

The Parliament of the Commonwealth of Australia

**SENATE
FINANCE AND PUBLIC ADMINISTRATION
LEGISLATION COMMITTEE**

***The Format of the Portfolio Budget Statements
Third Report***

NOVEMBER 2000

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ISBN 0 642 71106 2

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CHAPTER 1 – BACKGROUND

Introduction

1.1 This is the committee's third report on the format and contents of the Portfolio Budget Statements (PBS) following the referral of the matter to the committee on 21 November 1996.¹ That reference arose from the unusually high level of criticism from Senate legislation committees of the 1996-97 PBS.

1.2 In the committee's first report² the committee presented some broad general principles for the PBS but did not recommend specific changes, in view of the level of change expected through the move to an accrual budget for the year 1999-2000 and an outcomes and outputs reporting framework. It signalled its intention to maintain an involvement in the PBS guidelines and to analyse and report on the reception accorded to the PBS in subsequent estimates rounds.

1.3 The committee reported again in October 1999,³ following the first accrual budget in May of that year. It found that the revised PBS had had a mixed reception, with fairly predictable difficulties associated with the mechanics of accrual budgeting per se and with the new reporting framework. Yet even allowing for the changes, there was a degree of consistency in the criticisms voiced. Senators wanted less aggregated financial information; they wanted more standardisation across PBS; and they wanted forward estimates for outcomes and outputs.

1.4 In its response tabled on 6 April 2000,⁴ the government agreed to the majority of the committee's recommendations. It agreed to publish a best practice outcomes and outputs guide on the Department of Finance and Administration (DOFA) website; to disaggregate appropriations to output level in the PBS; to itemise administered expenses; to disclose variations from budget predictions to actual expenses; and to include explanations of the capital user charge. It did not agree to the publication of more detailed forward estimates.

Conduct of the committee's ongoing monitoring of the PBS

1.5 In the course of its own scrutiny of the parliamentary departments and the portfolios of the Prime Minister and of Finance and Administration in its examination of the 2000-2001 budget estimates, the committee was able to observe the usefulness of those PBS produced under the revised guidelines.

1 *Journals of the Senate*, 21 November 1996, 1067.

2 Senate Finance and Public Administration Legislation Committee, *The Format of the Portfolio Budget Statements*, 1997.

3 Senate Finance and Public Administration Legislation Committee, *The Format of the Portfolio Budget Statements: Second Report*, 1999.

4 *Senate Hansard*, 6 April 2000, 13556.

1.6 It also had the benefit of the views of colleagues who examined the other portfolios and who were exhorted by the committee to use the estimates forum to place on the public record any comments they had on the PBS of the portfolios they were examining. This methodology was reasonably successful in garnering senators' comments and it is those views, supplemented by more formal comment in the estimates reports of the legislation committees, which form the basis of this report.

1.7 Rather than hold another public hearing on the PBS, the committee invited all senators who had commented on the content of the PBS in the 2000-01 budget estimates round to attend a private meeting with the committee and representatives of DOFA, to discuss their concerns. A considerable level of interest was shown, with fifteen senators taking the opportunity to attend, on 4 October 2000. The committee thanks DOFA representatives Messrs Jim Murphy and David Martine, and Ms Margaret Hill, for their assistance at that meeting.

Purpose of the PBS

1.8 The DOFA guidelines for the PBS state 'The purpose of the PBS is to explain Appropriation Bills (Nos 1 & 2) and Appropriations (Parliamentary Departments) Bill (year) to Senators and Members. It should sufficiently explain the proposed allocation of resources to Government outcomes by agencies within the portfolio.' That is, the PBS are in effect the Explanatory Memoranda for the Appropriation Bills.

1.9 The PBS are also used as the agenda for estimates hearings, in which the provisions of the Appropriation Bills are examined by eight Senate legislation committees. Senators' views on their estimates role and on what will assist them scrutinise the government's expenditure proposals may vary from DOFA's expectations. Many would agree with the sentiments Senator Ray expressed to the Australian Taxation Office, 'My duty ... is to check, as an opposition senator and a participant in the estimates process, that the expenditure is wisely spent.'⁵ The achievement of outcomes, while undoubtedly important, is not the only issue – senators look to the PBS for an explanation of inputs and an indication that the processes involved were proper.

1.10 DOFA has recognised in the past that the PBS need to be senator-friendly, as well as robust budgeting documents. As Mr Bartos told the committee:

The portfolio budget statement is one of the central budget documents that enables effective public scrutiny of Commonwealth expenditures. As such, it needs to be in a format that is tailored to the information needs of senators and members to ensure that it is able to be used as a document that can enhance accountability and ensure disclosure.⁶

5 Senate Economics Legislation Committee, *Hansard*, 29 May 2000, 5.

6 Senate Finance and Public Administration Legislation Committee, *Hansard*, 17 June 1999, 2.

1.11 Given the divergence of views on what constitutes those ‘information needs’, and on what the broader estimates process ought to be about, the PBS are inevitably compromise documents and as such have attracted a variety of criticism and not infrequently mutually contradictory criticism. The committee agrees with DOFA’s assertion that the PBS now contain much more budgeting information than did their predecessors.

1.12 The annually revised DOFA guidelines provide the content framework for the PBS, though following the passage of the *Financial Management Act 1997*, DOFA no longer enjoys central agency control over agencies’ PBS.⁷ The stumbling block is, as always, that given the wide latitude normally accorded to senators in estimates questioning, ‘input’ and ‘process’ issues are likely to continue being asked in that forum, even though the appropriations are now directed to outcomes. And the structure of the PBS does not assist in the formulating of questions on input and process.

Use of the PBS

1.13 The committee has noted some progress, however, following its recommended changes to the PBS guidelines last year. The 2000-01 PBS appeared to be used more extensively than in previous years, though usage varied from senator to senator and from committee to committee. Twenty-six senators (excluding ministers), twenty of them from the opposition, made obvious use of the PBS in the estimates process – that is, they referred to the documents by name or description. Other senators, in particular government senators, may have made use of the documents but as the examination of the estimates is largely an opposition prerogative, such use would not be apparent in the estimates context. The overwhelming emphasis in estimates questioning was still on inputs and processes, but some attention was paid to performance indicators.

The format of the PBS

1.14 The PBS have regularly attracted generalised criticism for their ‘layout’ and for the fact that some users have difficulty in finding the information they are seeking. By comparison with their predecessors, the PBS are indeed structured differently. No specific suggestions for change to the layout have been put forward, however. Given the likely continuation of both accrual budgeting and the outcomes and outputs reporting framework in the foreseeable future, there is limited scope for portfolios to present information in a significantly different way. The matter of output definition, which is of concern to some users of the PBS, does not affect the layout of the documents.

1.15 The committee itself is not convinced that there is anything radically wrong in principle with the PBS layout. A careful reading of the introductory material to each

⁷ There have been calls for a reassertion of a supervisory role for DOFA. See, for example, Tanner, L, *Restoring Openness in Government*, November 2000.

document would assist in their use and, over time, would contribute to an improved understanding of public sector budgeting and accrual accounting principles and to the quite separate matter of the outcomes and outputs reporting framework. The committee suggests, however, that most PBS would be better served by more cross-referencing within the document and by a more detailed index.

Contents of the report

1.16 In the following chapters, the committee will consider in turn the reporting framework (Chapter 2), accrual budgeting (Chapter 3) and performance information (Chapter 4). Chapter 5 will present its conclusions and summarise its recommendations.

CHAPTER 2 – THE REPORTING FRAMEWORK

2.1 The 2000-01 PBS were the second produced under an outcomes and outputs reporting framework and the third for those agencies which had participated in the accrual budgeting trial. Despite warnings that the new framework would take some time to stabilise, senators clearly expect a level of stability that not all portfolios have yet achieved. Senator West was one to voice concerns, in this case to the Health and Aged Care portfolio:

When we had additional statements there were modifications and corrections because various problems had been identified in the transition to accrual accounting. Are there any amendments, any transitions, any modifications in this one or are we now actually at something that is comparable and we can follow this through?¹

2.2 The major change presented by the new framework and the resultant limited basis for comparisons was disliked by many senators and the prospect of years of instability even more so. DOFA, as custodian of the PBS guidelines, has produced guidance to agencies on the issue of changing outcome and output specifications:

There is no single answer to the appropriate trade-off between change and continuity, other than to say that portfolios need to weigh up the benefits of improved specifications of their outcomes and outputs, against the value of consistency in the information presented to Parliament.

DOFA also stressed that while consistency is important, it should not be maintained at the expense of manifestly inadequate outcomes and outputs; and where a new framework is developed, agencies should provide suitable transition tools, such as mapping from the old to the new structures.²

2.3 The committee accepts that no reporting framework can be set in concrete – it must evolve to accommodate changing circumstances. And the committee has also been warned by representatives of state jurisdictions that reporting frameworks can take many years to stabilise. What the committee and, we suspect, our colleagues, do not want to see however is change for the sake of change; the ‘new broom’ attacking a reporting framework which has proved satisfactory.

2.4 It was, therefore, particularly interesting to see what changes had been made to portfolios’ outcomes and outputs after the first year’s experience with them, to consider the rationale for the changes and to assess whether senators find problems remaining with the current reporting frameworks or the mapping from one framework to another.

1 Senate Community Affairs Legislation Committee, *Hansard*, 22 May 2000, 8.

2 DOFA, *Outcomes and outputs – November 1999*, 13.

Changes to outcomes

2.5 Outcomes are intended to reflect the government's objectives; appropriations are now directed specifically to them. They need to be clearly expressed, so that the intended impact is understood and so that major services and administered items contributing to the outcome appear logical. In practice, however, some agencies face a real challenge in developing specific outcomes for the at times highly diverse functions directed to them under the Administrative Arrangement Orders. The tendency is to resort to fairly general outcome statements.

