



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

**Reference: Review of the accrual budget documentation**

FRIDAY, 22 JUNE 2001

CANBERRA

BY AUTHORITY OF THE PARLIAMENT

## **INTERNET**

The Proof and Official Hansard transcripts of Senate committee hearings, some House of Representatives committee hearings and some joint committee hearings are available on the Internet. Some House of Representatives committees and some joint committees make available only Official Hansard transcripts.

The Internet address is: **<http://www.aph.gov.au/hansard>**

To search the parliamentary database, go to: **<http://search.aph.gov.au>**

**JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT**

**Friday, 22 June 2001**

**Members:** Mr Charles (*Chairman*), Mr Cox (*Vice-Chairman*), Senators Coonan, Gibson, Hogg, Murray, Sherry and Watson and Mr Andrews, Mr Cox, Mr Georgiou, Ms Gillard, Mr Lindsay, Mr St Clair, Mr Somlyay, Mr Tanner and Mr Kelvin Thomson

**Senators and members in attendance:** Senators Gibson, Hogg, Murray and Watson and Mr Charles, Mr Cox and Mr Tanner

**Terms of reference for the inquiry:**

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

Of particular concern to the Committee are the following:

- the link between the information contained in the PBSs and annual reports of agencies;
- the explanatory information in each PBS to assist Members and Senators to understand how funds were expended and the measures used to assess performance in achieving government outcomes;
- the explanation of significant variations in budgeted program expenditure;
- the relationship of the outcomes/outputs framework with the existing organisational structure of agencies;
- the level of aggregation of appropriations within portfolio agencies and in particular for administered items;
- the level of detail and consistency in the recording of forward estimates for outcomes and outputs;
- the form of recording of asset values and the capital use charge;
- the presentation of revenue estimates and variations;
- the presentation of budget aggregates, budget parameters, budget assumptions, forward estimates, reconciliation tables, and historical tables;
- explanations of departures from relevant ABS and accounting standards;
- the level of detail provided in the Mid-Year Economic and Fiscal Outlook; and
- the presentation of budgeted program expenditure and year on year variations.

**WITNESSES**

**AWTY, Mr Adam, Public Sector Adviser, Certified Practising Accountants Australia.....2**

**BARTON, Emeritus Professor Allan Douglas (Private capacity).....2**

**BARTOS, Mr Stephen Anthony, General Manager, Budget Group, Department of Finance and Administration.....2**

**DOLAN, Mr Alexander, Assistant Secretary, Budget Development Branch, Department of Family and Community Services.....2**

**EDWARDS, Mr Robert William, Deputy Australian Statistician, Economic Statistics Group, Australian Bureau of Statistics .....2**

**FLAVEL, Mr Matthew James, Branch Manager, Budget Coordination Unit, Department of Finance and Administration.....2**

**FOSTER, Ms Robyn, Senior Manager, Budget Branch, Department of Health and Aged Care.....2**

**GRIMES, Dr Paul, General Manager, Budget Policy Division, Department of the Treasury.....2**

**HARPER, Mr Greg, Chief Finance Officer, Department of Defence .....2**

<b>HARPER, Mr Peter, First Assistant Statistician, Economic Accounts Division, Australian Bureau of Statistics .....</b>	<b>2</b>
<b>HARRIS, Professor Anthony (Private capacity) .....</b>	<b>2</b>
<b>HART, Ms Virginia Anne, Assistant Secretary, Budget Branch, Department of Health and Aged Care.....</b>	<b>2</b>
<b>HOPE, Mr Graeme, First Assistant Statistician, Corporate Services Division, Australian Bureau of Statistics .....</b>	<b>2</b>
<b>KAUFMANN, Mr Brett Andrew, Branch Manager, Accounting Centre of Excellence, Department of Finance and Administration .....</b>	<b>2</b>
<b>KENNEDY, Mr Maurice John (Private capacity).....</b>	<b>2</b>
<b>KERR, Mr Robert, Head of Office, Productivity Commission .....</b>	<b>2</b>
<b>KIRKBY, Mr Jonathon, Manager, Budget Estimates and Analysis Unit, Department of the Treasury .....</b>	<b>2</b>
<b>LEWIS, Mr Kevin, Director, Public Sector, Certified Practising Accountants Australia.....</b>	<b>3</b>
<b>LOUDON, Mr Richard Michael, Branch Manager, Budget Services Centre, Department of Finance and Administration .....</b>	<b>3</b>
<b>MARTINE, Mr David, Specialist Adviser, Business Entities and International Tax Division, Department of the Treasury .....</b>	<b>3</b>
<b>McPHEE, Mr Ian, Deputy Auditor-General, Australian National Audit Office.....</b>	<b>3</b>
<b>O'BRIEN, Ms Lynnette Maree, Executive Director, Research and Development, Australian National Audit Office .....</b>	<b>3</b>
<b>PRIOR, Mr Phillip James, First Assistant Secretary, Commonwealth Financial Reporting Unit, Department of Finance and Administration .....</b>	<b>3</b>
<b>STOREN, Mr Craig, Director, Budget Coordination Section, Finance Branch, Department of Education, Training and Youth Affairs.....</b>	<b>3</b>
<b>WATSON, Mr Michael Joseph, Group Executive Director, Assurance Audit Services, Australian National Audit Office .....</b>	<b>3</b>
<b>WATSON, Mr Pat, Assistant Secretary, Finance Branch, Department of Education, Training and Youth Affairs .....</b>	<b>3</b>
<b>WOODING, Dr Robert, Acting First Assistant Secretary, Portfolio Strategies Division, Department of Health and Aged Care .....</b>	<b>3</b>
<b>YOUNGBERRY, Mr Tim, Chief Financial Officer, Department of Family and Community Services .....</b>	<b>3</b>

**Committee met at 9.35 a.m.**

**CHAIRMAN**—Welcome to today's hearing. The Joint Committee of Public Accounts and Audit will take evidence as provided for by the Public Accounts and Audit Committee Act 1951 for its review of the accrual budget documentation. I declare open this roundtable forum, the JCPAA's review of the accrual budget documentation, and welcome everyone to the public hearing.

Today's roundtable forum brings together the architects of the accrual budget documentation, the Department of Finance and Administration, providers of key information and users of that information. The committee is aware of various criticisms of the documentation. These include that expenditure on various government activities is being obscured by the way it is reported, that observers are unable to track the expenditure on particular programs and that the performance measures being used by agencies are not meaningful. It is the aim of this forum to provide an opportunity to discuss these and any other concerns which may be raised today.

The committee's view, firmly held since 1995, is that accrual budgeting and accounting represents great benefits for organisations. The aim of the committee will be to explore how the budget documentation from budget papers through portfolio budget statements to agency annual reports can be improved within the accrual framework so that the benefits foreseen by the committee in 1995 can be realised.

The committee has identified three key issues for today's discussions. These are as follows: the structure of the accrual budget documentation and continuity of information throughout the budgetary cycle; the level of detail provided in the accrual budget documentation; and the explanations provided for the content and variation of information within the accrual budget documentation.

To help structure the forum I will introduce each discussion issue as we progress through the day. Before swearing in the witnesses I refer members of the media who may be present at this hearing to a committee statement about the broadcasting of proceedings. In particular, I draw the media's attention to the need to fairly and accurately report the proceedings of the committee. Copies of the statement are available from the secretariat staff present at this hearing.

I would also like to remind participants about procedure and conduct of the forum. All witnesses have the opportunity to raise issues and to seek comment from other witnesses at the forum. However, in these instances the committee prefers that the witnesses should direct their questions through the committee chairman. This will ensure that the events constitute formal proceedings of the parliament and therefore attract parliamentary privilege. Statements and comments by witnesses should, as far as possible, be brief and succinct so that all the issues can be covered in the time available. We prefer you to speak in sentences, not in paragraphs. If you wish to change representatives of the various departments and groups, please feel free to do so.

[9.39 a.m.]

### **Participants**

**AWTY, Mr Adam, Public Sector Adviser, Certified Practising Accountants Australia**

**BARTON, Emeritus Professor Allan Douglas (Private capacity)**

**BARTOS, Mr Stephen Anthony, General Manager, Budget Group, Department of Finance and Administration**

**DOLAN, Mr Alexander, Assistant Secretary, Budget Development Branch, Department of Family and Community Services**

**EDWARDS, Mr Robert William, Deputy Australian Statistician, Economic Statistics Group, Australian Bureau of Statistics**

**FLAVEL, Mr Matthew James, Branch Manager, Budget Coordination Unit, Department of Finance and Administration**

**FOSTER, Ms Robyn, Senior Manager, Budget Branch, Department of Health and Aged Care**

**GRIMES, Dr Paul, General Manager, Budget Policy Division, Department of the Treasury**

**HARPER, Mr Greg, Chief Finance Officer, Department of Defence**

**HARPER, Mr Peter, First Assistant Statistician, Economic Accounts Division, Australian Bureau of Statistics**

**HARRIS, Professor Anthony (Private capacity)**

**HART, Ms Virginia Anne, Assistant Secretary, Budget Branch, Department of Health and Aged Care**

**HOPE, Mr Graeme, First Assistant Statistician, Corporate Services Division, Australian Bureau of Statistics**

**KAUFMANN, Mr Brett Andrew, Branch Manager, Accounting Centre of Excellence, Department of Finance and Administration**

**KENNEDY, Mr Maurice John (Private capacity)**

**KERR, Mr Robert, Head of Office, Productivity Commission**

**KIRKBY, Mr Jonathon, Manager, Budget Estimates and Analysis Unit, Department of the Treasury**

**LEWIS, Mr Kevin, Director, Public Sector, Certified Practising Accountants Australia**

**LOUDON, Mr Richard Michael, Branch Manager, Budget Services Centre, Department of Finance and Administration**

**McPHEE, Mr Ian, Deputy Auditor-General, Australian National Audit Office**

**MARTINE, Mr David, Specialist Adviser, Business Entities and International Tax Division, Department of the Treasury**

**O'BRIEN, Ms Lynnette Maree, Executive Director, Research and Development, Australian National Audit Office**

**PRIOR, Mr Phillip James, First Assistant Secretary, Commonwealth Financial Reporting Unit, Department of Finance and Administration**

**STOREN, Mr Craig, Director, Budget Coordination Section, Finance Branch, Department of Education, Training and Youth Affairs**

**WATSON, Mr Michael Joseph, Group Executive Director, Assurance Audit Services, Australian National Audit Office**

**WATSON, Mr Pat, Assistant Secretary, Finance Branch, Department of Education, Training and Youth Affairs**

**WOODING, Dr Robert, Acting First Assistant Secretary, Portfolio Strategies Division, Department of Health and Aged Care**

**YOUNGBERRY, Mr Tim, Chief Financial Officer, Department of Family and Community Services**

**CHAIRMAN**—Welcome. Is there anything you wish to add to the capacity in which you are appearing?

**Prof. BARTON**—I work at the Australian National University in the School of Business and Information Management.

**Prof. HARRIS**—I am a superannuated public servant and I write for the *Australian Financial Review*.

**CHAIRMAN**—I know that some of you will say it is still early days in terms of our shift to accrual accounting and reporting. I know that the Senate has examined some of these issues that we will examine today but, if you will, this gets to the issue of the statutory primary responsibility of this committee, which is that, on behalf of parliament, we have a responsibility to make sure that we maintain the accountability of both the executive and public servants with respect to parliament and the broader community.

If it is difficult for senators and members to understand what is in the portfolio budget statements, how the annual reports relate to those portfolio budget statements and to have a proper continuity of information so that we can track what the heck is going on, then we have difficulty holding the Public Service to account and we have difficulty explaining to the private sector and the community out there—those who elected us—what is going on with our use of Commonwealth funds, which are their taxes. That is the reason for it.

We understand it is early days. We know that five years after the introduction would perhaps be a better time to do this, but we have a habit of intervening in these issues a couple of years or so after we make major revisions. Most of you will recall that we had a look at both the FMA Act and the CAC Act and corporate governance for Commonwealth business enterprises relatively soon after changes in the laws. The Auditor-General Act came into effect on 1 January 1998 and we are already having a look at the operation of that act. So we have a habit of coming in fairly early to try to get rid of any hiccups that we think may exist so that, five years down the track after changes, perhaps we have it pretty well right.

**Topic 1—The structure of the accrual budget documentation and the continuity of information throughout the budgetary cycle**

**CHAIRMAN**—We will commence this part of the hearing with a discussion on the general structure of the accrual budget documentation and the continuity of information from the PBS to the annual report. This includes the relationship between the outcome/output framework and the organisational structure of agencies, and the presentation of areas' higher level budget information.

DOFA representatives, could you give us a brief overview of where you think we are at? I am a long way from being an expert; I would be surprised if the senators did not have better questions than the House of Representatives members because senators deal with these things in Senate estimates all the time whereas we are not as familiar with the documentation.

**Senator MURRAY**—You are not going to get out of it that easily.

**CHAIRMAN**—That is an honest and fair statement, Andrew. That is more than reasonable.

**Senator HOGG**—Where is the interpreter service today? We are talking about the PBS.

**CHAIRMAN**—Mr Cox does not want to agree with me, but I am confident that I am correct.

**Mr COX**—At least about yourself.

**CHAIRMAN**—The senators spend more time at these things than we normally would. Can you give us an overview of where we are at?

**Mr BARTOS**—We actually think that that issue of continuity is one of the strengths of the documentation as it currently stands. It is now the case that the structure of the portfolio budget statements and the performance information presented in the portfolio budget statements continues through into the annual reports. Prior to the changes to budget documentation, it was the case that annual reporting was on a different basis from the portfolio budget statements. It

seems to me that the principle that, under the same structure and using the same performance information you are going to be held accountable for what you promise you are going to perform as to whether you did perform, is a highly desirable principle and one that we now see in the documentation.

I suppose the thing that has led to some criticism in this area is the fact that there is a big time lag between the provision of the portfolio budget statement at budget time and the annual report, given that the annual report covers a financial year and, while the PBS is provided in May, prior to the start of the financial year, the annual report is provided in October or thereabouts, depending on the agency that is reporting, after the end of the financial year. That means that, in effect, there is something like 18 months between what is promised in the PBS to be performed and what is actually delivered in the annual report. Short of changing the entire budgetary timetable, I am not sure that there is that much that can be done about that time lag. But certainly I do see it as one of the big strengths that annual reports now have to report against the performance measures that were contained in the PBS that refer to the year in question. That degree of continuity is quite important.

There is also continuity in other aspects of the budget papers—continuity between years provided, for example, through the functional tables and functional descriptions, which allow for multiple year comparisons to be provided through the budget papers. Certainly, in the first year of the budget documentation, for what were good reasons at the time, we took a decision to have the primary concentration in the budget statements on portfolio rather than function. In the light of experience, in this budget we move back to having the primary discussion and presentation in budget statement No. 6 based on a functional basis, which does allow for greater continuity. That was fairly widely welcomed by commentators. Is that enough of an introduction to start the discussion going.

**CHAIRMAN**—Yes.

**Senator WATSON**—We acknowledge that we are satisfying the consistency and continuity tests, as Mr Bartos said, but what really is worrying the senators is a need at that level for disaggregation to provide a greater level of transparency. What the senators have problems with is a lack of transparency arising from no disaggregation, or very little. What we would like to get out of this committee is achievement of those two ends: disaggregation to enable greater transparency to facilitate senators' questions at Senate estimates. How can that be achieved?

**CHAIRMAN**—Does anybody have any comments?

**Senator HOGG**—Taking up Mr Bartos's points, firstly, I happen to disagree with you—the principle might be right, but the reality is completely different. I say that as a person who has waded through a number of the PBSs now over a period of time. You talk about continuity being one of the strengths. Let me assure you—and this is no disrespect to my good friend Mr Harper from the Department of Defence—there is no continuity when you are in the Defence PBS, where we are spending in the order of \$17 billion a year on big ticket items. There is no continuity going from one year to the next. There has not been consistency in terms of outputs or outcomes, though, to Defence's credit, they are trying to pick up that act and clear it up. But the fact remains that one of the things that gets lost in this process is the PAES, because people focus on just the PBS. The PAES is equally important because one goes from the PBS to the

PAES to the annual report and then to the next PBS. One tries to track what is happening; but let me assure you that, whilst you might believe the principle is established, it has certainly not been there when I have tried to follow it through. This has been conceded by the officers of the Department of Defence, and I think they are trying to clear it up.

I am not trying to bore everyone here with Defence; I am talking about it because I primarily operate in that area. But it is very difficult to test the outcomes and the outputs in the annual reports because there is nothing promised in Defence. That is because Defence relies on the Chief of the Defence Force's directives for the outcomes and the outputs, and—this is one problem that we have discussed over and over again—the Chief of Defence Force's preparedness directives are classified. So when one comes to try to test what is in the \$17 billion of expenditure in Defence and one then goes to the annual report, one cannot really test it at all. There are problems there.

Senator Watson is right—there is no disaggregation of the costs. If one looks at output 1 in Defence this year, for nearly \$1 billion—\$947 million—of expenditure, that is explained away by, to be fair, about three pages of the PBS and then there are a number of exercises that Defence will operate. It does not get any better. One output under which they spend nearly \$5½ billion gets about six pages. I do not know if there is any proportionality between the amount spent and the number of pages devoted to it within the PBS, but disaggregation is a real problem.

Of course what one finds when one gets to estimates is that one gets involved in this process of trying to draw out and tease out the significant elements of each item. I think that is as much a frustration—and Mr G. Harper will speak for himself—for the bureaucrats who are appearing before us as it is for the senators who are trying to perform the duty.

**CHAIRMAN**—I want to emphasise something he said about Defence, because I think it gives some scope to what Senator Hogg is saying. The Defence PBS in 1999-2000 describes 22 outputs in order from 1 to 22. The same Defence PBS for 2001-02 comprises only six outputs. We have gone from 22 outputs down to six, and you are telling me that you have consistency from year to year. Senator Hogg is complaining about disaggregation, and what we seem to be doing is further aggregating. I think—am I right?—that Defence has only one outcome: to defend the nation. I think I read that late last night.

**Mr TANNER**—It is the prevention or defeat of armed threat against Australia—something like that.

**Senator HOGG**—I think they have succeeded so far!

**Senator GIBSON**—I think it is important today that we do not get bogged down in particular problems with particular departments. I understand Senator Hogg's point, because he knows a lot about it. He has been a good student of it and followed it well. On the other hand, we really have to take a cross-government view about the system we have. I think we should congratulate the people who have been involved: Mr Bartos and his team. We do have a system today where the government puts out a balance sheet of where it is at. We did not have that in the past. One of the advantages of putting out a balance sheet is that, instead of having just half a dozen mandarins around the place understanding the government accounts, there have to be a million

or two million people out in the community who understand a balance sheet—there are about a million businesses, so there have to be at least a million people who understand what that is about.

**Senator HOGG**—I think that is a bit optimistic, isn't it?

**Senator GIBSON**—No, it is true. Firstly, there are a lot of people who can understand a balance sheet. Before, only very few people—and, I can assure you, very few politicians—understood the asset situation of the Commonwealth government. That is now reasonably clear, even though it is in deficit because of the superannuation liabilities. Secondly, at the Senate Finance and Public Administration Committee—which has held a few of these round tables; I chaired a couple of the sessions and have been to one since then—one of the things that comes through loud and clear is that the agencies are saying that their managers now have a better understanding of, and are better able to manage, the assets and the operations underneath them. They are two big pluses out of the system, so I suggest to the contributors today: please do not just concentrate on the negatives. I agree with Senator Hogg and Senator Watson that better transparency is required for senators and members, particularly for the estimates process—but, back on the big picture stuff, I think we have come a long way. I think a fair bit of confusion has arisen from how the outputs and outcomes are described and reported on, but I think it important that we look forward and improve the system, and not look backwards.

**Mr COX**—If we are going to deal with this on a systemic basis, it might be helpful if Finance and perhaps Treasury—but particularly Finance—gave us an indication of who is responsible for which parts of the documents. I take it that the individual departments are responsible for putting together their portfolio budget statements?

**Mr BARTOS**—Yes, that is correct: individual departments do the portfolio budget statements. As for the remainder of the budget papers, there are actually a number of budget related papers prepared by the department with the policy responsibility—for example, statements on the budget's impact on women prepared by the Office of the Status of Women. In terms of the formal budget papers that are provided, the division of responsibility between Treasury and the Department of Finance and Administration is that Treasury prepares the overview sections at the front—the sections on taxation revenue—and Finance is responsible for non-tax revenues and the statements on expenses and the presentation of the Commonwealth's accounts that also appear at the end of the budget papers, together with some of the technical statements on accounting treatment and statistical classifications.

