

Chapter 7

Conclusions and recommendations

7.1 The Commonwealth's financial transactions and the accounting for those transactions have changed greatly since Federation. In the past twenty years in particular there have been significant changes in the way that the executive government presents its budget to the parliament for approval and in the way in which it accounts for past expenditure.

7.2 The changes have been influenced by the magnitude of the Commonwealth's funding and expenditure and by the executive's approach to managing its affairs. In some respects the changes appear to have had positive effects, providing the opportunity for public sector managers to manage better and providing, through the medium of accrual accounting, information about the state of the Commonwealth's finances.

7.3 However, it has become apparent that these positive changes have been accompanied by a loss of program detail and specificity of the appropriations processes of the Parliament.

7.4 The Committee has reached conclusions and made recommendations that should, if implemented, go some way to restoring the Parliament's historical and constitutional prerogatives with regard to public funding and expenditure. These conclusions and recommendations, which may be found in the body of the report, are summarised below under the relevant heading.

Proliferation of funding sources

Special Appropriations

7.5 Government's increased reliance on Special Appropriations as the main source of funding, together with the growth in cross portfolio programs and the attendant challenges these pose for parliamentary scrutiny, make it important that the Parliament and its committees have readily available to them a separate budget paper that covers all Special Appropriations.

7.6 While the Committee is aware that the proposal to produce a separate, consolidated budget paper on Special Appropriations would necessarily involve additional resources, the value of such a document for transparency in general and for the estimates committee processes in particular would warrant the application of those resources.

Recommendation 1

7.7 The Committee recommends that the government produce and table with the annual budget documents a document that sets out the past and expected expenditure from all Special Appropriations. The data in that document should be set out against the programs that are funded from the relevant appropriation.

7.8 Many standing appropriations may escape government and parliamentary scrutiny because they are open-ended. The Committee has considered whether this apparent deficit in accountability might be overcome by the government implementing routine reviews of standing appropriations and reporting the results of those reviews. ANAO could be asked to advise government on those matters. Alternatively, Parliament might ensure that all acts providing for standing appropriations include sunset provisions, even if the expiry dates were to be decades hence.

Recommendation 2

7.9 The Committee recommends that the Government implement a system of review for standing appropriations to ensure that access to the CRF is withdrawn when no longer required and to ensure that standing appropriations are subject to periodic government and parliamentary review.

Special Accounts

7.10 The Committee has concluded that the executive government's ability to transfer funds from one form of appropriation to another could significantly compromise the Parliament's ability to scrutinise and thus control public funding and expenditure. Few Parliamentarians would be aware of the extent of these transfers or indeed of the executive's capacity to effect such transfers. It is essential therefore that these transfers are reported transparently to the Parliament.

Recommendation 3

7.11 The Committee recommends that the government ensure that where transfers of amounts between different forms of appropriation occur, that the transfers be highlighted in the reporting documents. Because the reporting of these events in agencies' financial statements may not occur until well after the event, these transfers should be documented and tabled as they occur.

7.12 In making this recommendation the Committee is aware that there might be many such transfers and that there could therefore be practical difficulties in the timely provision of the data. The Committee therefore recommends that Finance consider the practical implications of the above recommendation and report to the Committee on this matter this financial year.

Net Appropriations (Section 31 Agreements)

7.13 Given the significant role of Section 31 Agreements in transferring funds between different categories of appropriations, the administrative shortcomings discovered by ANAO and the apparent confusion among the government's advisers about the uses to which the funds in Special Accounts may be applied, the Committee is concerned about Section 31 Agreements. The evidence leads it to question whether Section 31 Agreements are the most appropriate vehicles for authorising increases in agencies' annual appropriations by the amounts they receive from non-appropriations sources.

7.14 The Committee notes the suggestion made by ANAO that the central role in net appropriations might be returned from agency agreements to the Appropriation Acts and also notes that Finance has been considering that recommendation and possible alternatives to Section 31 Agreements.

7.15 The Committee appreciates the complexity of the issues involved in any change to the system for managing net appropriations. However, the Committee emphasises the point that the concerns it has outlined above in relation to Section 31 Agreements make it crucial that Finance, in consultation with ANAO and other relevant bodies, address this matter with a view to removing the ambiguity and looseness of the current system and improving transparency and compliance of net appropriation transfers.

Recommendation 4

7.16 The Committee recommends that the central role in the management of net appropriations should be returned to the Appropriation Acts so as to ensure that these significant transfers of funds are fully transparent to the Parliament. In making this recommendation the Committee is aware that the management of net appropriations is complicated and that the Department of Finance and Administration is investigating other options. If a procedure other than returning the central role to the Appropriations Acts is proposed, the Committee would expect that the Parliament and its committees would be consulted. In particular, the Committee would expect Finance to report to it on any proposed alternative approach this calendar year.

