PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

SIXTY FOURTH REPORT TO THE PARLIAMENT

Report on the review of the Auditor-General's report on –

Parliamentary control and management of appropriations

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Parliament of Victoria

Public Accounts and Estimates Committee

Report on the Review of the Auditor-General's Report on Parliamentary control and management of appropriations

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DUTIES OF THE COMMITTEE

The Public Accounts and Estimates Committee is a joint parliamentary committee constituted under the *Parliamentary Committees Act* 2003.

The Committee comprises nine Members of Parliament drawn from both Houses of Parliament and all political parties.

The Committee carries out investigations and reports to Parliament on matters associated with the financial management of the state. Its functions under the Act are to inquire into, consider and report to the Parliament on:

- any proposal, matter or thing concerned with public administration or public sector finances; and
- the annual estimates or receipts and payments and other budget papers and any supplementary estimates of receipts or payments presented to the Assembly and the Council.

The Committee also has a number of statutory responsibilities in relation to the Office of the Auditor-General. The Committee is required to:

- recommend the appointment of the Auditor-General and the independent performance and financial auditors to review the Victorian Auditor-General's Office;
- consider the budget estimates for the Victorian Auditor-General's Office;
- review the Auditor-General's draft annual plan and, if necessary, provide comments on the plan to the Auditor-General prior to its finalisation and tabling in Parliament;
- have a consultative role in determining the objectives and scope of performance audits by the Auditor-General and identifying any other particular issues that need to be addressed;
- have a consultative role in determining performance audit priorities; and
- exempt, if ever deemed necessary, the Auditor-General from legislative requirements applicable to government agencies on staff employment conditions and financial reporting practices.

GLOSSARY

Accountability	The process by which individuals or organisations report on what actions they have taken in the context of given delegations and legislation, and accept responsibility for those actions and their foreseeable consequences.
Accrual accounting	An accounting method under which revenue, expenses, assets and liabilities are recognised when transactions occur, irrespective of the timing of the related cash flow. For example, expenses are recorded when goods or services are provided, rather than when payments are made.
Accrual based appropriations	Arrangements under which, once appropriations are applied by the Treasurer (refer to 'application of appropriations'), the cash can be drawn from the Consolidated Fund at any future time.
Accrual output based management	A resource management model focused on the funding, reporting and monitoring of defined outputs, with linkages to government strategic priorities and outcomes. Under this model, the government (as purchaser), decides which outputs it will purchase from departments (the providers) at specified levels of quantity, quality and price. As owner, the government also decides the investment required in departments in order to enable them to maintain or build their capacity to meet output targets/expectations.
Advance to Treasurer	A specific appropriation to the Treasurer, included in the annual Appropriation Act, to meet urgent expenditure claims that were unforeseen at the time of the budget. Amounts applied under this authority are reported to Parliament at a later date and approved by Parliament in a subsequent Appropriation Act.
Annotated receipts	Under the provisions of the *Financial Management Act* 1994 and the annual Appropriation Act, the authority limit for certain departmental appropriation items can be increased by an amount equal to specified departmental receipts under the terms and conditions agreed between the responsible Minister and the Treasurer. These receipts are known as annotated receipts.
Annual appropriation	The appropriation of moneys standing to the credit of the Consolidated Fund for various purposes contained in the annual Appropriation Act and the Appropriation (Parliament) Act.

Application (of appropriations)	The formal act of drawing-down/utilising available appropriation authority by the Treasurer, representing the point at which appropriation revenue is made available to/controlled by departments.
Appropriation	An authority given by the Parliament to make payments from the Consolidated Fund for the purposes stated, and up to the limit of the amount specified in the particular Act.
Appropriation items	The specific purposes and amounts (limits) appropriated by Parliament via the Appropriation Acts (i.e. the individual appropriation line items).
Consolidated Fund	The government's primary account that receives all Consolidated Revenue under the *Constitution Act* 1975 and from which amounts are appropriated by Parliament for specific purposes. The Consolidated Fund, together with the Trust Fund, forms the Public Account.
Depreciation	The allocation of the cost of an asset over the years of its useful life.
General government sector	The part of the public sector that provides public services (outputs) which are mainly non-market in nature, for the collective consumption of the community, and which involve the transfer or redistribution of income and are financed mainly through taxes and other compulsory levies. Government departments are the major agencies within this sector. The definitions of the general government sector and the Budget Sector are identical in Victoria.
Global appropriations	Refers to high level/aggregated appropriations provided to departments for application towards generic purposes (such as the provision of outputs etc.), which provide substantial management flexibility to the government and departments.
Net appropriations	Base parliamentary appropriations, the authority limit of which is increased/decreased through the operation of other provisions contained in the *Financial Management Act* 1994 and the annual Appropriation Act – such as annotated receipts, the carry-forward of previously unused appropriations, etc.
Outcomes (government)	The government's desired or intended effects on the community as a result of its activities and other external factors.

Outputs	Products or services produced or delivered by departments/agencies.
Output groups	For the purposes of budgeting and reporting, a grouping of individual outputs that contribute to a common outcome.
Performance indicators (of departmental objectives)	Measures that demonstrate achievement or progress towards achievement of departmental and government objectives.
Performance measures	Quantity, quality, timeliness and cost measures used to describe how many, how well, when and how frequently outputs are delivered.
Performance targets	Intended output delivery levels expressed in terms of each of the performance measures.
Public Account	The Public Account is established under the Financial Management Act as the government's central bank account, which includes the transactions of the Consolidated Fund and the Trust Fund.
Responsible Minister/s	One or more portfolio Minister/s that have specific and/or collective responsibility over a department's activities and performance.
Revenue certification	The formal acceptance by the Minister for Finance of departmental claims for appropriation revenue, based on the provision of agreed outputs in terms of quantity, quality, timeliness and cost.
State Administrative Unit (SAU)	An account established within the Consolidated Fund to meet the accounting and accountability needs associated with the operation of the accrual based output management arrangements. These include the recording of the Treasurer's application of appropriations and the departmental draw-down of these funds from the Consolidated Fund.
Special appropriation	A standing authority that remains in force until amended or repealed by Parliament, for specific once-off or ongoing payments. Most special appropriations are of an indefinite duration involving indefinite sums of money.

Treasurer's Advance	See Advance to Treasurer
Trust Fund	That part of the Public Account established to account for the receipt and disbursement of moneys not forming part of the Consolidated Fund and therefore not subject to parliamentary appropriation. The Trust Fund comprises various trust specific purpose accounts established under separate legislation or at the discretion of the Minister for Finance under the authority of the *Financial Management Act* 1994.
Warrant	A written authority provided under the *Constitution Act* 1975 and the *Financial Management Act* 1994 to spend specified sums from the Consolidated Fund during a financial year, which must be signed by the Treasurer, the Auditor-General and the Governor.