**Mr COX**—In terms of the preparation of the actual budget estimates, has there been any change in the balance of who is really responsible for generating those? Has the balance in the last few years moved back to individual departments, with Finance accepting them? Or does Finance have iron control of what goes in?

**Mr BARTOS**—No, that was actually one of the changes that accompanied the introduction of outcomes, outputs and accruals budgeting. Responsibility for preparation of estimates was devolved to each individual agency. The Department of Finance and Administration maintains a quality assurance role. I think it is fair to say that in the first year of the accrual budget the quality assurance role was rather more like very hands-on quality control. Because of the different transitional difficulties a number of agencies experienced, we actually continued to

prepare the estimates for a number of them. The last couple of budgets have seen agencies producing much more reliable and consistent estimates for themselves. Agencies are now responsible for the preparation of their own estimates.

**Mr COX**—Do you think that the quality of the estimates has improved or deteriorated as a result?

**Senator HOGG**—Do you do an audit?

**Mr BARTOS**—Can I answer that in a slightly more complex way rather than with a yes or a no? Because Finance continues to play a quality assurance role, none of the estimates in the budget are of lower quality because we would not let them through. We do not see the quality of estimates as having been reduced. Having said that, I think it is the case that we see some variation still—and you would understand this—between different departments and agencies in terms of the quality of estimates that they can generate for themselves. Fortunately it is a much smaller number than when we first introduced accrual budgeting, but some of them are still finding difficulty in preparing estimates and have to have a greater degree of intervention and involvement by Finance. I think it would be true to say that the overall quality of estimates being produced by agencies has gone up dramatically over the last three years.

**Senator MURRAY**—I think it is true to say, Mr Bartos, that we should put on the table the view of many senators, which is not explicitly stated but I am quite sure is there. They think the accrual system has, in fact, been used to conceal information, and that is a perception you probably need to overcome. I want to return specifically to the topic we are on, which is the structure and continuity of information. We need to address at the outset the sorts of documents which are available for the accountability exercise.

The difficulty with annual reports is that primarily they are backward looking documents. Documents produced at budget time—budget and estimates documents—have a historical flavour but are primarily forward looking. The estimates, which immediately follow the budget, use the annual report for the previous year—so it is pretty dated in the immediate sense—and they use the budget statements. If you are lucky and the timing is correct, the additional estimates that follow then use the most current annual report, and it can be a far more analytical exercise. The value of the annual report is primarily in its balance sheet and consolidated financial statement expression.

One of the issues may be the delay in producing annual reports. I am conscious that many annual reports have statutory requirements and content that is additional to the financial statements and may result in delays. But if you look purely at the financial statement area, any respectable public company should be able to produce consolidated and final financial statements within 15 working days. If they cannot do that they should not be in business. I suspect we could do that in the public sector as well.

For me, the first question is whether annual reports should be brought forward or should be produced in two sections: one which produces the financial statements as early as possible, and the other which produces all the other documentation. There is a dissonance in terms of structure and continuity and the ability to analyse. I would like your reaction to that.

**Mr BARTOS**—Can I deal with some of the issues raised by Senator Hogg and Senator Watson, as well as those raised by Senator Murray, at this stage? In terms of the preparation of the annual reports, it is the case that the bringing forward of the annual report timetable, which has been associated with the changes in budgeting, now puts Commonwealth departments and agencies in the middle of the pack of Australia's top performing companies. We have a table, which I can get for the committee probably over lunchtime, that compares the performance in annual reporting between the Commonwealth—and the preparation of our whole-of-government reports on financials—with those of Australia's top 20 companies. We are about eighth.

**Senator WATSON**—Well done!

**Senator MURRAY**—If you regard the Senate—and it is a very loose analogy—as being equivalent to a board, the board of a public company has a financial statement within July and the Senate does not. Obviously, the public annual report comes much later. That is the point that I am trying to drive at.

**Mr BARTOS**—That is a fair point. We currently look at financial reporting and preparation of agencies' financial reports, and the timetable has been brought forward considerably from what it used to be, but I still think there is room for improvement there. The best practice is actually not 15 days but continuous disclosure online. Some of the world's best companies are able to produce accurate financial reporting within a day of close. That would be something that we should aim for. It would be useful for both departments and agencies, and also for Senate scrutiny. I do not think that at the moment agencies' systems are up to it. I think it will be the next generational change when agencies change financial management information systems that might allow them to do that. That would be the ideal: to reach that level of practice and provide that sort of information.

**Senator HOGG**—You are not saying it is the personnel; it is the technology—or is it both?

**Mr BARTOS**—I think agencies' personnel are aware of what needs to be done and can do it. There are also some other barriers to that sort of reporting that I think are worth this committee knowing before it might leap straight to the conclusion that that is doable now. For a number of agencies there are things that need to be reported in their financials that either have a statutory basis or relate to agreements with the states in relation to payments to the states and so on. Those things actually make some of the public sector agencies' reporting a little more difficult than a private company's, and they would have to be taken into account. But it is largely those sorts of things, and systems issues, rather than personnel.

**Senator HOGG**—Thanks.

**Mr BARTOS**—In relation to the other points that Senator Hogg and Senator Watson raised, I did not cover the level of aggregation because I thought we were going to get to that later in the agenda. I must say that that is one we will probably surprise the committee on by agreeing.

**Mr COX**—What are we going to do about it?

**CHAIRMAN**—We will deal with that when we get to it, Mr Cox.

**Mr BARTOS**—The other issue of continuity that Senator Hogg raised is an important one. I was talking about continuity between the portfolio budget statements and annual reports. I think for the first time there is continuity; there is just a fair distance of time in between the two. That other issue Senator Hogg raised is a separate continuity issue—that is, changing the structure year on year. One thing I would point out to the committee is that that is by no means a new issue. It was always the case that Senate committees, and this committee itself, I recall, raised concerns about changes in program structure and reporting structure year on year. Again, I have considerable sympathy for the concerns raised by senators in terms of becoming familiar with one structure of programs, as they were, or outcomes, as they now are, and then finding that structure is different in later years.

One of the issues there is that the needs of the Australian community change, and quite rapidly, and therefore the structure of organisations and the way programs are put together changes to deal with them. Those, I think, are legitimate. Where changes are produced just to obscure otherwise embarrassing information, I think that is not legitimate. One of the things that are needed is to be able to distinguish them. I am sure Tony Harris probably recalls, from the time that he was head of Finance's general expenditure division, similar comments being made at Senate committees a long time ago. Comments have been made continually that there are changes year on year.

Mr Cox raised the issue as to what we are going to do about it. There is a fairly fundamental issue there that needs to be addressed, and that is: who is responsible, should it be centrally controlled or should it be the responsibility of each individual department and agency? The legislation that parliament has passed—the Financial Management and Accountability Act and the Commonwealth Authorities and Companies Act—makes it clearly the responsibility of the CEO of an agency to get those things right. Unless and until that legislation is changed, it is not something that we see a role for central control of.

**CHAIRMAN**—We have more questions, and I want to give Mr Harper a go, but first I want to make a couple of comments. As this committee has just reviewed the CAC Act and the FMA Act, I doubt we would want to go back on things we have just said, but what is the matter with better practice guides as a way of accomplishing not central control but centrally suggested direction? Does that make some sense?

**Mr BARTOS**—Yes.

**CHAIRMAN**—What would Audit think about that?

**Mr McPHEE**—We obviously support that, Mr Chairman. I think Finance does seek to put out some framework information and it makes the point very clearly in its documentation that this is the minimum requirement and agencies really do need to respond to the feedback they are getting from committees and other places in terms of the information they provide. Having said that, we all would value assistance here, particularly in the area of determining the level of disclosure, some idea of materiality and what is important for the parliament and what is not. I fully accept some of the year to year transitional issues. I am sure everyone here does. As Stephen Bartos said, the community changes and government programs need to change. There will always need to be changes within government programs. The issue is how we as agencies

can assist members and senators to follow the changes through. How do we help you in that transitional phase? That is where perhaps some guidance would be useful.

**CHAIRMAN**—The second thing relates to your answer to Senator Murray in terms of the time you get the information out. You have an audit phase to go through before you can give the Senate the information, don't you?

**Mr McPHEE**—That is correct.

**CHAIRMAN**—Which is bound to slow things down. Mr G. Harper, you have been waiting some time to respond to Senator Hogg and me. We keep talking about consistency. I was not aware that we had World War III in between 1999-2000 and 2001-02, where we went from 22 outputs down to six. Perhaps you would like to respond to that.

**Senator MURRAY**—Before he does, can we tie up the last point, otherwise we lose the continuity.

**CHAIRMAN**—We have already lost that.

**Senator MURRAY**—Put simply, the point that Mr Bartos made is a further revolution in the presentation of information to the parliament and, indeed, to the executive. I would put it as strongly as that. While I recognise the audit component which requires a different perspective, what Mr Bartos is suggesting is that at the end of every financial accounting period—and I presume we will keep it on a monthly basis, although there are radical thinkers who think you do it day by day; in fact, some international companies do it on a day by day basis—there is the provision of management accounts and full management systems to the Senate, to the parliament as a whole and to the government. If that were done and were available on a rolling and continuous basis, which is the point you are making, that would drastically alter the ability to get current information.

**Mr G. HARPER**—To clarify the point that was raised earlier, Mr Tanner recited the outcome for Defence, which was to prevent or defeat the use of armed force against Australia and its interests. That itself has changed this year in the portfolio budget statements to the defence of Australia and its national interests.

**Mr TANNER**—I am out of date obviously. What does that mean on the ground?

**Mr G. HARPER**—On the ground technically, it may not be out of date because the budget year for which to prevent or defeat—

**Senator HOGG**—So you are right; the change is next week.

**Mr G. HARPER**—I think Mr Tanner is probably a week in time. The change there was to reflect some attacks against Australia or activities inimical to Australia's security may not necessarily involve the use of armed force. At page 3 of this year's portfolio budget statements, there are statements which I could just read briefly about hostile foreign intelligence activities, directed and hostile economic aggression, deliberate introduction by a foreign power of non-

weaponed biological agents, cyber attack, et cetera. That seems to me to be a useful change in the outcome.

The committee has shown an interest in the change in the number of Defence's outputs. I apologise that I have not been with Defence long enough to have been personally exposed to the 22 outputs, but I believe that to be a correct figure. The following year there were five. This year, the 2001-02 budget, the PBS refers to six. The six is the previous year's five, with one of them broken into two. So there is a reasonable amount of consistency between those two years. There was a discontinuity between the 22 and the five, which possibly reflected the way in which Defence managed its business then and the way in which it manages its business now.

Indeed, the organisational chart in the minister's PBS, at page 13, indicates a structure for the organisation that reflects accountability to the secretary and the CDF in discharging their responsibility to deliver to the government outputs. There are six output executives who are largely responsible for the internal delivery of services and products that allow the organisation to deliver the external products. The remainder of the executives, whom we style as 'owner support', assist the secretary and the CDF with the governance of the organisation, and there are 'enabling executives' who are essentially internal providers to other executives. So, in our case, given that the organisation is structured in that way, one would imagine that there would be reasonable stability. I think it is quite arguable that, between the current year and the one in prospect, there has been stability.

**CHAIRMAN**—Both Mr Cox and Senator Hogg have further questions, but I am going to defer to Senator Gibson because he has a structural question that relates to this overall topic to ask some participants who have not yet participated. I would like to move to that now.

**Senator GIBSON**—This session is supposed to be, basically, looking at the sort of broad brush stuff and, as set out, we are supposed to then move on to the detail after morning tea. I would like some of the people who are a bit more on the outside to give their views on the overall structure and what has been going on and where we are today. That would help. I would be pleased to hear from Mr Robert Kerr from the Productivity Commission. Mr Kerr, what are your views on what has been going on and where we are now? I would also like to hear from Professor Barton, Professor Harris—with his experience inside and outside—the CPA people, Mr Maurie Kennedy, perhaps followed up by ANAO. I think comments from that group of people, and a summary comment from ANAO at the end, would be quite useful for all of us.

**CHAIRMAN**—I ask that you make your statements as succinct and as short as possible, otherwise we will never get through the day.

**Mr TANNER**—Mr Chairman, I think that is a very useful suggestion. But one thing, in terms of time, that I do want to make reference to: I think the most important issues in this topic are the matters raised by Mr Kennedy in his submission. I see these matters are effectively listed under this topic and I think we should make sure that there is enough time left to deal with those.

**Senator WATSON**—Mr Chairman, the other thing we need to know is: how do overseas jurisdictions handle these issues and the problems that have been raised today? That is what we are really interested to know.

**Mr KERR**—I have a narrow and fairly specific point to make but it resonates with some of the things said about the transparency and adequacy of information available to parliament. It arises from the current inquiry that the commission is doing into cost recovery by government agencies: these are the fees and charges collected by government agencies. They amount to some \$3 billion a year and they underpin the various activities that they undertake. They range from information agencies such as the Bureau of Statistics to regulatory agencies such as the Therapeutic Goods Administration.

Our inquiry is still under way and the final report has not yet been presented to government and to parliament, but one of the key findings that we have made is that the information available to parliament on the cost recovery activities of agencies through budget documentation is inadequate. It seems to us to lack transparency, it is ad hoc in its nature, and government-wide aggregates are not available on the impact of these schemes. They have been growing quite rapidly, at something like 24 per cent in real terms in the last five years. Now \$3 billion is relatively small in relation to some expenditures and activities of certain parts of the government, but nonetheless it is of substance. We have, in the draft report, invited the JCPAA to make any comments or to give us any guidance that it wishes on the way to bring forth over time the sort of detail that parliament needs to scrutinise these activities which, in our view, are inadequately capable of scrutiny at the moment. I can expand on those points, should you wish.

**Prof. BARTON**—I wish to essentially focus on some of the very fundamental issues underlying the preparation and presentation of the budget statements, rather than looking at particular statements. Firstly, I strongly endorse the adoption of accrual accounting by the government. I think it has tremendous advantages in the provision of relevant information for the control of resources, for the control of costs of departments and programs, and for the management of the government's assets and liabilities. These were serious omissions in the old cash accounting system.

However, having said that, I argue strongly that the accrual accounting system appropriate for the government is not the accrual accounting system used by business. The accrual accounting systems used by business are designed to suit the specific market environment of business operations which are profit seeking, self-funding and very much concerned with solvency, et cetera. Businesses sell goods with several technical characteristics; that is, the goods are rival and excludable, so that if you go out and buy a bottle of wine, for example, that prevents another consumer from buying that bottle of wine. But the supply of most products in the private sector is fairly elastic. They have to produce more wine for an additional sale. Secondly, the buyer of that bottle of wine, that motor car or that house et cetera obtains exclusive title to that item and has exclusive rights to use it in whichever manner he or she so desires. That is the basis of the private market system.

When we move to the public sector, as your own statements say, the government is concerned with providing those goods and services which the market cannot conveniently provide. Professor Paul Samuelson from Massachusetts Institute of Technology (MIT) years ago developed this theory of public goods. Public goods differ from private goods in fundamental respects. Public goods are non-rival and non-excludable. The typical examples of public goods are defence, law and order—and good government, I suggest, is another very important public good—public broadcasting and so on. In so far as you or I listen to the ABC—we will take an obvious case—by us listening to the ABC we do not exclude any other person from listening to

the ABC. By us, as individuals, taking advantage of the services of the defence forces, we do not deny other Australians from taking advantage of those defence force services and so on.

Furthermore, we do not obtain title to the goods we receive. We do not obtain title to the views of the ABC, the services of the defence forces or the results of good government of the Australian nation. They are public goods. They are available to all and everyone, without prejudice, and that is part of the democratic process. These goods normally cannot be charged for separately, as we can charge for a bottle of wine, a motor car, a house or a pound of butter. They are provided by the government and funded primarily from taxation revenue. In some cases there are user charges, but those are relatively modest—in all, \$160 billion. The government is concerned to provide these goods and services because the private sector cannot provide them. The private sector cannot charge easily for these goods, it cannot make a return on capital et cetera. It cannot survive. Even Abraham Lincoln drew attention to that back in the 1860s, so it has been a well-known principle for a long time. It is in Adam Smith's *The Wealth of Nations* and so on. So the role of government is primarily to provide these goods and services, which private markets cannot readily provide because of differences in the technical nature of the goods.

Because of this, the government has a much more complex role to play than that played by private business firms, and it requires much more complex financial management information systems. I believe the accrual accounting systems developed for business are not readily transportable to the public sector without significant modifications for some areas of activity. These include the provision of all these types of public goods, the accounting for the cultural and heritage assets such as the National Gallery, the National Library and the Australian War Memorial; all of the land under public roads, a lot of our infrastructure and so on. The present business accounting standards do not readily cover these types of situations because they were never intended for application to them, so we need accrual accounting—but it has to be modified. Secondly, because of the nature of the role of government, cash budgeting and cash accounting are still absolutely vital to its information needs—and there is no problem in theory and in practice about running cash accounting budgets and reports alongside full accrual accounting reports. Cash accounting is merely a subset of full accrual accounting. I believe that a basic mistake was made several years ago with the adoption of accrual accounting, to drop the cash accounting statements.

Most of the problems discussed so far get down to the fact that you want to be able to trace expenditures. Expenditure means cash payments. You need cash budgets and you need cash reports. In terms of Senator Murray's question about the prompt provision of financial statements, you can prepare—if you retain the cash accounting system as part of the accrual accounting system—cash flow statements every morning of the year. We do that at the Australian National University. I am sure every bank and most big businesses in Australia do it. It is the only way to maintain cash management. How the government maintains cash management now, without this reporting every morning of the cash position and its cash needs, I just do not know, and that can be a serious source of inefficiency.

**Senator HOGG**—Well said.

**Prof. BARTON**—So we should be retaining both cash accounting and full accrual accounting, but full accrual accounting modified for the public sector.

**Prof. HARRIS**—I want to build on some of the comments made earlier. I think there is a deficit in the continuity of information about revenues, and not only about earned revenues, about which Mr Kerr has spoken. The other day I had cause to look for capital gains tax revenues in Budget Paper No. 1—I think that is the correct budget paper. The term is not used; there is no estimate of capital gains tax and there is no discussion of capital gains tax. I thought that was a deficiency in the scope of information that we are obtaining.

The second point I would like to make is that we have actually got two balance sheets. We have a balance sheet done under the Australian Accounting Standards and we have a balance sheet done under uniform presentation presented by ABS standards. They can be linked, but they provoke a very great deal of confusion and a very great deal of work as you try to go from one accrual based system to another accrual based system. The cost of that was most evident in the treatment of a loan provided under ANTS—the new tax system—to the states interest free and repayable from a grant in the subsequent year. Under the ABS system it was treated as a loan and under Australian Accounting Standards it was treated as a grant. That is a problem, and it bears on what Professor Barton has said about accrual accounting being designed for the public sector—the fit is not quite there.

I would like to defer to Mr Kennedy's comments later on, but I was disappointed that the appropriation system adopted by the Commonwealth—and I understand why it did so—is based on the accrual expenses of agencies, so that the parliament is paying for depreciation of items it originally funded. So in some senses you are paying twice: you paid for the capital item inherent in the buildings and assets and now you are paying for the depreciation item inherent in the expenses, as I understand it. Again, to reflect Professor Barton's comment, it is probably better that the appropriations be cash based, which can be deduced from the accrual accounts, rather than paying for expenses that are not going to require any expenditure in the year ahead, for example. The department will have very considerable expenses that will be accrual based not cash based, but you are funding them as if they were cash based, as I understand it, in the current year.

I have a problem that the budget information, which we see as so important, is not, as I understand it, audited. You certainly audit departmental financial statements, but I do not believe that this jurisdiction audits the budget outcomes that are presented in the budget documents, so the most crucial part of your information set—the budget outcome—is not audited. What is audited are subsidiary accounts under a different financial system, under a different accounting system. If senators have difficulty understanding what is happening, I believe there is great confusion in the community as they are juggling the nine or so indicators that you can use to determine budget outcomes. The variations at the macro level are extraordinarily large. You can have a \$20 billion difference between the assets under one system and under another system.

Lastly, I would like to say that budgeting on outcomes can only work when there is responsibility for those outcomes that can be figured and when there is no overlap between the outcomes so as to dilute the responsibility chain. If, for example, you have a look at the outcomes in the appropriations for the Health and Aged Care portfolio, about six or seven of those outcomes are overlapping outcomes and that will cause a problem for accountability.

