



THE HON LINDSAY TANNER MP
Minister for Finance and Deregulation
Member for Melbourne

Senator John Hogg
President of the Senate
Chair of the Appropriations and Staffing Committee
Parliament House
CANBERRA ACT 2600



Dear Senator Hogg

In my letter to you of 25 June 2009, I indicated I would write to you when the Government had reached a position on the Senate Executive Compact in response to the reports of the Appropriations and Staffing Committee and the Finance and Public Administration Committee.

I note that the existing interpretation of how expenditure is allocated between Appropriation Bill No. 1 (ordinary annual services of government) and Appropriation Bill No. 2 (other services of government) has been consistently applied by executive governments since the introduction of the accrual budgeting framework in the 1999-2000 financial year.

Budget Paper No.4 *Agency Resourcing 2009-10* provides a brief overview of the Government's interpretation of the Compact and how appropriations are allocated between Appropriation Bills No. 1 and No. 2. In particular, Budget Paper 4 specifies:

"The annual appropriation Bills propose specified amounts of appropriation for expenditure by agencies in achieving the government's outcomes.

...

Appropriation Bill (No. 1) 2009-2010 proposes appropriations for activities that are considered to be the ordinary annual services of the Government and hence the Bill cannot be amended by the Senate under section 53 of the Constitution. The Bill sets out amounts according to whether they are departmental outputs, administered expenses, or for payment to CAC Act bodies.

...

Appropriation Bill (No. 2) 2009-2010 provides appropriations for matters that are not proposed for the ordinary annual services of the Government. It covers both 'non-operating' costs (including payments to CAC Act bodies) and administered expenses in the form of new administered expenses for new outcomes, payments direct to local government, and some national partnership payments through the states, the Australian Capital Territory (ACT) and the Northern Territory (NT).

...
 The new administered expenses item in Appropriation Bill (No. 2) requests appropriation in respect of administered outcomes which have not previously been approved by Parliament. This requirement is based in the Compact of 1965.”

Since the Rudd Government was elected, we have made a number of reforms to simplify and improve the Appropriation Bills. Specifically under Operation Sunlight, the Government has improved the transparency of appropriations and the ability of the Parliament to scrutinise government spending.

Improvements to the appropriation bills include:

- *Improving the specificity and transparency of agency outcome statements.* Outcome statements are the primary point of appropriation, but have previously been so broad and general as to be virtually meaningless. From the 2009-10 Appropriation Bills and supporting Budget Papers, agency outcome statements have been significantly improved to ensure that the purpose of appropriations is clearly defined to the Parliament.
- *Improved reporting of the Advance from the Finance Minister (AFM).* In 2009 the Government released the first comprehensive report into the use of the AFM, detailing its use in the 2008-09.

The Government has also reformed Commonwealth–State financial relations with the introduction of the *Federal Financial Relations Act 2009 (FFR Act)*. The framework provides a robust foundation for collaboration between the Commonwealth and the States by providing clearer specification of the roles and responsibilities of each level of government. The new framework rationalises the number of payments made to the States and improves accountability through the transparent reporting of outcomes and results. The effect of this reform has meant that the majority of payments to the States and Territories have been removed from Bill No. 2 or 4 and are now made through the *FFR Act* with general drawing right limits provided in Bill No. 2.

These changes, and improvements to the Appropriation Bills, have significantly improved the transparency of appropriations and improved the ability of the Parliament to scrutinise government spending.

Therefore the Government sees no need to change the Executive’s interpretation of the Compact as it has been applied since 1999.

As the Committee would be aware, the Compact of 1965 which guides the allocation of appropriations between the Bills No.1 and No.2 is not set out in a single document, but is constituted by a series of meeting notes and correspondence between the Executive and the Senate. Given this, it is my view that there would be value in bringing this material together into a single document. This administrative exercise would not change the Government’s interpretation of the Compact.

I expect to have this work completed by the end of this financial year and will provide the document to you at that point.

I have copied this letter to the Prime Minister and the Treasurer.

Yours sincerely



Lindsay Tanner

13 NOV 2009

