



**Australian Government**  
**Department of Finance and Administration**

Chair  
Senate Finance and Public  
Administration Committee  
Parliament House  
CANBERRA ACT 2600

Attention: Alistair Sands, Committee Secretary

**SUPPLEMENTARY INFORMATION REQUESTED BY THE COMMITTEE**

The Committee requested the Department of Finance and Administration to provide the following supplementary information:

- Whether budget information was available in tabulated form (F&PA 20) (Attachment A);
- Further information on the outcomes framework, particularly regarding Finance's efforts to improve the clarity and consistency of outcome arrangements across agencies (F&PA 21) (Attachment B)
- Costs of implementation of the international accounting standards (F&PA 28) (Attachment C);
- A response to the matters raised in the letter from Mr Stephen Bartos to Dr Watt of 29 August 2002 (F&PA 30) (Attachment D).

The Committee also requested the response in advance of the Committee's next public hearing, scheduled for Thursday 12 October 2006.

The attached supplementary submission provides the requested response.

Yours sincerely

Mike Loudon  
A/g Deputy Secretary  
Financial Management Group  
11 October 2006

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**Attachment A**

**BUDGET INFORMATION**

1.1. Senator Ludwig asked “If somebody were to ask for the statistical tables in a raw form, is that able to be provided? Can you strip that out and provide it that way if asked?” (F&PA 20).

1.2. The format of the Budget and related papers is a matter for the Government. The Department of Finance and Administration provides the information in the formats requested by government.

1.3. It is important to note that there is a substantial amount of information aggregated to form the Budget and related papers. This information undergoes significant quality assurance processes prior to publication. While it may be technically possible to provide the data in raw form the possibility that data would be lost or altered would raise major concerns on the integrity of the information and therefore reflect on the integrity of the budget.

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**Attachment B**

**FURTHER INFORMATION ON THE OUTCOMES FRAMEWORK**

**1. Introduction**

1.4. The Senate Finance and Public Administration Reference Committee at its hearing on 8 September 2006 requested further information on efforts under way to improve the clarity and consistency of outcome arrangements across agencies (F&PA 21). The following information is provided in response to that request.

1.5. The Finance submission to the Committee of 4 August 2006 provided an overview of current arrangements as well as the strategy for improving budget information in relation to:

- simplification and refinement of practices and procedures;
- legislative amendment; and
- additional training, information and guidance.

1.6. The strategy involves a combination of ongoing reform effort, together with specific reviews to address matters identified by Finance and key stakeholders as requiring specific attention in their own right or as necessary precursors to other reform efforts. Areas of activity already under way or identified for further action include:

- a progressive programme of reviewing agencies' outcomes and related information;
- revision of guidance for agencies on the outcomes framework and the reporting of outcome achievements; and
- ongoing review of the presentation and reporting of outcome information.

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## **2. Reviewing Outcomes**

2.1. Three streams of review activity are under way in relation to the review of agency outcome arrangements:

- agencies are expected to review the currency, relevance and transparency of their outcomes and related performance information on an ongoing basis, and to bring forward any desired changes to outcomes and programmes at the beginning of each annual Budget preparation cycle;
- the ANAO is undertaking its third performance audit since 2000 of the outcomes framework; and
- Finance is undertaking a progressive review of the outcome arrangements for all agencies, with the aim of improving both the clarity and currency of agency outcomes and the extent to which they provide the parliament and public with an appropriate level of detail, in terms of the objectives being pursued and the extent of their achievement.

2.2. An example of the ongoing review by agencies is that of the Health and Ageing Portfolio, which moved from 20 to 23 outcomes for the Portfolio in 2006/07. The outcome structure was revised to highlight the Government's priorities in the Portfolio, including new outcomes for mental health and the health workforce, and separate outcomes for pharmaceutical and medical services.

2.3. Finance has been actively involved in the ANAO performance audit of outcome arrangements, seeking to incorporate responses to emerging issues in proposed changes to framework guidelines and to identify priority areas for attention in relation to the framework.