Let me give you an example from the New South Wales jurisdiction, where they have appropriated for outcomes in the New South Wales police service. Any one activity of the police force can be classified under about four or five outcomes and so that gives the agency very significant discretion as to which appropriation item it will use to fund which outcome item. Tracing that accountability is horrendous especially when, in the New South Wales police service, no-one is responsible within the service for any one of those outcomes. So you are appropriating to an outcome for which the responsibility is only at the top managerial level. Their systems are not designed to sub-delegate that responsibility down the line, even so that you can aggregate it. A policeman in a car can be there for the public audit, can be there for crime, can be there for traffic matters and can be there for several other issues that are listed in the outcomes at any one time, and no-one knows what that police officer is doing at any one time in any event. I think we have a problem with the accrual basis of the appropriations. I think we have a problem with the way the outcomes are specified and in the way that responsibility is not allocated. Thank you.

**Mr LEWIS**—Prior to making a specific comment, CPA Australia would like to publicly knowledge the endeavours of the Commonwealth to date in addressing these significant financial management reforms. We also recognise that there are significant challenges ahead for the departments and agencies in addressing the reform agenda. I would like to place on record, also, that we stand by to assist where possible in adding value, certainly through dialogue, research and, where appropriate, education.

**Mr AWTY**—Overall I think the CPA's position is very positive towards the accrual shift at the Commonwealth level. It is fair to say that the Commonwealth is not alone in a lot of its concerns about the construct of budget papers and annual reports, and the continuity between budget papers and annual reports. The state jurisdictions have, of course, faced these similar problems.

Of key concern at most levels is the continuity between outputs from year to year. One of the reasons for that is that this is such a monumental shift there is going to be some trade-off between the benefit, I suppose, of continuity and then the improved specifications. So as you become more familiar with your outputs and the actual types of outputs you are wanting to deliver, and as you enhance the specification of those, there is going to be some aggregation or some condensation of those outputs, and for the senators that can create some difficulties.

It is the same with performance measures. We feel that, although the performance measures at a lot of the jurisdictional levels are improving, there is a fair way to go to improve those performance measures to ensure that you do have consistency from period to period. Because, again, as you become more familiar with what you are delivering, the performance measures will improve and be enhanced.

We do think, however, that the Commonwealth should not overlook the fact that this has been a monumental change and a significant achievement for the Commonwealth public sector. Moving to an accrual based framework from the traditional cash based framework which was in place for well and truly over 100 years is quite a significant change and with that change, of course, you do have a lot of new information which can serve only to enhance the parliament's accountability and transparency in terms of the delivery of public goods and services. As the senator said before, we now have things like balance sheets which do disclose the full asset

information of the Commonwealth asset portfolio. We are now accounting for the depreciation of those assets through the operating statement and we also have a full picture of the liabilities which the Commonwealth hold as well as its service delivery. As we move down through the output and outcome program framework we are actually getting a full picture of the true costs of delivering those services to the public. From the CPA's point of view, we think that there are significant benefits. It has been a significant shift and we should not lose sight of where we have come from over the last three years.

**Mr KENNEDY**—As has been said here—and I endorse it wholeheartedly—the shift from a cash accounting framework to an accrual framework is a significant leap forward for Commonwealth accountability. We have to consider whether every single thing under the banner of accruals must be wholeheartedly endorsed as a ‘good thing’ because, clearly, not everything is—and this inquiry is a manifestation of that. It certainly makes eminent good sense to say that your PBSs, which are about promises, should be measured from time to time to see how the promises are being fulfilled. The opportunity to do that is not confined just to annual reports. The FMA Act makes provision, for example, for the finance minister's orders for agencies to produce more frequent financial reporting than just annual reporting. Similarly, the act also makes provision for the finance minister to report monthly—is it still monthly or quarterly?

**Mr BARTOS**—We report monthly.

**Mr KENNEDY**—The act makes provision to report monthly in a form that substantially reflects how the budget was presented. Therefore, I think the problem is not the framework; the problem is how the things fit within the framework. I agree with Professor Barton that perhaps the accrual notions that are readily applicable and understandable within the private sector do not fit to the public sector, and we have to invent our own, where that fit is.

I would like to speak to the question of the aggregation of appropriations in the next session topic, but let me conclude by saying now that accrual accounting is something we need to have work for us. If we the practitioners are not responsive to parliament's needs and requirements for understanding, then we are just wasting our time. The accountability process is due from the executive of the public sector to the parliament, and it is what the parliament wants that we should be ready to try to provide, so long as their wants are practicable. There has to be some trade-off, but essentially the parliament is the customer.

**CHAIRMAN**—Mr McPhee, I would be particularly interested in whether, within your current budget framework, you would be willing to audit the PBSs.

**Mr McPHEE**—Thank you, Mr Chairman. I will make a couple of comments before addressing that point. Certainly Professor Harris and Professor Barton have raised some fairly fundamental issues about possible models of budget implementation. For instance, Tony Harris referred to the possibility of having an accrual budget and a cash appropriation system. Obviously that is conceivable. I am sure that that would have been one of the models that Finance contemplated at the time. But, like many things in life, there is always a downside to every model that you choose. One of the downsides of that model is that you would not necessarily have the read-through. Also, you do not necessarily signal to public sector managers that they have to take into account the full resource costs of decisions. I suspect that, if you

went from an accrual based budget to cash appropriations, the whole system would still drive off cash, because that was a clear control point. Finance can speak for itself, but I am sure that some of these factors would have been taken into account in arriving at the model we have. Similarly, in relation to the comments about the public sector being different from the private sector, we would all accept that.

When it comes to the accounting standards, I can say with some authority that the accounting bodies did seek to take into account the differences between the public sector and the private sector, so we have a specific series of accounting standards dealing with public sector matters: we have standards on local government reporting, departmental reporting and whole of government reporting, which do seek to address the public sector. That said, I think people would probably accept that it is probably time that the Australian Accounting Standards Board has another look at that particular series of standards. Recent discussions I had with the chairman of that board suggest that they are likely to look at that downstream. Again, we can take on board refinements over time.

Mr Chairman, on the particular matter of interest to you, about whether the Audit Office would like to expand its small empire to take on the audit of the budget, I have to say that this comes up from time to time. The approach that we have taken through our performance audit process is to look at the budget preparation at various points in time. A few years ago we did do an audit of the budget processes. In terms of giving a particular opinion, we have not been strongly in favour of that, because there are many other factors which drive the budget numbers other than just the financial numbers: the state of the economy, unemployment numbers, a whole range of other parameters which we would need to get across. We would obviously need a fair amount of resources if we were to do that, to assess the accuracy of the estimates. The biggest concern is that I am very conscious that economists can never pick the downturns—or rarely pick the downturns. So I hesitate to add our credibility to some of those numbers some of the time, but of course we would be guided by the parliament at the end of the day.

**Mr COX**—I have a couple of questions for Mr Bartos, and then one for Dr Grimes. I was asking you about who was preparing estimates before and you said that it was agencies, so I take it that the agencies are also preparing the forward estimates. Have you noticed whether there has been a change in the quality of the forward estimates—whether it is making it easier for agencies to pad them out, whether there has been a reduction in technical new policy as a result of them having control of the forward estimates, and whether it is making it more difficult for the government to constrain expenditure?

**Mr BARTOS**—We have noticed, if anything, the reverse: agencies have been reasonably conservative in the construction of their forward estimates. They do not appear to be padded out. In terms of our quality assurance of those estimates, we do not see any evidence of an agency tendency to pad them out.

**Mr COX**—What about the level of technical new policy: is there more or less than under the previous arrangement when Finance was controlling them and perhaps creating more technical new policy as a way of creating more opportunities to constrain expenditure?

**Mr BARTOS**—The category of technical new policy does not exist any more. I suppose the equivalent is items which are recorded in the forward estimates as provisional—that is,

---

estimates for programs which we know are going to be ongoing but have no explicit and formal authority. I will have to confirm this, but my general feeling in terms of those estimates is that there has not been any growth in the number of provisional items. One of the things that this committee needs to bear in mind is that the Australian budget is rather different from that of most countries in that a very large amount of the forward estimates is actually constrained by legislation or is locked in, in one way or another, and is purely estimates.

The departmental items, items that are under the control of agencies themselves, represent 19 per cent of the budget and falling, whereas administered items, items which agencies administer on behalf of government—things like social security and other welfare payments, payments to the states et cetera—are more than 80 per cent of the budget. The estimates for those are constructed, in most cases, according to models that are agreed between us and the agencies and are subject to a great deal of scrutiny. When you have a budget where more than 80 per cent of it is driven by things like the Social Security Act or by Medicare agreements, the estimating issues are a little different.

**Senator MURRAY**—You would almost describe them as legislated liabilities, wouldn't you, because they are liabilities which are legislated, so you are stuck with them.

**Mr BARTOS**—In a sense, yes, although social security payments are not recorded in the balance sheet as a liability.

**Senator MURRAY**—I understand, but in that sense it is a stone around their neck.

**Mr TANNER**—The recipients can't sue for them, I don't think.

**Senator MURRAY**—They would like to.

**Senator GIBSON**—Mr Chairman, before we get away from the aggregate stuff, it would be useful if Stephen and Paul could make some comments about the input we have had during the last three-quarters of an hour from the others.

**Mr COX**—Could I finish this line of questioning before we do that, because I am conscious of the fact that I may lose the opportunity to do so. You said that Finance were responsible for the non-tax revenue. Is that right?

**Mr BARTOS**—That is correct.

**Mr COX**—Why don't we get a more detailed breakdown in the aggregates of estimates of revenues as to what those items are?

**Mr BARTOS**—There is a fairly detailed breakdown in the budget papers of non-tax revenue. In fact, the amount of detail on non-tax revenue has been increasing over time. From memory, four or five years ago, it comprised a few very brief and highly aggregated lines; now it has been disaggregated further. If the committee has suggestions as to a further breakdown of that non-tax revenue that you would like to see, we are very open to suggestions.

**Mr TANNER**—Dividends is one.

**Mr COX**—I have got a list.

**CHAIRMAN**—That is a detail in the next part of this inquiry.

**Mr COX**—We might come to that. We will spend more time on it then. The other question I have is for Dr Grimes. I note that the Treasury submission says:

The Charter of Budget Honesty requires budget fiscal reporting to be based on external reporting standards, defined as the concepts and classifications set out in the Government Finance Statistics ...

I note in the revenue estimates that there is no revenue estimate for the GST. I have been reading the relevant ABS document, *Accruals based government finance statistics 2000*, catalogue No. 5517, which contains a very detailed analysis by the ABS of the rules promulgated by the IMF and an assessment of how the GST should be treated. Four of those rules are not applicable, but rule 2 reads:

Tax revenues which a government collects and unilaterally earmarks at its discretion for distribution to another government should be shown as revenue of the collecting government and an intergovernmental transfer to the beneficiary government.

That is not the way they are treated in the budget documents. According to the ABS:

This rule is applicable because the Commonwealth has the ultimate role in the determination and distribution of GST revenue.

I won't ask Dr Grimes, who is responsible for making the decision to do that, because the document that does not include the GST as Commonwealth revenue has got the Treasurer's name on its cover, so I do not need to do that. I ask him whether the Treasurer may have done this because he wants to hide the fact that revenue as a proportion of GDP is now 25 per cent, which is the highest that it has ever been—instead, he is presenting it as 21½ per cent of GDP— or whether there is some secret plan to refer the GST to the states.

**CHAIRMAN**—Mr Cox, with respect, we are having a serious discussion. This is not a political witch-hunt. My understanding is that what we are trying to do is to figure out whether we are doing a good job with portfolio budget statements. This is getting a bit out of order.

**Mr TANNER**—I think he is entitled to ask a question. It is not up to other members of the committee to pass judgment on the merits of the question.

**CHAIRMAN**—It is not question time.

**Mr COX**—It is a pretty big issue if the charter of budget honesty is not being adhered to. The question is: is some change foreshadowed to the GST arrangements which would put them in the category of being a state tax?

**CHAIRMAN**—We heard what you asked.

**Dr GRIMES**—The first point to make is that it is true that the charter of budget honesty does require the accounts to be prepared in accordance with the relevant external reporting standards, defined as Australian Accounting Standard 31 and, also, the GFS standards. The Charter of Budget Honesty also provides scope for governments to depart from those standards provided that, if there is any departure from the standards, they are clearly identified.

In the case of the GST you will be aware that the government has the view that the GST is a state tax on the grounds that all of the money raised by that GST is provided to the states for the states to spend. In light of that, the government does not report the GST as a Commonwealth tax in the main statements and budget papers. That fact is clearly disclosed in a couple of places in the budget papers fully in accordance with the Charter of Budget Honesty Act. Nevertheless the government does include the GST in total tax revenue in the full GFS statements provided in both Budget Paper No. 1 and in the mid-year economic and fiscal outlook report. That is fully incorporated in the estimates that are provided in both Budget Paper No. 1 and the mid-year economic outlook. I would be able to direct you to the pages if you are interested.

**Mr COX**—I know where they are.

**Senator HOGG**—I have two quick questions for Mr Bartos. The first is in respect of his comment about the devolution to the agencies and the preparation of PBS—and I have flagged this with Mr Bartos before. That raises problems where, for senators, there is not consistency going from one PBS to another. How can that be handled? What solutions have you got there?

The second issue that arose after I had had that initial discussion with Mr Bartos was the fact that there is a change in the structure from time to time from the number of outputs—as will happen. Is there a requirement where there is a change in the structure for the transitional arrangements to be included or appended to the PBS in some way such that people do not have to go searching for the transitional arrangements? Is there some sort of minute or directive in respect of that? Could you comment on those two issues briefly, please?

**Mr BARTOS**—Let me take them in reverse order. The guidelines do indicate that if there is a change in structure it should be clearly spelt out and indicated in the PBS. It is not a requirement but a guideline. In light of the comments made by the chairman—and this goes to your first question as well about consistency between PBSs—I think there is a case that the guidelines could be not necessarily prescriptive or controlling but made a little more explicit and expressed in a firmer way to try to encourage greater consistency. We did raise this issue of consistency between different agencies' PBSs with agencies. We regularly meet with all CFOs of all agencies—there is a monthly CFO forum—and that has been raised with them. I discerned in this most recent round of PBSs a greater degree of consistency, but I fully accept that there was probably not as much bringing them together into a consistent format as a number of senators would have liked. That is an area where the guidelines could be expanded and made a little more explicit in order to assist agencies. That is something that we would be more than happy to take on as a suggestion from this committee.

**Senator HOGG**—On the transitional arrangements, whilst I hear what you say, it does not necessarily follow that the explanation is clear. It is one thing to say that there is a change; it is another thing to have the explanation as to exactly what the change has occurred and how one goes from the previous format to the current format so that one can find that all-important link. I

think the requirement alone that there be an explanation is insufficient. It needs to go to an actual explanation as to what the change involved was.

**Mr BARTOS**—Something that may help there, Senator, is finding some examples of where it has been done in a way that does meet the needs of scrutiny and pulling those examples of good practice out as a model for other agencies to use. So we might either, out of session with this committee or with Senate committees, or conceivably through both routes, try to find some of those examples of good practice so that we can put them into our guidance as models for other agencies.

**Senator HOGG**—That is the problem. I do not think there are any—

**CHAIRMAN**—If you could find some the committee would be most pleased to receive your advice at a later date so that we could include such examples in our report.

**Senator GIBSON**—As I signalled before, we would be appreciative of Stephen Bartos and Paul Grimes making their responses from their perspective to the suggestions that came from the other end of the table earlier.

**Mr BARTOS**—I will just touch on a couple very quickly. Firstly, there was the point raised by Professor Harris in relation to two separate balance sheets: one on a government finance statistics basis and one on an Australian accounting standards basis. My own view is that there should be no difference between the GFS and AAS presentations. When you get to the fundamentals, the purpose of reporting standards is to present economic information in a way that will assist decision making, and that is the fundamental principle behind both the GFS and the Australian accounting standards.

At present there are some differences between them. One of the longer term projects that Mr Brett Kaufmann—the head of our Accounting Centre of Excellence—has on his plate is to seek to harmonise them. It will be a long-term project because the GFS statistics have their origins in the International Monetary Fund system of national accounts and there will be a need to liaise internationally to get some changes. But I cannot see any reason that over time we should not bring those into alignment and, if this committee were so minded, to also look to pushing in that direction. That, I think, would give us some help.

In relation to Professor Barton's comment about cash management, I should reassure the committee that we have a very good handle on cash. We know the Commonwealth's total cash balance and the cash balance for each agency. I am told that within a few minutes after midnight—I have not actually been up at this hour of the morning—all of that information is available. So it is all carefully managed and we have a good handle on cash.

**Senator GIBSON**—And there is good cash reporting.

**Mr BARTOS**—And there is good cash reporting as well. I agree entirely with Professor Barton that you cannot manage unless you have a good handle on both what your cash position is and what your likely cash requirements are going to be. So it is worth putting on the record that we do have that. I will restrict my comments to just those couple of observations.

**Dr GRIMES**—I might just make a couple of observations as well. I have to confess that for Treasury our focus is very much at the aggregate level rather than the disaggregated portfolio budget statements, and so forth. But at the aggregate level I think the point was made earlier that accruals actually provide a richer set of information than we had under the cash accounting system. The reason for that is that the cash information is still retained. There is a full cash flow statement produced at the whole of government level which enables the underlying cash and headline cash balances to be tracked so they can be tracked on a consistent basis over a number of years. We think that is very important. Cash will continue to be a very key focus both of government policy makers and financial markets. But in addition to that we now have accrual operating statements and a full balance sheet—in effect complementing the cash information that is provided. So we see that as one of the strengths and one of the advantages of the system.

One other thing I want to mention is the harmonisation issue between GFS and AAS31 standards. We would agree very much with Finance that it is highly desirable to get greater harmonisation between those standards. It is true that the GFS standards are derived from national accounting standards, overseen by, ultimately, the United Nations and IMF, but there may well be sensible ways in which we can modify the accounting standards applying to government to provide for greater harmonisation between GFS and AAS31.

**Senator MURRAY**—I have three points to make. The first is that we need—

**CHAIRMAN**—Excuse me, Senator. Did you want to add something, Mr Kaufmann?

**Mr KAUFMANN**—Yes, if I may. I am sorry, Senator Murray. I have one further comment, picking up on comments by Mr Bartos and Dr Grimes, on the issue of separate and distinct accounting standards for the public sector, which has been mentioned around the table by our colleagues. I do not necessarily agree that there need to be separate and distinct accounting standards for the public sector as such. Now that we have the Accounting Standards Board in this country covering both the private and the public sectors, I think the trick is to ensure that, in the development of new standards and/or the revision of existing standards, the uniqueness of public sector transactions is taken into account in the development of those standards.

**CHAIRMAN**—Thank you for that.

**Senator MURRAY**—That is really the first point I want to make. I think we need an agreed accounting language which is not in dispute in this country. I think the very worst thing we could do is to have two sets of accounting standards—public sector and private sector. Ultimately, we need a national set of accounts in this country which captures nine governments and the entire profit sector, and also the entire not-for-profit sector, which, incidentally, is singularly badly presented in our national accounts. It is only once you can do that that you can really evaluate the wealth of our country. I think it would be a great mistake, and that what we should be doing is urging the Treasurer to adjust the weighting of public sector representation on the Accounting Standards Board. Perhaps it is in hindsight, but certainly it is my view that it has been a mistake to overweight it in terms of the profit sector. There is insufficient representation of the not-for-profit sector and there is certainly deficient representation of the public sector. So I would strongly disagree, in fact, with the view that we should separate it out.

The second issue runs on from that. The very worst aspect of our present accounting system is, in fact, the expression of our asset situation, which is a point Professor Harris made. Our determination of our asset value leads, I think, to real misrepresentation of the true value and worth. That primarily flows on from the accounting standards situation, but it also flows on from a perception as to how Commonwealth and other government assets are to be evaluated. I would like some reactions on those points.

The third point I would make is that I think you have to distinguish in national accounting terms between purpose and activity. The provision of public goods or private goods is really an activity. The purpose of producing private goods is to amass wealth. Nobody is in business because they want to sell motor cars; they are in business because they want to make money—they want to amass wealth. Ultimately, the accrual system provides for a proper assessment of wealth. I would urge every single person in this room to read an absolutely outstanding paper by the Auditor-General, who has been assisted in it. I would like to read it again. I forget the precise title, but it is called 'Wealth in the country'. It was delivered in March at a convention on the east coast. He was bringing to our attention the difficulties in assessing wealth.

I think that what we have to do in this debate, when we look at the broad picture, is to ask, 'How do we evaluate the wealth of governments?' The purpose of government is not just to provide the public good. The purpose of government is to increase the wealth of the country in whatever way it can be defined. The Auditor-General's paper, which was very well researched, indicates all the difficulties with trying to arrive at that. The principal financial mechanism by which you determine wealth is, of course, the balance sheet and within the balance sheet is that very difficult issue for the public sector of intangible goods. It is bad enough in the private sector when you talk about the value of a brand or the value of your people or intellectual property. In the public sector it becomes very difficult when you talk about seas, forests and, as Mr Kerr mentioned, the value of whatever is beneath your roads—those sorts of things. I would stress that in this broad picture approach I would like some commentary on those issues that I have raised.

