. It does not really make very much sense to many people.³⁴

31 Departmental assets are those the agency controls on its own behalf. They can be distinguished from 'administered' assets which are assets an agency administers on behalf of the Government.

32 ANAO, *Submission No. 7*, p. 50.

33 Professor Alan Barton, *Transcript*, p. 43.

34 Professor Alan Barton, *Transcript*, p. 44.

- 6.48 A Finance supplementary submission advised that it was important for the cost of capital used by an agency to be included in the price of its outputs to allow comparison with both public and private sector providers.³⁵
- 6.49 Another use of the CUC was identified by Finance when it told the Committee that the underlying precept of the CUC was ‘to foster greater asset management, not just in the accounting sense, but in the actual life cycle management of the net asset base of each organisation.’³⁶
- 6.50 Finance added that it had considered a variety of available models, but eventually settled on a charge on net assets.³⁷
- 6.51 The submission from CPA Australia questioned the net assets basis for application of the CUC:
- By using the net assets base, the agency is being charged CUC on movements in the operating result, so if an agency makes a surplus (the expected) they are penalised. However, if the agency were to be charged on the controlled, non-current physical assets, the agency is being measured fairly on the assets within their management control.³⁸
- 6.52 Finance responded:
- To the extent that assets grow, then the CUC is rather like a dividend. It is a concept of saying to the organisation: you have made a surplus, the owner would expect to have a proportion of that surplus returned as a dividend. ... if you have the model that a business is there to make a profit for owners—given that was part of the emulation model—then when an agency makes a surplus it is not a penalty, it is a sharing process.³⁹
- 6.53 Finance indicated that there were other issues related to the CUC:
- the different risk profiles of organisations and within organisations and the possibility of considering the use of differential CUC rates based on risk weightings, currently used by the New Zealand Government; and
 - the complexities introduced through many agencies having negative net assets.⁴⁰
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35 Finance, *Submission No. 13*, p. 117.

36 Mr Brett Kauffman, *Transcript*, p. 42.

37 Mr Phillip Prior, Finance, *Transcript*, p. 42.

38 CPA Australia, *Submission No. 5*, p. 38.

39 Mr Phillip Prior, Finance, *Transcript*, p. 42.

40 Mr Phillip Prior, Finance, *Transcript*, p. 42.

6.54 Finance concluded in its supplementary submission that while the experience in other jurisdictions is that improvements have been limited in asset management practices as a result of capital charges, 'together with other reforms, such as the publication of capital budget statements, early signs are that Commonwealth agencies are placing greater emphasis on balance sheet management.'⁴¹

Accounting treatment of the capital use charge

6.55 As previously discussed, the CUC is imposed on the net assets of the agency at the end of the year and is disclosed as a 'below the line' adjustment on operating statements. This means that the CUC is effectively treated as a dividend to the Commonwealth.

6.56 In its submission, the ANAO commented that the Corporations Law stated that dividends may only be paid out of profits. Consequently, it was usual for dividends to represent a distribution of operating surpluses. Imposing the CUC on the net assets of agencies meant it was possible that the charge could be paid out of capital contributions or unrealised asset revaluation reserves. In such circumstances, it would not represent a return of surpluses to the owner.⁴²

6.57 The submission commented further that currently the funding for the CUC was disclosed as revenue, and directly increased the operating result by the amount of the CUC. This was because the CUC when levied was not recorded as a corresponding expense. By way of example, the ANAO commented that the Defence financial statement for 1999–2000 revealed an operating surplus of \$5.3 billion. (This compared to the \$3.6 billion surplus of Telstra, one of Australia's largest corporate entities.) However, \$4.6 billion of the Defence 'surplus' was subsequently remitted to the Commonwealth by way of the CUC.⁴³

6.58 The ANAO advised it had raised this matter with Finance, by asking whether the CUC should more accurately be reflected as a financing cost or charge imposed on agencies. If this was the case it would more appropriately be disclosed as an expense.⁴⁴

6.59 During the hearing the ANAO referred to the Defence example noting that it ran a very large surplus, but a large component was the funding provided to pay for the CUC. The ANAO questioned whether this

41 Finance, *Submission No. 13*, p. 117.

42 ANAO, *Submission No. 7*, p. 50.

43 ANAO, *Submission No. 7*, p. 50.

44 ANAO, *Submission No. 7*, p. 50.

obscured from Parliamentarians the underlying performance of some agencies as revealed by their accounts.⁴⁵