2.4. The Finance review of agency outcomes is being progressed during 2006 and 2007, and has already assisted agencies to focus on the results orientation of their outcome statements and greater precision in measurement of progress towards these results.

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2.5. Changes were made to a number of agencies in 2006/07, including the Administrative Appeals Tribunal, Centrelink and the National Archives of Australia. The National Archives, for example, now reports under two outcomes, to provide greater clarity of its objectives and performance indicators.

### **3. Revised Guidance for Agencies**

3.1. Finance is revising its guidance on the outcomes framework to consolidate previous advice and address recent changes in financial management and accountability arrangements; for example, the role of programmes. In this context, significant consideration is being given to comments expressed by and before the Committee for more comprehensive guidance in terms of the presentation and detail of outcome and output information. Finance will be progressively replacing the guidelines on its website, including advice on mandatory reporting requirements and formats.

3.2. This will include providing greater prominence to existing guidance on such matters as treatment of shared outcomes. Guidance is already available for agencies to use in reporting on how their outcomes contribute to the outcomes of other agencies and broader government objectives through:

- reporting guidelines for agencies in relation to the preparation of the Portfolio Budget Statements (PBS) and Annual Report;
- Better Practice Guides from Finance and the ANAO (“Annual Performance Reporting” from 2004 and “Performance Information in Portfolio Budget Statements” from 2002);
- the Outcome and Outputs Framework Guidance document; and
- the Management Advisory Committee (MAC) Report “Connecting Government: Whole of Government Responses to Australia’s Priority Challenges”.

3.3. The revised guidance will be launched in early 2007 as part of the ongoing update of the Finance website and publications. This will be complemented by the

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introduction of training programs on outcomes and performance information to supplement existing financial management training available to agencies.

#### **4. Improving Consistency**

4.1. The Committee has indicated its interest in improving consistency across agencies in the specificity of outcomes and the level of performance information provided.

4.2. The focus of outcomes is on the achievement of the goals agreed with the Government. As such outcomes need to reflect those goals and need to be expressed in sufficient clarity to assess whether the outcomes are being achieved. This requires a consistent policy framework, which provides sufficient flexibility in operation to cover the wide variety of agencies undertaking a varied range of activities. Activities that range from policy development, research, regulation to service delivery and implementation. Sectors of the economy covered range widely as well, covering everything from financial services, manufacturing, agriculture to defence and security. These are some of the factors which need to be taken into account when developing the number, type and specificity of outcomes and the associated performance information for an agency.

4.3. Complex organisations such as the Departments of Defence and Family, Community Services and Indigenous Affairs have multiple outcomes reflecting their multiple goals, whereas other organisations with a more focused responsibility may only have one or two. For example an agency with discrete responsibilities, such as the Australian Law Reform Commission, has only have a single outcome for appropriation purposes, whereas another small agency with multiple areas of focus, such as the Fisheries Research and Development Corporation, has three.

4.4. Finance's approach is to work with all agencies in improving their outcomes and associated performance information whilst recognising the need for a varying breadth and depth of information suited to an agency's specific goals and the nature of

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activity. It is quality and appropriateness that is the prime focus rather than the number and quantity of outcomes and performance information.

4.5. The Finance guidance sets out the minimum standards that agencies are required to meet. Agencies are encouraged to work with their key stakeholders, including the parliament and its committees, to provide information beyond the minimum standard that is useful and relevant to the government, their management of programmes and their constituency of stakeholders.

## 5. Conclusions

5.1. The ongoing review of outcomes and related information seeks to establish an appropriate structure of outcomes for each agency, focused on clearly identifying the underlying purpose of the agency's activity and expected results. The key challenge that arises from this is to ensure quality in the range and detail of performance information that supports these outcomes, and informs parliament and the public in a clear and sustainable fashion.

5.2. Improving accountability is a major objective of the outcomes framework. This is being achieved through continuously improving the overall level of transparency of agency activities. Consistency, which is a secondary consideration to improving accountability and transparency, is being promoted by setting a minimum standard for agencies to achieve. The review of outcomes, expanded training and revision of guidance are all aspects of Finance's and agencies' work in pursuit of these objectives.