CHAIR'S INTRODUCTION

The role of Parliament in exercising control over expenditure from the Public Account and holding the Executive Government to account for this expenditure is central to democratic government under the Westminster system.

Parliamentary approval for government spending is provided through the annual appropriation process. However, following wide ranging reforms to the state's financial management framework, there is now a range of additional legislative mechanisms available whereby, after the annual Appropriation Bill is passed by Parliament, the government is able to withdraw further moneys from the Consolidated Fund to fund additional expenditures without the need to seek parliamentary approval. In 2003-04 around 13 per cent of total government expenditure utilised this process.

In April 2003, the Victorian Auditor-General tabled a report on *Parliamentary control and management of appropriations*. The main focus on the report was that, although the impact of successive reforms to the state's financial management and accountability framework resulted in the Executive Government having substantial discretion over the spending of taxpayer's funds, scrutiny and accountability arrangements could be enhanced to facilitate effective transparency and accountability to Parliament.

Major areas of concern identified by the Auditor-General related to the accountability arrangements for individual trust accounts within the Trust Fund, budget supplementations, use of the Treasurer's Advance, special appropriations, performance measurement of outputs and outcomes and the aligning of outputs to departmental objectives as distinct from portfolio outcomes.

This report examines actions taken by the government in response to the Auditor-General's report. The Committee also makes a number of recommendations in relation to various areas where it was perceived that further improvements are required to enhance the nexus between the performance of the Executive Government and the role of Parliament, in controlling the expenditure of taxpayer's funds in an efficient, economical and effective manner. The report is also seen as a further opportunity for the government to enhance transparency and accountability within the Victorian public sector following successive financial reforms over recent years.

The Committee has been assisted in its inquiry by officers from the Department of Treasury and Finance and the Victorian Auditor-General's Office and I thank them for their advice and assistance.

The report’s 27 recommendations are directed at further improving the accrual output based financial management framework within Victoria and, at the same time, providing Parliament with more opportunity to enhance its fundamental role in controlling the expenditure of public funds.

The Committee is particularly grateful to Mr Trevor Wood, the Committee's specialist advisor, whose insights and knowledge of this matter were of great assistance in the drafting of this report. As always the production of the report is a team effort, and the Committee records its appreciation to the secretariat for their exemplary assistance.

I commend the report for consideration and look forward to the government's response to the Committee's recommendations.

Hon. Christine Campbell, MP

Chair

EXECUTIVE SUMMARY

Chapter 1: Background to the review

The Victorian Auditor-General has no power to require departments and agencies to implement recommendations contained in his reports. To overcome this situation the Public Accounts and Estimates Committee follows up the reports of the Auditor-General on a systematic basis in order to enhance the audit process and, at the same time, provide Parliament with an update on actions taken to improve resource management and accountability based on the recommendations contained in the reports of the Auditor-General.

In April 2003, the Auditor-General tabled a report – *Parliamentary control and management of appropriations*, which examined the current legislative and administrative arrangements associated with parliamentary appropriations, with a view to determining the role of Parliament in these processes following a series of reforms to the state's financial management and accountability framework.

The audit report concluded that the Executive Government has substantial discretion over the spending of taxpayers' funds, at the expense of diminished scrutiny from Parliament and accountability to Parliament for public spending.

In response to the audit report, the Department of Treasury and Finance did not support any additional limits on budget management provisions. The department considered the existing arrangements provided a sound balance between parliamentary control and accountability mechanisms which supported high levels of departmental performance and service delivery.

The Auditor-General reiterated to the Committee that following examination of appropriation frameworks operating in comparable Australian and overseas jurisdictions, the extent of budget discretion/flexibility available in Victoria was more extensive than in those other jurisdictions.

This report contains the findings of the Committee's follow-up review of the Auditor-General's 2003 report.

Chapter 2: Appropriation framework

The Victorian constitution is based on the Westminster system of government which provides that only Parliament may raise taxes and authorise expenditure of public revenue paid into the Consolidated Fund. With the introduction of the *Financial Management Act* 1994, which takes precedence over the financial sections of the *Constitution Act* 1975, a range of budget management provisions were subsequently introduced allowing the Treasurer, in specified circumstances, to withdraw moneys from the Consolidated Fund without prior scrutiny from Parliament.

The Committee and the Auditor-General accept the need for some flexibility to be provided to the Treasurer to control the state budget. The issue raised by the Auditor-General related to whether the Treasurer's discretionary powers are excessive, thereby diminishing the role of Parliament in authorising the expenditure of public moneys.

The Committee observes that the introduction of the Financial Management Act means the Constitution Act no longer reflects the reality of the current appropriation process. Further amendments to the Financial Management Act also have the potential to render the Constitution Act even less relevant. The Committee recommends that the Constitution Act be revised to reflect current practices in the collection and disbursement of all state revenues. The Committee also recommends that Parliament be informed promptly of all instances where the Treasurer has used public funds to satisfy any government guarantees or indemnities authorised by the Treasurer.

Chapter 3: Operation of existing appropriation framework

The Auditor-General drew attention to the existing system where global appropriations are provided to departments to fund outputs and asset investments detailed in the annual budget papers. Although global appropriations provided substantial flexibility to the government in managing the state's finances, Parliament is only able to exercise limited control over government spending at a ministerial portfolio level or within individual agencies contained within portfolios. Output and asset expenditures detailed in the budget papers are only a guide for Parliament as the budget papers do not form part of the Appropriation Act, leaving the government free to amend outputs as deemed necessary. The Auditor-General recommended the disaggregation of global departmental appropriations to portfolio levels and major agencies within those portfolios.

The Committee agrees with the Auditor-General, particularly given that Ministers are held accountable to Parliament for expenditure within their portfolios under the Westminster system. This principle becomes difficult to adhere to when departmental outputs and asset expenditure are often not linked to specific portfolios. The Committee considers that the existing appropriation framework needs to be evaluated as to its effectiveness in providing Parliament with the opportunity to closely scrutinise expenditure from the Consolidated Fund, in line with intended government outcomes for each portfolio, department and agency.

The extent of budget flexibility available to the Treasurer in addition to the appropriation process, is regarded as excessive by the Auditor-General when compared to similar jurisdictions. The Auditor-General suggested that monetary limitations be placed on the extent to which budget management provisions could be used by the Treasurer, the exceeding of which would require a supplementary appropriation by Parliament. The Department of Treasury and Finance rejected this recommendation.