- 6.60 Finance responded in a supplementary submission advising that it had reviewed whether the CUC should be recognised above the operating result line as an expense, or below the operating result line as a dividend. The review had endorsed the current approach of treating the CUC as a dividend because it matched the view that the CUC was a return on the Commonwealth's investment in an agency.⁴⁶

Conclusion

- 6.61 The Committee has considered the introduction of a CUC when it reviewed asset management in the Commonwealth. The Committee noted that such a charge 'would encourage agencies to accurately value their assets and moderate any tendency ... to over value assets to gain advantage of funding to meet asset depreciation'.⁴⁷ The Committee reasserts its support for a mechanism which recognises the opportunity cost of capital in agency financial statements.
- 6.62 The Committee recognises, however, that the current CUC arrangement has been in place for a relatively short period of time, and is but one of a range of tools used by the Government to ensure improved financial practices within agencies. As with all new initiatives, refinement may be needed from time to time to maximise potential effectiveness.

Explanation of operating surpluses

- 6.63 The Committee notes that from time to time agencies can achieve a significant operating surplus which is separate from the CUC. The Committee sought comment on the merit of requiring agencies to include in their annual reports the details of any such surplus to output level. Such details would be supported by explanations which could be matched to the audited financial statements.
- 6.64 Finance responded in a supplementary submission that it supported the 'separate disclosure of the "true" operating position, net of any surpluses achieved in order to pay the CUC dividend.' The submission also advised that the *Finance Minister's Orders* for 2001–02 relating to financial reporting

45 Mr Ian McPhee, ANAO, *Transcript*, p. 44.

46 Finance, *Submission No. 13*, p. 117.

47 JCPAA, *Report 363, Asset Management by Commonwealth Agencies*, Canberra, 1998, p. 38.

'will require the major revenue and expense items at the output (output group) level to be disclosed in the notes of agencies' financial reports.'⁴⁸

6.65 The ANAO commented that because of the large number of outputs of some agencies, the reporting of surpluses would be more feasible at the output group level. Also, agencies are currently provided with a single appropriation for departmental items, and have the authority to move funding between outputs as and when required. Consequently:

... the chief executive is able to determine the revenue attributable to any output and thus the consequential 'surplus' or 'deficit'. Under these arrangements, it would be unlikely to see excessive surpluses or deficits recorded against any output group.⁴⁹

6.66 The ANAO provided an alternative model for consideration, which was:

... to report on budgeted against actual expenses at an output level. Consistent with the way such reporting occurs within the private sector, such reporting could disclose not only the budget variance, but an analysis of the cause of the budget variance in terms of:

- the quantity of outputs delivered; and
- the cost of outputs delivered.⁵⁰

6.67 The ANAO, however, cautioned that such reporting would not be reliable until agency systems were able to accurately attribute all costs to output/output groups.⁵¹

Conclusion

6.68 The Committee considers there is merit in agencies identifying in their annual reports any operating surplus to output level or output group level. The Committee is unsure, given the comments from the ANAO, as to how this might be best achieved.

48 Finance, *Submission No. 13*, p. 118.

49 ANAO, *Submission No. 11*, p. 94.

50 ANAO, *Submission No. 11*, p. 95.

51 ANAO, *Submission No. 11*, pp. 94–5.

Recommendation 10

- 6.69 The Department of Finance and Administration, in consultation with the Australian National Audit Office, should review ways in which agencies should disclose details of any operating surplus to output or output group level. These details should be able to be matched to the agency's audited financial statements. The *Finance Minister's Orders* should be amended to put into effect such a reporting requirement.

Reporting of the Commonwealth Final Budget Outcome

Introduction

- 6.70 In addition to financial reporting at agency and whole of government levels, the *Charter of Budget Honesty Act 1998* requires the Government to publish a Final Budget Outcome (FBO) report within three months of the end of the financial year. The information contained in the FBO is obtained from the annual process of compilation of the Consolidated Financial Statements (CFS), and presents:
- financial information relating to the general government sector prepared in accordance with Australian Accounting Standards (AAS), in particular AAS31;
 - financial information prepared using Government Finance Statistics (GFS) concepts;
 - discussion and reconciliations of differences between the above two sets of information;
 - information on federal financial relations; and
 - a discussion on the overall Commonwealth budget outcome which is based on analysis of the GFS statements.⁵²

Accounting standards for the Final Budget Outcome

- 6.71 Using two accounting standards—the AAS and the GFS—results in two different sets of financial reports being produced for scrutiny by Parliament and other stakeholders. The Committee notes that it is also

