



**SENATE STANDING COMMITTEE ON FINANCE AND PUBLIC
ADMINISTRATION**

COMMITTEE REPORT

**“TRANSPARENCY AND ACCOUNTABILITY OF
COMMONWEALTH PUBLIC FUNDING AND EXPENDITURE”**

(MARCH 2007)

COMMONWEALTH GOVERNMENT RESPONSE

Introduction

On 1 March 2007 the Senate Finance and Public Administration Committee's (SFPAC) report on the inquiry into the *Transparency and accountability of Commonwealth public funding and expenditure* was tabled.

A formal government response to the report's 19 recommendations had not been finalised by the time of the Federal election in November 2007, and the Minister for Finance and Deregulation, the Hon Lindsay Tanner MP, wrote to the Committee's Chair (Senator Helen Polley) in April 2008, providing an interim response and noting that many of the recommendations were consistent with the Government's Operation Sunlight reform agenda for Budget transparency and accountability that was being progressively introduced.

The interim response also noted that a final response to the SFPAC report would be provided after the Government considered a review of Budget transparency and the Operation Sunlight reform agenda by then Senator Andrew Murray, given the similar nature of the subject matter.

Mr Murray conducted his review in 2008 and after consideration the Government released Mr Murray's report, and a formal government response to the report, on 9 December 2008. Copies of the report, the government response and a revised Operation Sunlight policy document can be found on the website of the Department of Finance and Deregulation at www.finance.gov.au.

This formal response to the SFPAC report takes into account both the report of Mr Murray and the Operation Sunlight reform agenda. The Government is supportive of the Committee's intent to improve the disclosure of information about the use of public resources and will continue to progress its reform agenda in consultation with the Parliament.

Proliferation of Funding Sources

Recommendation 1 - The Committee recommends that the government produce and table with the annual budget documents a document that sets out the past and expected expenditure from all Special Appropriations. The data in that document should be set out against the programs that are funded from the relevant appropriation.

Government Response:

Agreed – The Government is already committed to producing data on special appropriations and introduced consolidated agency information in Budget Paper No. 4 as part of the 2008-09 Budget in line with election commitments under the Operation Sunlight reform agenda.

In addition, program level information has been included in agency Portfolio Budget Statements with effect from the 2009-10 Budget. The Statements, which are tabled in

Parliament as part of the annual Budget process, include details of annual and special appropriation sources for programs for the Budget and Forward Estimates period.

Recommendation 2 - The Committee recommends that the Government implement a system of review for standing appropriations to ensure that access to the CRF is withdrawn when no longer required and to ensure that standing appropriations are subject to periodic government and parliamentary review

Government Response:

Noted - The Government agrees that Standing Appropriations should be regularly reviewed, and is considering including formal review clauses in special appropriation legislation, requiring governments to review and report to Parliament on a periodic basis on the continuing need for the legislation and whether the existing focus of the legislation remains valid.

Recommendation 3 - The Committee recommends that the government ensure that where transfers of amounts between different forms of appropriation occur, that the transfers be highlighted in the reporting documents. Because the reporting of these events in agencies' financial statements may not occur until well after the event, these transfers should be documented and tabled as they occur. In making this recommendation the Committee is aware that there might be many such transfers and that there could therefore be practical difficulties in the timely provision of the data. The Committee therefore recommends that Finance consider the practical implications of the above recommendation and report to the Committee on this matter this financial year.

Government Response:

Agreed in part - The appropriation tables in the notes to the financial statements already require disclosure of movements of appropriation by outcome. This information has been enhanced with the introduction of the agency resource statements in Portfolio Budget Statements, Portfolio Additional Estimates, and Annual Reports from the 2008-09 reporting period.

Increasing the frequency of reporting as suggested is impractical, considering this information is already provided in the resource statement at the time of Budget, Additional Estimates and in the Annual Report.

Recommendation 4 - The Committee recommends that the central role in the management of net appropriations should be returned to the Appropriation Acts so as to ensure that these significant transfers of funds are fully transparent to the Parliament. In making this recommendation the Committee is aware that the management of net appropriations is complicated and that the Department of Finance and Administration is investigating other options. If a procedure other than returning the central role to the Appropriations Acts is proposed, the Committee would expect that the Parliament and its committees would be consulted. In particular, the Committee would expect Finance to report to it on any proposed alternative approach this calendar year.