After examining the reasons for budget supplementation, the need for Parliament to be aware of budget supplementation and the absence of any justification for budget supplementation in annual reports and other documentation, the Committee supports the use of supplementary appropriations as suggested by the Auditor-General. The Committee also considers that explanations justifying the use of any budget supplementations should be included as a note to the government's annual financial report.

Under existing practice with accrual output based appropriations, departments are funded for the full cost of output delivery, including non-cash provisions such as depreciation and employee entitlements. Notional funding for non-cash items, along with any surpluses generated by departments from the provision of outputs, is recorded in a ledger account known as the State Administration Unit. Balances are drawn down as commitments arise.

The Auditor-General recommended that the separate components of the balance held in the State Administration Unit be disclosed in the government's annual financial report. The Department of Treasury and Finance agreed, but has not implemented the recommendation. The Committee considers that separate disclosure of the composition of the balance held in the State Administration Unit, particularly in relation to accumulated surpluses recorded by departments, would be of interest to the Parliament.

Special Appropriations under separate legislation represent an ongoing authority provided to the Treasurer to apply moneys for specified purposes without the need to seek annual parliamentary approval. Given the ongoing and generally unrestricted nature of this authority, the Auditor-General suggested the enabling legislation be reviewed to determine whether the legislation still remained relevant and appropriate.

The Department of Treasury and Finance agreed with the recommendation, but did not see it as its role to conduct a legislative review. The Committee also agrees with the Auditor-General's recommendation that all special appropriation legislation be reviewed by the government to determine its relevance and compliance with government objectives.

As part of the budget process the government prepares general government sector estimated financial statements, based on generally accepted accounting policies and a range of economic assumptions which are examined by the Auditor-General. It was recommended by the Auditor-General that a reconciliation be undertaken by the Department of Treasury and Finance between the estimated expenditures recorded in the estimated financial statements and the value of appropriations from the Consolidated Fund as recorded in the annual Appropriation Bill.

The Department of Treasury and Finance accepted that such a reconciliation was possible, but argues that it would be costly, impractical and of limited value, particularly given the range of assumptions required as to whether certain expenditure was funded by an appropriation, compared to funding from other revenue sources.

After considering a range of factors, the Committee agrees that on balance, a reconciliation is warranted, with the onus to be placed on the Department of Treasury and Finance to provide compelling reasons to the government why such an exercise would not benefit the Parliament. Other recommendations included in the Auditor-General's report, with the exception of tabling corporate plans in Parliament, were accepted and implemented.

Each quarter the Department of Treasury and Finance reimburses departments for the cost of outputs provided each department can demonstrate agreed progress in the provision of outputs based on the performance measures recorded in the budget papers. The Auditor-General expressed concerns about the quality of performance information used to determine the extent to which departments had delivered outputs, and the absence of any assurances about the integrity of the management information systems used to produce performance information.

The Auditor-General recommended that strategies be developed to provide regular assurances to the Department of Treasury and Finance on the integrity of performance information. The Auditor-General also considered that the output measures and targets in the budget papers should better reflect key components of service delivery. A comprehensive methodology was also needed to better assess departmental output performance in achieving desired government outcomes.

The Department of Treasury and Finance agreed with the need for better performance measures and mechanisms to ensure the integrity and reliability of management information systems. The department considered however that the quarterly certification process was as accurate and fair as possible.

The Committee acknowledges the difficulty in developing performance measures that are representative of often very large and diverse outputs, but drew attention to the progress achieved in other jurisdictions such as Western Australia and the United Kingdom, where government departments must produce key effectiveness measures for outputs linked to government outcomes.

The Committee acknowledges the importance of the recent government initiative to introduce a Financial Management Compliance Framework, incorporating a requirement for financial key performance indicators. However, a performance management reporting framework evaluating departmental operations is still to be completed. In the absence of such a framework, the Auditor-General is unable to exercise his mandate in auditing the Report of Operations (which should include indicators as to the economy, efficiency and effectiveness of each department’s performance in producing outputs and outcomes linked to the government’s desired outcomes for each portfolio).

The Committee was not able to measure any progress by the government in validating performance information produced by departments from their management information systems. To address this issue, the Committee recommends that this area of operations be evaluated and reported on by the Office of the Chief Information Officer within the Department of Premier and Cabinet.

The Auditor-General drew attention to the government's policy that funds departments for the full cost of service delivery in providing outputs, including non-cash items such as depreciation and employee entitlements. However, this funding is not passed on in full to the various agencies delivering outputs on behalf of departments, which can result in shortfalls in infrastructure investment. Although the Department of Treasury and Finance acknowledged the Auditor-General's concerns, it confirmed that asset investment decisions remained the prerogative of government, as distinct from decisions of individual departments.

The Committee acknowledges the commitment of the government to infrastructure investment with $10.2 billion to be provided over the next four years to 2009. Nevertheless, the extent to which the existing process contributes to capital shortfalls and subsequent service delivery variations across agencies needs to be determined and recognised in the ten year asset strategies to be developed by departments as part of the government's new Asset Management Framework to be introduced from July 2006. Consideration should also be given to partly funding government agencies for depreciation providing some certainty for future asset maintenance and investment decisions, particularly for operating assets such as plant and equipment.

Chapter 4: Use of the Treasurer's Advance

The Treasurer's Advance represents a specific appropriation to the Department of Treasury and Finance, providing the Treasurer with access to the Consolidated Fund to meet 'urgent' claims arising before parliamentary sanction can be obtained. While accepting the need for the Advance, the Auditor-General questioned whether certain payments could be regarded as 'urgent' especially where the Advance was used to fund new or additional outputs and capital works of a non-urgent nature, which should have been reasonably foreseen as part of the budget process.

The Department of Treasury and Finance maintained that the definition of what constituted 'urgent claims' and 'discretionary expenses' remained open to interpretation, but was compensated for by providing accountability for the expenditure from the Treasurer's Advance in the annual financial report and subsequent year's Appropriation Act.

The Committee acknowledges the limited guidance issued by the Department of Treasury and Finance on the Treasurer's Advance subsequent to the Auditor-General's *Report on parliamentary control and management of appropriations*. However, no legislative definition was provided as to what were deemed urgent claims, as occurs with the Commonwealth Government.