**Mr KAUFMANN**—Regarding the public sector representation on the Accounting Standards Board, I think I have made it clear in other fora, such as Senate estimates, that from our perspective we are not satisfied with having a minority on the board. I am pleased to say that, since I discussed this issue at Senate estimates last month, the vacancy on the AASB has been taken up by the Victorian Auditor-General, Wayne Cameron, so we are hopeful that we have another public sector leaning person on the board. But, at the end of the day, that will give us three out of 10 and, in votes, that is not too helpful.

**Senator MURRAY**—You do have the Senate to even it up.

**Mr KAUFMANN**—We continue to lobby. In respect of the issue that you raised, Senator Murray, about valuing assets, I will touch on the different methods and also come to your point on intellectual property as a broader issue. As to the valuation of assets, in the Commonwealth we are moving, in accordance with the accounting standards, to fair value—that is, full current value rather than just deprival value, which was depreciated replacement cost. We have been concerned about some of the aspects around the way that standard was drafted. We have lobbied the board and we are waiting to see how some amendments to that standard will come out. They are expected to be considered later next week at an AASB meeting. It is fair to say that, for

property, plant and equipment assets across the Commonwealth, we will be moving to a full current value in accordance with the international standards.

In terms of intellectual property, I do share your concerns, but I note that the Accounting Standards Board has a project currently under way looking at this particular issue. We will be making representation to ensure that it picks up all those types of things that you have mentioned, like forests, IT, et cetera—that it is all brought to a head.

**CHAIRMAN**—Senator, in a sense I partially disagree with you that the private sector is just there for wealth creation. I have always believed that the private sector is there to produce goods and services desired by the community. As a subset of that, they certainly want to increase wealth because if they do not they will not be able to supply the goods and services that the community desires. Mr Kaufmann, I do not know what assistance this will be, but I find that for some reason or other I am a member of the advisory committee to the Australian Accounting Standards Board, but I have never attended a meeting. Can I give you a hand?

**Mr KAUFMANN**—We would love you to.

**Mr TANNER**—I wanted to go to the questions raised by Mr Kennedy in his submission where—if I could summarise it, and he may want to correct me if I get it wrong—he essentially seems to be arguing that, because of the very broad and generic character of appropriations that arise from the new system, it is possible for governments to do a couple of things, both of which would be undesirable. The first would be to effectively create very general appropriations that are not used, or where substantial parts of those appropriations are not used, and are capable of being rolled over and therefore have some hollow logs which could be used—for example, if the Senate blocked supply—to prolong the period in which the government could continue to govern without an appropriation from parliament. As a person who was actively involved as a rank and filer in the 1975 situation, I am not necessarily fussed about that problem. I think it may, in fact, be a good thing. Nonetheless, I think it is worthy of consideration and I would like to hear the response of Mr Bartos and Dr Grimes to that suggestion.

Secondly—and more seriously, I think—there is the possibility that with a very broad description of appropriation one of the things that can occur is that the government may, for example, make an announcement that it is going to use a particular appropriation for certain purposes but, because the title of that appropriation is so broad and generic—and I think the example Mr Kennedy uses is improving transport links within regional Australia—there could ultimately be use of that appropriation that is far more dubious than that contemplated and still technically referable to the appropriation heading. Mr Kennedy may want to elaborate on that but I understand that is the thrust of his submission. I would be interested in the responses of both departments.

**Mr KENNEDY**—On the first point, it is not the breadth of the description of the appropriation that creates the potential for hollow logs; rather, it is the fact that annual appropriations now no longer lapse and—

**Mr TANNER**—Was I otherwise accurate in describing your submission?

**Mr KENNEDY**—Pretty well, yes.

**Senator MURRAY**—You have 9½ out of 10.

**Mr TANNER**—I would be interested to hear the responses of the two departments to Mr Kennedy's suggestion.

**Mr BARTOS**—On the first point, because appropriations no longer lapse, and also because the scope of appropriations is somewhat broader—for example, including depreciation—there is the potential for governments to continue operation over a longer period, say, if the parliament were not to appropriate the funds. On the other hand, there is a sense in which that is almost hypothetical because in terms of the operation of departments and agencies they are still reliant on the passage of the budget for almost everything that they do. As I pointed out earlier, departmental expenses are covered by the budget but there are a number of other areas of activity administered by departments that are not covered by those appropriation bills. The situation is a touch more complicated than that and, to my mind, while in a technical sense what Mr Kennedy said is absolutely true, I think that unless there is in a practical way some sort of consideration of what the outcome of the parliament would be in not passing the budget—which we have not come across yet—I do not think the practical reality is that there is that much difference.

**Mr TANNER**—Would it be correct to say that, at best, the government could buy itself a few weeks of extra life on that basis?

**Mr BARTOS**—If that. Yes, but it is not a huge difference. It would not allow government to govern for another couple of years or anything of that nature. On the second point, in terms of the level of aggregation of appropriations under outcomes, I think that is what the chairman has foreshadowed as the next topic of discussion. I indicate there that we have some sympathy for the view that some outcomes are presented at too high a level of aggregation.

**Mr TANNER**—Accepting that that broad question will be dealt with subsequently, would you accept Mr Kennedy's premise that within the ambit of whatever a particular outlay description may be that that is going to create some flexibility for a government within that ambit? The primary point he is making is that whatever the description of a particular appropriation is, that will by definition create some flexibility for the government within that description. Is that a correct statement?

**Mr BARTOS**—It is correct. There is a little qualification that needs to be made to that and that is that it was also the case under the previous cash appropriations that there were some appropriations that were very broad and vague as well—under cash appropriations. It is not as though this is, in any sense, a new problem that has been raised.

**CHAIRMAN**—I thought we had finally gone past the point where we had so many dollars and cents allocated to a whole row of jam tins and you could only take out of one jam tin money for a particular purpose, and if you got to the end of the financial year and there was still money left in the jam tin well, tough, you could not spend it. I thought that was one of the purposes of all this.

**Mr COX**—Mr Chairman, I think the point that Mr Kennedy is trying to make—and he might confirm this—is that by doing that the parliament has given up to the executive a large amount of power.

**Mr KENNEDY**—That is essentially what my concern is. My submission is based around raising some questions that I think the parliament itself should have been asking. For example, the jam tin accounting analogy is true to some extent, but does parliament want to know who is getting the jam? Essentially, that is partly what this inquiry is about—the degree to which the PBSs and the other budget documentation convey the information.

**Mr COX**—Does parliament want to know that, when it is appropriating money for families, the money is in fact going to families—or is it being spent on advertising propaganda on behalf of the coalition?

**CHAIRMAN**—He just cannot help himself.

**Mr TANNER**—Does Dr Grimes have anything to add to Mr Bartos's comments?

**Dr GRIMES**—Maybe just an observation: these are essentially matters of finance. On the issue of departments or agencies saving up for a rainy day, I would like to note that DOFA does have a number of controls on that—in particular, controls over the capacity for departments and agencies to run losses. If you did have a situation where cash reserves were being built up over time and then being spent at some point in the future, that would usually manifest itself in the form of a loss by the department or the agency involved. In that circumstance there is a requirement that the approval of the Minister for Finance and Administration be obtained. Finance would be very carefully monitoring those sorts of situations.

**Mr TANNER**—Would that be on an annual basis or on a monthly basis?

**Dr GRIMES**—I would have to defer to Finance for that.

**Mr BARTOS**—We monitor agencies' accounts every month. On the issue of running a loss, the requirement, as Dr Grimes pointed out, is that agencies need to seek approval of the Minister for Finance and Administration. That requirement comes into practice whenever an agency is anticipating a loss. We monitor monthly, so we would see if an agency were likely in the future to get itself in a situation of incurring a loss.

**Mr TANNER**—Wouldn't the definition of incurring a loss be an annual definition? An agency would have to actually notify you that they were expecting to make a loss over this financial year not this month?

**Mr BARTOS**—The loss is annually, yes, but you can discern from the patterns of an agency's accounts whether its expenses are exceeding its revenues. If that is a trend that looks likely to continue you can then raise questions with them.

**Mr KENNEDY**—It is not so much the cash position of the agency that is accumulating; it is rather the parliamentary authority to spend that my concern was directed to. While you might

have been a rank and file member in 1975, I was a rank and file member of the Treasury in 1975.

**Mr TANNER**—We will not hold you personally responsible!

**Mr KENNEDY**—One of the issues was that, yes, there was legislation in place to provide standing appropriations to pay pensions; but if you could not secure supply to provide the payments for public servants salaries, et cetera, you would not be able to have those pensions paid. That was the issue. One of the things that triggered my concerns at this point was that I came across the fact that Centrelink now operates on a special account, a non-lapsing special account. Transposing that Centrelink situation back to 1975, you would not have had the problem of pensions not being paid because Centrelink, if it had existed then, would have had access to its special account resources to do that and keep paying pensions. I think the structure of the provisions of the Appropriation Act now and the special account provisions of the FMA Act would permit an ever increasing accumulation of unspent appropriations of previous years, both of departmental outputs but also of administered items, to be deposited, as it were, in the special account. That would mean that, at some future point, a government, more than for just a few weeks, perhaps for a sustained time, could continue functioning even if the parliament had denied it the current year's supply.

**Mr TANNER**—Wouldn't that require that government to have made a previous decision to keep the money as cash rather than to use it to pay down debt?

**Mr KENNEDY**—Not necessarily. Cash is not the issue; it is parliamentary authority to spend. And it can always go into overdraft with its banker. And the finance minister can approve overdraft.

**Senator MURRAY**—And if parliament does not meet.

**Mr KENNEDY**—If parliament does not meet, yes.

**Senator WATSON**—Before I ask a question, I would like to respond to the last point that Mr Kennedy raised. I think this is a matter that obviously must be very much to the forefront of the Auditor-General to make sure that there is not too much put into those so-called special accounts.

My real concern is that I do not think we have yet reconciled our present developing maturity with the accrual regime in Australia with the sort of very pertinent cash issues raised by both Professor Barton and Professor Harris. I acknowledge the fact that you have your cash things on a one minute past midnight basis every day, and I think that is good. But there needs to be a more public document or published figures because we need a mechanism to make the cash movements more transparent or public without diminishing the ability to analyse on an accrual basis. So we have got twin objectives. Without diminishing the accrual basis, how do we incorporate the very legitimate issues that were raised by these two gentlemen earlier in the day, which is the way I would like to see it develop?

**Mr BARTOS**—Can I take this opportunity to try to encourage greater use of the monthly financial statements that are prepared by the department and released by the Minister for

---

Finance and Administration. They are available on our web site. They provide information of the sort that Senator Watson is looking for, together with a wealth of other information about movements by function and the overall position of the Commonwealth compared with budgets in previous years. I think it is a useful document. It is certainly used by the financial markets. I think it could be very helpful for parliamentarians in their scrutiny. We have had a great deal of feedback from financial commentators as to what they find useful and not useful and how it can be improved. We have had rather less feedback from parliamentarians, which probably suggests to me that we have not been diligent in publicising it amongst parliamentarians. We would welcome use of that document by the parliament and any feedback as to how it could be made more useful for your purposes.

**Senator WATSON**—It is the linkages that I think we have got to get back to, without diminishing accrual accounting, in the original presentations.

**Mr BARTOS**—Yes, I agree entirely.

**Senator WATSON**—How do we do it?

**Mr BARTOS**—I am suggesting that the monthly reporting provides a lot of that for you. The other thing that is helpful is to reinforce the point that was made by Professor Barton—that is, the cash reporting is just a subset of the overall accruals reporting and that there is quite extensive cash flow information provided both in the budget and in the portfolio budget statements. That, too, can be a useful source.

**Senator WATSON**—In terms of analysing what departments are doing throughout the year and whether the parliament is prepared to tick off on them, we need some more information at an estimates level to be able to reconcile these matters. I realise that if we can get the cash reporting, we can go to these statements; that is good. But for a parliament to be able to tick off, as it were, on their level of satisfaction about the discharge of ministerial responsibility, we do need a little more information. You are saying we can go to these other agencies, et cetera, but we have got to try to get some better linkages. My emphasis is on the linkages—to establish linkages between cash and accruals in a meaningful way without diminishing the accrual concept.

**Senator MURRAY**—And commentary from yourselves. I think what is missing in your monthly statements is sufficient commentary—critical analysis, if you like.

**CHAIRMAN**—We will break for morning tea.

**Proceedings suspended from 11.38 a.m. to 11.56 a.m..**

**CHAIRMAN**—We will continue with topic 1, very briefly.

**Senator HOGG**—I spoke with Mr Bartos during the break, and I understand that Mr Prior will answer a practical question which goes to the issue of a lot of my colleagues' complaints in respect of these issues. Is there any road testing by the Department of Finance and Administration of the PBSs? In other words, not listening to the complainants such as those senators who may be having difficulties with the PBS, but is there any practical, hands-on analysis done by trying to, say, pursue the Foreign Affairs, Defence and Trade PBS, not in its totality but at least in part, with that department so that you get a handle on where the problems are, as opposed to hearing the complaints and not necessarily understanding the complaints? I think this would reassure some senators that it is not just an academic exercise whereby you bring down a broad range of principles which the various departments and agencies are supposed to implement but then do not necessarily have an understanding of where the problems and the difficulties that confront the senators lie.

**Mr PRIOR**—If I understand your question correctly—and I had a brief discussion with Mr Bartos, who had spoken to you—it is the case that we do that within the department. We look at the PBSs of agencies and, indeed, we look at them in the same way as any reader would review or use those documents. For the record, it is fair to say that the Department of Finance and Administration acknowledges that there is room for improvement at a practical level in the PBSs, in places and in parts. With respect to some of the things that have been mentioned today, we think there is room for improvement. To be fair, and as Mr Bartos has acknowledged, perhaps there is a role for some more better practice guides to assist agencies in those sorts of improvements.

**Senator HOGG**—The other issue that arises is that there is a difference between reading the PBS for pleasure—and I do not think there are too many people around who do that—and reading it in a very clinical way for analysis at the estimates process. I do not know if that is taken into account in the principles and guidelines that are drawn together to assist particularly the senators who have to use the PBS at estimates.

**Mr PRIOR**—As far as I am aware, our role is to try and attend to being part of that process of providing information to senators and to the parliament that meets their needs. We are conscious of that. You are quite right: we do not read them for pleasure and bedside reading. One of the very best ways we find of understanding how best users use this is processes like this to engage senators, to listen to the feedback and so on.

**Senator HOGG**—I welcome that answer. Having said that, one of the difficulties is that there have been some complaints around now for some time, through the Senate Economics Committee, as Senator Gibson will confirm. Some of the senators believe that their difficulties and problems with the system are not being listened to or are not being addressed. Hence, that was really behind my questioning about the readability and the different approach in reading the PBS for a clinical analysis of the estimates process as opposed to someone who might have a cursory glance at the PBS to get some general information about what Defence might be doing or Foreign Affairs might be doing or someone else. It is in that context that I raise the issue. It is more or less to register the point with you that needs to be made because you may well be able

to keep that firmly in the front of your mind as being a way of alleviating some of the frustrations that are around this place.

**Mr PRIOR**—I can reassure this committee, and through this committee the parliament, that it is our desire to be part of that process of improvement.

**CHAIRMAN**—Professor Harris has suggested that I have misrepresented his question about auditing of portfolio budget statements. Would you like to tell us exactly what it was that you said had not been audited?

**Prof. HARRIS**—It was not the PBS that I was looking at; it was the budget outcome. You have audited accounts for AAS31—departmental accounts. You also audit the consolidation of those accounts, which the minister for finance puts out typically on Christmas Eve. What you do not audit is the budget outcome. So when the Treasurer, if he ever does, says, ‘Last year, we incurred a surplus of \$600 million,’ no-one audits that figure and no-one audits the extent to which the Treasurer, in his presentation of those budget figures, GFS—government finance statistic figures—has deviated from standards. He may voluntarily indicate that he has deviated from a standard—with the GST, for example—but no-one audits that adherence to standards. The ABS will eventually, in retrospect, come out with statements in its view of what the government financial statistics outcome was for the Commonwealth and each of the states, but you do not have any authoritative audit process.

**Mr COX**—Can we clarify one point of Tony’s? I am vaguely aware that there is a certain amount of tension at the moment between the ABS and the states in relation to some of their budget presentation. Are you aware of that fact?

**Prof. HARRIS**—I am aware that some states would wish the ABS to agree with some states’ presentation of GFS data, which the ABS should not agree with, in my view, and probably will not agree with.

**Mr COX**—This is an important point. Are you aware of any situations where the states—and you do not have to name the states—have given information that is not correct to the ABS?

**Prof. HARRIS**—No, I am not aware of that.

**Mr McPHEE**—Tony Harris spoke to me during the break to explain that point, and it is clearly a much narrower focus review than I understood it to be previously, and it is after the event. I would say that, yes, it would be within the capability of the Australian National Audit Office to review the budget outcome. It is really a matter for the parliament and the government as to whether it wants that audit assurance.

**CHAIRMAN**—Thank you. I would also report to the roundtable that Mr Kerr spoke to me briefly and suggested that, while the parliament is the primary customer of PBSs and annual reports, there are also other customers out there and that we, the parliament, should take their needs into account. I am not sure exactly how we go about that. I think that, as organisations and individuals approach us as individual members and senators, we do the best that we can to represent them.

**Senator GIBSON**—Could I put a question to the Bureau of Statistics. Earlier there was discussion about the differences between the accounting standard and the GFS standard. I was party to some of the comments off the record during the break. I wondered whether you would like to make a comment for the record about the movement of those two standards together.

**Mr EDWARDS**—In the development of our accruals based government finance statistics, we had extensive discussions with the accounting people with a view to harmonising the statistics to the greatest extent possible. At the end of the day, we were limited to the extent that the statistical standards are really a subset of the wider national accounting standards and, in some areas of significance, there is a difference between the AAS31 approach and the statistical approach. Our solution to that was that, whenever we publish accruals based government finance statistics, we will provide a reconciliation to get from our presentation of the data to the accounting presentation. Having said that, there are, in my view, some needless differences between the accounting presentation and the statistical presentation. We would be very keen to see whether we can remove those differences.

[12.08 p.m.]

**Topic 2—The level of detail provided for the content and variation of information within the accrual budget documentation**

**CHAIRMAN**—There are four subsets to this topic: the level of aggregation of appropriations within portfolio agencies and, in particular, for administered items; the level of detail and consistency in the reporting of forward estimates for outcomes and outputs; the form of recording of asset values and the capital use charge; and, lastly, the level of detail provided in mid-year economic and fiscal outlook. I start by saying that the Australian National Audit Office considers that appropriations should be disaggregated to the output level within the PBS. Would agencies, DOFA or Treasury like to comment?

**Mr TANNER**—I would. I think the first item is probably the most important matter that we will consider today, and I am very interested to see in the Finance submission, and having heard Mr Bartos's comments earlier, that there is an acceptance that the degree of aggregation is probably too high. I think Mr Kennedy's illustration of the potential for a government to abuse a very general descriptor in an appropriation to spend money for purposes that were not under contemplation and a long way from what was originally intended when the parliament passed the appropriation is certainly something we should take notice of. I accept Mr Bartos's comments that, in some cases, that has been possible under earlier appropriations, but the potential for it is greater now and the degree is greater as well.

Secondly, I have not looked for this particular point in this year's budget yet—I have not had an opportunity—but certainly in last year's budget it was no longer possible to identify specific outlays or the total budget for organisations like the Office of the Status of Women and the Australian Quarantine and Inspection Service. I think that is certainly a major problem with the level of aggregation—that many people in the parliament and the community will want to track the level of funding of particular agencies and what they are doing, and it is no longer possible to identify what the level of funding is. So I think that is an important problem that we need to respond to.

Thirdly, with respect to the lack of detail in forward estimates, in the past, under the cash system, it was possible to identify what the government was projecting to spend with respect to certain agencies, certain programs, over the forward estimates and therefore engage in debate about whether that was adequate. It was also possible to identify from year to year what projected changes to those forward estimates governments had made, and engage in debate about the meaning of that. Of course, governments, where they were projecting an increase in forward estimates for a particular measure, were always quick to identify that, and that is still the case. When you look at the budget papers you will see that there are detailed forward estimates where the government is proposing to spend more money than previously was the case. Unfortunately, that is not the case in other areas, including areas where they are proposing to spend less money than they were previously proposing.