2.6 DOFA itself, for example, having segregated its activities neatly and logically into budget-related, parliament-related and 'other', had the challenge of coming up with an outcome to cover, succinctly, 'other' – which comprises a diverse range of activities including property management, access to government information, natural disaster relief, financial legislation, public sector superannuation advice, support for the Remuneration Tribunal, advice on service charters, and Antarctic mapping. The result was the outcome 'Improved and more efficient government operations' – a creditable effort. It signals to the committee, however, that outcomes are in some cases really 'flags of convenience' whose primary practical purpose appears to be to limit to a certain extent agencies' abilities to move money around.

2.7 That said, the extent of outcome movement from 1999-2000 to 2000-01 was not great. The Health and Aged Care portfolio reduced its outcomes from ten to nine, and reordered them. Corporate activities were distributed across outcomes, consistent with the approach adopted by other portfolios; and the first four outcomes were devoted to central and continuing aspects of the portfolio's business, while the remaining five related to present priorities, presumably in an effort to reduce the need for major change in the future. Departmental secretary Mr Andrew Podger made the point that the portfolio had retained a more specific breakdown than most, specifically to counter criticisms of reduced information in the new framework. He further explained that, for consistency and comparability, figures for the previous year's appropriations had been adjusted in line with the new structure, but for a variety of reasons were still not strictly comparable.³

2.8 Other portfolios, or individual agencies within portfolios, made changes to their outcomes. The Australian Federal Police reduced its five outcomes and 19 outputs to two and four, respectively, on the grounds that 'the level of detail required to administer and report on [the previous structure] was such that we found we were losing track of what it was we were trying to measure and account for'.⁴ It chose instead two outcomes, one relating to national and international responsibilities and the other to ACT community policing, which it hoped would make for clearer reporting.

3 Senate Community Affairs Legislation Committee, *Hansard*, 22 May 2000, 4.

4 Senate Legal and Constitutional Affairs Legislation Committee, *Hansard*, 29 May 2000, 131.

2.9 Agriculture, Fisheries and Forestry – Australia (AFFA) also revamped its outcome structure from two to one, to emphasise the interrelationship of its activities. A single portfolio outcome was retained, while the two departmental outcomes were joined and refined.

2.10 As far as the committee can make out, the trend to date has been a reduction in the number of outcomes. If this is of concern to senators, that concern has not been expressed in estimates hearings. Nor has much attention been paid to the question of portfolio outcomes versus individual agency outcomes within the same portfolio, or to the quality of outcome descriptions. Senators' major concerns relating to outcomes were summed up by Senator Crowley, who commented, 'We are funding towards outcomes, but we do not have any hard data on outcomes here'⁵ – a matter the committee will address in Chapter 4.

Changes to outputs

2.11 By contrast, senators paid a great deal of attention to outputs, and changes to the output structures. Unlike outcomes, where changes need to involve the portfolio minister and the Minister for Finance and Administration, outputs may be changed throughout the year. Departments and agencies can, of their own volition, vary their mix of outputs within a given outcome and the price of outputs, within overall resourcing for departmental items.

2.12 The level of output change was uneven across portfolios. In some cases, change was restricted to the rewording of output descriptions or renumbering; in other cases, new outputs were created, and former outputs were split, merged or otherwise changed. The committee secretariat undertook a brief sample of agencies to obtain an indication of the level of change. Of the 92 agencies sampled, 41 (or 45 per cent) had made changes to their outputs. Small agencies were much less likely to change outputs than were larger ones.

2.13 Some output changes noted by the committee were the result of added responsibilities. The Prime Minister's portfolio, for example, added an output to accommodate a major short-term task, the running of the Commonwealth Heads of Government Meeting.

2.14 Others were readjustments: Family and Community Services, for example, inherited an item, 'support for child care', and on reflection decided that child care funding and support for playgroups and youth access centres did not belong together.⁶

2.15 The Department of Industry, Science and Resources also recast the activities which contribute to its outputs, meaning that financial comparisons between the two years would be difficult. This prompted a retort from Senator George Campbell, 'That

5 Senate Community Affairs Legislation Committee, *Hansard*, 22 May 2000, 31.

6 Senate Community Affairs Legislation Committee, *Hansard*, 24 May 2000, 307.

is what concerns us ... they keep shifting the goalposts'.⁷ The Department of Employment, Workplace Relations and Small Business also restructured its outputs, but provided the scrutiny committee with the information in advance of the estimates hearings. In the Environment and Heritage portfolio, it was disclosed in the estimates hearing that there had been a transfer of outputs to Environment Australia and even the officers at the table had difficulty locating them, prompting Senator Bolkus to comment, 'It is almost like one monumental chess game where someone sits over there and tries to conceal outputs.'⁸

2.16 Defence went from 22 to five outputs, with departmental secretary Dr Allan Hawke indicating that he still did not believe they had got it right.⁹ Senators attempted to follow where some of the former outputs had gone and learnt, for example, that 'International Policy' had been split, with the 'doing' aspect going to new output 1, 'Defence Operations' and the advice aspect going to output 5, 'Policy Advice'. They were, however, provided with a map translating from the old structure to the new.

2.17 In the estimates hearings of Transport and Regional Services, admittedly a complex portfolio, the scrutiny committee made no effort to use the outcomes and outputs structure, but directed its questioning to organisational units with which it was familiar. The organisational structure had in fact changed before the 2000-01 budget estimates hearings; the Federal Office of Road Safety had been disbanded and its functions reallocated between organisational units Land Transport and the Australian Transport Safety Bureau. Yet officials still directed committee members' questioning to the organisational unit, not the output. This may well have been in an effort to be polite and helpful; or it may have been a recognition of problems with the output structure.

2.18 Overall, there seemed to be a tendency for agencies to move to the use of output groups, then individual outputs within them. Whether those output groups were specified along functional lines, such as 'child support', or generically, such as 'police advice' did not seem to be of concern to senators examining the estimates. It may develop as a concern, however, if practice across agencies diverges greatly. That would impede the ability of Parliament to compare the costs of similar activities across government, which was advanced as one of the selling points of the current system.

2.19 The committee is beginning to question whether the same reporting structures can suit internal resource management and external reporting equally well. It notes an increasing tendency for agencies to prepare and provide further information to the legislation committee which scrutinises their activities, either in advance of the estimates hearings or at their commencement. While the bottom line for the

7 Senate Economics Legislation Committee, *Hansard*, 1 June 2000, 364.

8 Senate Environment, Communications, Information Technology and the Arts Legislation Committee, *Hansard*, 22 May 2000, 86.

9 Senate Foreign Affairs, Defence and Trade Legislation Committee, *Hansard*, 29 May 2000, 11.

committees concerned is that the information is provided, this committee questions why the reporting framework was not adapted in the first place, to obviate the need for the additional work.

2.20 In this context, the question of consistency within and across portfolios of the 'look' and 'feel' of the PBS also arises. While agencies not unnaturally devise their reporting framework to suit their own circumstances, it is disconcerting for senators to find that across three or four portfolios, the specificity of reporting varies greatly, as does the style of presentation. Even within the one portfolio, agencies variously appear to 'do their own thing' or are corralled into a straightjacket which suits some more than others. In their different ways, legislation committees voiced their protests in their 2000-01 estimates reports, without necessarily suggesting alternative approaches.¹⁰

2.21 In addressing this question, the commissioned review of the first accrual budgeting process by Dr Michael Vertigan found that, while 'it is neither feasible or desirable for each department and agency to have an identical [outcomes and outputs] specification, it is desirable that treatments be comparable where circumstances are similar'.¹¹ The committee saw little evidence of this evolving in the 2000-01 PBS, but it is perhaps too soon for it to do so.

2.22 Changes to outcomes and outputs are required to be outlined in the PBS and, apart from changes which took place after the tabling of the documents, this requirement appears to have been met in 2000-01 PBS. The level of explanatory narrative concerning the changes, which is generally well liked by senators, varies from minimal to generous. The Department of Employment, Workplace Relations and Small Business produced a clear and useful one-page account of its changes, reflecting on the reasons they were found to be necessary and on the design of the new outputs chosen.¹²

2.23 However logical an output structure is in theory, it is likely to be criticised if it does not coincide with the specific interests of senators, who might wish for a more detailed funding breakdown than the output structure provides. Such matters in the 2000-01 estimates round included: breast screening and cervical cancer screening, rather than the global 'screening for preventable diseases'; a disaggregation of sport and tourism funding within the Department of Industry, Science and Resources; Action Agenda; higher education and vocational education infrastructure funding; youth forum component of the Youth Affairs Grants and Publicity Program; Bougainville operations; Agriculture Advancing Australia.

10 See, for example, Senate Economics Legislation Committee, *Budget Estimates 2000-01 Report*, 3; Senate Employment, Workplace Relations, Small Business and Education Legislation Committee, *Budget Estimates 2000-01 Report*, 8; Senate Foreign Affairs, Defence and Trade Legislation Committee, *Budget Estimates 2000-01 Report*, 2.

11 Review of Budget Estimates Production Arrangements, DOFA, 1999.

12 Employment, Workplace Relations and Small Business, *Portfolio Budget Statements 2000-01*, 21.

Relationship of outcomes and outputs framework to the organisational structure

2.24 There continues to be an expectation on the part of senators that identifiable, administratively and functionally separate agencies should have their funding separately identified; and that separate functions be separately accounted for. The Superannuation Complaints Tribunal, the Australian Quarantine and Inspection Service (AQIS) and the Office of the Status of Women were mentioned in this regard in the examination of the 2000-01 budget estimates. Senator Forshaw, for example, asked of AFFA representatives:

Can you tell me and show me in these portfolio statements the details of the total funding that AQIS will get for this year? I am talking about the allocation from government first as distinct from fees and charges ... It would be very helpful with an agency such as AQIS, which is essentially a stand-alone agency within the department, if we could go to a page in these statements and have a table which says, "This year AQIS will get \$X million made up of this, this and this. Here are the additional items of funding. Here is where they have had some cuts." That could be compared with last year and out year details.¹³

He was offered a table providing the information, along with the explanation, 'the output structure does not lend itself neatly to looking at AQIS as a totality because we are spread across two of the outputs'.

2.25 The issue is not that information on 'independent' agencies subsumed in broader outputs is unavailable or difficult to collate, as it is generally offered to senators on the spot in hearings or provided on notice shortly thereafter. It does, however, make the committee wonder whether the organisational structure tail wags the outcomes and outputs structure dog, or vice versa.