The Committee also expresses reservations about the existing practice of not disclosing use of the Treasurer's Advance until the annual financial report is tabled in Parliament (usually October) and the next year's Appropriation Bill is presented around May. Given the substantive nature of some of the transactions, the Committee considers that Parliament should be progressively informed of expenditure during the year in which the Advance was provided, as occurs in other jurisdictions such as Western Australia and the Australian Capital Territory. In addition, the term 'urgent claims' needs to be properly defined in legislation, otherwise use of the Treasurer's Advance could be regarded as just another budget management provision that did not require parliamentary scrutiny in advance of authorising the expenditure.

Chapter 5: Role of the Trust Fund

The Trust Fund is established under the Financial Management Act as a separate component of the Public Account. It currently comprises around 82 separate trust accounts established either under separate legislation or under the authority of the Minister for Finance, with aggregate expenditure exceeding \$9 billion in 2003-04. Individual trust account transactions are not separately disclosed in departmental or whole of government financial statements, despite trust accounts representing a distinctly separate component from a department's normal business.

Apart from the lack of accountability for individual trust account transactions, the Auditor-General also questioned the need for the continued existence of certain trust accounts, the absence of detailed guidelines on the usage of trust accounts and the Treasury Trust Fund being used for purposes other than what was originally intended under enabling legislation.

The Department of Treasury and Finance response acknowledged that it had been some time since trust accounts had been reviewed and guidelines were issued to departments stating that trust accounts were to be closed if their ongoing existence could not be justified. No comment was provided by the department on the need for better accountability.

The Committee established that since the Auditor-General's report the use of trust accounts had increased, with the establishment of a further five trust accounts. Of particular interest to the Committee was the large increase in the cash and investment balances of eleven trust accounts that received budget appropriations, potentially indicating surplus balances that should have been transferred to the Consolidated Fund.

The Committee considers there is a need to improve accountability for trust accounts, given that their use remains at the discretion of government with no scrutiny from Parliament due to the ongoing legislative authority provided to the Treasurer. The Committee also considers that the conditions under which departments could use the Treasury Trust Fund needs to be clearly articulated and monitored.

The Committee recommends that with the exception of trust accounts established for accounting purposes, all trust account transactions, assets, liabilities and equity should be separately disclosed at a whole of government level and in the financial reports of the responsible departments. The Committee also recommends that all cash and investment balances accumulated beyond certain levels, unless justification can be provided, should be transferred to the Consolidated Fund, provided the necessary legislative authority exists.

Chapter 6: Need to enhance the role of Parliament in scrutinising appropriations

Although the original role of Parliament under the Victorian Constitution was to authorise expenditure from the Consolidated Fund, successive amendments to other legislation have resulted in a situation whereby the Treasurer authorised around 12.9 per cent of withdrawals from the Consolidated Fund in 2003-04 without the need to seek specific approval from the Parliament.

In addition, with the introduction of global budgets for departments, it is now difficult to determine the financial parameters of ministerial responsibility for individual portfolios, particularly as Ministers often have shared responsibility for outputs. Performance information currently provided is directed towards performance measures reflecting the progress of departments in delivering outputs in line with the government's *Growing Victoria Together* framework, as distinct from measures reflecting the effectiveness of programs within individual portfolios in achieving desired government outcomes within the community. The *Growing Victoria Together* framework is very broad and does not, nor was intended to, reflect all desired government outcomes or the contribution of government agencies towards outputs.

The central issue revolves around how much flexibility should be provided to the Executive Government via the Treasurer to manage the budget through authorising withdrawals from the Consolidated Fund, as compared to the involvement of Parliament in scrutinising/authorising such transactions. Victoria exercises the most flexibility in this regard, with other jurisdictions in Australia exercising greater control over government spending.

The Committee acknowledges the range of mechanisms providing progressive accountability for government spending, including quarterly updates and budget revisions provided to Parliament. Nevertheless, the Committee considers that budget supplementation from the Consolidated Fund and explanations for the supplementation should be subject to parliamentary scrutiny in advance in order for Parliament to consider whether additional funding for the purposes as outlined is appropriate.

The Committee considers there is a compelling need to examine the existing system in terms of the role of Parliament in scrutinising budget supplementation, the level of detail to be included in Appropriation Acts, ministerial responsibility for portfolios versus departmental reporting to the government, the appropriateness of global budgets; the absence of performance information on portfolio performance, and the lack of accountability for trust accounts.

RECOMMENDATIONS

Chapter 2: Appropriation Framework

The Committee recommends that:

Recommendation 1:	**The government seek expert advice on the relevance of and inconsistencies between the financial provisions contained in the *Constitution Act* 1975 and the budget management provisions contained in the *Financial Management Act* 1994 and annual appropriation acts.** ***Page 41***
Recommendation 2:	**The *Constitution Act* 1975 be amended to reflect current practices in the collection and authorisation of the disbursement of all state revenues.** ***Page 41***
Recommendation 3:	**The Treasurer be required to provide Parliament with details of all moneys withdrawn or to be withdrawn from the Consolidated Fund to satisfy any liabilities arising from guarantees or indemnities provided by the Treasurer in respect of any contracts, agreements in general, or actions of certain public servants, within seven days of each such payment being agreed to by the Treasurer.** ***Page 42***
Recommendation 4:	**The government's annual *Financial Report for the State of Victoria* include details of the circumstances leading to payment of liabilities arising from guarantees and indemnities provided by the Treasurer.** ***Page 42***

Chapter 3: Operation of existing appropriation framework

Recommendation 5: **The government give further consideration to the Auditor-General's recommendation that further statutory limits be placed on the extent of budget supplementation authorised by the Treasurer, and that exceeding these limits would require a supplementary appropriation.**

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Recommendation 6: **The government's annual *Financial Report for the State of Victoria* include an overview report explaining the use of budget supplementations by departments.**

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Recommendation 7: **The government's annual *Financial Report for the State of Victoria* and the budget estimates include summary information on the composition and nature of annotated receipts.**

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Recommendation 8: **The government's annual *Financial Report for the State of Victoria* and the financial reports of departments separately disclose the balances held in the State Administration Unit and the composition of the balances.**

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Recommendation 9: **The government use the resources of the Department of Treasury and Finance and/or Department of Justice to conduct a review of the ongoing appropriateness of all legislation providing for special appropriations in the context of the current financial management arrangements within government.**