Annual departmental carryover surpluses

7.17 The significant amounts of undrawn annual appropriations that remain at the end of a financial year (amounting to \$7.71 billion as of 30 June 2005) may be used by agencies for their departmental outputs in following years. Only funds for departmental items may be carried over. Funds appropriated for administered items lapse.

7.18 The 'carried over' funds have at one time or another been legally appropriated, ostensibly for particular purposes. However, there are significant actual and potential problems that arise from agencies' ability to carry over funds from previous years. The

funds, which may have been appropriated for one purpose, may be used for another. As far as the Committee is aware, there is nothing to prevent an agency that has had funds appropriated to meet future liabilities from using those funds for current expenses.

7.19 Much of the departmental underspend is in relation to funds appropriated for depreciation. Many of the issues highlighted in relation to appropriations not lapsing could be addressed by government ceasing to appropriate funds for depreciation.

7.20 The Committee has concluded that to address some of the transparency issues surrounding carried over appropriations agencies should report to Finance soon after the end of each financial year the amount of their unexpended funds on each of their outcomes (or programs) and the reasons for the underspend. The government would then arrange for a consolidated report to be tabled in Parliament within six months. Parliamentarians and the public would thus be informed of any significant underspending on the specific purposes for which funds had been appropriated. The underspent appropriations should be returned to the CRF unless the finance minister determines that there is good cause why they should be retained by the agency.

Recommendation 5

7.21 The Committee recommends that agencies report the amounts of their unspent appropriations and the reasons for the underspend to Finance at the end of each financial year and that the government tables in Parliament a consolidated report on the amount and reasons for the underspend within six months of the end of the relevant financial year. The Committee further recommends that unspent appropriations be returned to the CRF unless the finance minister determines that there is good cause for the funds to be retained.

Recommendation 6

7.22 The Committee recommends that unless the Government can propose another mechanism that would overcome the accountability and transparency issues raised in connection with the carry over of appropriations it should discontinue the appropriation of funds to agencies for the purpose of depreciation.

Tax expenditures

7.23 Tax expenditures provide what are in effect subsidies through income foregone. Subsidies are provided directly from the public purse by means of special appropriations. The Committee considers that the reporting of tax expenditures should be no less transparent than that of special appropriations.

Advance to the Finance Minister

7.24 The Committee considers that the AFM provides a necessary level of flexibility to enable a government to meet contingencies. It considers that the means

of accounting to Parliament for the use of the AFM are sufficient to enable the Parliament to scrutinise expenditure from the Advance.

Goods and Services Tax

7.25 The Committee considers that the treatment of recoverable GST is reasonable and that disclosure in an agency's financial statements probably provides sufficient transparency and accountability.

7.26 The Committee does not consider that there is adequate detail in the data published in Budget Paper No. 3 in relation to the expenditures and purposes to which the States and Territories put the GST. The Committee considers that the level of reporting would be greatly enhanced if the States and Territories were to provide to the Commonwealth comprehensive statements of the purposes and expenditure of GST revenue that could be included in the budget documents.

Recommendation 7

7.27 The Committee recommends that the State and Territory jurisdictions provide to the Commonwealth comprehensive annual statements of the purposes and expenditures of GST revenues to enable their incorporation into Budget Paper No. 3.

Funds appropriated for ordinary annual services

7.28 The Committee has concluded that the Government and the Senate should work to clarify the matters that should be included in the different appropriation bills.

Recommendation 8

7.29 The Committee recommends that the Senate continue to seek clarification from the Government as to which items the Government believes should be included in the different appropriation bills. The Senate should then form a view as to the appropriateness of the split. When any differences are resolved to the satisfaction of the Senate, the Department of Finance and Administration should be required to monitor and enforce the split.

Recommendation 9

7.30 The Committee recommends that the Standing Committee on Appropriations and Staffing should report expeditiously on its negotiations with Government in relation to the appropriate split of items of expenditure in the different appropriation bills so that the issue may be considered by the Senate.

Recommendation 10

7.31 The Committee recommends that the Clerk advise the President of the Senate with respect to concerns about the matters included in periodic Appropriation bills and that the President table a statement accompanying the bills or return the bills to the House of Representatives or to the minister for clarification, elucidation or adjustment.

Improving the transparency and specificity of the budget documents

Portfolio Budget Statements

7.32 The Committee has concluded that the PBS contain a wealth of information that in general assists parliamentarians who are experienced in their use to understand the intentions of the government in relation to funding and expenditure. The Committee considers that the documents would be of greater use if they were more consistent among portfolios and if they included forward estimates for outcomes, outputs and administered items.

Recommendation 11

7.33 The Committee recommends that a common approach be taken for the Portfolio Budget Statements and that estimates for three forward years be included for departmental and administered items.

Formulation of outcomes

7.34 The Committee has concluded that the broad formulation of outcomes has accompanied a loss of program detail and specificity in the appropriation process of the Parliament. This poses challenges for parliamentary scrutiny. Outcomes must be more precisely and meaningfully specified in the appropriations bills and in all other budget documentation.