5.3. Finance will continue to work with agencies on this program of reform, taking into account both the lessons learned so far and the suggestions of key stakeholders on how the application of the framework can be further improved. The findings of this Senate Committee will be important to Finance in planning its future requirements and support to the outcomes framework.

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**Attachment C**

**COSTS OF IMPLEMENTATION OF THE INTERNATIONAL  
ACCOUNTING STANDARDS**

1.1. Senator Watson asked “What costs are incurred by the department in complying with this new international accounting standards?” and also “Would there be costs allocated to that or does it come under one of these one-line appropriations?” (F&PA 28).

1.2. At the 8 September 2006 hearing Ms Campbell responded to this question, in part, by noting “There may be minor additional costs, but we did not go to government seeking additional funding.” and that “Sustainable government finances is the outcome that we contribute to, and the funding for my group exists within that.”

1.3. As stated by Ms Campbell no additional funding was requested of the Government or provided to Finance for the transition to the international standards. The Department has responsibility for and is funded for developing, enhancing and promulgating accounting policy, as well as providing assistance to agencies in its implementation. The Department undertook the work as part of its ongoing activity in this area and has not separately identified the costs associated with this particular aspect of accounting policy.

1.4. This activity was undertaken as part of delivering on the outcome – sustainable government finances and has not been separately identified for either management or reporting purposes.



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**Attachment D**

**RESPONSE TO MATTERS RAISED IN THE LETTER  
FROM MR BARTOS TO DR WATT**

**2. Introduction**

2.1. At the time of the introduction of the accrual arrangements the Government agreed to the need for periodic review of the arrangements. In early 2002 many issues were being canvassed within the Department of Finance and Administration (Finance) as areas of possible review. In April 2002 the Government requested Finance and the Department of the Treasury to conduct an internal review of the budget estimates and framework system – the Budget Estimates and Framework Review (the Review).

2.2. In his letter to Dr Watt, Secretary of the Department of Finance and Administration (Finance) dated 29 August 2002, Mr Stephen Bartos, then an officer of the Department, highlighted his concerns with accrual budgeting arrangements and suggested remedies. His concerns related to the slowness of estimates preparation, unnecessary complexity of accrual measurement of certain administered expenses, lack of understanding of the system amongst senior managers, high level specification of outcomes, the choice of fiscal targets and use of a capital charging regime. As requested (F&PA 30) Finance's response to each of the matters raised is provided below.

**3. Slow estimates (incentive and systems issues)**

3.1. Mr Bartos raised concerns about the effect of the devolution of estimates to agencies and the adequacy of financial information systems on the ability of Finance to provide advice to Ministers.

3.2. In October 2002 the Government agreed to all of the recommendations of the Review. The Review identified opportunities to improve the timeliness and quality of budget related financial information and Finance's ability to provide advice on

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expenditure priorities. Finance has been implementing the recommendations in consultation with agencies.

3.3. Estimates are now prepared on a collaborative basis between agencies and Finance. This allows Finance to develop an understanding of the content of estimates and the assumptions underlying them. Nevertheless, Finance retains the responsibility for the final decision on the appropriate estimate to be recorded in the central financial system. This collaborative approach provides a solid basis for advising government on estimates.

3.4. The Central Budget Management System (CBMS), which is being phased into service to replace the Accrual Information Management System (AIMS), has the capability to maintain comprehensive estimates down to programme level for all agencies and the potential to produce reports in a variety of formats depending on the Government's requirements and agencies' needs.

3.5. Agencies' financial management information systems interface with CBMS to enable aggregation to meet the requirements of whole-of-government estimates and reporting. This arrangement enables whole-of-government estimates and reporting needs to be met as well as enabling agencies to maintain financial systems for agency management purposes.

#### **4. Complexity of applying accruals to administered estimates**

4.1. Mr Bartos suggested that as accrual accounting is primarily a management tool and that where agencies have no real control, ie administered items, the value of accruals is limited. He suggested that centralised reporting of administered items might be a means to simplify monitoring and reporting.