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Recommendation 10:	**The Minister for Finance issue a direction under the *Financial Management Act* 1994 requiring all departments to disclose in their annual financial reports special appropriation provisions in legislation under their control, which have not been used during a financial year.** ***Page 59***
Recommendation 11:	**The government amend the Model Financial Report to require departments to include explanations in their annual reports on major variations in revenue collections as compared to budgets and the previous year's collections.** ***Page 65***
Recommendation 12:	**The Minister for Finance issue a direction requiring all general government sector agencies, where practical, to include their corporate plans on their web-sites.** ***Page 65***
Recommendation 13:	**The Department of Treasury and Finance, unless justification to the contrary can otherwise be demonstrated, provide Parliament with a reconciliation between the Appropriation Bill and expenditure estimates contained in the Estimated Financial Statements, after taking into account retained revenue under section 29 of the Financial Management Act.** ***Page 66***
Recommendation 14:	**The government finalise the development of the Victorian Performance Management and Reporting Framework or a similar framework in order that performance information on portfolio programs and projects recorded in the Report of Operations of public sector agencies and departments can be audited by the Auditor-General, with the impact of operations on community outcomes becoming more readily identifiable.** ***Page 73***

Recommendation 15: **The Minister for Finance issue a direction to all public sector agencies to include appropriate performance indicators in their Statement of Operations reflecting the extent to which departmental objectives and desired government outcomes are being implemented through various programs and projects and are being met with regard to economy, effectiveness and efficiency.**

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Recommendation 16: **The Chief Information Officer in the Department of Premier and Cabinet be requested by the government to undertake a review of the capability of computer systems across the general government sector to collect data that can be used for performance monitoring and the development of suitable performance measures and indicators that are clear, understandable, economical and soundly based.**

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Recommendation 17: **As part of the certification process introduced under the whole of government Financial Management Compliance Framework, accountable officers be required to certify that, based on regular testing of information technology operations, information produced by the systems for performance purposes is accurate and complete.**

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Recommendation 18: **The Department of Treasury and Finance undertake a review of the forward asset requirements of all general government sector departments and agencies as set out in the ten year asset strategies adopted by government, with a view to determining any shortfalls in whole of government asset funding in the forward estimates and other projections, and the potential impact on service delivery.**

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Recommendation 19: **The Department of Treasury and Finance undertake a review of the ten year asset strategies submitted by departments, to determine whether those strategies as adopted, adequately provide for the capital investment needs of government agencies of each department, and the potential impact of any shortfalls on service delivery.**

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Chapter 4: Use of the Treasurer's Advance

Recommendation 20: **The Minister for Finance issue a direction clearly defining the purpose of the Treasurer's Advance, the circumstances in which it can be used as compared to other legislative alternatives and what constitutes 'urgent' expenditure.**

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Recommendation 21: **The government's annual *Financial Report for the State of Victoria* provide details on a departmental basis of supplementary funding for salary and wage increases authorised by the Treasurer under section 3(2) of the Appropriation Act.**

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Recommendation 22: **Details of expenditure authorised by the Treasurer from the Treasurer's Advance be provided to Parliament at least on a quarterly basis. Details and reasons for the expenditure should also be provided.**

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Recommendation 23: **The government require all departments to disclose in their annual reports the reasons why any supplementary funding was sought from the Treasurer's Advance and the subsequent impact of the funding on their operations.**

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Chapter 5: Role of the Trust Fund

Recommendation 24: **The Department of Treasury and Finance review the ongoing need for all existing trust accounts in the general government sector.**

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Recommendation 25: **The transactions, assets and liabilities of all individual trust accounts, be disclosed in the notes to the financial statements of the respective departments, supplemented by additional disclosure at the whole of government level.**

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Recommendation 26: **The Minister for Finance establish comprehensive guidelines and monitoring provisions for the use of the Treasury Trust Fund.**

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Recommendation 27: **The government periodically review all trust accounts with large balances above a prescribed level, with a view to requiring departments to either justify the need to retain such balances or to return surplus funds to the Consolidated Fund.**

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CHAPTER 1: BACKGROUND TO THE REVIEW

1.1 Introduction

The Victorian Auditor-General does not have the power to require departments and agencies to implement recommendations contained in his reports. To overcome this situation, the Public Accounts and Estimates Committee follows up the reports of the Auditor-General on a systematic basis in order to enhance the audit process. The subsequent Committee reports, which are prepared after consultation with the Auditor-General and the relevant departments and/or agencies, provide Parliament with an update on actions taken to improve accountability and resource management.

As part of this process, the Auditor-General agreed to provide the Committee with an update on reports selected by the Committee for follow-up review in terms of:

- any unresolved issues or audit recommendations that had not been implemented;
- changes that have occurred as a result of the reports; and
- any other matters of significance arising from the follow-up.

Following a request from the Committee, on 28 January 2004 the Auditor-General provided comments on the response provided to the Committee by the Department of Treasury and Finance on the matters raised in the Auditor-General's April 2003 *Report on Parliamentary control and management of appropriations.*

1.2 Background to the report of the Auditor-General on parliamentary control and management of appropriations

The overall intention of the audit was to examine the various legislative and administrative arrangements associated with parliamentary appropriations, to assess whether Parliament's interests were being protected and to determine whether there was scope for improving the administration of appropriations.

Specifically the audit examined:[3]

- the requirements set out in the *Constitution Act* 1975, the *Financial Management Act* 1994, annual Appropriation Act, Acts containing 'special' (standing) appropriations and other relevant legislation associated with the administration and reporting of appropriations;

3 Victorian Auditor-General's Office, *Parliamentary control and management of appropriations*, April 2003, p.12

- the appropriation frameworks operating at other comparable Australian and overseas jurisdictions;
- the adequacy/effectiveness of administrative arrangements operating within the Department of Treasury and Finance over the certification of *'output delivery'* and the consequent application of parliamentary appropriations;
- the adequacy of administrative arrangements for the issue of funds for previously applied appropriations;
- the extent of use of budget management provisions contained in legislation and the accountability thereof;
- the use of the Treasurer's Advance to assess whether its application has been restricted to urgent or previously unforseen items at the time of the tabling of the state budget; and
- the scope of Trust Fund operations and their impact on parliamentary oversight of departmental financial operations.

1.3 Findings of the Auditor-General

The major finding of the Auditor-General was that successive reforms to the state's financial management and accountability framework, as embodied in the *Financial Management Act* 1994, have given the Executive Government substantial discretion over the spending of taxpayers funds. The budget management provisions that allowed this discretion were seen by the Auditor-General as being at the expense of parliamentary scrutiny and enhanced accountability arrangements affecting transparency and accountability to Parliament over public spending.

The Auditor-General's report contained recommendations that will be discussed further in this report. However, a key recommendation was directed towards the imposition of a monetary cap on the extent to which budget management provisions can be used to supplement parliamentary appropriations. Once this cap was exceeded, then parliamentary authority would be necessary in the form of supplementary appropriations, before any additional expenditure could be incurred by government.