I also seek a detailed response from the Department of Finance and Administration on another matter. When I raised this problem with forward estimates with the department during a discussion some time ago—this was in the wake of having been promised by the minister's office and the department that there would be forward estimates when the introduction of accrual accounting was occurring and then being left lamenting—the response when I raised this question as to why we do not have detailed forward estimates was, in effect, 'Well, there's a trade-off: we're giving you more information by effectively aligning all of the different levels of reporting.' So the budget, the appropriation bills, the PBSs and the annual reports were being aligned. 'You're winning on that side, so tough luck. You're getting less information over here; that's just life.' I am being a little bit unfair, but that is essentially what the response was. I would seek a response from the department to those matters I have raised. Am I essentially being accurate in my description of the problem across those various aspects?

Finally, as you know, I live in hope that I may be finance minister shortly. The question I have is a hypothetical one and, as the chairman has helpfully pointed out, we are not in question time, so a hypothetical question is permitted. If this happy event does come to pass and I get on the phone to you the following day and say, 'I'm unhappy with this aggregation problem, I'd like to see more detail,' what are the obstacles to actually doing that? What are the practical difficulties, for example, with ensuring that the Status of Women has a line item and those sorts of things within the new framework?

**Mr PRIOR**—I might jump around a bit in my response, in order to collate all the points. I will deal first with the query about whether it could be done on the forward estimates: I think we have said in other forums that clearly we collect the data; because we have got the aggregated data, we therefore have the data from each of the agencies. We have said that previously. So to the extent that it was the case that you got on the phone to me and said, 'Please produce this,' clearly the data is there.

Regarding the line items, such as the Office of the Status of Women, I will use another language—I have heard you refer to 'program information'. There is a level of detail that I think you are on the record as saying that you would look for. There is a lot of program information on payments to the states, for instance, in the tables and this accounts for a large proportion of the program information. We consider the PBSs to be an integral part of the budget documents. That is the way the model has been constructed. The PBSs may contain some of that information. When I hear you ask, 'Will we see a line item in the budget papers?' do you mean could we bring all of that information that might be in PBSs into a central document?

**Mr TANNER**—No; as long as it is somewhere.

**Mr PRIOR**—I do not know whether or not that line item or other examples are contained in particular documents. Going back to the philosophy of the model that was constructed, there was the devolution to CEOs and the PBSs were an integral part of the overall budget package. Clearly, the more you try and put them into a central box and a central set of reports, you just end up with enormous logistical and production problems which are very difficult. Perhaps the answer to your question about where things should be is where in the PBSs and so on they should be. I am trying to differentiate between your term ‘in the budget document’.

**Mr TANNER**—Just to clarify: in the comments I may have made in the question, I am not differentiating between the appropriation bills and the PBSs.

**Mr PRIOR**—They are all one complete package.

**Mr TANNER**—I accept your point that we are not really debating the question of whether something should be in a PBS versus an appropriation bill.

**Mr PRIOR**—Currently, is the information collected in the system at a certain aggregated level? We have said in other forums that the government has a view as to what level of information it would like to disclose or to present and it believes there is sufficient information in the documents currently.

**Mr TANNER**—In your submission you indicate that you would like to see a greater level of disaggregation. What plans do you have to pursue that objective, and do you have a sense of how far you would like to go? Do you have a sense of particular agencies where there is a greater need for greater disaggregation than others? Are there resources issues involved with this?

**Mr PRIOR**—I am not sure that we have nailed down exactly what level, or where we would like to be. But we certainly think about the detail of the outputs. We have thought about outcomes as well in this discussion—the specificity or otherwise of the outcomes. These are all topics that we are considering. It is interesting that we have now got accrual, and I take Professor Barton’s point. It was such an important point to make. It was not apparent some years ago, as my colleague from Treasury and I discovered, that cash was an integral part of accrual. We had a cash system and that had a data requirement set which was quite limited. We now have an accrual system and it just gets bigger. As we have more information, we have logistical information management system issues and resources associated with that. I respond by saying: yes, there would be. As you go down in detail and want to collect more, it puts more of a demand on the system and the people to be able to put it all together.

Regarding Senator Murray’s point, I totally support the idea of greater timeliness of information. In Finance last year, with the help of all the agencies, we brought forward the annual financial statements quite considerably. But there comes a point where the costs start to get quite significant.

**Mr TANNER**—Would it be fair to say, again, continuing my hypothetical phone call, that the one obstacle you would throw up to me would be, in effect, to say, ‘Well, Minister, you had better find some more funds for our department to do it’?

**Mr PRIOR**—Yes, but I do not want to say that in a kind of churlish way to you. There are realities around these things. There are some timing issues about more information. There are databases that have been built. We have some quite significant databases now which all the agencies’ data comes into. If the parliament wanted more detailed information, and that was centrally collated, it keeps building those databases bigger and bigger.

**Mr TANNER**—Is there a structural accounting problem, given the shift to an outcomes and outputs notion? Continuing with the status of women instance—and I am not even sure what particular category that is subsumed within—given the conceptual shift, if you were to disaggregate further, is there any particular problem in having line items that refer to specific agencies or programs as part of that rather than outputs as such or can that be accommodated?

**Mr PRIOR**—I am not very knowledgeable about the structure of the database. The technology we have is, would you believe, a multidimensional database as opposed to the traditional two-dimensional databases. It is just a question of how many layers you want to keep putting on. Having said that, there will come a point when there is just so much data, so much information that there is a trade-off. Part of our thing has been that you reach a point of trade-off.

**Mr TANNER**—To illustrate the question, what I am trying to get at is: at the moment the salami is sliced like this, about half an inch apart. Does what I am asking constitute slicing thinner slices, or does it constitute slicing like that?

**Mr PRIOR**—I honestly cannot give you a complete answer, because I do not know the technological implications of what you are asking. I was brought up on IT and a whole bunch of information management: I thought I understood it all until I came across multidimensional spreadsheets. That is all getting too hard for me, so I do not know the answer off the top of my head.

**Mr TANNER**—I sincerely trust that during that phone call you will tell me who does.

**Mr PRIOR**—We have some very capable people and timeframes—

**Mr TANNER**—Of course whether I would understand what they were telling me is another question.

**Senator MURRAY**—It is really nice to meet an honest man in this business!

**Mr PRIOR**—Sometimes I do not understand that.

**CHAIRMAN**—Mr Kaufmann wants to respond.

**Mr KAUFMANN**—If I may build on Mr Prior's comments: it could quite well be this way and that way—

**CHAIRMAN**—I do not know how Hansard records that: horizontally and vertically?

**Mr KAUFMANN**—as a result of the way agencies are aligning their actual structure and their output structure. So it could be multidimensional or, if they are aligning their actual operational structure with their output structure on a one-to-one basis, you probably would be just slicing. It depends on how they are structuring their operations and their financial management.

**Mr TANNER**—In other words, it is possible that at least in some areas there might be some complications in achieving that?

**Mr KAUFMANN**—Absolutely.

**Mr PRIOR**—Can I just remind you, Senator—and perhaps you already know—I came from the private sector and I can tell you I have never been in an organisation in my life that cuts and dices and slices data and information like the Commonwealth does.

**Mr TANNER**—I am very pleased to hear that, because the people we are responsible to are a different group of people from whomever you would have been responsible to.

**Mr PRIOR**—That is not a criticism, but I am just saying it is a quantum shift.

**Mr TANNER**—Yes.

**Mr PRIOR**—As we keep going, in terms of the slice and dice, sometimes it is new ground.

**Mr TANNER**—Keep in mind that as far as I am concerned—and I know a number of members of this committee are concerned—we are talking about a situation where there has actually been a regression of the degree of information that is provided in the budget papers, including the PBSs, in terms of the level of detail. This has led to a situation where it becomes impossible to determine what is actually happening with respect to a particular function or program which could have been determined under the previous arrangements. I do not accept the explanation that it is the swings and roundabouts theory—that things have improved on one front, therefore tough luck if they have gone backwards on another front.

So far we have identified two barriers—neither of which, I would suggest, are insuperable—to, in a sense, restoring the level and quality of information to where they were previously without changing the new structure. One of them is resources, the burden on staff and the like; the other is the fact that, at least in some cases, there may be a degree of incompatibility which would have to be sorted out one way or the other. Are there any other obstacles to satisfying the request that I am hypothetically putting?

**Dr GRIMES**—I might just make an observation and then we will test it with Finance to see whether this is right—it might help for clarification purposes. I think Mr Kaufmann has already

hinted at a potential way forward. I suspect the answer is in the way in which outputs are specified by departments and agencies. Effectively, the task would be to align the output specification with the material at the level of detail you were wishing to report. So the answer may be that there is quite a bit of work that needs to be done to ensure that the output specifications are meeting the reporting requirements that the government might have. I suspect also that it may take some time for departments and agencies to be able to cope out on the ground with respecifying their outputs, if the government wanted to change the output structure in some way. Some of the agencies here may be able to comment on that as well.

**CHAIRMAN**—We are talking about aligning the outputs or outcomes with programs?

**Mr PRIOR**—That is one potential way. I would have thought another way would be a hierarchy at outcome, output, program. But I think line agencies would be—

**Mr TANNER**—Yes, I would be interested to hear a response from the CFOs.

**Mr McPHEE**—Mr Tanner, while the agencies are contemplating that question, I just happen to have the Transport and Regional Services PBSs here and they certainly disaggregate the output groups. They have a number of output groups and then they slice the salami fairly thinly, with more detail at individual levels of services, which I think is really getting to the issue that you are raising. So there is some good experience around. Not everyone does it. As I think Finance and Treasury are saying, it relies on agencies disaggregating information in their own systems to be able to systematically produce this information, but it is fundamentally achievable.

**CHAIRMAN**—I have a question about that. Mr McPhee, in the 1995-96 budget I recall going through the appropriation papers and then going through the program portfolio statements and very rarely ever being able to get the program expenditure to match—and everybody here is shaking their head, yes, yes. You are talking about the quality of information. Mate, it was shocking. I can tell you that in opposition, on the expenditure review committee, trying to figure out what the government was spending on a particular program and any items within that so you could figure out what you could cut, was next to impossible. It was really quite difficult.

**Mr TANNER**—This is just simply the swings and roundabouts argument in a different form. In other words, there has been an improvement in that respect. There is no question about that, and that is a good thing. The trouble is, though, that there has been a decline from another angle. So what I am trying to do is to say, ‘How can we have our cake and eat it too?’ That is, to keep the improvement and to eradicate the decline. I would tend to agree with Mr McPhee’s comment, that to the extent that there is a problem it varies considerably across agencies. I do not see that there is any great conspiracy here or anything like that. There has been this vast change introduced, in many respects it is still being worked through, and this is one of the consequential problems which I think Finance, in its submission, has pretty well acknowledged. What I am trying to get a sense of is how difficult it is going to be to solve the problem. I think the answer has been that there are some difficulties, but they are not insurmountable. There might be some time required, but it is reasonable to hope that, within a moderate period of time, we can actually get to a level where, if Mr McPhee’s comments on the transport budget are correct, that is pretty much the norm across agencies.

**Senator MURRAY**—Previously this committee discussed matters like these. The management and the culture within an agency also affect the achievability of what you are after. How quickly and how well they absorb the new system and the new environment have materially affected their coming up to speed. We cannot leave out the human dimension in particular agencies in this discussion. I recall we discussed this at some length before.

**Mr TANNER**—Perhaps we could ask the agencies, now that they have had time to contemplate it, what they think of it.

**Mr DOLAN**—Other agencies are obviously in different situations but for our portfolio we do three outcomes: stronger families, stronger communities, and economic and social participation. They are the three outcomes for the family and community services portfolio. Within, for example, outcome 1, we have four output groups: family assistance, youth and student support, child support, and childcare support. The total resourcing for each of those four outcomes is spelt out. In addition, we also break down the outputs by which resources are provided under Appropriation Bill (No. 1), Appropriation Bill (No. 2) and what is called the special appropriations. Those are the standing appropriations—the Social Security Act. Within each of those categories we do provide line items. For example, under the special appropriations we list estimated expenditure on a double orphan pension, family tax benefit et cetera, and under the Appropriation Bill (No. 1), there is the family adjustment payment. We do break them down. There is a similar situation for all three outcomes. We manage to break them down by the individual line item.

**Mr TANNER**—Does that flow through to forward estimates as well as the—

**Mr DOLAN**—No, we provide the estimates for 2000-01 and the budget year, 2001-02. We do not provide estimates beyond that.

**Mr TANNER**—The examples you have cited apply to the forthcoming budget year but not the forward estimates.

**Mr DOLAN**—That is right.

**Mr TANNER**—Would you be in a position to provide that data if it were required of you for the forward estimates?

**Mr DOLAN**—As the department of finance has indicated, information is held on the system. We are providing in response to a question on notice to the Senate Community Affairs Legislation Committee forward estimates of expenditure. So we are in a position to provide some estimates of forward expenditure on those items.

**Mr TANNER**—If you were asked by the government of the day to make that change, you would be physically able to do that.

**Mr DOLAN**—That is something that would have to be determined in consultation with Finance, but we have the information on our systems, yes.

**Mr P. WATSON**—We have provided, for the past couple of years, a disaggregation of our outcomes in appendix 4 of our PBS. It is a reasonably extensive disaggregation and it does cover the forward estimates years as well. We have done this because of our relationship with the Senate estimates committee. They were most interested in this information and were asking the question on notice. We thought it reasonable to provide the information rather than just get it as a question on notice in any case.

**Mr TANNER**—Very sound.

**Mr P. WATSON**—We were able to do it because of the way that we construct our estimates. It does not necessarily flow that every other agency would be able to provide the information on the same basis. It just so happens that with the sorts of appropriations we have, we can actually do that. The third thing I would like to add is that we have not actually won any accolades for doing it in the committee process, nor has it reduced the number of questions or any of the complaints about the data that has been provided.

**Mr TANNER**—I have not studied your particular department. Does that degree of disaggregation mean that it is possible, both in the forthcoming budget year and the outyears, to distinguish between payments to government schools and payments to non-government schools?

**Mr STOREN**—The appendix 4 disaggregation does not provide the split between government and non-government. Budget Paper No. 1, which provides a functional split of education outlays, does provide government and non-government splits. In addition, during the last couple of estimates hearings with our committee we were asked for even further disaggregation of what we were providing in appendix 4, which we have been providing on notice down to non-government and government where we can.

**Mr TANNER**—Presumably, Budget Paper No. 1 would only be for the forthcoming budget year and not for the out years.

**Mr STOREN**—I draw your attention to page 6-89 of Budget Paper No. 1 which provides non-government and government school expenditure into the out years.

**Mr TANNER**—Slicing the salami in a different way, is it possible to determine the payments for different levels of education—primary, secondary and that sort of thing—or is that all aggregated?

**Mr STOREN**—That is not consistent with how we construct our estimates data. It would go to the very core of the operations of our schools funding. I could not comment further on that.

**Dr WOODING**—In our situation, we definitely disaggregate into nine outcomes for the portfolio, which will break up bill No. 1 and bill No. 2 into nine outcomes, so there is not an item under each of the nine for bill No. 2. We also show in our portfolio budget statement all the special appropriations. A very high proportion—probably equal only to the Department of Family and Community Services expenditure in our portfolio—is administered rather than departmental. We provide a lot of information on departmental outputs. Certainly, we have had many questions at Senate estimates about disaggregation of our bill No. 1 administered items.

As often as not, the problem is more that these items are broadbanded and have a fair amount of year-on-year change in how the funding is allocated under them by the government. In some ways, it is hard to provide anything other than an estimate of that information. That tends to be done better in response to senators' questions. We do provide as much information as we can. Our document is fairly complex and a difficult read and, if we put more information in, to follow up on Mr Prior's comments, I think we would also have to look at the way it was organised to make it easier for senators to use.

**CHAIRMAN**—Mr McPhee, doesn't it also revolve around an issue that this committee has concerned itself with for some time—and so, might I say, has ANAO—and that is the ability of departments to cost their services?

**Mr McPHEE**—I think it does go to that issue. It is the level of sophistication agencies have in their current costing arrangements. It has been encouraging to hear the responses here today to suggest that they are moving down to more levels of detail and breakdown between annual and special appropriations. Our audit work is showing that agencies are certainly getting a handle on their management information systems. It has taken a little while, but they are getting there. I think the nature of the request that Lindsay Tanner is raising is much more achievable now than it was a couple of years ago.

**Mr COX**—Firstly, before Mr Bartos escaped I was asking him in the last session about the breakdown of non-tax revenue which, in summary tables, is just a one-line item of \$12 billion. For the purposes of the committee preparing a report, it would be helpful if Finance could send us a much more detailed breakdown of the \$12 billion so that we could hazard our hand at suggesting some categories that they might subsequently report on. I put that question on notice.

Secondly, to deal with Dr Grimes again, in the last week I have managed to draw the Treasurer into a bit of debate about how he finances his debt reduction. He responded to me earlier in the week in the *Sydney Morning Herald* saying that I had conveniently ignored the fact that the government has purchased non-financial assets over the last five years of \$17½ billion. I would be very grateful if Treasury could send me a full list of those non-financial assets totalling \$17½ billion.

The third thing I wanted to ask Mr Harper is: my recollection is that Defence have changed from treating major capital items as a capital acquisition—

**Senator HOGG**—There are two Mr Harpers here and they are both worried.

**Mr COX**—I mean the Defence one.

**Senator HOGG**—I think Greg Harper would be the best one to ask.

**CHAIRMAN**—They are both looking very defensive!

**Mr COX**—I understand that Defence have changed the way that they are treating major items of defence acquisition. They were being treated as capital and then depreciated, and they have now changed to just treating them as expense. Is that correct? Why?

**Mr G. HARPER**—Defence has not changed its treatment in the portfolio budget statements or the annual report. We are reporting in accordance with the Australian Accounting Standards, which require us to recognise military equipment as an asset and we depreciate it over time. That is fairly difficult in terms of valuation and life of type.

One thing we have done is to reduce the level at which we capitalise an asset from what had been \$25,000 to \$10,000, with a view to ensuring that we capture on our balance sheet a materially accurate amount. In discussion with the National Audit Office, we agreed that it would be desirable for us to drop that capitalisation threshold. But from our perspective we do account for military equipment as assets, in the way that we have done for the last several years. You may be referring to what I think is a different treatment in the GFS presentation. Maybe my namesake will be able to pick that one up for you.

**Mr P. HARPER**—That was the reason that I pricked my ears up when you started talking about Defence weapons expenditure. In government finance statistics, and consistently within the broader system of national accounts, Defence weapons and weapon delivery systems are expensed not capitalised, which is one of the differences between the AAS31 statements and the government finance statistics. Internationally, this is quite a contentious area, and in the last revision of the system of national accounts there was a decision taken to continue with the treatment of expense in those particular items.

**Mr COX**—Can you give us a list of the systems that have finally gone out of date or been sold in the last five years? What level of value was recovered from them? If we got rid of, say, Macchi jets and we have sold them to some other country, what price did we get for them?

**CHAIRMAN**—What does that have to do with portfolio budget statements?

**Mr COX**—Quite a lot. If we have paid off some ships, can you tell me whether they have been broken up for scrap, sold at a certain value, taken out to sea and sunk to make artificial reefs and things like that?

**Mr G. HARPER**—I imagine that we could. I am not quite sure how compendious an answer you would like. In your original request, I think you described systems.

**Senator HOGG**—You are talking about platforms. I think ‘platforms’ is the better description.

**Mr G. HARPER**—Just to put things into context, our inventory values are measured in billions of dollars with a significant provision for obsolescence.

**Mr COX**—What I am trying to get to is what level of provisioning there is.

**Senator GIBSON**—I have a question back on the accounting system. The CPAs, in their submission, suggested that the capital use charge should be reviewed, particularly its application on a net assets basis. Would you care to comment on that, Mr Prior?

**Mr KAUFMANN**—Late last year, and earlier this year, the department reviewed the application of the CUC at two levels. The first was whether, in terms of accounting treatment, it

was above the line or below the line as a dividend, et cetera. The results of that review indicated that we would keep it as it is and below the line. The second plank of the review looked at the concepts around CUC or the concepts underpinning the rate of CUC, and that review has been completed.

**Senator GIBSON**—And what has happened?

**Mr KAUFMANN**—At the end of the day, the rate was reduced from 12 to 11.

**Senator GIBSON**—What about this point that was made in the CPA's submission: that it is being charged on a net assets basis so that if an agency makes a surplus they are penalised on that surplus?

**Mr KAUFMANN**—The underlying precept of the CUC is to encourage some discipline in asset management. This is where we brought the calculation to the net asset position of the organisation, to foster greater asset management, not just in an accounting sense, but in the actual life cycle management of the asset base of each organisation.