2.26 In this matter, DOFA provided a useful lead in revising its organisational structure in line with its outcomes and outputs structure. It notes that other jurisdictions have also found benefits in the same approach, as 'alignment is likely to maximise the benefits of the new framework for resource management and performance reporting'.¹⁴

Linkage of outputs to outcomes

2.27 A vital component of the outcomes and outputs reporting framework is the clear linkages of outputs to outcomes. While the committee has not yet identified any outputs which seem quite unrelated to the outcome concerned, there are cases where the contribution is modest indeed. The Australian Tourist Commission, for example, has a detailed outcome, 'The number of visitors to Australia from overseas will increase and the benefits to Australia from overseas visitors will be maximised, including benefits from employment, while Australia will be protected from adverse

13 Senate Rural and Regional Affairs and Transport Legislation Committee, *Hansard*, 22 May 2000, 45.

14 DOFA, *Outcomes and outputs – November 1999*, 12.

environmental and social impacts of international tourism.’ The two outputs are simply ‘consumer marketing’ and ‘trade marketing’.¹⁵

2.28 Given the concerns of senators cited above about the lack of information on progress towards outcomes, it is important that outputs can be seen to feed into outcomes and that outputs, taken together, present as complete a measure of the outcome as is possible.

15 Industry, Science and Resources portfolio, *Portfolio Budget Statements 2000-01*, 104.

CHAPTER 3 – BUDGETING ISSUES

Introduction

3.1 ‘The PBS is a quite complex and technical document ... It has a whole series of complicated issues around the accrual accounting, the nature of the appropriation arrangements in this parliament, and so on, which are very hard to explain to the person in the street.’¹ So the Community Affairs Legislation Committee was told and it is a comment which would resonate with many senators unaccustomed to accounting concepts in general and with public sector budgeting in particular.

Comparability between years

3.2 Perhaps the factor to cause most confusion to senators in the 2000-01 estimates process was funding which had changed not because of funding cuts or increases, but from ‘rephasing’, changed attribution of overheads, completion of programs et cetera. As Department of the Environment and Heritage representatives indicated:

The correlation between the budgeted figure and the actual figure that appears in the yellow PBS has been a source of difficulty throughout the evening ... it is to do with the way the information is presented, rather than with an actual difference in allocation or expenditure.²

3.3 This is an ‘input’ issue but it is one which has proved over the years to be of importance to senators. A radical drop in funding or even a dramatic boost in funding can mean that a given activity is failing or succeeding beyond all expectations – and as the published performance reports will not necessarily pick up those trends for some time, explanations can and should be sought in estimates on the basis of the funding changes alone. But time after time, the explanations provided in the 2000-01 budget estimates round related to the extraneous factors mentioned above.

3.4 Senator Ray, for example, sought an explanation for a 15 per cent increase in allowances for former governors-general. Mr Henderson explained that they were back allowances, incorporated in the estimates for the first time in 2000-01. Once the senator realised that the apparent increase was merely an accounting artefact, he indicated he did not need further information.³

Attribution of overheads

3.5 Many of the quite large variations in output funding were explained as being the result of changes to the attribution of overheads. Most smaller agencies do this on

1 Senate Community Affairs Legislation Committee, *Hansard*, 22 May 2000, 30.

2 Senate Environment, Communications, Information Technology and the Arts Legislation Committee, *Hansard*, 22 May 2000, 84.

3 Senate Finance and Public Administration Legislation Committee, *Hansard*, 22 May 2000, 90.

a pro-rata basis. Overheads such as corporate services, legal services, property operating costs, libraries et cetera are simply allocated to outputs uniformly across the board. Those agencies which have actually considered the matter closely realise that this approach is overly simplistic and, if their management information systems allow it, may endeavour to attribute overheads more precisely. When they do so, output funding may vary considerably from that of the previous year.

3.6 Senator Bolkus, for example, questioned what appeared to be a considerable variation in funding for participation in international environmental science forums by the Supervising Scientist and was told,

we have re-estimated the contributions to each of the outputs that arose across the Supervising Scientist's operations during the year. The contribution to each output was estimated in a fairly crude way in the previous year and the actuals were based on re-estimates of the contribution of people's time and effort to each of the activities.⁴

Lapsing programs

3.7 A similar problem can arise when former budget measures reach the end of their scheduled life. Education department secretary Mr Steve Sedgwick outlined in relation to a number of programs:

Those programs are formally known as being lapsing programs in the budget processes that we go through. In those cases, though, the forward estimates had included a provision to enable those programs to be funded in future years should the government so decide. In this year's budget process, the government considered whether or not it wanted to continue those programs and it made a judgment that it did ... because the forward estimates had already included notional sums of those orders of magnitude, the convention that Finance adopted this year was that they would be shown as zero in the measures table because they did not add to the budget bottom line.⁵

Rephasing

3.8 Not all expenditure can be expected to run to time, resulting in funding movement between years which is the result of slippages, not cuts or increases. Many senators endeavoured to explore such funding variations, and were provided with explanations such as the following, from the Industry, Science and Resources portfolio:

Do you want a full list of movements between the years? They are not necessarily cuts, they are just reductions which may come about by

4 Senate Environment, Communications, Information Technology and the Arts Legislation Committee, *Hansard*, 22 May 2000, 10-11.

5 Senate Employment, Workplace Relations, Small Business and Education Legislation Committee, *Hansard*, 31 May 2000, 207.

rephasings or whatever ... There are ... about 40 items which combine to make up our administered expenses. They are made up of a range of things. The TDP, which is one of the measures, was reduced, there was a cut to that program, but in other programs it is because decisions which were announced in previous years are now coming to an end of the program's life, the program was phased in a way where it was not constant across the years – it was perhaps a higher start-up or a lower start-up, building up or building down.⁶

3.9 \$4.27 million of the Office of the Status of Women's budget for Partnerships Against Domestic Violence was rephased, with the only explanation appearing in the PBS being the following:

The Office of Status of Women has rephased funding for the Partnerships Against Domestic Violence (PADV) element of the Women's Programmes. \$25m of funding announced in 1998-99 for PADV has now been allocated against strategic elements to deliver maximum benefit to the prevention of violence. This has resulted in lower than originally estimated expenditure in 1999-2000 with a commensurate increase in the 2001-02 and 2002-03 financial years.⁷

3.10 Defence, arguably the department most likely to be affected by rephasing, provided its scrutiny committee separately with a table showing the budget estimates for 2000-01, broken down within outputs, the corresponding dollar variation to estimated actuals for 1999-2000 and the percentage variation. Senators were then in a position to concentrate on those activities which appeared to warrant closer scrutiny.

A possible way forward?

3.11 In the committee's view, a relatively simple change to the PBS could make the task of scrutinising senators easier. The committee suggests the provision of the following information, in the tables indicating total resources for each outcome:

Table X: Total Resources for Outcome Y (\$'000)

| Output | Estimated actual (year) | Budget estimate budget (year) | Percentage variation | Reason for change |
|------------|-------------------------|-------------------------------|----------------------|-------------------|
| Output Y.1 | 100,000 | 50,000 | -50 | (c) |

6 Senate Economics Legislation Committee, *Hansard*, 1 June 2000, 356.

7 Prime Minister's portfolio, *Portfolio Budget Statements 2000-01*, 16.

‘Reasons for change’ code could be along the following lines, and where more than one reason pertained, more than one code could be provided, listed in order of significance:

- (a) increase in base budget
- (b) decrease in base budget
- (c) rephrasing
- (d) changed attribution of overheads
- (e) et cetera.

Forward estimates

3.12 The forward estimates are forecasts of what would be appropriated over the three years beyond the budget year given the existing economic and social conditions and under current government policy. They reflect the minimum cost of maintaining ongoing policies. In its 1999 report on the PBS, the committee recommended that the PBS include forward estimates. This was the only recommendation the government rejected, on the grounds that the information was contained in Budget Paper No. 1. The problem for many senators is that the information presented in Statement 6 of Budget Paper No. 1, 2000-01, is too highly aggregated: that statement provides a breakdown of expenses, categorised only as administered or departmental, at department or agency level; net capital investment at agency level and a few lines of narrative explanation of trends.

3.13 Support for the committee’s position came from the Health and Aged Care portfolio. Apart from providing his scrutiny committee with the information, departmental secretary Mr Andrew Podger stated:

I am conscious there has been concern expressed, including from the press, that the forward estimates for the portfolio are not readily apparent from the portfolio budget statements and appear only in graphical form. I would like to take this opportunity to fill that gap with a document that shows the forward estimates for administrative expenses against each of the portfolio outcomes, as well as a separate table of expenses for the five major portfolio programs that make up about 90 per cent of our outlays.⁸

He later added ‘My own view is that it would be better to have that detail in [the PBS].’⁹ The additional information took up two A4 pages.

3.14 Senator Sherry questioned DOFA officers closely as to whether the forward estimates information at output level was held within the department. When advised that it was, he sought the rationale for its being withheld from the PBS. Mr Murphy responded that the focus of the PBS was the budget year.¹⁰ From a strictly budgeting

8 Senate Community Affairs Legislation Committee, *Hansard*, 22 May 2000, 5.

9 Senate Community Affairs Legislation Committee, *Hansard*, 22 May 2000, 5.

10 Senate Finance and Public Administration Legislation Committee, *Hansard*, 23 May 2000, 148.

viewpoint, this is correct. But as the committee has repeatedly pointed out, 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.

3.15 The Department of Finance and Administration again restated the government's decision not to require forward estimates in the PBS. On being questioned about their non-inclusion, DOFA secretary, Dr Boxall, reiterated, 'it is a government decision not to require agencies to provide forward estimates in the portfolio budget statements ... All we can do is note your concern and advise the government accordingly.'¹¹

3.16 The committee notes the helpful practice of the Education, Training and Youth Affairs (ETYA) portfolio, which presented administered item funding for the out years in an Appendix to its 2000-01 PBS.¹² If the PBS guidelines are not changed to require the disclosure of the forward estimates for, at the very least, the administered items, the committee encourages all portfolios voluntarily to follow the helpful precedent set by ETYA and to provide such information in a prominent position.