52 ANAO, *Submission No. 11*, p. 90.

possible for governments to depart from these standards provided any departures from the standards are clearly identified.⁵³

- 6.72 Nevertheless, the presentation of two differently based reports can lead to difficulties in interpretation. Mr Anthony Harris told the Committee that while the two accrual reports can be linked, they can provoke confusion and difficulties when moving between them. He continued:

The cost of that was most evident in the treatment of a loan provided under ANTS—the new tax system—to the states interest free and repayable from a grant in the subsequent year. Under the [GFS] system it was treated as a loan and under Australian Accounting Standards it was treated as a grant. That is a problem ...⁵⁴

- 6.73 In discussing the issue of the two standards, the Australian Bureau of Statistics (ABS) witness told the Committee that efforts at harmonisation were limited because the statistical standards were really ‘a subset of wider national accounting standards and, in some areas of significance, there is a difference between the AAS31 approach and the statistical approach.’⁵⁵ He continued:

Our solution to that was that, whenever we publish accruals based government finance statistics, we will provide a reconciliation to get from our presentation of the data to the accounting presentation. Having said that, there are, in my view, some needless differences between the accounting presentation and the statistical presentation. We would be very keen to see whether we can remove those differences.⁵⁶

- 6.74 Finance agreed that ideally there should be ‘no difference between the GFS and AAS presentations.’ He advised the Committee that Finance currently had a longer term project aimed at harmonising the two standards. However, the difficulty was that the GFS originated from the International Monetary Fund system of national accounts, so achieving change would require international liaison.⁵⁷ Treasury expressed similar sentiments.⁵⁸

53 Dr Paul Grimes, Treasury, *Transcript*, p. 21.

54 Mr Anthony Harris, *Transcript*, p. 15.

55 Mr Robert Edwards, ABS, *Transcript*, p. 32.

56 Mr Robert Edwards, ABS, *Transcript*, p. 32.

57 Mr Stephen Bartos, Finance, *Transcript*, p. 22.

58 Dr Paul Grimes, Treasury, *Transcript*, p. 23.

6.75 Finance noted that it was important that when new standards were developed or existing standards revised, 'the uniqueness of public sector transactions is taken into account'. He added that Finance was dissatisfied with the current public sector minority representation on the Australian Accounting Standards Board (AASB). He noted that although greater public sector representation had recently been achieved, it still amounted to only three out of the ten AASB members.⁵⁹

Conclusion

6.76 The Committee supports greater harmonisation between the GFS and AAS standards and encourages Finance to maintain its efforts to achieve this goal.

6.77 The Committee also believes there would be benefit in greater public sector representation on the AASB as this would assist in the development of accounting standards as they relate to the public sector.

Auditing the Final Budget Outcome

6.78 During the public hearing Mr Harris drew the Committee's attention to the fact that the FBO was not audited.⁶⁰ The Committee subsequently sought advice from Finance and the ANAO on whether the FBO should be audited.

6.79 Finance responded that the FBO performed a different function to agency financial statements and the Consolidated Financial Statements (CFS) which were audited and released in September/October each year. The emphasis of the FBO was on 'timely, indeed speedy, issue of this information, to an acceptable degree of accuracy.' The issue was that auditing the FBO would 'compromise its timeliness and end-year utility, pending release of the CFS.'⁶¹

6.80 An additional issue was the level of assurance that could be provided by an audit. Specifically, whether the auditor should provide the traditional positive assurance audit report requiring a full scope audit approach, or whether a negative assurance report should be provided based on a review only.⁶²

59 Mr Brett Kauffman, Finance, *Transcript*, pp. 23–4.

60 Mr Anthony Harris, *Transcript*, p. 15.

61 Finance, *Submission No. 13*, p. 107.

62 Finance, *Submission No. 13*, p. 107.

- 6.81 The ANAO responded by advising that the information in the FBO which was prepared under the AAS requirements was effectively a subset of the CFS which was audited by the ANAO. Thus there would be no difficulty in extending audit coverage to this component of the FBO. Concerning the unaudited GFS information, the ANAO advised the Committee that it 'would be in a position to audit this information if requested.' Because there were some differences in the principles underlying AAS and GFS reporting, expert advice could be sought if necessary.⁶³
- 6.82 The ANAO considered that the benefits of auditing the FBO would be the additional credibility provided by an independent review.⁶⁴

Conclusion

- 6.83 The Committee concludes that given the importance of the information contained in the FBO for decision-making and accountability purposes, there is merit in seeking the additional assurance which an audit of the FBO would provide. Finance should consult with the ANAO to determine the most suitable form of the audit to ensure a balance between an appropriate level of assurance and the provision of timely information.