4.2. While accrual accounting requires more information on some administered transactions than cash accounting requirements, the differences are negligible where the flows are purely cash and relate to the period in which they are incurred.

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4.3. A key rationale for maintaining agency accounting and reporting for administered items relates to management rather than accounting. Public service managers are responsible for administering policy initiatives on behalf of government, so it is reasonable for them to maintain related information as part of their accounts and records. These requirements are generally less extensive than for departmental expenses for example, reporting of administered items is in the notes to an agency's financial statements.

4.4. To establish a new centralised reporting structure as suggested by Mr Bartos would seem unnecessary, add to the administrative burden on agencies and be seen as shifting accountability away from those directly responsible for the delivery of administered programmes.

## **5. Lack of understanding**

5.1. Mr Bartos noted that training on the accrual based budgeting and outcomes arrangements ceased after the new arrangements were implemented and suggested that a training programme on practical aspects of managing under the accruals environment should be considered.

5.2. In 2004 Finance initiated a training programme on budget and financial estimates arrangements for internal staff development. In 2005, the programme was opened to Australian Public Service (APS) staff through the Public Management Programs centre at the University of Canberra, under a license agreement with Finance. Since March 2005, there have been more than 2000 participants in budget and financial training courses under this programme.

5.3. In August 2006, the Australian Public Service Commission (APSC) launched a senior executive training course on financial management, developed in partnership with Finance. This course is only one aspect of the APSC suite of training available to

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APS agencies and staff on financial management. Agencies also provide a significant amount of internal training specifically addressing their own needs.

5.4. Finance continues to develop its suite of training on budget estimates and financial management for internal and external APS staff. Finance is currently finalising a tender for providers of training services to increase the choice and availability of financial management training to the wider public service.

## **6. High level of specification of outcomes**

6.1. Mr Bartos suggested that there was a loss of information in the transition from programmes to outcomes-based budgeting. He noted that differences relating to functional information had been addressed shortly after the transition to accrual budgeting, but he believed there was still a concern regarding programme details.

6.2. The range and depth of information available to Parliament on agency performance has increased substantially since the introduction of outcomes and outputs measurement. The increase in performance indicators and measures has been a response to suggestions from and/or requests for such information expressed by the Joint Committee of Public Accounts and Audit and the Senate Legislation Committees, amongst others.

6.3. In 2003-04 Finance and the Australian National Audit Office (ANAO) produced a better practice guide on performance reporting in annual reports. Finance and the ANAO continue to cooperate on other audit and related activities associated with improving the quality of performance information.

6.4. Improving the precision and quality of performance information is a process of continuous improvement. Finance is working on initiatives to assist agencies, including:

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- Revising guidance to agencies on outcomes and performance information and developing a training course on the development and design of performance information to be piloted later in 2006; and
- A progressive review of outcomes and related information. Discussions have been held with all departments and more than thirty other agencies. Some agencies have already changed or refined their outcomes and associated performance information. The timing of work with individual agencies aims to tie revisions into internal management and planning arrangements.

6.5. There is not necessarily a direct relationship between the number of reporting levels or indicators and the usefulness of information. The principal purpose of reviewing outcomes is to improve the usefulness and clarity of outcomes, the agency's contribution to the achievement of the outcomes and improve performance indicators and information. Whether this will result in an increase in the number of reporting levels is not a major consideration.

6.6. Finance will continue to work with agencies to improve the quality of outcomes and related information; and their reporting on that information.

## **7. Other aspects**

### **Fiscal targets**

7.1. Mr Bartos expressed a view that there are two (potentially three) important measures for fiscal policy: underlying cash; net assets or net worth; and the (accrual) operating result.

7.2. The Budget papers, the Final Budget Outcome and the Consolidated Financial Statements present one or more of these measures as appropriate to the nature of the document, its audience and purpose.

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**Capital use charge**

7.3. Mr Bartos argued that the capital use charge, as it was applied in the Commonwealth, was not useful as an incentive for better asset management except under market testing.

7.4. The Government removed the capital charge in 2002 as it had fulfilled its purpose to focus agencies on capital management and was no longer necessary.