1.4 Response to the Auditor-General's report by the Secretary of the Department of Treasury and Finance

Specific responses are detailed in the respective sections elsewhere in this report. However, the overall thrust of the response from the Secretary of the Department of Treasury and Finance was:[4]

- the Auditor-General's report provided some valuable insights and areas for ongoing improvement in the evolving framework for resource and performance management of Victorian departments;
- a key consideration in sound public management was the appropriate balance between 'ex-ante' control of departmental operations (detailed parliamentary scrutiny of all expenditure, prior to appropriation of revenue held in the Consolidated Fund) and 'ex-post' accountability (accountability for expenditure through mechanisms such as the annual financial report, annual reports of departments and key performance measures). The department believed that the existing arrangements, as they evolved over time, allowed for a sound balance between (parliamentary) control and accountability which supported high levels of departmental performance and service delivery in the Victorian Public Service; and
- the department did not support any additional caps or limits on budget management provisions on the basis that ex-post accountability was strong.

1.5 Follow-up by the Auditor-General

The Auditor-General, after consideration of the approach taken by the Department of Treasury and Finance to his report, reiterated that following examination of appropriation frameworks operating in comparable Australian and overseas jurisdictions, the extent of budget discretion/flexibility available in Victoria was more extensive than in other jurisdictions. The Auditor-General further advised the Committee this situation contrasts with other Australian jurisdictions that have established tighter boundaries over government spending and have used supplementary parliamentary appropriations to authorise unanticipated expenditure.[5]

4 ibid. pp.59–61

5 Mr W Cameron, Auditor-General, letter dated, 28 January 2005, concerning the views of the Department of Treasury and Finance on matters raised in the audit report

1.6 Scope of the review undertaken by the Committee

Following the Committee's appointment by the 55th Parliament in April 2003, a Sub-Committee was appointed to follow-up matters raised in reports of the Auditor-General. The Sub-Committee consisted of the following members:

- Hon. C Campbell, MP (Chair)
- Hon. B Baxter, MLC
- Mr R Clark, MP
- Mr J Merlino, MP
- Ms G Romanes, MLC

On 8 December 2003, a private hearing was held with Mr Stein Helgeby, Deputy Secretary, Budget and Financial Division, Department of Treasury and Finance and four other representatives from the department.

In addition, the Sub-Committee also took evidence from representatives of the NSW Audit Office, the Australian National Audit Office, the NSW Treasury and the Department of Finance and Administration in Canberra. A list of witnesses that either made submissions and/or gave evidence to the Sub-Committee is shown at appendix 1. This evidence provided valuable background information and greatly assisted the Sub-Committee in its deliberations.

The cost of this inquiry is estimated at $65,019.

In producing this report, the Committee saw the exercise as a further opportunity to enhance transparency and accountability within the government, following a range of successive reforms over recent years. Major reforms to financial and resource management have included:

- inclusion in the budget papers from 1993-94 of an expanded set of performance measures and other indicators of government service provision;
- establishment of a state balance sheet in the 1998-99 budget;
- introduction of accrual accounting for the state's budget from 1998-99;
- adoption of generally accepted accounting principles for the state's budget from 2000-01;
- Victoria is the only state where the Auditor-General reviews the Estimated Financial Statements in the budget papers and reports on consistency with accounting policies, economic assumptions and the government's minimum surplus target;
- quarterly reporting to Parliament on the state's finances introduced in 2000-01;

- introduction in 2003 of a Financial Management Compliance Framework to satisfy the government that departments and public sector agencies are fulfilling their financial management obligations;
- production of annual progress reports since 2003-04 reporting against the government's ten year vision for Victoria contained within *Growing Victoria Together*; and
- publication of the 2005-06 budget in a form consistent with International Financial Reporting Standards, the first government in Australia to apply these standards.

In order to assist in understanding the budget, monitoring, reporting and parliamentary processes referred to in this report, exhibit 1.1 provides an overview of these cycles.

Exhibit 1.1: Integrated resource management and accountability framework

July	August	September	October	November	December	January	February	March	April	May	June
Review of individual performance against individual plans and review managers performance targets in previous year's workgroup plans *June – July*	Departmental strategic planning *August – October*			Departmental business planning *November – June*							
	Department asset planning Departments prepare and submit Multi-Year Strategy *end of September*		Department asset planning including asset investment proposals *August – March*							Develop business and workgroup plans and individual performance plans *May – July*	
Government considers and approves the forward legislative program for the following Autumn sitting of Parliament *third quarter of the calendar year*						Government considers and approves the forward legislative program for the following Spring sitting of Parliament *first quarter of the calendar year*					
			ERC Stage 1 – Setting the Budget strategy *October – November*			Minister for Finance approves departmental output structures and performance measures *end January*	ERC Stage 2 – Allocation of resources for annual State Budget *February – March*				
			Departments update financial estimates in BMS for Budget Update and ERC 1 *October*		Departments update budget year and forward estimates in BMS for annual State Budget *December – January*				Departments update forward estimates and output performance measures for ERC 2 decisions *April – May*	Annual State Budget presentation *May*	
Review of departmental secretaries performance *July – September*				Output resource allocation reviews and price reviews reported to ERC *November – March*	Budget Update tabled in Parliament *15 December*		Output resource allocation reviews and price reviews identified by ERC 2 *February – March*				
			PAEC tables report on the budget estimates *October – November*		Response to PAEC budget outcomes questionnaire *November – December*			PAEC tables report on budget outcomes *March*	Response to PAEC budget estimates questionnaire *April – May*	PAEC hearings on the budget estimates *May – June*	

July	August	September	October	November	December	January	February	March	April	May	June
		Financial Management Compliance Framework annual compliance letters and portfolio summaries prepared and forwarded to Department of Treasury and Finance *September – October*			Advice to Minister for Finance on Financial Management Compliance Framework *December*						
	Departmental responses prepared and collected for Minister for Finance's annual report in response to Auditor-General reporting to Parliament *August – November*			Minister for Finance tables annual report in response to Auditor-General reporting to Parliament *September – October* *November – December*							
Monthly reporting	Monthly reporting	Monthly reporting	Monthly reporting	Monthly reporting	Monthly reporting	Monthly reporting	Monthly reporting	Monthly reporting	Monthly reporting	Monthly reporting	Monthly reporting
			Financial Report for the State of Victoria, incorporating Quarterly Financial Report No. 4 (for June quarter) *Table in Parliament by 15 October*	Quarterly Financial Report No. 1 (for September quarter) *Table in Parliament by 15 November*				Mid-Year Financial Report, incorporating Quarterly Financial Report No. 2 (for December quarter) *Table in Parliament by 15 March*		Quarterly Financial Report No. 3 (for March quarter) incorporated into the annual State Budget Papers *Table in Parliament by 15 May*	
Quarterly output report and revenue certification and quarterly asset report (Gateway)			Quarterly output report and revenue certification and quarterly asset report (Gateway)			Quarterly output report and revenue certification and quarterly asset report (Gateway)			Quarterly output report and revenue certification and quarterly asset report (Gateway)		