New budget measures

3.17 The prominence accorded to new budget measures in the PBS is well liked by senators. For example, in the Family and Community Services portfolio which traditionally has a large number of new budget initiatives, a brief description of each new measure is provided under the relevant outcome, and the reader is referred to the resourcing impact in a table showing the funding for the budget year and the three out years as relevant, broken down by 'departmental' and 'administered'. A separate section of the PBS provides more detailed descriptions and proposed performance indicators for the new budget measures.

3.18 In the following year, however, the prominence disappears. In the case of measures contributing to a departmental output, there may be no separate recognition of their existence. Many new measures are advanced with only the most general of performance indicators outlined, so that even that means of follow-up is restricted. Senator Bolkus was one who expressed concern, in his case at the disappearance of nominated funding for the Waterwatch project. He was, however, promised a reconciliation statement.¹³

11 Senate Finance and Public Administration Legislation Committee, *Hansard*, 23 May 2000, 148.

12 Education, Training and Youth Affairs portfolio, *Portfolio Budget Statements 2000-01*, 143-5.

13 Senate Environment, Communications, Information Technology and the Arts Legislation Committee, *Hansard*, 22 May 2000, 61.

3.19 The committee recognises that the PBS cannot expand indefinitely to encompass every detail on every issue on which a potential reader might wish for information. Perhaps the issue of follow-up of budget measures is a case in which portfolios need to be responsive to the requirements of their scrutiny committees, and those committees need to be more forthcoming in advance about matters of detail on which they require information for estimates purposes. Agencies could assist by coming to estimates hearings prepared to respond to lines of questioning which could be anticipated from previous experience.

Other budgeting or accounting issues

Demand-driven programs

3.20 Some senators were unnecessarily concerned at lowered proposed expenditure for demand-driven programs such as Abstudy. As the relevant departmental officer explained, such funding is not constrained: if student numbers increase beyond expectations, they will receive support.

Classification of items as 'administered' or 'departmental'

3.21 The implications of the distinction between 'administered' items, over which the agency has little to no control, and 'departmental' items, the funding for which is discretionary within the agency, are still of concern to senators. Senator Hill's succinct explanation in a previous estimates hearing that outputs funding is 'bureaucrats' money' has not been widely understood.¹⁴ Senator Lundy, for example, questioned the support for the youth roundtable, which cost \$276,000 in 1999-2000 but was back to \$200,000 in the 2000-01 estimates. An education department officer explained:

Because it is in the youth affairs grants and publicity funding, which is part of our departmental costs, it is just a component within \$200 million. That \$200 million can be used by the department basically flexibly to meet the objectives that the government has. Whether we choose to use \$200,000 or \$276,000 out of the \$200 million is a decision which the department can take. You will not find the [\$276,000] specifically within the PBS because it is not an administered item ...¹⁵

3.22 It became evident, during the 2000-01 budget estimates hearings, that a number of activities had been reclassified from 'administered' to 'departmental' and hence their funding could be varied at agency discretion. For example, a range of programs in the Department of Environment and Heritage, including grant schemes, became 'departmental' and were listed as such in the PBS. The distinction, and its implications, was not the subject of particular questioning on this occasion.

14 Senate Environment, Communications, Information Technology and the Arts Legislation Committee, *Hansard*, 7 June 1999, 41.

15 Senate Employment, Workplace Relations, Small Business and Education Legislation Committee, *Hansard*, 31 May 2000, 267.

3.23 The committee could find no examples of reclassifications in the other direction. The committee concedes that the concept of ‘control’ is at times a matter of judgment; it also notes that reclassifications cannot be done unilaterally by agencies but the approval of DOFA must be sought. Representatives of a number of agencies stressed that funding flexibility was needed to meet changing priorities and to deal with the unexpected.¹⁶ While accepting this argument, the committee is nevertheless concerned that any such reclassifications not be used to thwart accountability.

Capital use charge

3.24 The capital use charge (CUC) is a dividend requirement levied on Commonwealth General Government Sector agencies and authorities, based on their net assets at the end of the financial year. It is currently levied at 12 per cent. Funding for the CUC is included in appropriations for departmental outputs.

3.25 Misunderstandings about the operations of the CUC remain, although it did not attract the same level of questioning as in 1999-2000. Airservices Australia, a corporate entity not subject to the CUC, was questioned about it; and funding levels for the Great Barrier Reef Marine Park Authority also implicated it. Its major impact inevitably is in Defence which owns 70 per cent of the Commonwealth’s non-cash assets, the natural ageing of which impacts on the budget bottom line. In the course of the estimates examination of that portfolio, officers explained the larger CUC as the result of the introduction into service of new aircraft.

3.26 To the best of the committee’s understanding, only methodological issues relating to the application of the CUC were raised in the 2000-01 budget estimates round; no senator questioned the levying of a CUC per se. It is a matter that has been raised elsewhere, however, so the committee will continue to monitor developments.

Variations from budget predictions

3.27 In its 1999 report on the PBS, the committee reflected the concerns of some senators to have a clear disclosure of variations from budget predictions, recommending that such variations be disclosed in a suitable publicly available document. In its response, the government agreed, nominating the Final Budget Outcome (FBO) document as its preferred vehicle. In July 2000, DOFA contacted the committee to suggest that it believed that the agency-level specifics which the committee was seeking would be available in annual reports, following the changed requirements for those documents issued by the Department of the Prime Minister and Cabinet in April 2000. FMA Act agencies are now required to include in their annual reports a discussion and analysis of their financial performance and a discussion of any significant changes in financial results from those budgeted for. The committee will closely examine the annual reports tabled under the new requirements to assess

16 See, for example, Senate Legal and Constitutional Affairs Legislation Committee, *Hansard*, 30 May 2000, 149; Senate Finance and Public Administration Legislation Committee, *Hansard*, 22 May 2000, 111.

whether they meet the concerns expressed. Should they fail to do so, the committee will revisit the issue.

Depreciation

3.28 Senators continued to question the methodology of the valuations reflected in the budget documentation and the impact of the recognition of depreciation on funding levels. Senator Murray questioned the valuation of the Australian Securities and Investment Commission (ASIC) land and buildings. ASIC director Mr Alan Cameron explained that the deprival method was used; land is valued at its current market buying price and other assets at their depreciated replacement cost or at net realisable value.¹⁷

3.29 Telstra's valuation at historic cost attracted questioning, with the relevant officer pointing out that the sale proceeds would not change by virtue of a revaluation in the balance sheet.¹⁸ The same issue was raised with representatives of the Australian National Audit Office, which has been examining Commonwealth asset management and related issues closely. They agreed that a low valuation of Telstra, based on historic cost, made the net financial position of the Commonwealth look worse than it was in reality.¹⁹

Equity repayments

3.30 Equity repayments and their treatment in the PBS were explored with the Department of Industry, Science and Resources. The scrutiny committee was told:

The money was the return to the Commonwealth from our investment in the AMWIN fund, which in turn made a substantial profit from its investment in LookSmart ... the total return to the Commonwealth from the LookSmart investment by AMWIN was \$51.37 million. The Commonwealth's interest in the AMWIN fund was \$27.5 million, so the first usage of the return was repayment of the equity of \$27.5 million.²⁰

3.31 Later it became clear that the return of the Commonwealth capital plus interest would go into a revolving fund for future innovation-type programs, and not to consolidated revenue. It appears in DOFA's contingency funds in the forward estimates and will be appropriated to the Department of Industry, Science and Resources as required.

17 Senate Economics Legislation Committee, *Hansard*, 30 May 2000, 146-7.

18 Senate Finance and Public Administration Legislation Committee, *Hansard*, 23 May 2000, 157-8.

19 Senate Finance and Public Administration Legislation Committee, *Hansard*, 24 May 2000, 347.

20 Senate Economics Legislation Committee, *Hansard*, 1 June 2000, 367-8.

Loans

3.32 The accounting treatment of other activities was also unclear. Again from the Department of Industry, Science and Resources, the explanation, ‘The provision of a loan facility to the Syntroleum Corporation affects the composition of the Commonwealth’s financial assets, and for this reason, this measure is shown as having a zero impact on fiscal balance’ was met with the response ‘Can someone put that into the English language for us?’²¹

3.33 The accounting treatment of unusual issues was also questioned, including the handling of the refund from the United Nations for a percentage of the expenditure on East Timor. The response in that case was ‘the money comes into our administered operating statement and is then out to government’.²² The same scrutiny committee also questioned the accounting treatment of a Defence loan to ADI, which was written off, and the handling of the long-term funding commitment to our operations in Bougainville.

Relationship with other budget documentation

3.34 A number of senators attempted to reconcile the PBS figures with those presented in other budget documentation and, in particular, with ministerial cross-portfolio budget statements (otherwise known as the ‘blue books’) or press releases. Mr Steve Sedgwick, secretary of the Department of Education, Training and Youth Affairs, attempted to explain why they were different:

There are a number of different ways to present the budget figures. We have presented in the portfolio budget statements the figures in the context of the government’s outcomes and outputs framework. In that context the numbers are presented in a particular format in a particular way. In other parts of the budget statements the figures are presented on a functional basis. This is simply the minister identifying some numbers that he wishes to highlight out of that broad range of estimates. It is just different ways of looking at the numbers.²³

3.35 Other cases in which ‘blue book’ figures were cited and attempted to be reconciled with PBS figures included National Heritage Trust funding and women’s issues. While the ministerial budget statements are useful in pulling together funding across portfolios on a functional basis, they do so at a fairly aggregated level and attempts to reconcile them with the individual PBS can be fraught with difficulty.