Recommendation 12

7.35 The Committee recommends that outcomes be expressed in clear, simple and measurable terms.

Program-level reporting

7.36 The Committee has concluded that the presentation of program-level information in the Appropriation Acts and in the other budget documentation should lead to greater specification of the objectives of proposed expenditure and hence greater transparency and should be implemented. Information on expected and actual expenditure is already collected on this basis within government so that reporting according to programs should be able to be implemented relatively quickly and easily.

Recommendation 13

7.37 The Committee recommends that expenditure should be reported at the levels of programs in the budget documents, including in the schedules to the Appropriation Acts.

Departmental outputs and administered expenses

7.38 The Committee considers that when a reasonable consensus is reached on the definitions of 'administered' and 'departmental' that those definitions should be explicitly addressed in the Appropriation Acts.

Recommendation 14

7.39 The Committee recommends that the terms 'administered' and 'departmental' be defined in the appropriation bills or other appropriate documents.

Accounting standards

7.40 The use of two different accounting standards for the budget documents leads to confusion and inevitably leads to less transparency than would the use of a single uniform standard. A lengthy process to harmonise the different systems has so far not resulted in an agreed outcome. The Committee supports the aim of the harmonisation project, but considers that the project must soon be brought to a conclusion. There were suggestions made during the inquiry that if a standard were not agreed upon within twelve months, that the Parliament should unilaterally declare that the budget documents brought before it must conform to one standard, and that that standard should be based on the GFS system.

7.41 The Committee shares the frustration of those who have advocated this course and will revisit the issue if significant progress towards a single agreed standard has not been reported within twelve months from the time of the tabling of this report.

Recommendation 15

7.42 The Committee recommends that the ongoing process being undertaken to harmonise the accounting standards should continue and should be expedited by the Government setting a deadline for its completion.

Treatment of depreciation

7.43 The Committee has concluded that there are problems with funding for depreciation in the current framework. Funding for depreciation, particularly for replacement purposes, is opaque. The Committee has recommended earlier in this report that the Government should consider whether funds should continue to be appropriated for depreciation. In that context, the Government should also consider new approaches that would result in greater transparency. In particular, it should

consider reporting separately on and budgeting for gross capital expenditure, with a subdivision of expenditures between asset replacement and asset expansion.

Recommendation 16

7.44 The Committee recommends that the Government should give consideration to a system for funding depreciation whereby gross capital expenditure would be separately reported and budgeted for as required, with a subdivision of expenditures between asset replacement (i.e. the depreciation component) and asset expansion.

Senate Committees' Consideration of Portfolio Budget Statements

7.45 The Committee has concluded that the PBS (and PAES) provide a great deal of information about the proposed expenditure for the coming year and useful information about expenditure the past year. However, the information is not easily comprehended in the present format, and ANAO has found that in certain cases the PBS have not given a good indication of how appropriated funds will actually be used. The PBS would be much more revealing and useful to parliamentarians if information were presented at the program level, as recommended in this report. Their usefulness would be enhanced further if forward estimates for programs were provided. (See Recommendation 11.)

7.46 The Committee considers that the Senate Legislative and General Purpose Committees in their reports on the estimates should report on the format and content of the PBSs of the portfolios that are referred to them. The committees might, for example, comment on the specificity of the definition of outcomes. They might also compare expenditure on outcomes (or programs) with the estimates of expenditure set out in the PBSs. In this context it should be noted that the Committee has recommended (Recommendation 13) that expenditure should be reported at the program level in the budget documents.

Recommendation 17

7.47 The Committee recommends that the Senate Standing Legislative and General Purpose Committees report as necessary in their reports on the estimates on the format and contents of the PBS and PAES that are referred to them.

Improving parliamentary oversight

Role of the Auditor-General

7.48 The Auditor-General made a number of suggestions for specific measures the Audit Office could take to assist committees with the consideration of the estimates. The Committee has concluded that one or more of the suggestions could be of assistance and considers that they should be further considered by the Committee's

Chairs Group with a view to the implementation of one or more of the proposals for the 2007-2008 Budget estimates.

Recommendation 18

7.49 The Committee recommends that the Committee Chairs Group examine proposals made by the Auditor-General for measures to assist the Legislative and General Purpose Standing Committees in their consideration of the estimates.

Legislative changes

7.50 The Committee has concluded that the Appropriation Bills should be amended as necessary to ensure that appropriated funds whether for departmental or administrative items may only be expended against one or other of the outcomes or purposes specified in the bills.

Recommendation 19

7.51 The Committee recommends that the Government ensure that future appropriation bills that the Senate cannot amend under the provisions of the Constitution restore the need for any approved expenditure to be legally linked to and connected with a specific outcome or purpose.

Committee staff

7.52 The Clerk of the Senate has informed the Committee that a number of procedures will be implemented within the committee secretariats to provide additional assistance to the committees in their scrutiny of the Commonwealth's funding and expenditure. The committee welcomes these procedures.

Senator Brett Mason
Chair