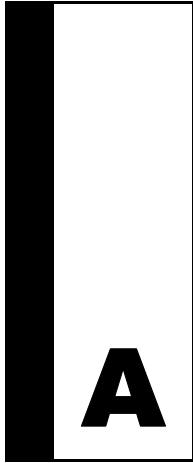
Recommendation 11

- 6.84 **The Final Budget Outcome should be audited by the Australian National Audit Office.**

Bob Charles MP
Chairman
5 June 2002

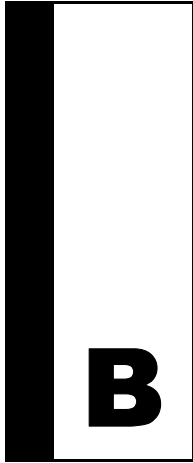
⁶³ ANAO, *Submission No. 11*, p. 90.

⁶⁴ ANAO, *Submission No. 11*, p. 90.



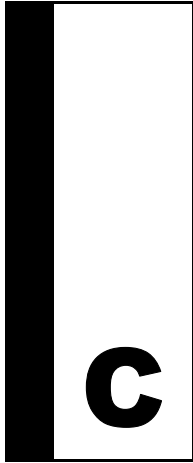
Appendix A—List of Submissions

1. Australian Council of Social Service (ACOSS)
2. Productivity Commission
3. Mr Maurie Kennedy
4. Australian Bureau of Statistics
5. Certified Practising Accountants (CPA)
6. Australian Accounting Standards Board
7. Australian National Audit Office
8. Department of Finance and Administration
9. Department of the Treasury
10. Emeritus Professor Allan Barton, Australian National University
11. Australian National Audit Office (supplementary submission)
12. Emeritus Professor Allan Barton, Australian National University (supplementary submission)
13. Department of Finance and Administration (supplementary submission)
14. Australian Bureau of Statistics (supplementary submission)
15. Department of Family & Community Services
16. Department of Health and Aged Care
17. Department of Education Training & Youth Affairs
18. Department of Defence
19. Department of the Treasury
20. Australian National Audit Office (supplementary submission)
21. Department of Finance and Administration (supplementary submission)



Appendix B—List of Exhibits

1. Mr Robert Kerr, Head of Office, Productivity Commission,
Cost Recovery – Draft Report



Appendix C – Witnesses appearing at public hearing

Canberra, Friday 22 June 2001

Australian Bureau of Statistics

Mr Graeme Hope, First Assistant Statistician

Mr Peter Harper, First Assistant Statistician

Mr Robert Edwards, Deputy Australian Statistician

Australian National Audit Office

Mr Ian McPhee, Deputy Auditor-General

Mr Michael Watson, Group Executive Director, Assurance Audit Services

Ms Lynne O'Brien, Executive Director, Research & Development

Australian National University

Emeritus Professor Allan Barton

CPA Australia

Mr Kevin Lewis, Director, Public Sector

Mr Adam Awty, Public Sector Adviser

Department of Education, Training and Youth Affairs

Mr Craig Storen, Director, Budget Coordination Section

Department of Defence

Mr Greg Harper, Chief Finance Officer

Department of Finance and Administration

Mr Phillip Prior, First Assistant Secretary, Commonwealth Financial Reporting Unit

Mr Stephen Bartos, General Manager, Budget Group

Mr Matthew Flavel, Branch Manager, Budget Coordination Unit

Mr Brett Kaufmann, Branch Manager, Accounting Centre of Excellence

Mr Richard Loudon, Branch Manager, Budget Services Centre

Department of Health and Aged Care

Ms Virginia Hart, Assistant Secretary, Budget Branch

Dr Robert Wooding, Acting First Assistant Secretary, Portfolio Strategies Division

Ms Robyn Foster, Senior Manager, Budget Branch

Department of Family and Community Services

Mr Alexander Dolan, Assistant Secretary, Budget Development Branch

Mr Tim Youngberry, Chief Financial Officer

Department of the Treasury

Dr Paul Grimes, General Manager, Budget Policy Division

Mr Jonathon Kirkby, Manager, Budget Estimates and Analysis Unit

Mr David Martine, Specialist Adviser, Business Entities and International Tax Division

Individuals

Professor Anthony Harris

Mr Maurice Kennedy

Productivity Commission

Mr Robert Kerr, Head of Office