3.36 Other senators attempted to work from the functional tables in Statement 6 of Budget Paper no. 1 and relate them back to the PBS. The four year \$22 billion funding

21 Senate Economics Legislation Committee, *Hansard*, 1 June 2000, 379.

22 Senate Foreign Affairs, Defence and Trade Legislation Committee, *Hansard*, 29 May 2000, 63.

23 Senate Employment, Workplace Relations, Small Business and Education Legislation Committee, *Hansard*, 31 May 2000, 171.

for schools programmes was finally tracked down in the education PBS, with assistance from the officers at the table, prompting Senator Carr to comment,

you make a statement on page 34 of \$22 billion and one frankly has to be quite an extraordinary contortionist to get through all the hoops that you have created to get to that figure ... What you have to do is extract from that the things that do not relate to schools in outcome 1 on page 143. That takes a degree of specialist knowledge I suggest the casual reader of these documents would not necessarily understand. I would suggest to you that most senators in this place would not follow it and there would be very few people outside of your particular division who would have any hope of gathering \$22 billion from the figures you have presented here ...²⁴

3.37 Just as second reading debates in the chamber do not rely solely on the explanatory memoranda provided, neither does estimates questioning rely exclusively on the PBS. In the committee's view, officers should be aware in broad terms of how their PBS relate to the more general documents and be in a position to explain their contribution to those documents when required to do so in estimates hearings.

Accounting standards

3.38 In this report, the committee has not considered the question of the accounting standards mandated for the public accounts. The matter received very little coverage in the estimates hearings. In the context of an examination of the Australian Securities and Investments Commission (ASIC) budget statement, and specifically with regard to the treatment of intangible assets, ASIC director Mr Alan Cameron commented that he found it easier to use his accounts drawn up in accordance with Australian Accounting Standards.²⁵ While the harmonisation of public and private sector accounting standards and the role of DOFA in ensuring consistency in whole-of-government accounts are significant topics in their own right, they are too broad for the committee to address in this context.

Conclusions

3.39 The government's decision to move to accrual budgeting was to reflect more accurately the full cost of achieving its objectives and to eliminate the distortions associated with the timing of cash payments. It was in accordance, it was asserted, with international best practice in government budgeting. This was not contested in the 2000-01 budget estimates round, although one senator did raise the question – responded to in the negative – as to whether the introduction of a balance sheet had improved anyone's understanding of the financial position of the department concerned.²⁶

24 Senate Employment, Workplace Relations, Small Business and Education Legislation Committee, *Hansard*, 31 May 2000, 284.

25 Senate Economics Legislation Committee, *Hansard*, 30 May 2000, 147.

26 Senate Finance and Public Administration Legislation Committee, *Hansard*, 22 May 2000, 3.

3.40 Senators have demonstrated clearly that, while they may also be interested in outputs and outcomes and value for money issues, they want to be able to identify, and to be assisted in identifying, real funding variations in the PBS. They also wish to have the reasons for the variations explained, for both departmental and administered items.

3.41 As Senator Schacht asked of Veterans' Affairs, and other senators repeatedly questioned, 'Has the government given you more money, the same money or less money?'²⁷ The PBS in their current form do not lend themselves to a straightforward answer to this question. Nor does the outcomes and outputs rhetoric encourage such a question to be asked.

3.42 Even government chairs of committees conceded that the PBS could be more helpful. Senator Ferguson was one to voice his concerns, as senators attempted to reconcile the financial arrangements resulting from the transfer of responsibility for veterans' home care from the Health and Aged Care portfolio to the Department of Veterans' Affairs:

Having listened carefully for an hour and a quarter while Senator Schacht has tried to seek information, I think it is fair to say that, while nobody thinks you are trying to hide any information, it is not transparent enough in the presentation of these documents. The questions that Senator Schacht has been asking have not been unfair; they have been seeking information that he could not automatically see by reading the documents. I think that the department would do well to re-read the first hour of the transcript to see the sorts of questions that were being asked so that those simple questions – how much more are we spending this year? – are highlighted so that they are easy for all senators to read and understand.²⁸

3.43 Senators might be encouraged to take an interest in outcomes and outputs, were partial performance information to be provided in the PBS, as suggested in Chapter 4. But as matters stand at the moment, compounded by the lack of stability in the outcomes and outputs framework, the links between funding and results are too remote to be persuasive.

3.44 The committee continues to commend the practice of pre-hearing factual briefings for legislation committees so that the estimates process can be devoted to the questioning of matters of substance and not to clarifications of budgeting practice.

27 Senate Foreign Affairs, Defence and Trade Legislation Committee, *Hansard*, 30 May 2000, 209.

28 Senate Foreign Affairs, Defence and Trade Legislation Committee, *Hansard*, 30 May 2000, 222.

CHAPTER 4 - PERFORMANCE INFORMATION

Introduction

4.1 One of the promised benefits of accrual budgeting and an outcomes and outputs reporting framework is the increased attention placed on the reporting of performance. Agencies are required to demonstrate their efficiency in producing outputs by reporting price, quantity and quality information; the extent to which outcomes are achieved is to be assessed through effectiveness indicators. Performance indicators are outlined in the PBS in the May preceding the financial year concerned and reported against in the annual report which, in the case of most federal agencies, should be tabled by the end of October following the financial year – that is, some 18 months later.

4.2 Apart from any question surrounding the appropriateness of the indicators, a major defect of this arrangement is the 18-month time lapse between the setting of the indicators and the reporting against them. In that interval, another PBS has been produced, the outputs and outcomes framework has in some instances been substantially altered, and the indicators possibly altered with it. In the first years of outcomes and outputs reporting in other jurisdictions, each successive budget estimates document was littered with changed indicators, flagged as ‘new measure’, ‘measure discontinued’, ‘changed practice’, et cetera. The same practice is occurring federally, as expected.

4.3 The extent to which this presents a problem to senators is not yet clear. The 1999-2000 annual reports were beginning to be tabled as this report was in preparation, so the committee has not had the opportunity to examine the closure of the accountability loop following the first accrual budgeting PBS of May 1999. Neither we nor our colleagues will have an opportunity to question officers on published performance results until the supplementary budget estimates round scheduled for late November 2000 or the additional estimates round in early 2001. By that time many of the initial data will not be useable for comparative purposes and senators’ interest in them may have waned.

4.4 In the 2000-01 budget estimates hearings, a considerable level of interest was shown in performance information, although that interest did not extend across all portfolios. A number of aspects of performance information received particular questioning: the presence only of performance indicators and the corresponding lack of actual performance information; the level at which performance was to be reported; the general adequacy of performance indicators; issues surrounding the setting of targets; the comparability of performance information over time; the particular problems associated with qualitative indicators; and the reporting on outcomes. This chapter addresses those points.

The quest for actual performance information in 2000-01 budget estimates hearings

4.5 While the government's intention is that the performance loop is closed with information in the annual report on performance against the same indicators disclosed in the PBS, a number of senators looked for actual performance information in the PBS. The PBS, however, are currently only required to disclose indicators against which their performance is to be assessed.

4.6 This is developing as a major flaw in the current accountability framework. In approving the budget estimates for the coming year, senators realistically want to be reassured that the past year's spending was proper and actually achieved something. They do not have that reassurance in the current PBS.

4.7 Senator Ludwig, for example, indicated to Australian Federal Police officers, 'I want to be able to look at your performance in a particular area, how much money you have spent and *whether you have achieved the outcomes you expected to achieve.*'¹ [emphasis added].

4.8 In the education estimates, Senator Carr questioned Department of Education, Training and Youth Affairs officers about seven support systems listed under Outcome 2 in the relevant PBS: the School to Work (Enterprise Education) Programme, Group Training Targetted Initiatives, Enhanced Education Services, the Strategic Intervention Programme, the New Apprenticeship Access Programme and the Wage Top Up Scheme. When he asked, 'Where is the detailed achievements of these programs? Where would I find that in the PBS?' he was told 'You will not find the achievements because the achievements relate to the reporting we do as part of the annual report'.²

4.9 Departmental secretary Mr Steve Sedgwick added:

The portfolio budget statements are forward looking. The annual report is backward looking. It provides a report against the performance indicators that were identified in the PBS the previous year ... The government moved away from a programmatic presentation of the budget towards one that was based on outputs and outcomes. We are reporting against an outputs and outcomes framework. We are reporting against what the ultimate objectives of the collection of programs is. That is the way these documents have been framed now for a couple of years.³

4.10 This type of exchange was repeated in most estimates committees, suggesting that at least some senators find the delayed reporting on performance in another

1 Senate Legal and Constitutional Affairs Legislation Committee, *Hansard*, 30 May 2000, 149.

2 Senate Employment, Workplace Relations, Small Business and Education Legislation Committee, *Hansard*, 31 May 2000, 174.

3 Senate Employment, Workplace Relations, Small Business and Education Legislation Committee, *Hansard*, 31 May 2000, 174-5.

document unsatisfactory. In the agriculture portfolio estimates, there was even an exchange initiated by the departmental officers concerned as to when in the estimates cycle senators might wish to address performance information matters.⁴ In the case of the Civil Aviation Safety Authority, senators examined the performance indicators set in the 1999-2000 PBS in some detail,⁵ which suggests to this committee that senators are more interested in actual performance than in indicators of performance.

4.11 In the committee's view, there is a relatively simple method of handling the timeliness dilemma and that is for agencies to provide in their PBS any partial year quantifiable information that is readily available to them. Such a practice has been used in state jurisdictions, with half-yearly or nine-monthly results being included along with the indicators. It is obvious that in many cases the information is readily available from management information systems, as officers are able to provide it to senators when asked. Transport and Regional Services officials, for example, were able to provide Senator O'Brien with updated information on the Tasmanian Freight Equalisation Scheme when asked for it in the estimates hearings.⁶

4.12 The committee suggests that, in the first instance, the provision of partial performance information in the PBS be at the discretion of agencies rather than as a formal requirement of the PBS guidelines. In some cases, the committee recognises that such a practice might be inadvisable or even counter-productive.

The level of reporting

4.13 Reporting against a collection of programs does not always meet the desire of senators for disaggregated information. When Senator Gibbs questioned the success of illicit drug treatments, seeking information both on services to prevent drug-related illnesses and on services to prevent drug addiction altogether, she was told that it was a 'broadly based' program whose outcomes would be reported on in September. It was unclear whether the disaggregation the senator was seeking would be provided.⁷

4.14 There does not appear to be a close correlation between the specificity of outputs and their performance information. In some cases, quite specific performance indicators were provided for fairly general outputs, thus potentially at least meeting transparency and accountability purposes.