Planning
Resource allocation
Accountability

Notes: ERC – Expenditure Review Committee

BMS –Business Management System

PAEC – Public Accounts and Estimates Committee

Source: Department of Treasury and Finance; http://domino.intranet.vic.gov.au/BudgetGuide/default.htm, accessed 13 September 2005

CHAPTER 2: APPROPRIATION FRAMEWORK

2.1 Westminster system of government

Victoria operates under the Westminster system of government, the political and institutional framework of parliamentary and cabinet government under which all Australian states and the Commonwealth Government operate. The Victorian Constitution was established in 1854, the current version of which is contained in the *Constitution Act* 1975.

A fundamental principle of the Westminster system is that only Parliament may raise taxes and authorise the expenditure of public revenue paid into the Consolidated Fund. The authorisation of expenditure from the Consolidated Fund by Parliament is through annual appropriation Acts and special appropriations (also referred to as standing appropriations). Special appropriations are contained in specific legislation that provides the Treasurer with ongoing authority to authorise expenditure from the Consolidated Fund without seeking annual approval from Parliament. The *Financial Management Act* 1994 contains provisions detailed in section 2.2, providing ongoing budget flexibility for the Treasurer. These provisions are also regarded as standing appropriations.

Until 1993-94, each department's annual appropriation for specific expenditure was detailed in the relevant annual appropriation Act. Since then, annual appropriations for the provision of outputs, additions to the net asset base and various payments on behalf of the state government, have been provided to departments on a global basis. More detailed information can be found in the annual budget papers.

In 1998-99 the government adopted an accrual based budgeting and appropriation framework. Under the purchaser/provider model, the Treasurer, acting as purchaser on behalf of the government, purchases outputs from departments (providers) based on an agreed price. The Treasurer uses the annual appropriation authority provided by Parliament and the ongoing authority provided for special appropriations and trust accounts, to reimburse departments for the outputs, provided the Treasurer is satisfied the outputs have been delivered in accordance with agreed targets.

Global appropriations provide departments with considerable flexibility to determine the appropriate mix of goods and services provided under respective outputs without prescriptive direction from Parliament.

In 2003-04 the annual *Appropriation Act* (2003/2004) provided $20,800,270,000 towards outputs from government departments. Given that the general government sector's total expenditure in 2003-04 was $27,354,000,000, the additional $6,553,270,000, represented Trust Fund and special appropriation expenditure and expenditure authorised under the Financial Management Act and the annual Appropriation Act which does not require parliamentary scrutiny/authorisation.

The Auditor-General observed that, apart from the global appropriation arrangements, the budget management arrangements provided under the Financial Management Act and to a lesser extent under the annual Appropriation Act, provided the Treasurer with considerable discretion to supplement the appropriations authorised by Parliament, without seeking express parliamentary approval. These provisions are outlined below.

2.2 Budget management provisions under the Financial Management Act

As stated, the original concept of parliamentary control under the Westminster system is that government must not spend taxpayers' money unless Parliament has first given consent. Over time, however, Parliament's powers to control government spending have been progressively reduced, through the introduction of modern legislation such as the Financial Management Act. The Act provides authority to the Treasurer to spend public moneys through additional budget supplementation without prior parliamentary approval. These provisions of the Financial Management Act are as follows:

Section 10

Commonwealth Government grants paid into the Consolidated Fund, which are not taken into account when developing the state budget, can be appropriated out of the Fund by the Treasurer, provided Governor-in-Council approval is obtained. These grants can be both specific purpose grants and non-specified general purpose GST grants, usually arising as a result of additional GST collections by the Commonwealth Government.

Section 11

The Treasurer is provided with ongoing authority to withdraw from the Consolidated Fund moneys needed to meet any liabilities arising as a result of guarantees from the government to meet debts arising from any borrowings, contracts or agreements involving government participation.

The Committee understands that there are no legislative limits on the extent to which expenditure can be incurred in meeting any government obligations arising from guarantees.

Section 28

Subject to Governor-in-Council approval, the Treasurer can approve an additional allocation from the Consolidated Fund, in excess of the parliamentary appropriation, to a department, where such an allocation is perceived to be prudent and advantageous, and where ongoing benefits would arise in the following year. Such an allocation, which effectively allows borrowing against a future appropriation, must not exceed 3 per cent of the original departmental appropriation, or 0.5 per cent of the total budget appropriation to the general government sector for the year.

Section 29

Departments through ‘annotated receipts’, can ‘retain’ specific revenues derived from certain sources, including the recoup of costs incurred in delivering certain services, asset sales and specific purpose grants from the Commonwealth Government and municipal councils.

Although these ‘annotated receipts’ are paid into the Consolidated Fund, the aggregate amount of this revenue, after certification by the Treasurer, is deemed to have been appropriated to the respective departments. The government takes this amount into account when determining the annual appropriation for departments, which represents a net appropriation after accounting for the value of the annotated receipts.

Section 30/31

Amounts appropriated to departments can be transferred to other items with the approval of the Treasurer, which effectively over-rides the parliamentary intention. Given that appropriations are now of a global nature, this section is mainly used for the transfer of output appropriations to additions to net asset bases or vice versa.

Section 32

Where a department does not use all or part of an appropriation in the year in which the appropriation is received, a department can apply to the Treasurer to carry forward the unused portion to the next financial year.

Section 33

Where an obligation is entered into for an expense incurred in a current year but not paid, moneys can be drawn down in future years to meet the obligation. This section brings into effect accrual based appropriations, including recognising creditors. It also provides that where depreciation is charged on assets, funds equivalent to the depreciation charge are retained in the Consolidated Fund and can be drawn down in future years only to replace assets.

Section 35

This section provides for an amount (not exceeding 0.5 per cent of the total amount provided under an annual Appropriation Act) to be advanced, before parliamentary approval is obtained, to the Treasurer to meet urgent claims. Such advances are listed in the following year's Appropriation Act for subsequent approval by Parliament and must be repaid into the Consolidated Fund.