**Senator GIBSON**—Sure. But if an agency is incurring a penalty—that is, if they are running a surplus and getting charged on that—that is the wrong incentive is it not?

**Mr PRIOR**—If we go back to the philosophy of what the CUC was trying to achieve—and Mr Kaufmann is correct—it was to try to find a model to encourage asset management behaviours which were appropriate. There are a variety of models around. The one which Finance eventually settled on was to have a CUC charge based on net assets. To the extent that assets grow, then the CUC is rather like a dividend. It is a concept of saying to the organisation: you have made a surplus, the owner would expect to have a proportion of that surplus returned as a dividend. It is an emulation of the systems of other organisations. Finance are quite clear in our minds that we are in the early days of it and refinement will take place; that it will respond to the needs and so on. In terms of it being a penalty because they made a surplus, I take the words of Senator Murray: if you have the model that a business is there to make a profit for owners—given that was part of the emulation model—then when an agency makes a surplus it is not a penalty, it is a sharing process.

**Senator GIBSON**—Yes. I understand.

**Mr TANNER**—Is there a problem with that though in that we are talking about a very different risk situation compared with a business?

**Mr PRIOR**—We acknowledge that there are different risk profiles across the universe within organisations. In an introduction sense, what we have attempted to say is, 'Let's at least introduce the concept,' bearing in mind that the model we have got is to fund the CUC up-front, and then to take the back end. It is not about an outright, 'Let's start the penalising process'. It is partly to engage agencies in a way of thinking. In New Zealand the CUC rate was similar to the one we started from, but they now have differential rates depending on the risk weightings and so on. I can anticipate that that is where we will end up in due course. But there are complexities with this CUC that we are finding as we try and apply it. Many agencies have

negative net assets. What does that mean in that context? How do you encourage asset management behaviours in the context of that environment?

**Mr TANNER**—They have not got any.

**Senator MURRAY**—You are trying to create an internal capital market, aren't you?

**Mr PRIOR**—That is a part of the answer.

**Senator MURRAY**—But you need measures within it which reflect an internal capital market?

**Mr PRIOR**—That is correct. The other linkage is that one of the shifts in the new model was to pay for outputs—the notion of taking the focus away from inputs. The model assumes that there are people who use the outputs of agencies and that the outputs are more important than the inputs. The model said that the traditional focus on how many postage stamps you used each week does not help you understand whether you have delivered a program. When you focus on outputs, you start thinking about price of outputs and not cost of inputs. When you get the price of outputs and when you get to competitive neutrality models you then have to start to build some of these other elements into that price. It is not perfect. We are a couple of years down the track. It is all about trying to understand some of the difficulties.

**Senator WATSON**—With internal capital markets all we can really talk about is management tools.

**Mr PRIOR**—That is right.

**CHAIRMAN**—How do you have a negative net asset?

**Mr PRIOR**—Ask HIH. It is a business that has more liabilities than assets.

**CHAIRMAN**—In other words, it is broke.

**Mr PRIOR**—Not necessarily, because many companies have negative net assets but may have supporting finances from parent companies or associated companies, for instance.

**Prof. BARTON**—I think the whole notion of the capital use charge in the context of government operations is very questionable and is of questionable usefulness. I recognise that capital funds have an opportunity cost. The Commonwealth government has determined that cost of capital to be 12 per cent, and it is currently being reduced to 11 per cent. Of course, that is not the cost of capital to the government; it is about double the cost of capital to the government. I understand that that is a rough assessment of cost capital to private industry which is, I would think, about right. Firstly, we are dealing with a very notional figure, which is about double the bond rate and a bit more than that over the Treasury bill rate. Secondly, the notion of having a capital use charge is to recognise the opportunity costs of expenditures on capital assets. You do not necessarily have to use a specific financial charge to do that. If the managers recognise that resources always have an internal opportunity cost, in the case of

Defence, for example, I assume there is a capital budget and, in line with government policy and on the advice of the Defence chiefs, you would decide whether to spend it on additional FA18 jet fighter aircraft or on submarines, et cetera.

**CHAIRMAN**—You might lease them instead of buying them.

**Prof. BARTON**—Or lease them—whatever. The opportunity cost of doing it this way or that way is very evident at the decision making level, if senior management are always made aware of this internal opportunity cost. In economics, all these things are developed initially as internal opportunity costs. You can only use a resource at one time for one purpose, and you cannot use it for something else, so you always have those choices. I doubt whether you would get any extra benefits from having this fictitious and notional charge imposed on top of that. I think it complicates your accounting system no end and, as Mr Prior mentioned, it is paid up front and then it is recalled back. It does not really make very much sense to many people.

**CHAIRMAN**—I have noticed during your discussion, Professor, that the cogs were going around in Mr McPhee's head. I know Mr McPhee fairly well. Would you like to make a comment, Mr McPhee?

**Mr McPHEE**—To give credit to our colleagues in Finance, I think that their objective was honourable in terms of trying to get better asset management within agencies. I think they have acknowledged that this is a way they have sought to do that. I recall at the time there was a fair bit of debate about what percentage it should be—whether it was 12 per cent or whether people wanted to pay only six per cent.

I hear what Professor Barton has said, too. The question is: what is the best way to approach this? We in our own submission raised some accounting issues to do with whether the user charge should be treated as an expense above the line rather than as a dividend, because it is really not discretionary, as I understand it. It is a dead set charge on the net assets, and agencies do not have a discretion. We pointed out in our submission that it can throw the surplus, or the operating surplus figures, around quite substantially.

I think we referred to the Defence case. They run a very large surplus. The reason is that a large component of that is funding given to them to pay for the capital user charge which comes out below the line. So I wonder how much members of parliament really understand what is going on in some of the accounts. I think I am saying it is an honourable goal but I am not sure whether it is necessarily the right model. I think Finance have said they will keep it under review. I have nothing further to add, Mr Chairman.

**CHAIRMAN**—Thank you.

**Senator MURRAY**—Two matters arise. Firstly, I want to deal with the one we have just referred to and then the one we referred to earlier. The points that the professor made are dead right, but you have to be able to articulate those principles financially. You have to be able to produce them in a tangible form, as it were, so that people can have an effect. To my mind, if you accept both the principle the professor has enunciated and the principle I have just enunciated, it is arguing about the model and the mechanics of the model, and I think Finance clearly said that the model has weaknesses.

To me a major weakness is that it lacks variability—relative to the asset, relative to the agency, relative to the function and relative to the opportunity cost. In some cases—if we can go back again to the professor's public good view and to our discussion about legislated liabilities—there can be no opportunity cost because it is a given. It is a stated thing. It is like water: there is no opportunity cost for a human being—you have to drink so much water a day otherwise you die and so if you had to buy it that is what you would do. To my mind the debate should be about the model, not about the two principles, which the professor expressed as the opportunity cost and I expressed in financial terms. I will leave that as one commentary.

The other thing I want to do is to come back to the dissonance we have in expressing our national statistics in a common and intelligible manner. I think that, regardless of the political motivation which may have underlain the deputy chair's remarks about what is tax and revenue for which government and where it should lie, nevertheless there is a legitimate problem. To assess how much we tax is a fundamental measure of where we stand internationally in their rankings. It is clear to me that the rest of the world lags behind this part of the world in the development of accrual accounting, and therefore the statistical requirements in terms of public sector accounts which are established through international agreements affect our own developments and we are forced to comply with them, whereas really we would like them to be complying with us. What I want to ask is: who is steering the ship for Australia? Is it Treasury in this matter? Is it Finance in this matter? Is it Statistics in this matter? No disrespect, Mr Harper, but I would rather it was not statistics; I would prefer it was driven by—

**Senator HOGG**—You are not liked!

**Senator MURRAY**—Finance and Treasury, or Treasury. Nevertheless it may need to be a coordinated approach which accords with our needs because we have a vast difference in the forms in which our national accounts and statistics are presented. I have not seen, for instance, a consolidation of the nine governments which, I think, has to be the ultimate determinant of how we are really taxed—it is the accumulation of it. Perhaps I can get an answer from someone.

**Senator WATSON**—It is a very good rhetorical question.

**Senator MURRAY**—No, it is not. There is international negotiation going on to adjust the way in which public sector accounts are presented. That surely must be affected by what we are trying to do in this country.

**Mr COX**—Could I point out to Senator Murray that the ABS does produce a consolidated set of accounts for the whole of Australia across all governments.

**Senator MURRAY**—Yes, but not on the basis of the way in which Finance presents them.

**Mr EDWARDS**—We run the risk of having a fairly confused discussion. Senator Murray is correct that at this stage the IMF is still negotiating to finalise the international standards for accruals based government finance statistics. The starting point for their work has always been harmonisation with the international system of national accounts. That has put some constraints on the degree of flexibility that they have in this matter. As was pointed out in our statistics, we do provide consolidated data for all governments of Australia. We also provide in our statistics a reconciliation from the statistical treatment back to the way the AAS31 statements present the

data. The purpose of doing that is to make sure that there is a very open process of highlighting the differences between the two sets of statistics.

**Senator MURRAY**—Behind my question was this point: is it ABS who represent Australia in that discussion in terms of harmonisation and trying to push Australia's boat or is it Treasury, Finance or a combination of the three? Who is calling the shots?

**Mr EDWARDS**—In the case of international statistical standards, it is the ABS. Our legislation establishing the Australian Bureau of Statistics provides that it is our agency that represents Australia on international statistical matters.

**Senator MURRAY**—I have a high regard for each of the three departments—and I mean that genuinely. From the perspective of the presentation of accounts to best suit the needs of the Commonwealth, my view is that the ABS would not be the best authority. You are the best authority on other things. I have asked the question deliberately because the dissonance we have needs resolution over time. The driving force, it seems to me, in the development of accrual accounting in this country, with the conceptual, forward looking view of it, is Finance, with Treasury's support. Whoever the government is, I do not think that is going to change.

**Mr PRIOR**—Finance does take the role of harmonising GFS and AAS as a serious part of our business. Under the charter of budget honesty, we prepare financial information with reference to external standards. We refer to the ABS as the keeper of the keys of the GFS standards. We refer to the ANAO as the keeper of the keys of the AAS standards. We would be delighted if they were the same.

**Senator MURRAY**—My point about the whole of government—nine governments—view is that I think in those statistics it is GFS based.

**Mr PRIOR**—That is correct.

**Senator MURRAY**—I do not want it that way. I want it on an accruals basis so that I can look at a particular group in this country and say that they are low, medium or high taxed in particular areas, and look at how we should adjust it. I am talking to you as a policy driven person. The GFS does not assist me in that approach.

**Mr P. HARPER**—With due respect, I think you are overstating the extent of differences between GFS and AAS31. They are both accrual based systems. They both generate very similar analytical balances. There is a clear and well defined reconciliation between the two sets of statistics. I do not think the consolidated information that is provided by the ABS across all of the jurisdictions is deficient in the regard that you are suggesting it is.

**Senator MURRAY**—I have tried to find a standard percentage to tell us what percentage of GDP in this country you can allocate as a taxation component. It is very difficult to find.

**Mr P. HARPER**—One of the items that we have in that consolidated presentation is taxation revenue. You can do the calculation that you are suggesting. We produced a taxation revenue publication a week or so ago which does those sorts of analyses.

**CHAIRMAN**—If we need to continue this after lunch, we will do so. We will now break for lunch.

**Proceedings suspended from 1.05 p.m. to 2.05 p.m..**

**Topic 3—The explanations provided for the content and variation of information within the accrual budget documentation**

**CHAIRMAN**—There are five subsets to topic 3: firstly, the presentation of budgeted program expenditure and year on year variations; secondly, the presentation of revenue estimates and variations; thirdly, the explanation of significant variations in budgeted program expenditure; fourthly, the explanatory information in each PBS to assist members and senators to understand how funds were expended and the measures used to assess performance in achieving government outcomes; and, lastly, the explanation for departures from relevant ABS and Accounting Standards.

The ANAO have noted in their submission that in a former review of the accrual budgeted format, some senators were seeking greater consistency and comparability of the pricing and performance information contained in the PBS. Would people like to comment on whether they think they have improved or degenerated? Or have you no views at all?

**Mr McPHEE**—Chairman, I could perhaps say a few words to get the ball rolling. I think there is a bit of an issue in terms of the presentation within the budget papers of some of the information. For instance, when you look at the forecast financial statements you get the estimated actual for the current year, you get the budget estimates and you get three forward years. So you get quite a lot of information in the financial statements. When you go to the resourcing for the outcomes by the various output groups you get the estimated actual for the current year and you just get one budget estimate figure, without any forward positions. And when you go to the performance information, you tend to just get the information for the budget year. So within the papers provided by agencies there is quite a variation in the information provided.

Picking up on the comments made earlier about the fact that the annual report does not come around until some time after the parliament has had the opportunity to consider the budget estimates, I think there is a real question whether there should not be, as a minimum, an estimated outcome in terms of some of the performance information to allow members and senators to at least be able to compare the estimated actual performance outcome with the estimated actual financial information provided in the budget papers. There is then a second question about whether the forward performance information should be provided as well as the forward estimates, which we discussed previously. The question really is: is there enough information in there for members to get a grip on trends and get a handle on program performance over time? I think one answer would be that it is pretty difficult to understand how the program is performing today and also how it is expected to perform in the longer term. In our submission we certainly encourage agencies, even if they cannot measure outcomes, to try and measure intermediate outcomes. That is a concept that Finance has promoted—a very good concept—to try and say, ‘If you cannot measure the actual outcome, try and get some measures along the way to see whether you can gauge whether you are being successful or not.’

That is an overview statement, Chairman. I think there are some issues about consistency of information within the PBSs that might be looked at.

**CHAIRMAN**—Lindsay, in the last session did you say that you could not find a separate line item for AQIS?

**Mr TANNER**—Yes, but that was last year's budget. I am not sure about this year's—I have not had a chance to look at it.

**CHAIRMAN**—I would have thought that is a good example of what ought to be able to be tracked. We asked AQIS, as a result of an audit, how good their costing system was, because almost all of their work is now recoverable under charge out rates. They told us how crash hot they were; that they have been doing it for a long time and they thought they set the benchmark, the standard. I come from a long costing background in the private sector, so I asked ANAO to do an audit and see how good they were, and they were not all that crash hot, I can tell you. They thought they were, but they were not. I would have thought it was important for us to know that AQIS has budgeted a certain activity this year and recovered some percentage of it, and that one of their outputs was how much of their actual expense they actually recovered, perhaps by different activity, not by combining their charge for quarantine of horses versus their charge for meat inspection works at an export abattoir. Does that make sense? But you reckon you could not find it?

**Mr TANNER**—I am sorry, I was just going to follow up Mr McPhee's comments. On the question of the outcomes framework, I am very interested in your comments and keen to hear Finance's response, because I get the impression that some work has been done on this. I am a supporter of the outcomes framework; I think it is a good idea. But it is obviously in a fairly embryonic form so far, and some of the outcomes are effectively pretty meaningless at the moment because they are so broad and generic—'the defence of Australia' and that sort of stuff. Firstly, I would be interested to hear your comments on which areas you think you have advanced the furthest in terms of developing the framework so that there are intermediate outcomes, benchmarks and reference points against which performance can be measured, if not quantitatively then at least qualitatively. Can you cite a couple of examples where you think things have progressed the most on that front?

Secondly, is it overambitious to hope that within not too long a period we might have a situation where in pretty well all agencies there is a framework of outcomes such as Mr McPhee has identified—generic and sub-outcomes or intermediate outcomes—where, if not in strict literal accounting terms but in terms of assessment, it will be possible for the parliament, the media or the public to look at what is being done financially and compare that with indicators that, for example, suggest mortality and morbidity rates are going up or down? I would be interested in your general observations on both those aspects.

**Mr PRIOR**—With regard to the first point, do you mean examples of which agencies or portfolios are doing better?

**Mr TANNER**—Yes—who is the best at the moment that you can think of?

**Mr PRIOR**—I might refer to one of my colleagues, because I do not want to quote the wrong sources. We have a program with agencies of doing pricing reviews, where Finance and the agencies review the prices that are being paid to the agencies, and that picks up a whole range of those sorts of issues you are talking about—performance indicators, information,

benchmarking and so on. I cannot remember, off the top of my head, how many, but quite a number of agencies have been through that. Richard might have more information.

**Mr LOUDON**—There have been approximately 18 agencies undertaking pricing reviews in the first two years of the pricing review program, with another 14 to 16 for this coming financial year. Those reviews assist in establishing the basis for the costing and robustness of the pricing of those outputs, and also can lead to review of the outputs and the outcomes framework in relation to definition. So there are issues that are thrown up through those review mechanisms, as well as through the department's own review mechanisms, either through responses to ANAO audits or other mechanisms.

In relation to your other question on examples, we do not maintain a league table; we do not see that as part of our role. But on our web site we look to provide, in different areas, categories of best practice, whether it be in the definition of outcomes, the definition of outputs, or alignment between organisational structures and the outcomes and outputs framework. Some of those are in the submission that we put before the committee.

**Mr TANNER**—These questions are not intended to be critical in nature. What I am trying to probe for is what the future look like in this area. Personally I think the objective we should be aiming for is a situation where ultimately, in as many areas as possible, there is some sort of framework referenced against government expenditure that says, 'This is why we spend money,' and that it does not just say 'the defence of Australia'. In the Defence case, for example, you might want to have some indices relating to the level of our technological capacity versus everybody else's in our region or the level of training of our soldiers or the extent of our physical reach. I do not know a huge amount about defence so I am speculating a bit there.

The question I am really asking is: is it feasible for that sort of concept to be our objective, where we end up at some theoretical point in the future with pretty well all agencies with a reasonably sophisticated set of reference points where we say, 'We spend money ultimately to achieve these sorts of improvements on these indicators,' and even if there is not a direct mathematical nexus between the two there at least is a reasonably sophisticated juxtaposition of spending money and improving outcomes? At the moment, from all the ones I have seen, it is pretty rudimentary, to put it politely. I accept that because I see that as the initial building blocks that have been put in place. What I am trying to get at is whether we can expect to see a pretty serious structure there at some time and, if so, do you have a realistic assessment of how long that is going to take?

**Mr PRIOR**—The expectation you are talking about is the expectation of the framework that was introduced. That was what it was designed to do, to enable the reader to say, 'What was this agency trying to achieve on behalf of the government? What resources were applied in trying to achieve that? And did they or did they not achieve the performance indicator regime?' So the principles that Stephen Bartos referred to this morning very much are what the goal is; and what you are talking about is the expectation we would have. To some extent it is in the eye of the beholder as to whether we are there or not. We acknowledge that we are still working towards that ultimate goal. What I am trying to say is that what you have just articulated is not different to what the framework we have set up is trying to achieve.

**Mr TANNER**—You might not be able to answer this, but do you have any sense of how long it might take? I would expect it could be several years. Is that a realistic assessment?

**Mr PRIOR**—I think that is a realistic assessment. We have had a number of commentators with experiences of other jurisdictions. The magic number of five years is the sort of thing that comes to mind to bed these things down.

**Mr TANNER**—Do you have individual officers who are working exclusively on this particular issue? If so, how many and what are they doing?

**Mr LOUDON**—Within my branch we have a small team—it is only four officers at this time—that monitors what is happening in relation to the quality, updates the guidelines, discusses with agencies the issues that arise either out of committee meetings or through academia or other commentators. We put on our website items of best practice to increase the visibility. So there is a series of activities.

**Mr PRIOR**—In conjunction with Mr Loudon's team, Mr Kaufmann, in the accounting centre, has a number of staff as well. We have split the task into two parts. There is an accounting stream and a framework stream, and there is development going on in both of those.

**Mr TANNER**—What Mr Loudon described sounded like a relatively passive function. Could Mr Kaufmann describe what his staff are doing in this area?

**Mr KAUFMANN**—My people work closely with Mr Loudon's people. One of the objectives we have is ensuring that we have a financial reporting base at PBS level that is consistent with what we get at annual end-of-year reporting, looking at how financial performance can be addressed in terms of KPIs and output and outcome delivery. It is along those lines that my people are involved.

**Mr TANNER**—I will rephrase the question. To again use Defence as an example: is there anybody in Finance knocking on the door of Defence, beating them up and saying, 'We want you to start working on a more sophisticated outcomes arrangement and we want to work with you with the aim of producing an outcomes framework that is more sophisticated than the current Defence of Australia'—or whatever the new one is? Is anyone in Finance actually doing that?

**Mr PRIOR**—Can I answer that by asking Defence to answer the question? I am not trying to fob it, but do Defence feel as though there is anyone doing that? That might be another way of addressing that question.

