

# Chapter 1

## Background to the inquiry

### Establishment of inquiry

1.1 On 20 June 2006, the Senate referred the following matter to the Finance and Public Administration References Committee for inquiry and report by 19 October 2006:

The transparency and accountability to Parliament of Commonwealth public funding and expenditure, including:

- (a) the impact on the Parliament's ability to scrutinise, approve and monitor proposed and actual expenditure of:
  - (i) outcome budget appropriations and reporting.
  - (ii) Multiple sources of funding including special appropriations, advances to the Minister for Finance, annual departmental carry-over surpluses, revenue retained under section 31 of the Financial Management and Accountability Act 1997, special accounts and goods and services tax appropriations, and
  - (iii) The use of ordinary annual services to fund activities including non-annual services;
- (b) options for improving the transparency and specificity of budget papers and related documents; and
- (c) other measures to improve the Parliament's oversight of proposed and actual Commonwealth funding and expenditure.

1.2 The Committee's terms of reference are reproduced in Appendix 1.

### Conduct of the inquiry

1.3 The Finance and Public Administration References Committee had been required to report by 19 October 2006, but was unable to report by that date because the committee ceased to exist on 10 September 2006. On 14 August 2006 the Senate had resolved to amend the relevant Orders of the Senate so that, from 11 September 2006, the separate References and Legislation Committees would be replaced by one Legislative and General Purpose Committee.

1.4 The Senate also resolved that the newly-established legislative and general purpose committees should inquire into and report on matters referred to their predecessor committees that had not been disposed of by those committees and, in considering those matters, might consider the evidence and records of those committees relating to those matters. Consequently, from 11 September 2006, the

inquiry, with the same terms of reference, was conducted by the Senate Finance and Public Administration Legislative and General Purpose Committee.

1.5 On 19 October 2006 the Senate granted the Committee an extension of time to 7 December 2006 to report on the reference. On 5 December 2006 and 6 February 2007 the Senate granted further extensions of the reporting date, to 8 February 2007 and to 1 March 2007.

1.6 The Committee conducted three public hearings on the reference on 8 September, 12 October and 27 November 2006 in Canberra. Lists of witnesses and of the submissions made to the inquiry may be found in Appendices 2 and 3.

### **Origin of the reference**

1.7 The Commonwealth Budget was presented on the basis of accrual budgeting and in the outcomes/outputs framework for the first time in the 1999-2000 financial year. It is timely therefore for the Committee to consider transparency and accountability issues relating to accruals and to the Budget framework. In addition, in December 2005 the former Finance and Public Administration References Committee reported on an inquiry into government advertising and accountability.

1.8 That inquiry raised issues in relation to government accountability to Parliament for funding and expenditure that were broader in scope than it could consider in detail.<sup>1</sup> These included matters arising from the High Court of Australia's majority ruling against the plaintiffs in *Combet v the Commonwealth of Australia*.<sup>2</sup>

1.9 The committee recommended that the Senate should refer to it the matter of the impact of outcome budgeting for appropriations on Parliament's consideration and approval of government expenditure, and the accountability of government for such expenditure.<sup>3</sup>

1.10 As reported above, the Senate referred the matter to the Committee on 20 June 2006.

### **Report structure**

1.11 Chapter 2 sets out the constitutional provisions for funding and expenditure, historical developments and the current accrual-based outcomes/outputs framework.

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1 Senate Finance and Public Administration References Committee, *Government Advertising and Accountability*, December 2005, p. 51.

2 An interesting exposition of some of the implications of this judgement may be found in Submission 10 (Professor Lindell).

3 Senate Finance and Public Administration References Committee, *Government Advertising and Accountability*, December 2005, p. xxiii.

1.12 Chapters 3 and 4 discuss the proliferation of funding sources. Chapter 3 covers Special Appropriations, Special Accounts, revenue retained under Section 31 of the *Financial Management and Accountability Act 1997* and annual departmental carryovers; Chapter 4 covers tax expenditures, the advance to the Finance Minister, the Goods and Services Tax and ordinary annual services.

1.13 Chapter 5 examines measures for improving transparency and the specificity of budget documents. The key matters addressed are portfolio budget statements, outcome statements and program-level expenditure information, accounting standards and treatment of depreciation.

1.14 In Chapter 6, the Committee turns to measures to improve Parliamentary oversight. These include the role of Senate committees, committee staff and the Auditor-General, as well as legislative changes.

1.15 Chapter 7 presents the Committee's conclusions and recommendations.