Government Response:

Agreed in principle - The Government has simplified and standardised net appropriation arrangements (now called 'relevant agency receipts') by making net appropriations subject to regulation rather than an Act of Parliament, prescribing the range of receipts that may be retained by agencies as increased departmental items to spend in operation of their departmental activities. This was agreed to by the Parliament in the *Financial Framework Legislation Amendment Bill (No.1) 2007*, which took effect on 1 July 2008. The use of regulation has been assessed as the most effective means of implementing improved arrangements and provides the Parliament with the ability to disallow the regulation if it does not agree. Agencies are required to individually report estimated amounts in their Portfolio Budget Statements and actual amounts in their annual financial statements.

Recommendation 5 - The Committee recommends that agencies report the amounts of their unspent appropriations and the reasons for the under spend to Finance at the end of each financial year and that the government tables in Parliament a consolidated report on the amount and reasons for the under spend within six months of the end of the relevant financial year. The Committee further recommends that unspent appropriations be returned to the CRF unless the Finance Minister determines that there is good cause for the funds to be retained.

Government Response:

Agreed in part – Agencies' Annual Reports include information on their performance against targets and will be supplemented by the inclusion of resource statements, beginning with the 2008-09 Annual Reports, providing information on the available resources and the purposes to which they have been applied. This will be further improved from 2009-10 when Annual Reports will also include information at the program level, permitting a more visible link between planned performance and actual results. The Government currently discloses at the whole of government level estimates and actual results in the Final Budget Outcome document released within three months of the end of the financial year. The production of a separate report on the amount and reasons for under spends is therefore not supported as current publications and scheduling already provide this information to Parliament.

Access to unspent administered appropriations is revoked after the finalisation of each financial year in accordance with section 11 of the relevant Appropriation Acts. Departmental appropriations are to be more closely tied to the years in which obligations fall due as a result of the introduction of net cash funding arrangements. The first stage of these arrangements has been introduced for collecting institutions for 2009-10 with other agencies in the General Government Sector to move to the arrangements in 2010-11.

Recommendation 6 - The Committee recommends that unless the Government can propose another mechanism that would overcome the accountability and transparency issues raised in connection with the carry over of appropriations it should discontinue the appropriation of funds to agencies for the purpose of depreciation.

Government Response:

Agreed – The Government has decided to cease the funding of depreciation and other non-cash items and introduce appropriation of General Government Sector agencies on the basis of net cash requirements. This will be implemented from the 2009-10 Budget for collecting institutions, which will be provided with a collections development budget for heritage and cultural assets and from 2010-11 for other General Government Sector agencies. This will provide agencies in the General Government Sector with the funding they require within a financial year rather than providing funding for items which will not occur until a future date, sometimes for years. It will be transparent that the appropriations provided to agencies are for their use within a financial year including any carryover between years.

Tax Expenditures, AFM, GST and ordinary annual services

Recommendation 7 - The Committee recommends that the State and Territory jurisdictions provide to the Commonwealth comprehensive annual statements of the purposes and expenditures of GST revenues to enable their incorporation into Budget Paper No. 3.

Government Response:

Not agreed – The *Federal Financial Relations Act 2009*, which implements financial arrangements of the *Intergovernmental Agreement on Federal Financial Relations*, provides for all GST revenue to be distributed to the States and Territories (the States) and that this revenue can be used by the States for any purpose. Consequently, GST revenue forms part of each State’s consolidated revenue from which all state expenditures are funded.

The Australian Government cannot impose conditions on the States’ expenditure of GST revenue without gaining the States’ agreement to amend the *Intergovernmental Agreement* and subsequently amending the *Federal Financial Relations Act 2009*.

Annual state budgets provide the public with detailed estimates of how each State will allocate its expenditure. State governments are accountable to their parliaments and electorates for these budget decisions.

Recommendation 8 - The Committee recommends that the Senate continue to seek clarification from the Government as to which items the Government believes should be included in the different appropriation bills. The Senate should then form a view as to the appropriateness of the split. When any differences are resolved to the satisfaction of the Senate, the Department of Finance and Administration should be required to monitor and enforce the split.

Government Response to Senate Report “Transparency and Accountability of Commonwealth Public Funding and Expenditure”

Government Response:

Noted.

Recommendation 9 - The Committee recommends that the Standing Committee on Appropriations and Staffing should report expeditiously on its negotiations with Government in relation to the appropriate split of items of expenditure in the different appropriation bills so that the issue may be considered by the Senate.

Government Response:

Noted. The Government is considering proposals to be put to the Senate to clarify the allocation of items between the appropriation bills. It is expected that the clarification of the Compact of 1965 will address the concerns underpinning this recommendation.

Recommendation 10 - The Committee recommends that the Clerk advise the President of the Senate with respect to concerns about the matters included in periodic Appropriation bills and that the President table a statement accompanying the bills or return the bills to the House of Representatives or to the minister for clarification, elucidation or adjustment.

Government Response:

Noted.