**Mr G. HARPER**—We certainly feel scrutinised by the central agencies. In terms of the framework and the definition of our outputs and outcome—Defence having only the one—it probably comes up for consideration at budget time each year as a minimum. For example, this year when the discussions were being had about whether Defence would move from its current five outputs to six, our colleagues in the central agencies would have had discussions with us over that. I think it would be fair to say that there is no ongoing scrutiny every day of the week on the framework.

**Mr TANNER**—It is important to distinguish between the outputs and outcomes. In a sense, I can understand if the outcomes stuff has been put on the backburner a bit—and it sounds like that has happened—because in the immediate future it is always going to be the outputs that will be more important for Finance. So I would accept that. I am essentially trying to get a sense of whether there is any serious activity going on trying to get us to a point where, instead of the outcome for Defence being five words, it might be three pages of reference points or something like that. By the sound of it, that is not really happening at the moment.

**Mr G. HARPER**—We would see Defence's outcome as being the 'why'. The parliament is appropriating to acquire the 'what', being the outputs. For example, why does the parliament appropriate that sum of money to Defence? It is in order to defend Australia and its national interest. We probably have not got to thinking of a three-page elaboration.

**Mr TANNER**—I will avoid making some obvious comments in response to that, but I would say that I have a fundamentally different view of the purpose of the outcome part of the framework—that it is not just 'why'; it is also how well. It is also meant to be a reference point. Clearly, if you look through some of the outcomes that are already in existence, there is at least a sense of that there—albeit in a pretty broad brush, crude way.

My understanding is that what is intended to occur at some point is that you will end up with a framework of outcomes against which there is a capacity to, in some sense, measure over time how well we are doing, so that we are not just measuring outputs—which is simply how many tanks we have purchased or how many soldiers we are employing this year as opposed to last year—but also, in terms of our objectives, what impact that is having. In a sense it is marrying those two questions of how and why: for the amount of 'how' we are doing, how much progress toward 'why' are we making?

**Senator HOGG**—Could I intervene there? I think that the example of that would be block obsolescence, in a sense.

**Mr TANNER**—Yes. That is a good example.

**Senator HOGG**—Are we heading into block obsolescence and is nothing coming out the other side?

**Mr G. HARPER**—Perhaps I can explain. I certainly agree that we need to focus on results. We would see that as being picked up in how well we are delivering our outputs. I would see tanks and people as inputs to capability. In fact, three of our six outputs are described as Navy capability, Army capability and Air Force capability. We seek to measure internally how capable we are. We do have a difficulty, to which Senator Hogg referred earlier, that it is probably not sensible for the country to expose how capable or incapable we are at any point in time.

**Mr TANNER**—I would accept that in some respects here Defence is going to be a bit unusual because of national security concerns and so forth. So it may be a bit of a special case on that one.

**Mr G. HARPER**—Certainly, internally—if I could satisfy the committee—we are working very hard to marry how well we are delivering our products with the resources that are being used.

**Mr TANNER**—One of the possible ultimate responses to all this might be that you have a classified outcomes assessment, which may essentially be internal or accessible only to people who have access to classified information, which is in a sense the Defence parallel of what might otherwise be a public reference point.

**Mr G. HARPER**—We assess our outputs continually in terms of how capable we are. We had a meeting on that yesterday as part of a regular management cycle.

**CHAIRMAN**—In looking at your performance—this is something that Mr Watson and I were discussing privately just prior to lunch—is the asset use charge, excepting as it applies to Defence Force housing, of any value to you whatsoever?

**Mr G. HARPER**—I think there are values and advantages and they would have been perceived by the central agency colleagues and the government when the framework was put in, in recognising the cost of capital. Earlier there was some discussion about the possibility that there might be a choice between buying and leasing a product.

**CHAIRMAN**—I said that.

**Mr G. HARPER**—If one leases a particular piece of equipment then one is essentially paying a capital charge which the provider of the equipment is facing, whether that is a return to their investor or interest on debt capital which they have had to raise to come by the asset themselves. It does get towards a competitive neutrality type of—

**CHAIRMAN**—Wouldn't you have some difficulty in leasing a torpedo for a Collins?

**Mr G. HARPER**—We might not give it back. There are clearly some pieces of equipment which it would be inappropriate to lease, but there are other pieces of equipment which it might be in order to do so, like a catamaran to ferry people and equipment to Timor. In terms of your question, there are some advantages in having agencies recognise the cost associated with capital because it helps bring to notice that capital has a cost. It would encourage us to retire any lazy assets if we had them and probably to more actively manage our balance sheet.

**Mr COX**—You are budgeting for a surplus, are you not, on capital use charge?

**Mr G. HARPER**—We budget for an operating surplus which will allow us to pay the capital use charge.

**Mr COX**—Why do you do that?

**Mr G. HARPER**—The revenue that we have appropriated is designed to cover our accrual expenses and to cover the capital use charge. In Australia, the capital use charge is not recognised as an expense above the operating result line. That has the effect—which can be a

bit startling when you first see it—of our turning in an operating surplus of \$5 billion and having a capital use charge of about \$5 billion, so it comes out at zero. It is a reflection of the price the parliament appropriates to us for our outputs.

**Mr COX**—I thought there was a surplus after capital use charge?

**Mr G. HARPER**—There was.

**CHAIRMAN**—Some \$700 million, from memory.

**Mr G. HARPER**—That is correct. So it is not approximately the same, it is about \$700 million different.

**Mr COX**—Where does that \$700 million go?

**Mr G. HARPER**—The \$700 million surplus, not all of which would have been reflected in cash terms, was an operating surplus and it would have gone to accumulated surpluses.

**Mr COX**—What will they be used for?

**Mr G. HARPER**—Defence purposes.

**Mr COX**—What defence purposes?

**Mr G. HARPER**—It is part of the asset base of the defence organisation that is used in order for us to best deliver the outputs that the government funds us for.

**Mr COX**—You said that it is not all cash, so most of it is cash.

**Mr G. HARPER**—I do not think it was. Certainly a proportion would have been reflected in cash. That cash remained in our bank account and would have been applied to defence purposes the following year.

**Mr COX**—Within your charter of appropriations, what limitations are there on the way that you could spend it?

**Mr G. HARPER**—The appropriation purpose in the appropriation act, which is expressed in the bills currently before the parliament, is the defence of Australia and its national interest.

**Mr COX**—So any defence purpose?

**Mr G. HARPER**—That is correct.

**Mr COX**—Could we get from Finance, a list of all of the appropriations that were extant at the end of cash accounting and a list of all the lines of appropriation that there are now so that we can see how much aggregation there has been as a result of the change?

**Mr PRIOR**—Could I understand exactly what you are after?

**Mr COX**—When the Commonwealth stopped operating on a cash basis there were appropriations by portfolio and, from recollection from my time, rather a number of appropriations per portfolio. Now what Mr Harper is saying is that Defence really has only one.

**Mr PRIOR**—I am just making sure I understand it. I think you are saying that you would like a copy of the appropriation bills now and a copy of the appropriation bills previously.

**Mr COX**—Just the number of specific line item appropriations then and the number of line item appropriations now.

**Mr PRIOR**—Okay.

**Mr G. HARPER**—Could I just provide a little context to help the committee? At the end of 1999-2000 we had cash of \$138 million.

**Mr TANNER**—How do you explain that \$700 million surplus outside the capital use charge? Where were the underspends?

**Mr G. HARPER**—It would be a reasonably complex—

**Mr TANNER**—What are the major areas that accounted for that?

**Mr COX**—They were not necessarily underspends. You are budgeting for them, aren't you?

**Mr G. HARPER**—No. We did turn in a result—and that was the point that I think Mr Harris was making—that, while we did not budget to make such a large surplus, we in fact did.

**Mr TANNER**—So you budgeted to make a surplus of—

**Mr G. HARPER**—We budgeted to make a surplus equal to the capital use charge.

**Mr TANNER**—Okay. So I return to my original question: did that mean that you ended up spending \$700 million less than you budgeted for?

**Mr G. HARPER**—Expensing, not necessarily in cash terms—we incurred expenses of \$700 million less.

**Mr TANNER**—I accept that it is not appropriate now to go to any significant detail, but that is quite a large amount of money: what were the main causes of that?

**Mr COX**—It is interesting because it is in a year when you would have thought there was a fair amount of military activity, such as East Timor, going on and you would have thought that the opposite was going to be the case.

**Mr G. HARPER**—I guess what we are doing is comparing against the budgeted rate of expense and in fact the price which we received for the Timor operations was more than we actually used.

**Mr COX**—Could I hazard a guess then that you cancelled a whole lot of expensive training exercises?

**Mr G. HARPER**—There would have been some effect like that because, when our people are on operations, they are clearly less able to do training exercises. But the additional increment which the parliament appropriated for East Timor purposes, on the best information available at the time, turned out to be higher than we actually required.

**Mr COX**—For Timor?

**Mr G. HARPER**—For Timor.

**Mr COX**—Was there any discussion at the time about what other activities you would not be doing that would have been deducted from that, or were you just given a net increase and told, ‘This is going to be the cost of Timor?’

**Mr G. HARPER**—It was a net increase for the projected net cost of Timor.

**Mr COX**—So there were no offsets from things that you would otherwise have been doing?

**Mr G. HARPER**—The fact that it was a net increase means that there were offsets. It is reasonably difficult to predict at a point in time how much will need to be expended on an operational deployment such as East Timor, and the fact that the estimates may have been wrong could be a reflection of poor estimating or it could be a reflection of happy circumstances that meant that the projected intensity of operations did not eventuate.

**Mr TANNER**—So would it be reasonable to expect to say that that \$700 million surplus is an unusual event and it would be unlikely that that would be a regular occurrence? In your view, is that an abnormal outcome that you would not necessarily expect—?

**Mr G. HARPER**—It certainly was not what we expected at the front end of that year. We are likely to turn in an operating surplus after capital use charge and what might be described as some technical accounting adjustments. I mentioned the change to the asset capitalisation threshold—

**Mr TANNER**—For the year that is about to finish?

**Mr G. HARPER**—For this year that is about to finish.

**Mr TANNER**—Is it going to be of a similar magnitude or much smaller?

**Mr G. HARPER**—It will be a similar order of magnitude. I stress, for the committee, that this is a surplus on the operating statement. Defence has quite a large capital investment

program each year which does not show on the operating statement other than as depreciation of the equipment once it is in service.

**Mr TANNER**—So the purchases do not show?

**Mr G. HARPER**—The purchase of assets does not impact on the balance sheet. Essentially one is swapping a cash asset for a platform asset. The expense occurs as the asset is consumed over time as depreciation.

**Mr TANNER**—I would like to follow that up, but we have other things to deal with.

**CHAIRMAN**—Mr Grimes, I understand Treasury has an overall outcome of ‘strong, sustainable economic growth and the improved wellbeing of all Australians.’ Wellbeing has been defined as a state of being comfortable, healthy and happy—

**Mr TANNER**—I think ‘relaxed and comfortable’ is the technical term!

**CHAIRMAN**—I wonder if you could tell me if Treasury consider that one of their key business objectives is to improve the comfort, health and happiness of all Australians.

**Dr GRIMES**—The key objective is to promote strong, sustainable economic growth, which in turn underpins rising living standards for Australians.

**Senator MURRAY**—It is sometimes called the general progress indicator or GPI.

**CHAIRMAN**—How do you measure your performance, Mr Grimes? With some difficulty?

**Dr GRIMES**—With some difficulty. Obviously you can measure performance against growth in the economy as a whole, or against incomes in the economy as a whole. Clearly, Treasury is not the only factor influencing the growth in the economy; Treasury can only contribute to that overall outcome.

**Mr COX**—Do you feel that you have any responsibility for the distribution of that income?

**Dr GRIMES**—I think that might be covered under either government outcomes—

**Senator MURRAY**—With respect to the chairman’s question about health and happiness and so on, work is being done between the ABS and other bodies to see if they can assess the happiness quotient in a legitimate manner in Australia. There is a great deal of criticism of the Australia Institute’s attempt to measure GPI. Nevertheless, the negative measures in our society—drugs, suicide, accidents, deaths—are, if you like, the negative quotient in our national statistical measures—and I think the chairman’s question, although presented lightly, actually matters a great deal, because our national health is not just financial, and I know that Treasury recognise that.

**Dr GRIMES**—Clearly a whole host of government outputs will contribute to an outcome expressed in those terms—to that overall outcome, well beyond outputs that are produced by Treasury.

**Mr TANNER**—I want to ask Dr Grimes a couple of questions with respect to the budget papers and the presentation of information. One is—and we touched on this before, I think, with Mr Bartos—the question of dividends, and whether there is any reason why we should not or could not actually specify those in the budget. Of course we end up with them being reported in the annual report—so that we will find out in the Australia Post annual report eventually whether or not a special dividend of \$200 million has been taken out of Australia Post. Is there any reason why we should not or could not actually put that in the budget?

**Dr GRIMES**—I think that question is better directed to Finance. I am not trying to pass the buck at all.

**CHAIRMAN**—Yes, you are!

**Dr GRIMES**—In Senate estimates we were asked a couple of these questions—‘we’ being Treasury—and we hazarded answers all the time, prefacing our answers with the fact that these were fundamentally matters for Finance. So since we have Finance here I think I might refer it to them in the first instance.

**Mr TANNER**—Because it is non-taxation revenue?

**Dr GRIMES**—Yes, that is right.

**Mr PRIOR**—This question has been asked many times, as you would appreciate, in other forums, and Finance has answered that line of questioning with the response that it is the government’s policy to disclose the degree of detail that is currently disclosed.

**Mr TANNER**—So if I come along and tell you to do it, you will not tell me it is impossible or bad or difficult?

**Mr PRIOR**—I could not possibly tell you whether it was bad, difficult or impossible. As you would appreciate, all organisations have budgets and, given your own organisation, presumably you could ask that organisation for that budget information. There may be, however, some market disclosure issues that might govern certain of those types of entities as to whether you could disclose.

**Mr TANNER**—For example, Telstra?

**Mr PRIOR**—For example, Telstra.

**Mr TANNER**—I understand that. The second question, which I think is rightly with Dr Grimes, follows immediately from the last observation. In relation to the presentation in the budget papers this year of the impact of shifting the sale of Telstra from commencing in the 2001-02 year to commencing in the 2003-04 year, can you explain for us why we have only an

aggregated statement of impact? Essentially, as you would understand, there are two things being done. Firstly, there is the impact of taking out the sale that was previously projected to commence in 2001-02, which has an impact across each year. Then there is the impact of putting it back in again, commencing in 2003-04. Because the impact differs year on year, that means you end up with aggregated figures in the 2003-04 year and the 2004-05 year from which it is impossible to tell what each component consists of. In other words, if you look at the table in Budget Paper No. 1, page 2-15—from memory—it shows the net impact of not selling Telstra in the 2001-02 year as \$97 million to the good for the budget, and that, for the 2002-03 year, the net impact is \$163 million to the bad for the budget. So, in a sense, you have a pure figure for those two years. The problem is that for the 2003-04 year and the 2004-05 year you have an aggregated figure which shows the combination of not selling, commencing 2001-02, and selling, commencing 2003-04. Therefore, it is impossible to determine the individual components of both. I am just wondering if you could explain to us why that is.

**Dr GRIMES**—Fundamentally, the reason why it is like that is a matter for the government to determine in terms of how it presents its estimates. That is correct. The table provided in the budget papers does show the impact of the changed Telstra sale profile from the previous estimates published in the MYEFO. It shows the overall impact on the bottom line, but it does not identify the specific Telstra profile or the individual impacts of the sale of Telstra on the budget.

One of the reasons why the government produces this information at an aggregate level goes back to the point that Mr Prior was making a moment ago—that is, some of expected dividend flow, particularly from Telstra, is commercial-in-confidence material. So providing highly disaggregated estimates will actually reveal that underlying estimate of expected dividends for Telstra. So the fundamental problem is one of maintaining commercial-in-confidence information.

**Mr TANNER**—Wouldn't the bigger problem be the expected sale price? Isn't that the key issue that you would want to be reasonably secretive about?

**Dr GRIMES**—There would be an issue with the expected sale price but the fundamental issue, I think, would be revealing the dividend. If you actually disaggregated each of the components out, by virtue of that you would actually reveal the expected dividends.

**Mr TANNER**—But that would only occur with a fairly high level of disaggregation because the ultimate figure is a juxtaposition between expected dividends—if you leave aside the sale costs issue, which is only in years one and two and the expected reduction in public debt interest, which is a function of a number of factors, most crucially that of sale price. If you do not know sale price and all you have is an aggregated figure which is a culmination of expected dividends and public debt interest reduction, surely that does not tell you very much about what the dividends might be.

**Dr GRIMES**—The combination of it—a net income effect?

**Mr TANNER**—Yes.

**Dr GRIMES**—Effectively, you can derive that from the information that is published in the budget papers by just subtracting the change in the sale cost profile with the delay of the sale of Telstra. That will give you a change in the net income profile, but it will not give you the total net income profile for the sale of Telstra.

**Mr TANNER**—I am getting a bit lost there, so you might want to reiterate that. Are you suggesting that if I were to subtract the \$218 million two-year sale cost from years 3 and 4, that would produce a net income?

**Dr GRIMES**—It will give you the aggregated change in the net income flow that is expected as a result of the changed profile of the sale of Telstra.

**Mr TANNER**—The problem with that is that those last two-year figures do not only include estimates of what is going to happen with the sale of Telstra, they also include the effect of deducting previous estimates for what were years 3 and 4 of sale of Telstra with a different profile.

**Dr GRIMES**—Your point is that you want to show the sale of Telstra, you want to show what the sale costs are and you want to show what the net income effect of that is, not the change in the net income effect from MYEEOF.

**Mr TANNER**—That is right.

**Dr GRIMES**—What is shown in the budget papers is effectively that change from MYEEOF rather than the figuring you are looking for. Fundamentally, that is an issue for the government rather than one for officials.

**Mr TANNER**—In terms of the commercial-in-confidence question, there are a number of variables and you have identified them. Does that apply to the question of the timing of sale?

**Dr GRIMES**—I am sorry, could you repeat that?

**Mr TANNER**—On the commercial-in-confidence issue, there are a number of variables—for example, the number of tranches and timing of sale—does the commercial-in-confidence edict apply to those two indicators?

**Mr PRIOR**—The answer is essentially yes. It is planning a sale and planning a sale is about timing, the expected dollar value, et cetera.

**Mr TANNER**—That is all I have.

**CHAIRMAN**—I would like to ask the Family and Community Services representatives a question. My understanding is that your performance indicators are listed under each of the three outcomes. In some cases the indicators that relate to the environment are written in a rather shorthand way. Their meaning seems to us unclear, or it is unclear how they relate to outcomes. I will give you this example: in relation to outcome 3, economic and social participation, one point is disability ratios—and I do not know what disability ratios are—and

the second one is 'relativities between income units headed by a person aged 65 and over as a proportion of the mean gross weekly income of all income units'. I really have no comprehension whatsoever of what any of that means, and I doubt if any of my colleagues do either. Are you behind that one?

**Mr DOLAN**—What the environmental indicators are intended to do is to provide high level indication and information about the social conditions and trends relevant to families, stronger communities and economic and social participation. They are there to help us help readers to assess the appropriateness of the strategies the department uses in achieving the outcomes. It is also to assess the long-term effectiveness of the department's activities; it is not intended to be used as indicators of the results achieved but to outline the broader social context for the outcomes.

**CHAIRMAN**—I think you misunderstand the tenor of the question. We really do not know what any of that means. It seems to me to be written in some form of bureaucratic shorthand that I would not expect a member of parliament, or indeed a member of the public, to be able to comprehend at all. Therefore I question its usefulness.

**Mr DOLAN**—If you are raising an issue in terms of the description of the indicators then that suggests that some of them need to be clarified if there is some ambiguity there. In terms of the disability ratio, I would take that to mean the proportion of people in the community who have a disability relative to the population as a whole. Obviously we would need to clarify that, maybe in a future PBS. In terms of the relativities between income units headed by a person aged 65 years and over as a proportion of the mean gross weekly income of all the income units, I think that is basically looking at the income for older households as compared to the income for all households in the community as a whole. But I take your point that it could be written a bit more transparently, a bit more clearly.

**CHAIRMAN**—It is a general point that when the eyes start to glaze over, it gets very difficult.

**Mr COX**—What is the point in putting those sorts of measures there if there is no data to go with them? Or is the government too embarrassed about the data that might go with them?

**Mr DOLAN**—I think these are broad indicators that are looked at to examine, if you like, the higher level environment on which social policies are operating. It reflects, I think, that when you are looking at higher level social outcomes there is a whole range of factors you need to look at, a lot of complex interactions within a society. These indicators give a sense of the sorts of issues one would be looking at in terms of looking at the overall strategies.