4.15 In its outcomes and outputs guidance, DOFA has suggested that for both internal resource management and for external reporting purposes, agencies favoured a broadly functional or business-line approach rather than a generic one, in specifying outputs and output groups.⁸ This was possibly because more rigorous performance

4 Senate Rural and Regional Affairs and Transport Legislation Committee, *Hansard*, 22 May 2000, 19.

5 Senate Rural and Regional Affairs and Transport Legislation Committee, *Hansard*, 24 May 2000, 282-3.

6 Senate Rural and Regional Affairs and Transport Legislation Committee, *Hansard*, 25 May 2000, 362.

7 Senate Community Affairs Legislation Committee, *Hansard*, 22 May 2000, 23.

8 DOFA, *Outcomes and outputs – guidance for review*, Nov 1999, 7.

indicators of timeliness, price etc could be developed for concepts such as ‘apprenticeships and traineeships’ and ‘environmental protection legislation’. If, however, quantitative performance indicators for generic outputs such as ‘policy advising’ and ‘grant administration’ are not developed on a comparable basis, the ability to benchmark comparable activities across the public sector will be lost. DOFA has recognised this, stating:

There is an opportunity to develop more robust and standard specifications for generic outputs. This would require the departments involved, and their Ministers, identifying, agreeing and standardising on the specific activities or sub-outputs that comprise generic outputs, and associated performance measures. *DOFA could assist and facilitate in this process.* [emphasis added]⁹

4.16 Such standardisation would be welcomed by most senators, the committee believes. Achieving it by agreement might not be easy but is the only realistic option as any form of ‘re-regulation’ would probably be unacceptable in a newly-devolved environment.

4.17 The level of aggregation of performance information is as much a source of frustration to senators as are overly-inclusive outputs. The reality is, however, that the PBS particularly but also the annual reports have to be prepared within a limited timeframe and cannot exceed a certain bulk before they become unwieldy. Health and Aged Care secretary Mr Andrew Podger summed up the problem:

We try to put in [the PBS] some of the key performance indicators for use with cross-references, but we do systematically try to get the sorts of measures you are talking about in various reports, including our annual report, which is like the mirror image of the PBS. We report then against the targets, including some key ones that are not detailed in the annual report. I am not sure that we could ever satisfy you in one document on all the details.¹⁰

4.18 The complexity of public administration in the year 2000 is such that annual reports must be selective in what they include. More performance measurements, whether outlined in the PBS or not, are generated than are ever reported in an annual report. In areas of broad public interest, the committee would like to see agencies make more use of their web sites to record regular snapshots of their achievements, rather than waiting for a once-yearly burst in the annual report. We recognise that such a procedure would not have the authority of a document tabled by a minister in the Parliament but might nevertheless provide a suitable, if transitory, vehicle for information provision, if it were readily findable on a well-designed web site.

9 DOFA, *Outcomes and outputs – guidance for review*, Nov 1999, 7.

10 Senate Community Affairs Legislation Committee, *Hansard*, 22 May 2000, 30.

Indicator quality

4.19 Only a few specific performance indicators were examined in any detail in the 2000-01 budget estimates hearings. Again, it is the nature of the estimates process which ensures that the only indicators to attract attention are ones which senators perceive to be unsatisfactory. In its selection of indicators for examination, the committee does not wish to imply that they are particularly unfortunate ones; they merely attracted attention during the 2000-01 estimates hearings.

4.20 The difficulty of establishing meaningful performance indicators was highlighted in the employment committee's examination of the Work for the Dole program. Senator Crossin questioned why completion data were not included and was told 'The best possible outcome we can have is a job seeker who does not complete the program but goes into work.' The other program objectives such as building self-esteem and work habits made for problems in establishing indicators, as did attributing the finding and holding of a job to the program.¹¹

4.21 The domestic violence prevention activities of the Office of the Status of Women are routinely examined in this committee's own estimates. Indicators such as 'Feedback from non-governmental organisations and other stakeholders concerning consultation and communication processes' and 'Quantity and diversity of public information materials and activities disseminated'¹² might be measurable and might be of some assistance in determining the quality of the administrative input. But they fail to address the questions as to whether there is more or less domestic violence and whether the programs had any influence on the level of domestic violence. The latter question is a real challenge, but the former – at least at the level of reported domestic violence – would be reportable and would provide a baseline from which to attempt to address whether the interventions of OSW were useful.

4.22 Reporting on the performance of cross-portfolio activities presents particular difficulties. Excellent performance indicators might be devised for the individual agency contributions but unless an overall evaluation is conducted and a report published, Parliament will be none the wiser as to whether a given activity was a success or failure in its totality. Nor will it necessarily know the cost.

4.23 Joint Commonwealth-State endeavours suffer a similar ownership, and hence accountability, problem. In just one example raised in the budget estimates hearings, senators attempted to explore the effectiveness of the action plan for Australian agriculture, for which performance indicators had been published in the previous PBS. They were told:

the previous action plan and the new one are not Commonwealth-only documents ... The implementation of the plan and the progress under the

11 Senate Employment, Workplace Relations, Small Business and Education Legislation Committee, *Hansard*, 30 May 2000, 146.

12 Prime Minister's portfolio, *Portfolio Budget Statements 2000-01*, 22.

plan is a shared obligation amongst all of the stakeholders ... The Commonwealth is not totally responsible for the outcomes under the plan.¹³

4.24 It was finally revealed that the new plan would be reviewed in the context of a wider review later in the year, and that a review of the original plan had indicated that it was too ambitious. Senator Forshaw countered:

It is reasonable, I would have thought, when specific indicators are identified, to seek information as to how those measures have performed ... Otherwise, there is no point putting them in [the PBS] ... if we are going to be told, with all due respect, that they are really identified there but they are part of something bigger, broader and larger and a bigger and broader review, [it] tends to mean they can get lost.¹⁴

4.25 The specificity of performance information was the subject of discussion in the Transport and Regional Services estimates. Departmental secretary Mr Ken Matthews defended their choice, variously, of state or regional performance targets, explaining that while for example remote air services could be highly specific, in the case of the Foundation for Rural and Regional Australia, they did not know where the expenditures would be. He added:

we are trying to sharpen up the way we report performance information. Without wishing to sound gratuitous about it, it is partly because this committee has indicated over 12 months now that that is what it expects. We are trying to be a bit more specific about what it is we are trying to deliver and, wherever possible, we are trying to be specific about location as well as time and so on rather than general, which gets everyone into difficulties ... The best sort of reporting, in my view, goes to as much detail as parliament needs.¹⁵

4.26 Performance information relating to outsourced functions received a little attention. The IT difficulties of the transport portfolio were questioned, for example, with the scrutiny committee being reassured that performance levels of the contractor were being closely monitored on a monthly basis. Specific details were requested but their release was unlikely on commercial sensitivity grounds.¹⁶ As more functions are outsourced, the committee expects that senators will require quite specific performance reporting on the conduct of those functions. It will continue to monitor closely how these requirements are met.

4.27 In its scrutiny of the PBS, the committee noted various indicators which appeared, at face value, to be so self-evident as to be regarded as a 'given' in the circumstances. One of the Attorney-General's portfolio relating to grants to Australian

13 Senate Rural and Regional Affairs and Transport Legislation Committee, *Hansard*, 23 May 2000, 118.

14 Senate Rural and Regional Affairs and Transport Legislation Committee, *Hansard*, 23 May 2000, 120.

15 Senate Rural and Regional Affairs and Transport Legislation Committee, *Hansard*, 23 May 2000, 165.

16 Senate Rural and Regional Affairs and Transport Legislation Committee, *Hansard*, 23 May 2000, 166.

organisations, to which Senator Ludwig drew attention, read ‘The grants will be made in accordance with agreed arrangements’.¹⁷

4.28 Given the importance of performance reporting, the committee signals its intention to monitor senators’ reactions to the performance reports in the 1999-2000 annual reports and, if warranted, to report again on its findings.

Target setting

4.29 The setting of quantitative performance targets attracted a great deal of attention from senators. Those agencies which adopted a realistic approach and set achievable targets often found themselves in a position of attempting to justify their choice. Officials from the National Gallery of Australia, for example, were asked to explain why they set a target of 95 per cent of collections held in conditions consistent with Gallery standards, the response being,

In establishing the performance criteria, we thought it would be important to provide for contingencies that might arise ... We thought it was unrealistic to specify that our target is 100 per cent.¹⁸

4.30 Almost inevitably, targets such as the participation rate for breast screening, which showed signs of not being met, received criticism;¹⁹ while others such as the Australian Maritime Safety Authority’s inspection targets for foreign vessels, which were exceeded, were questioned as being too low.²⁰ The rationale for the targetted 80 per cent satisfaction level with the textbook discount procedures of the Department of Education, Training and Youth Affairs was questioned by Senator Carr: ‘Did you pluck that number out of the air?’ To which an officer replied that while the department wanted 100 per cent satisfaction, it had set a goal that was ‘reasonable’.²¹

4.31 It was not always clear to senators that targets could have different meanings in different contexts. In the transport portfolio, ‘targets’ were, in the case of demand-driven activities, a best guess of the expected workload, with no aspirational overtones whatsoever.

4.32 Given the adversarial nature of the estimates process, it is unlikely that the dilemma of target setting will be easily resolved.

17 Senate Legal and Constitutional Affairs Legislation Committee, *Hansard*, 30 May 2000, 187.

18 Senate Environment, Communications, Information Technology and the Arts Legislation Committee, *Hansard*, 25 May 2000, 245.

19 Senate Community Affairs Legislation Committee, *Hansard*, 22 May 2000, 29.

20 Senate Rural and Regional Affairs and Transport Legislation Committee, *Hansard*, 25 May 2000, 377.

21 Senate Employment, Workplace Relations, Small Business and Education Legislation Committee, *Hansard*, 31 May 2000, 196-7.