Improving transparency and specificity of budget documents

Recommendation 11 - The Committee recommends that a common approach be taken for the Portfolio Budget Statements and that estimates for three forward years be included for departmental and administered items.

Government response:

Agreed – This represents Government policy with agencies’ Portfolio Budget Statements being redesigned for the 2009-10 Budget to include financial and non-financial information on agencies’ programs across the forward estimates period.

Recommendation 12 - The Committee recommends that outcomes be expressed in clear, simple and measurable terms.

Government Response:

Agreed - This represents the Government’s existing policy in relation to agency outcome statements. The Department of Finance and Deregulation has worked with agencies to review their outcome statements in the context of ongoing reform of the financial framework and has issued revised guidance for agencies. The revised outcome statements of agencies have been included in the Appropriation Bills and Portfolio Budget Statements from the 2009-10 Budget.

Recommendation 13 - The Committee recommends that expenditure should be reported at the levels of programs in the budget documents, including in the schedules to the Appropriation Acts.

Government Response:

Agreed in part – Reporting at the level of programs was included in agencies' Portfolio Budget Statements as part of the 2009-10 Budget, together with more comprehensive information in the Budget Papers. Agencies' outcome statements in the Appropriation Acts have also been revised to improve the clarity of purpose for which funding is provided. The inclusion of program level information in the schedules to the Appropriation Acts is not supported, as agencies are appropriated on the basis of outcomes.

Recommendation 14 - The Committee recommends that the terms 'administered' and 'departmental' be defined in the appropriation bills or other appropriate documents.

Government Response:

Agreed – A set of principles were introduced in the Finance Minister's Orders in 2007, providing greater clarity in relation to the classification of appropriations as departmental or administered. This approach takes into account relevant accounting standards as well as Government's intentions in relation to the level of agency accountability for management and control of resources and their use.

Recommendation 15 - The Committee recommends that the ongoing process being undertaken to harmonise the accounting standards should continue and should be expedited by the Government setting a deadline for its completion.

Government Response:

Agreed - Harmonised accounting standards for the whole of government and general government sectors were introduced for 2008-09 Budget and have resulted in a significant simplification of the information provided to Parliament in Budget Paper 1.

The Australian Accounting Standards Board (AASB) is the independent body responsible for the development of an approach to harmonising accounting standards at entity level, and the Government will implement the new standard in accordance with any required timeline.

The current timetable for the AASB involves consulting with jurisdictions and other stakeholders and producing a standard on harmonisation at entity level by February 2010. The date of effect for implementation is less certain, however, as reviewing and applying this standard, assuming that it is released in February 2010, will require extensive work by agencies to meet the new standard and to make necessary changes to their financial systems. Implementation of any new standard will be done in accordance with the timeframes set out in the proposed standard.

Recommendation 16 - The Committee recommends that the Government should give consideration to a system for funding depreciation whereby gross capital expenditure would be separately reported and budgeted for as required, with a sub-division of expenditures between asset replacement (i.e. the depreciation component) and asset expansion.

Government Response:

Agreed – The Government has decided to cease funding of depreciation and other non-cash items and introduce appropriation of General Government Sector agencies on the basis of net cash requirements. This has been introduced from the 2009-10 Budget for collecting institutions, who have been provided with a collections development budget for the acquisition of heritage and cultural assets and from 2010-11 for other General Government Sector agencies. This will provide agencies in the general government sector with the funding they require within a financial year rather than providing funding for items which will not be required until a future date, sometimes for years. Changes have been made in the 2009-10 Budget to broaden the range of asset information presented in agencies' Portfolio Budget Statements and to ensure greater transparency of the appropriations provided to agencies and their use in the acquisition, maintenance, replacement and disposal of assets. Further changes will be considered during 2009 prior to the introduction of net cash arrangements for General Government Sector agencies in 2010-11.

Improving Parliamentary oversight

Recommendation 17 - The Committee recommends that the Senate Standing Legislative and General Purpose Committees report as necessary in their reports on the estimates on the format and contents of the PBS and PAES that are referred to them.

Government Response:

Noted.

Recommendation 18 - The Committee recommends that the Committee Chairs Group examine proposals made by the Auditor-General for measures to assist the Legislative and General Purpose Standing Committees in their consideration of the estimates.

Government Response:

Noted.

Recommendation 19 - The Committee recommends that the Government ensure that future appropriation bills that the Senate cannot amend under the provisions of the Constitution restore the need for any approved expenditure to be legally linked to and connected with a specific outcome or purpose.

Government Response:

Agreed – This represents a statement of current Government policy, and the link between appropriations and activities will be further improved from 2009-10 with the introduction of revised outcome statements for agencies that are more specific and measurable.