**Mr COX**—Do you actually look at any, or does the government?

**Mr DOLAN**—I think it is fair to say that this is developing, along with a lot of the accrual information. I think the first time we put forward these indicators was in the 2000-01 budget, that is last year's budget, so this is the second budget for which we have had these more detailed performance indicators. So these indicators will be forming a basis for analysis over time; in a sense we are getting a more comprehensive set of indicators with which to examine performance.

**Mr COX**—But if there is no quantification of any of those indicators, what is the point of them?

**Mr DOLAN**—That is a good question.

**Mr COX**—It is not something which is isolated to your group alone.

**Mr DOLAN**—I think in future documentation they may well be more—

**CHAIRMAN**—In DOFA there are a whole range of performance indicators—I admit that a number of them have changed a bit—in terms of both quantity and quality and the annual report reports against those as to whether or not they are met. And not only whether they are met, but, for instance, in the estimates it says:

Response times to requests for services are 95 per cent of customer inquiries will be responded to within one working day. Ninety per cent of personnel/pay variations received prior to cut off will be processed that pay. Ninety per cent of benefit payment commencements we processed in the first pay period after all relevant information is received. Ninety per cent of service problems rectified within the contractual or other agreed timeframe.

And so on. If I go to the annual report, outcomes are reported against those targets. In other words, what they actually met and, where there were variations, what those variations were. That is, instead of 90 per cent of personnel pay variations, they ran into a computer problem and they only hit 76.7 per cent, and they report it and they say why they were unsuccessful. If they were more successful they also report the reason why they were more successful.

The reason we bring this up is that this is the kind of thing we are looking for. With the greatest of respect to the Department of Health and Aged Care, we have noted that some of your performance measures do not nominate the level of performance to be achieved. For example, indicator 1 refers to a reduction in incidence, prevalence and mortality rates of diseases or conditions addressed in national programs, especially in relation to the agreed national health priority areas. All that is terrific, but we do not know how you could be held accountable when there are no targets and no reports against those targets.

**Dr WOODING**—I think this is an interesting question. I guess we could put the figure in the budget document as of, say, April or May each year. These sources of data, as we set them out here on page 57, are regularly published. So those data are easily obtained, and we are identifying where someone who is interested could go and see what the current level is. I suppose the question is: should we actually write the current level into the PBS so that people can see it in the PBS? That is an interesting point and we can consider that.

**Senator HOGG**—It would not necessarily be a current level; surely it would be the projected level of usage in the budget year. That may well be significantly different because of circumstances. I just do not want to pick on that issue in the broader sense.

**Dr WOODING**—I would be nervous about putting in, say, the current level of incidence or prevalence of a disease and then putting in a target for one year. It is more of a trend issue.

**CHAIRMAN**—Make it on a running average, then. We can understand that.

**Dr WOODING**—We have done that. In some of the other outcomes we have got information about something a bit more specific in certain cases. I suppose it is a question of judgment as to how much you would want to be able to say, ‘It is 79 per cent this year, and we think it will reduce to 77.6 per cent in the following year.’

**CHAIRMAN**—I would think one of many reasonable performance indicators for Centrelink would be how many complaints you have had this year.

**Dr WOODING**—Where they are actually about our own programs—

**CHAIRMAN**—You have got nothing to do with Centrelink, and I am not implying that you do, but I certainly make the general point that that kind of performance indicator is what is expected of the public sector.

**Mr DOLAN**—I want to clarify something for the chairman. We talked earlier about the environmental indicators and I should clarify that, in the annual report, we do actually report on the environmental indicators and analysis. Indeed, on page 114, we show a disability ratio, if you like. So we do actually report.

**Senator HOGG**—But you are reporting on the outcome at the end of the financial year.

**Mr DOLAN**—Yes.

**Senator HOGG**—You are not predicting what the outcome will be at the start of the financial year in those areas, are you?

**Mr DOLAN**—No, we are not.

**Senator HOGG**—That is part of the problem that I have.

**CHAIRMAN**—And the definition is obscure.

**Mr DOLAN**—Yes. It is also the sense that, when we report on it, there is a lot of analysis that goes around—more than just the number, I guess. But if there is an issue in terms of having some sort of indicator, we could think about how we could express the environmental indicators in the future. But I just want to make it clear that we do actually report on them and analyse around them in the annual report.

**CHAIRMAN**—Without being smart-arsed, I just simply point out that, sometimes, some of these things are very obscure and very difficult to understand. Therefore, they become meaningless.

**Mr YOUNGBERRY**—In relation to our current year’s PBS, you are right in saying that, at the outcome level, we probably do not have targets or estimates as such in there. But certainly, at the lower output level, this year we have gone a step further and put in what I would probably term ‘estimates’ rather than ‘targets’ for particular things. We are certainly not all the way there yet, but I think we have taken a step in the right direction. And there are issues around clarity in

how we describe those indicators. To me, at least, indicators at the outcome level are more about trends over time rather than about setting a particular target in any given year. I suppose there needs to be a balance with what we are actually trying to measure at the outcome level.

**CHAIRMAN**—In terms of social outcomes, you are undoubtedly right. It goes back to what I said about Centrelink: how many complaints did you get this year versus last year, versus the year before as a percentage of the population, or as a percentage of the population that has to deal with Centrelink? Anything that is meaningful, that says, ‘Hey, what kind of customer service did Centrelink give?’ Because that is what they are: a customer service organisation—they are frontline.

**Dr WOODING**—We have debated this issue long and hard within the department. There are certain activities that we have direct responsibility for—for example, how many screenings for breast cancer might take place?—and then there are other things which are global health outcomes, like how many cases of breast cancer there are or how many of these things there are. Even though we do not directly control the latter—by that I mean there are state health departments, there is the economy and there is society as a whole—we feel we are still accountable for reporting on performance against these things, and we made a conscious decision to put them in our portfolio budget statement and in our annual report. As our colleagues from Family and Community Services have said, these are really more trend issues; they are not really outputs and outcomes that the department can be held directly responsible for—

**CHAIRMAN**—So you are not responsible for my sore back?

**Dr WOODING**—We have a level of responsibility for it.

**Senator HOGG**—This is the issue that bedevils me at estimates. The PBS is before us and you have an issue such as breast cancer, for example. You are not in control of that but you must have some idea of the allocation that you will need within your budget to control breast cancer or whatever you do in investigations—some sort of scanning or whatever you do for breast cancer. You must have some idea of the number of cases that you are expecting to deal with or handle by the end of the next financial year, and it is against that that you write so much into your budget. Then you go to your annual report and you will tell us that there have been 450 cases that you have handled—that is fine. We do not know, though, that you anticipated, when the budget was presented, that there would be 450 cases and that they would consume a round figure of \$10 million, let us say, out of your budget.

I will give an example, and the particular department I is not represented here today. For the expenditure of \$109 million, they just go through the number of, number of, number of and number of—they list four but no physical number to explain away the expenditure of \$109 million—yet in the annual report they will probably give us numbers that were involved in the various instances as to how they are going to spend the money. What we are looking for is some sort of accountability that the money that is being requested and set aside for a particular project is in effect expended on that project and that there is either an overspend, an underspend or that it came out even.

**CHAIRMAN**—And an outcome.

**Senator HOGG**—That is right, that the outcome has been achieved. In the case of Defence, that is very important, and we have been down that road in this debate over Defence before. I cannot speak on behalf of all my colleagues, but I look for at least those sorts of things when I read through the PBS, go to the estimates process and go down the path of looking at the annual report at additional estimates.

**Dr WOODING**—If I could respond quickly, one of the key things here is that we have to distinguish between administered outcomes and outputs and departmental outcomes and outputs. Where we deliver a service to people comparable to the numbers of breast screenings or something like that—and we as a department actually do not do breast screenings—we always give quantifiable information.

Where it becomes difficult is where these activities are happening and there is actually a grant paid to another organisation. Quite often that grant is not an output specified condition or grant. It may be under various circumstances, it may be under a Commonwealth-state agreement or it may be some sort of general grant that covers a number of things. Often it is hard to put a precise dollar figure to how much under those arrangements is going to be spent on a particular activity, because it is a grant to a not-for-profit or a state government organisation. This is where I think you will get better information, where the department is directly responsible for delivering the outputs. As to this second circumstance, I think we still have to do some more work on how we give some of that information in our PBS.

**Mr TANNER**—It sounds, from what you have said, Dr Wooding, that your department is doing some reasonably good things on the outcomes side. It sounds as if you are treating that reasonably seriously. I want to get your view, using the breast cancer screening example, on the following and ask you whether you have got this far, whether it would be feasible and whether it is appropriate.

It seems that on the outcome side, on an issue of that nature, what you want is a measurement of numbers of early detections of breast cancer so that you can then say, ‘In this given year we’ve devoted an additional \$20 million to screening and over that year the number of early detections—which therefore has saved lives—has gone up from 5,000 to 7,000.’ That seems to me to be a classic example of the type of outcome measurement—which will not be appropriate in many cases, but in some areas of government expenditure it will be—where, if your spending has gone up and the number of early detections has gone down, you are going to have to say, ‘Something is not working here. We need to rethink. We need to understand why this has happened.’ It might lead you to conclude that there are demographic factors or who knows what. Firstly, have you got to that level? Secondly, do you think that sort of thing is possible or appropriate?

**Dr WOODING**—In answer to the first question, we do not have anyone here who can answer specifically on breast cancer.

**Mr TANNER**—Another equivalent would be fine.

**Dr WOODING**—The best way of thinking about this is that there are some things that we can do in a series sense in the PBS or the annual report, specifying performance and then reporting on it. There are other things that need a slightly more in-depth look and we do that

more through a specific evaluation or something like that. We are putting that information out all the time. Where we have some current or useful information, we will try to build it into our annual report, but we will not necessarily do that sort of work on an annual basis. We will build that in where we can. We undertake a lot of evaluations in the portfolio so we are conscious of these sorts of issues. It is a horses for courses thing. It depends on whether something can be measured in a time series way as to whether it is most appropriate to go here or in an evaluation.

**Mr TANNER**—Moving on from the question of what you are actually doing, based on your experience of having to deal with these issues in a practical way, is the illustration that I have used a reasonable thing that could be done?

**Dr WOODING**—That sort of activity goes beyond outputs. Outputs is about how many people have gone for screening. What you are talking about is trying to get closer to the outcome: has the screening actually achieved the outcome desired, which is a reduction in the incidence of breast cancer? I am not sure whether that specific approach—

**CHAIRMAN**—Or did the screening find it?

**Dr WOODING**—Yes. There are different outcomes. These are all things that we are very interested in: trying to get outcome measures that are going beyond the number of health procedures or health activities to: how is the health of the population being increased by what we are doing?

**Mr TANNER**—Presumably things like the percentage of the adult population smoking is another example. If you have run a big preventative advertising campaign and at the same time, after years of going down, the number of people smoking has gone up, you then have to say, 'Either our campaign didn't work or there are some other factors that are pushing smoking up again that have counteracted it.'

**Dr WOODING**—Fortunately they are coming down.

**Mr TANNER**—Yes, that is right.

**Dr WOODING**—There is a further issue there. There is no end to it. There is the question: what impact is the reduction in the numbers smoking having on the health of the overall population? It is a complex area in health but it is certainly one that we are very conscious of.

**CHAIRMAN**—It seems to me very important that we are discussing now the quality of outcomes reported and the quality of data that is fed into the portfolio budget statements that can be analysed later. This is all new. We are talking about whether it is good enough or not, and five years ago we would not have been talking about outcomes at all. Let us keep things in perspective. We do appreciate that we have moved along a long way.

I understand that Mr Kerr was to make a comment or ask a question. I have got one for him. The Productivity Commission commented that it is difficult to determine measures for assessing performance in achieving outcomes and outputs. You did state, though, that you are building up a worthwhile set of performance indicators for outputs. Could you tell us something about the approach that you have used in coming up with that database or set of indicators?

**Mr KERR**—I will do my best. In a broad sense, we are in the promoting happiness camp, like the Treasury, and I suppose it would be tempting—

**CHAIRMAN**—I know lots of companies that would not agree with that.

**Mr KERR**—We can report on the complaints as well. It would be tempting to claim credit, for example, for the apparently measured increase in productivity in Australia over the nineties but, as I think Dr Grimes was implying, success has a thousand fathers and many people are involved in these things. What we seek to do is to measure things indirectly as best we can. We have not in fact received any feedback from parliamentary members in this process, so at this stage we are inclined to take silence, or at least the absence of anything to the contrary, that what we are doing is acceptable.

We are seeking to provide information for the policy process, so we are seeking to measure examples of where that information has been used. One primary example, since our primary audience is the parliament, is that we look through *Hansard* and, thanks to the miracles of modern technology, we can now do a fairly cheap word search for all the references to our work in parliamentary debates. We report this in the annual report. The budgetary cycle is an annual one, but the one complicating fact is that the sort of material that we produce may be drawn on years hence. Indeed, many of the current references in parliament are to reports we have done on things like gambling, which is well outside the current year, and things of that sort. So we seek to provide some indirect measures of that sort. We also seek to report on a success rate of sorts, that is the proportions of recommendations by and large that the government has accepted, at least the first time around. Sometimes these things are picked up in subsequent years. But we confess that these are all indirect measures.

One of the difficulties that we have with respect to the ex ante—that is looking forward as to what should be the prospective measures—is that although we divide our activities into five groups, they are by and large demand driven, so we do not know in advance to what extent we will be expending resources on one activity or another. It depends on how many inquiries the government gives us or on the number of regulation impact statements that we have to review. We take an intelligent guess, and we report ex post on what has happened with some quantitative or qualitative indicators where they are appropriate. We also undertake—and I guess this is a process that is available to any agency—some survey type work. We ask people whether they think we have done a good job and we report on that.

That is a broad answer. If that satisfies your question, I have three points to make in supplement of the general tenor of conversation beforehand. The first relates to information on government services. On behalf of the Council of Australian Governments, the Productivity Commission publishes annually a great variety of information on government social infrastructure services. These are Commonwealth and state services in the areas of housing, health et cetera. This is not directly tied into the accrual budgeting process—indeed, these measures predated that; they started earlier in the nineties. But it would be available for agencies—and I suspect they are looking through them at the Commonwealth level—to use some of these indicators if they wished in their budget reporting process. In any case, the indicators are available to parliament to draw on. They are not precisely lined up with budget programs, per se, but they do seek to feed a policy need for output measures of both efficiency and effectiveness.

The second point I make is a fairly simple one. From our experience in dealing with regulatory impact statements—these are policy initiatives which have a regulatory impact on business—we take the view that at the time the policy is undertaken—when it starts—some thought should then be given to what sorts of measures should be taken and what sorts of things should be looked at to see whether it has been successful. This does not compete with the budget process but it does provide a further occasion for the decision makers, including parliament, to think about what sorts of effectiveness measures and performance measures are appropriate at the time when a particular initiative is undertaken.

The third point I make—and this is prompted by the reference to AQIS earlier on, although I do not pretend to be an expert on AQIS—illustrates in a specific way the general point I made this morning about the need for more information on cost recovery activities. As it happens—I think, Mr Chairman, you were asking what proportion of cost recovery is undertaken by AQIS—it raises \$137 million through cost recovery activities, and that pays for a little over three-quarters of what it does. The information available on AQIS, perhaps assisted by past ANAO reviews, contains a greater level of detail than there is for many other agencies—for example, that theirs is a fully distributed cost approach.

The general point I make is that the amount of information available through the budget process on cost recovery activities is pretty spotty. It is not consistent. If you, on behalf of the parliament, wish to get a better handle on both the revenue that is being raised—this \$3 billion that is being drawn from Australian taxpayers—and the activities which that is underwriting, there are some steps that could be taken, which we will be recommending, to improve the consistency and the degree of information. The process of transparency is as long as a piece of string. There is an almost infinite amount of information that could be made available. At a certain point that could indeed become counterproductive. I think what is needed, in an iterative fashion, is some guidance over time—from the parliament and from the various committees before which these agencies appear—as to the type of information which should be built up in this area.

**CHAIRMAN**—Thank you.

**Senator MURRAY**—Mr Kerr, I have two remarks to make. The first point is that, since your act was changed, your relationship as an institution with parliamentarians has changed in flavour, and that is probably reflected in the sort of commentary you get in parliament. There is of course a lesson in there: agencies need their acts periodically updated to reflect new needs as perceived by executives and parliaments.

The second point refers to the entire process by which accountability analysis, comprehension and the dissemination of information occur, to the value of the parliament and the community at large. One of those mechanisms is the regular interaction with parliamentary committees. Those you can divide pretty well into two. There are agencies and departments that obviously have a home in the sense that they belong to particular committees where their interests are explored. For others such as yourselves, which have a unique role, if you do not have a home I think you lose out a bit. The Auditor-General has this committee as his home; the ASIC regulatory body has the Joint Standing Committee on Corporations and Securities; AEC has the Joint Standing Committee on Electoral Matters. I sometimes think the original, thoughtful and sometimes very useful work that your organisation does suffers from the fact that you do not have a body—a

---

home committee—to go to, where you can discuss these things and disseminate a greater understanding of what you do. I make that point because this is about accountability; it is about understanding the process of government and the public goods that result from government. One of the major mechanisms is parliament. Unless that conduit into parliament is well structured, it can limit the benefits of the work of people such as yourselves.

**CHAIRMAN**—Mr Cox has a final question, and we want to conclude at 3.30 p.m. We would like to reserve the right to submit further questions to you in writing, if you do not mind. I make this brief comment: we, the JCPAA, attempt to be accountable, too. We produce an annual report. We report on output, being the number of reports we produce, and we report on outcomes, being the percentage of our recommendations which are actually accepted. We think that is pretty fair. If somebody comes up with a better set of performance indicators, let us know and we will consider using them in our annual report.

**Mr COX**—I have got one last question for the Department of Finance and Administration. I have just been ploughing through the budget papers. What happened to the good old days when we used to have a list of asset sales and an aggregate number that we expected to get from revenue in that year, with a little disclaimer saying, ‘This revenue estimate is what we expect to get this year; it is not based on an assumption that we will sell all of these assets’? So we were not telling the market what we were going to get. There seems to be rather less information about asset sales receipts these days than I have seen for some time—unless it can be found somewhere that is not included in the index.

**Mr PRIOR**—I am not sure what the question is.

**Mr COX**—In the eighties and early nineties, there was a table that had a list of asset sales which were assets that were on the list and an estimate for receipts from asset sales in that year. There were no estimates for each individual asset because obviously that would set a limitation on how much people would be prepared to offer, if they thought that the Commonwealth was prepared to settle for less than they were prepared to offer. There was a disclaimer or a clarification saying that we did not necessarily expect to have to sell all of those assets to get the amount that was anticipated. In the budget papers today, there is much less information about what assets are on the list. I know you can go to the OASITO site and see that there are a number of assets, but it is not included in the budget documentation. I am wondering why that is so.

**Mr PRIOR**—I cannot explain what happened in the eighties. With regard to the budget papers, as we have said in other forums, the amount of disclosure with regard to asset sales is driven by the government’s needs and also by the commercial-in-confidence issues that we continually refer to. You are right: if you go to the OASITO home page, I think there is a list of proposed sales. In the budget papers we do have line items called ‘sale of assets’—the asset sales program.

**Mr COX**—The OASITO site does not tell you how much the Commonwealth is budgeting on receiving in any given year, though.

**Mr PRIOR**—But, overall, the budget papers do that. There is a cash flow statement, the functional statement, the GFS.

**Senator HOGG**—One thing that I know does concern a number of senators when it comes to the PBS, the PAES, and the annual report to a lesser extent, is where there are significant variations. In many instances the explanations are found wanting in the actual documentation. I think you should take on board the fact that there needs to be some sort of practice principle that you people put out. I do not know whether there is one; if there is, it is not abided by very well. I find many of the explanations—as do a number of my colleagues—absolutely mystifying. If you want examples of that, you can see me privately one day and I will take you through a few examples.

**Mr PRIOR**—Yes, we might do that.

**Senator HOGG**—It is a real concern because we waste a heck of a lot of time where there are significant differences. It could even be on a year to year basis where there is an ongoing program and there has been an allocation for an ongoing program over a three- or four-year period and something has happened that has meant there is a significant variation. Even then, the variation is not very clearly spelt out. It is spelt out in some obscure, obtuse accounting language which no-one understands.

**CHAIRMAN**—Thank you, participants, colleagues, secretariat, observers and Hansard.

**Mr COX**—I ask Finance whether we can get a list of all the non-financial asset sales for the last five years and all the sales of financial assets for policy purposes.

Resolved (on motion by **Mr Cox**):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

**Committee adjourned at 3.30 p.m.**