Comparability of performance over time

4.33 The 1996 better practice guide on performance information, compiled by the ANAO and the then Department of Finance, considered the qualities which were characteristic of good performance information. One quality singled out as important was that of consistency.²² Information that is stable over time can be used to determine trends, and, in particular, whether performance is improving. While it is reasonable for performance information to change from time to time, to reflect evaluation results or changes in focus, change should be kept to reasonable limits and the reasons for change should be clearly explained.

4.34 DOFA continued this theme in its November 1999 guidance advice on outputs and outcomes specification, and it applies with equal force to performance information. There is no single answer to the appropriate trade-off between change and continuity. Portfolios must weigh up the benefits of improved performance indicators against the value of consistency in the information presented to Parliament.²³

4.35 The difficulty for senators examining the 2000-01 PBS was that many indicators were still undergoing refinement, and hence performance, when reported on, will not be comparable with that of the previous year or with the year to come. This point was raised, for example, when Senator McKiernan attempted to explore present measures of speed, efficiency and cost-effectiveness of the Migration Review Tribunal before its proposed amalgamation into an administrative review tribunal, so as to have a baseline against which to compare the performance of the new tribunal, whose existence is premised on cost savings from amalgamation.²⁴

4.36 Senators' examination of the FarmBis program in the agriculture portfolio also disclosed that no baseline data existed against which to measure improvements in farmers' business management skills.²⁵

4.37 In the Family and Community Services portfolio, senators learnt that performance information for family relationships counselling would be built in to the next contracts with service providers, raising the question not only of what the indicators would be but also how comparable they would be with indicators in future contracts with not necessarily the same service providers.²⁶

22 ANAO & Department of Finance, *Performance Information Principles*, (Better Practice Guide), Nov 1996, 21.

23 DOFA, *Outcomes and outputs - guidance for review*, Nov 1999, 9.

24 Senate Legal and Constitutional Affairs Legislation Committee, *Hansard*, 30 May 2000, 231.

25 Senate Rural and Regional Affairs and Transport Legislation Committee, *Hansard*, 23 May 2000, 117.

26 Senate Community Affairs Legislation Committee, *Hansard*, 24 May 2000, 279.

Qualitative performance indicators

4.38 It has been widely recognised that qualitative indicators, and particularly those relating to policy advice, are difficult to devise.²⁷ Relatively robust assessments can be made of aspects of the advice such as its timeliness and comprehensiveness, but the impact of the advice can be affected by factors outside of the adviser's control and by the long lead times sometimes involved.

4.39 The frequent use of the short-term performance indicator, 'to the minister's satisfaction', was greeted with ongoing dissatisfaction in the 2000-01 estimates hearings. Senator Murray voiced the concerns of many when he raised the matter with officers from the Department of the Prime Minister and Cabinet:

The difficulty we face ... [is] that the perspective is internal rather than external. Let me give you an example. There is an item headed 'State occasions and guests of government'. The quality appraisal says the degree of the Prime Minister's satisfaction – nobody else's – with visits to Australia by heads of state and government ... It might be, from the Prime Minister's perspective, he would have thought it was a wow, but the public, commentators, voters at large or the parliament might have a different opinion. What I am really searching for is whether you are satisfied that in all the circumstances these quality appraisals will end up having any meaning, will be meaningful in the sense of their relationship to appropriations and value for money, if you like, and effectiveness.²⁸

4.40 Mr Henderson, an executive coordinator with the department, conceded that reporting of the level of satisfaction with the quality of briefings et cetera would be in general terms, although individual officers and units had many opportunities to be aware of the manner in which their advice or actions were received. He stressed that the increased focus on outputs and outcomes had made the department more conscious of performance, adding, however,

We are not going to start recording and documenting just for the sake of it. We are going to measure performance where that is integrated into our actual performance management within the department ... We are not going to create a whole edifice just for the sake of filling up the Portfolio Budget Statements.²⁹

4.41 Some agencies, including DOFA and DEWRSB, have attempted to firm up the assessment of performance advice by the use of quality check boxes, via which the minister or his office indicates the level of satisfaction with the product. While the assessment is still subjective, the procedure has the advantage of producing a paper trail for accountability purposes, if required. Whether it has any impact on the quality

27 See, for example, ANAO & DOF, *Performance Information Principles*, Nov 1996, 30; MAB/MIAC, *Performance Information and the Management Cycle*, 1993.

28 Senate Finance and Public Administration Legislation Committee, *Hansard*, 22 May 2000, 64.

29 Senate Finance and Public Administration Legislation Committee, *Hansard*, 22 May 2000, 66.

of advice is unclear. The committee notes that other agencies have taken a more pragmatic approach. When asked how he assessed the level to which the education minister was satisfied with departmental advice, education secretary Mr Sedgwick replied:

I have a conversation with him roughly every quarter ... that addresses exactly that question ... neither the minister nor I were enamoured of [the check-box] scheme because the processing burden was so large. We do have a conversation. I usually have a pile of the major briefs with me and we discuss how we went.³⁰

4.42 Senators scrutinising the agriculture portfolio also questioned the development of performance indicators for policy advice and were told that both the department and the ministers' offices were 'interested in a system that is as simple as possible to use and does not involve some laborious work on every piece of correspondence that goes through'.³¹

4.43 The committee will continue to monitor the development over time of policy advice performance indicators and other qualitative indicators in the hopes that a more rigorous assessment of the quality of the advice concerned might evolve.

Reporting on outcomes

4.44 The intention behind the move to an outcomes and outputs reporting framework, supported by accrual budgeting, was to draw attention to outcomes, to what was being achieved for the financial expenditure undertaken by the Commonwealth. But as Senator Crowley commented in the 2000-01 estimates hearings, 'We are funding towards outcomes, but we do not have any hard data on outcomes here.'³² In so far as the means of assessing progress towards outcomes was addressed at all, or how the outputs were linked to the outcomes, it was often by means of a generalised narrative in the PBS.

4.45 Again, this weakness was identified by DOFA:

Most departments specified effectiveness indicators by nominating areas or factors to monitor and assess, rather than a specific target level of performance to be achieved ... The framework requires departments and agencies to specify how they will monitor and assess progress towards achievement of outcomes. Effectiveness indicators, including explicit targets for planned performance where relevant, should be published for all outcomes. There is considerable scope to improve effectiveness indicators,

30 Senate Employment, Workplace Relations, Small Business and Education Legislation Committee, *Hansard*, 31 May 2000, 177.

31 Senate Rural and Regional Affairs and Transport Legislation Committee, *Hansard*, 22 May 2000, 20.

32 Senate Community Affairs Legislation Committee, *Hansard*, 22 May 2000, 31.

including targets where relevant, for outcomes used by the majority of departments.³³

4.46 A close examination of many outcomes shows the difficulties departments and agencies face in coming up with specific effectiveness indicators. Take Foreign Affairs and Trade, for example, whose outcome 1 is ‘Australia’s national interests protected and advanced through contributions to international security, national economic and trade performance and global cooperation’. After experimenting with ‘milestones’ to chart performance for one year and finding that they quickly took on ‘millstone’ characteristics, the portfolio has now reverted to ‘effectiveness indicators’.

4.47 Just one of these, plucked at random from the 2000-01 PBS, is ‘Contribution made to international efforts to promote human rights, democracy, economic reform and development in Burma and Cambodia’. The department will undoubtedly be able to report on what meetings it attended, what reports it wrote, the number of reciprocal visits, et cetera. But that does not get to the heart of the matter. How effective was Australia’s contribution, vis-a-vis that of other countries? Did it make any difference at all to the international effort? Or was it merely sufficient to contribute? And more broadly, were human rights enhanced in Burma and Cambodia? How? And over what time frame? As DFAT indicated to the committee on a previous occasion, its activities are conducted in an arena largely outside its own direct control. It may be that some outcomes are of necessity too inherently complex for meaningful indicators to be published in the PBS or for reporting to be compressed to a sentence or two in the annual report.

4.48 DFAT’s performance reporting in its 1998-99 annual report was again canvassed in general terms in the 2000-01 budget estimates hearing. Mr Dauth responded for the department that he thought it was making progress in reporting performance ‘because we have been responsive to points made to us by parliamentary committees’.³⁴

4.49 The performance outcomes of law enforcement and national security agencies present particular difficulties, which are generally well understood by senators. It can be all but impossible to translate annual reporting performance information into an informed judgment on the efficiency and effectiveness of the agency concerned. The committee makes no further comment on this matter as it has been extensively addressed by agency-specific oversight committees of the Parliament.³⁵

4.50 Portfolio outcomes perplex the committee, in that there is no portfolio annual report in which progress against the totality of the outcome is addressed. Individual agencies can only be expected to report on their own operations. Unless departments

33 DOFA, *Outcomes and outputs – guidance for review*, Nov 1999.

34 Senate Foreign Affairs, Defence and Trade Legislation Committee, *Hansard*, 31 May 2000, 362-3.

35 See, for example, Parliamentary Committee on the National Crime Authority, *Third Evaluation of the National Crime Authority*, 1998, 20-38.

are accorded a specific role in portfolio reporting, it appears that overall progress towards portfolio outcomes will go unreported in such cases. The committee's concern is not with the concept of a single portfolio outcome, which has a certain logic to it; it merely suggests that a better way of reporting against it be devised.

4.51 AFFA's solution was to adopt, as its portfolio outcome, 'More sustainable, competitive and profitable Australian agricultural, food, fisheries and forestry industries' while the departmental outcome reads 'Increasing the profitability, competitiveness and sustainability of Australian agricultural, food, fisheries and forestry industries and enhancing the natural resource base to achieve greater national wealth and stronger rural and regional communities'. If the departmental outcome is achieved, ergo so is the portfolio one, so reporting does not present a problem in this case.

4.52 The Transport and Regional Services portfolio has taken a different approach, with the department and all the portfolio agencies sharing the same outcome, 'Linking Australia through transport and regional services'. It did so in recognition of the fact that transport and regional services are inherently linked, which is logical but which does not solve the specific reporting problem raised above.

4.53 For all the exhortations of DOFA, some outcomes may have to be regarded as nothing more than well-meaning goals against which progress is largely inferred. This is particularly the case where progress towards outcomes may not be evident for a long period of time during which so much that is extraneous to the funding may have occurred that causality is called into question. In the circumstances, senators' continuing interest in inputs and processes is unsurprising.

4.54 The committee will continue to monitor the quality of outcomes reporting and the level of interest expressed in it and will consider reporting again on this subject, if warranted.

Experience in other jurisdictions

4.55 In its 1999 PBS report, the committee noted that in some jurisdictions the auditor-general is required, legislatively so in Western Australia, to audit performance information. In that state, the audit is done and reported on in conjunction with the financial statements audits. In 1998-99, 208 'clear opinions' were issued, from 259 completed performance indicator audits.³⁶

4.56 Representatives of the ANAO considered that it would be wise to allow federal agencies time to stabilise their performance indicators and measurement practices before considering a similar step. The committee was, however, pleased to see that the ANAO has taken up its suggestion to develop best practice principles; the ANAO is currently working on a revision of the 1996 better practice guide, *Performance Information Principles*, and, separately, reviewing Australian Taxation

36 Western Australian Auditor-General, *Annual Report, 1998-99*, 24.

Office management of its performance reporting. The latter audit will examine the alignment with the outcomes and outputs framework of performance reporting in the annual report and of internal corporate and business planning documents; it will also identify areas of possible improvement in specifying, measuring and reporting on performance. Its findings should be relevant to other budget-sector agencies.

Conclusion

4.57 Reporting on performance is a cornerstone of the accountability framework. Taxpayers and their parliamentary representatives have a right to feel confident that their dollars are not being wasted but used prudently by public sector agencies to deliver outcomes equitably, efficiently and cost-effectively. Decisions on what specific performance information is to be included in the PBS, and at what level of detail, is a matter for each agency, in consultation with the portfolio minister *and*, as DOFA's PBS guidelines always add, *the relevant parliamentary committees*.

4.58 In their estimates and annual reports reports, legislation committees have an opportunity to provide formal feedback on the performance indicators and performance reporting of the agencies whose activities they scrutinise. The committee again urges our colleagues to make greater use of these mechanisms in order to send clear signals of their expectations.

4.59 Performance indicators will be constantly revised over time, as they are tested and found to be useful or otherwise. The committee's clear preference is for continuity in performance measurement where possible. When it is deemed undesirable to continue with an ineffective measure, the annual report should draw attention to the fact.

4.60 In the committee's view, the step most likely to assist senators in their examination of the provisions of the Appropriation Bills would be the provision of partial-year performance information in the PBS. In the first instance, such provision should be at the discretion of agencies rather than as a formal requirement of the PBS guidelines. The committee requests that DOFA include this suggestion in the PBS guidelines.

CHAPTER 5 – CONCLUSIONS AND RECOMMENDATIONS

5.1 Two key comments were made in the course of the 2000-01 estimates hearings, comments which go to the heart of senators' expectations of the PBS and the estimates process. Senator Schacht asked the Department of Veterans' Affairs,

Is there somewhere in [the PBS] ... which shows what the estimated actuals are for the total department ... to compare with the figure of total appropriation of \$8.4 billion on page 17? ... Has the government given you more money, the same money or less money?¹

Senator Faulkner, in examining the Prime Minister's portfolio, stated, 'This [the estimates process] is the only accountability mechanism we have and we intend to use it where appropriate.'²

5.2 Taken together, they suggest that senators are likely to continue to use the estimates to examine input and process issues, regardless of the suitability of the PBS for these purposes. The committee is of the view that the PBS are, generally speaking, well-crafted documents which contain a wealth of useful information, once the reader has grasped the underlying concepts of accrual budgeting, budgeting processes, the reporting framework and reporting requirements. The PBS are not for the uninitiated.

5.3 They are evolving, however, and may eventually reach a point where they can more closely merge the government's aspirations for them as budgeting statements and senators' hopes for a simple, straightforward, user-friendly, yet detailed guide to the estimates. The introduction of pricing figures at output levels, following the committee's 1999 recommendation, was a major step forward. This will be of even greater value when comparative multi-year figures of 'estimated actuals', actuals and budget projections are available.

5.4 High amongst senators' priorities for the PBS is the matter of consistency and hence comparability of the pricing and performance information they contain. Senators are 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. That said, a modest level of change will always be necessary to accommodate changing priorities, and so long as that change is adequately flagged and reported on, it should not present insuperable difficulties.

5.5 Of the budgeting issues which caused concern during the 2000-01 budget estimates round, the committee has singled out for specific attention the confusion over funding changes brought about, not through funding cuts or increases, but through such matters as the changed attribution of overheads or rephrasing. The

1 Senate Foreign Affairs, Defence and Trade Legislation Committee, *Hansard*, 30 May 2000, 208-9.

2 Senate Finance and Public Administration Legislation Committee, *Hansard*, 24 May 2000, 329.

committee believes it should be possible to codify, at output level, the reasons for change so that senators need not be unnecessarily distracted by accounting artefacts. It suggests the following format for the provision of the information.

Table X: Total Resources for Outcome Y (\$'000)

| Output | Estimated actual (year) | Budget estimate budget (year) | Percentage variation | Reason for change |
|------------|-------------------------|-------------------------------|----------------------|-------------------|
| Output Y.1 | 100,000 | 50,000 | -50 | (c) |

'Reasons for change' code could be along the following lines, and where more than one reason pertained, more than one code could be provided, listed in order of significance:

- (a) increase in base budget
- (b) decrease in base budget
- (c) rephasing
- (d) changed attribution of overheads
- (e) et cetera.

5.6 At this stage, the committee is prepared to advance this proposal as a suggestion only, rather than a formal recommendation, as it concedes there may be difficulties with the approach proposed. The committee's intention is that it should be clear in the PBS what the 'real' funding changes are. If there are other means of disclosing this, the committee would be happy to consider them.

5.7 The committee repeats its call for the provision of forward estimates information, supported on this occasion by the practices of several portfolios. It rejects the government response that the aggregated information in Budget Paper no. 1 is sufficient. When information on new and sometimes quite financially modest budget measures is provided in detail with dollar figures for three out years, it is simply not good enough for a similar level of information not to be provided more broadly. The committee understands the concerns that agencies have expressed about the need for a level of flexibility in agency budgets to meet changing priorities and changing circumstances. Thus, on this occasion, the committee **recommends** that forward estimates be required to be provided in a suitable location in the PBS for administered items. It will further consider the case for extending this requirement to 'departmental' items in the future.

5.8 The committee noted a considerable level of interest in performance information in the 2000-01 budget estimates hearings, even though senators had not had the opportunity to examine the reporting on performance in 1999-2000 annual reports on the basis of the indicators disclosed in the May 1999 PBS. The 18-month time lapse between the setting of indicators and reporting against them is, in the

committee's view, simply too long. The committee **suggests** that agencies provide in their PBS part-year performance information for quantifiable indicators for which the information is readily available. Again, the committee advances this as a suggestion only, rather than a formal recommendation, as it concedes there may be difficulties with the approach proposed.

5.9 It is becoming increasingly clear that the level of performance reporting sought by some senators could never be encompassed within a single document, without returning to the excessive and unwieldy bulk of the annual reports of the early 1990s. The committee therefore **encourages** agencies to be proactive in considering other ways of publishing their achievements in a timely manner. Performance indicators are already provided on agency web sites; measurements against those indicators could be provided regularly.

5.10 Reporting on progress towards outcomes is at present a weakness of the new system. Few of the 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. When and if this is done well, senators may indeed begin to scrutinise outcomes. The committee will continue to monitor developments in this area.

5.11 Neither the PBS nor the estimates process lend themselves well to an examination of whole-of-government issues. Senators have experienced difficulties in linking ministerial cross-portfolio budget statements to the PBS; in other cases, such as GST information expenditure, senators find it necessary to approach individual agencies for information; and in yet other cases, where the information is clearly consolidated, such as the extent of savings from IT outsourcing, the information is not released by the consolidators because it 'belongs' to the individual agencies. Short of parliamentary committee or ANAO inquiries into whole-of-government activities, the committee can see no immediate solution to this problem. It welcomes the views of any interested reader on this topic.

5.12 The committee makes a few general suggestions to the PBS compilers. It should not be assumed that any PBS will be read from cover to cover. The more cross-referencing that can be included, the better. It should not be assumed that every reader understands detailed accounting concepts or government budgeting practices. It should not be assumed that readers have a detailed understanding of which agency is responsible for what activity. It should not even be assumed that readers have encountered PBS before. There is a limit to the extent to which the PBS can be the handbook to everything, so the committee **recommends** that the PBS contain, for every agency, the name and contact details of an officer who can answer simple factual questions on the contents of that agency's statements. The committee continues to **encourage** portfolios to offer the relevant Senate scrutiny committee a pre-estimates briefing on factual budgeting matters contained in the PBS.

5.13 The committee repeats its **recommendation** that Senate legislation committees report in each budget estimates report on the adequacy of the PBS provided for their use and in each additional estimates report on the performance information examined.

5.14 Throughout the estimates hearings, many perceived infelicities in the PBS were attributed by officers in other agencies to DOFA: ‘the guidelines made us do it’ excuse. In the newly devolved environment, DOFA disclaims a PBS ‘policing’ role but does proffer guidance on PBS issues. The committee notes that DOFA published revised outcomes and outputs guidance on its web site, as the committee’s 1999 report recommended; it also notes that the ANAO is developing guidance in this matter. Areas to which DOFA has already indicated it might turn its attention include assisting agencies to develop standardised generic outputs and associated performance measures. The committee believes this would be most valuable and encourages DOFA in its endeavours.

5.15 The committee’s final comment is directed to the senior executives of all agencies. Senators find it difficult enough to understand the PBS without being further confused by officers who also do not appear to understand the documents or to be able to find information therein. An apparent lack of understanding of the PBS at senior management level causes the committee to wonder whether the PBS are really a key management tool within certain agencies. The committee respectfully suggests that only those officers with a good grasp of the PBS be permitted to attend Senate estimates hearings.

Senator Brett Mason

Chairman