Section 39

In circumstances where moneys contained in the Consolidated Fund are likely to be insufficient to meet appropriations, the Treasurer can arrange for temporary advances (loans) from external sources to meet appropriations from the Consolidated Fund.

These advances represent temporary financing arrangements and are to be repaid, with interest, from the Consolidated Fund in the year in which the advances were obtained. If the advances cannot be repaid in that year, they can be repaid from the Consolidated Fund in the subsequent year.

Section 40H

This section provides the Treasurer with standing authority to issue, from the Consolidated Fund, such sums as are necessary to fulfil any liability arising from any indemnity given by the Treasurer. Indemnities could include the protection of officers and/or directors of public bodies or state companies.

This section is similar to section 11. There are no legislative limits on withdrawals from the Consolidated Fund under Section 40H. Accordingly, the Treasurer is not obliged to inform Parliament in advance of intended withdrawals under these provisions.

2.3 Appropriation Act

Although Appropriation Acts are introduced annually into Parliament, they contain standard provisions. Sections relating to budget management are as follows:

Section 3(2)

This section enables the Treasurer to issue additional amounts from the Consolidated Fund if, in any financial year, the amount payable for salaries and related costs is increased as a result of any industrial award or determination and the amounts specified in the Appropriation Act are insufficient to provide for payment of the increase.

Until recently this section was not extensively utilised as wage increases were met from the Treasurer's Advance. With the introduction of the new funding model in 2004-05, government departments are funded in their outputs for anticipated wage increases in line with government policy. No supplementary funding for these purposes is contained within the Treasurer's Advance. This section is now utilised in circumstances where wage increases are in excess of government expectations and departments are unable to absorb the full increases.

Treasurer's Advance

Under the Appropriation Act the appropriation to the Department of Treasury and Finance is inclusive of an Advance to the Treasurer to meet 'urgent' claims. As referred to earlier, under Section 35 of the Financial Management Act, the Treasurer can also authorise expenditure of an 'urgent' nature. The distinction between the two provisions is that whereas under the Financial Management Act the advance provided by the Treasurer must be repaid by the recipient department in the subsequent year, an advance provided under the Appropriation Act is deemed as being appropriated. The actual authority for the appropriation occurs with the passing by Parliament of the subsequent years' Appropriation Act, which lists all advances made by the Treasurer during the previous financial year.

The extent to which these budget management provisions were utilised during 2003-04 is illustrated in exhibit 2.1.

Exhibit 2.1: Parliamentary authority provided to departments for 2003-04

	Appropriation Act			Financial Management Act								
	Annual Appropriation	**Treasurer's Advance**	**Section 3(2)**	**Section 10**	**Section 29**	**Section 30/31**	**Section 32**	**Section 33**	**Section 35**	**Section 39**	**Other Special Appropriations**	**Total Parliamentary Authority**
	($ million)	**($ million)**	**($ million)**	**($ million)**	**($ million)**	**($ million)**	**($ million)**	**($ million)**	**($ million)**	**($ million)**	**($ million)**	**($ million)**
Provision for outputs	18,225.2	473.0	114.9		1,360.7	-48.9	301.7		69.1			**20,495.7**
Additions to net assets	991.4	69.0			159.2	57.5	220.5		78.3			**1,575.9**
Payments made on behalf of the state	969.0	39.3				-10.3						**998.0**
Victorian Law Reform Commission – pursuant to section 17(b) of the Victorian Law Reform Commission Act 2000	0.9											**0.9**
Others (a)	41.8	3.1										**44.9**
Sub-total	**20,228.3**	**584.4**	**114.9**	**-**	**1,519.9**	**-1.7**	**522.2**	**-**	**147.4**	**-**	**-**	**23,115.4**
Special appropriations				79.8				27.8		7.6	3,139.1	**3,254.3**
Total	**20,228.3**	**584.4**	**114.9**	**79.8**	**1,519.9**	**-1.7**	**522.2**	**27.8**	**147.4**	**7.6**	**3,139.1**	**26,369.7**

Note: (a) includes appropriation to cemeteries for maintenance and improvements pursuant to the Cemeteries Act 1958, the Regional Infrastructure Development Fund pursuant to the Regional Infrastructure Development Fund 1999 and contributions of the state under agreements pursuant to the Murray Darling Basin Act 1993

Sources: Departmental annual reports 2003-04, Annual Financial Report for the State of Victoria 2003-04, p.151

2.4 Relationship between the Constitution Act and the budget management provisions contained in the Financial Management Act and the Appropriation Act

It is apparent from the budget management provisions contained within the Financial Management Act and the Appropriation Act, that the concept under the Westminster system of government that only Parliament can authorise expenditure of public revenue paid into the Consolidated Fund, has been diluted by subsequent legislation. Although it can be argued that Parliament, in passing subsequent legislation has delegated authority to the Treasurer to authorise additional expenditure from the Consolidated Fund without prior sanction from Parliament, a situation has been created whereby the Constitution Act and the Financial Management Act differ in how withdrawals from the Consolidated Fund are authorised, in terms of prior approval from Parliament compared to subsequent ratification of the withdrawals under the authority of the Treasurer.

Section 18 of the Constitution Act refers to the power of Parliament to amend the Act. Certain sections of the Act can only be amended by a majority of electors at a referendum. Other sections of the Act requiring amendment would either require a 3/5ths special majority of the respective membership of the Legislative Assembly and the Legislative Council, or an absolute majority of the combined membership of the Legislative Council and the Legislative Assembly. The remaining sections of the Constitution Act which are not specifically covered by these voting provisions, including Part V which contains the financial provisions, can be amended through the normal parliamentary process.

As a consequence of the financial provisions of the Constitution Act being treated as normal legislation, any subsequent legislation, such as the Financial Management Act, will take precedence in the event of any conflicting provisions. Accordingly, the fundamental provision under the Westminster system that only Parliament can authorise expenditure of consolidated revenue has been over-ridden by the Financial Management Act.

For example, the Constitution Act explicitly states that all revenues of the Crown in Victoria shall be paid into the Consolidated Fund. In practice, a substantial proportion of revenue is paid into trust accounts established under the Financial Management Act. Similarly, the ability of departments to retain certain receipts under section 29 of the Financial Management Act means that Parliament only appropriates a net amount after taking into account the value of these annotated receipts.

Apart from these factors, other aspects of Part V of the Constitution Act do not appear appropriate in the current environment. For example, section 92 of the Act refers to consolidated revenue being *'appropriated to such specific purposes as by any Act shall be provided in that behalf'*. The use of the term *'specific purposes'* reflected the original intention of the Act to allocate funds to departments for specific purposes such as salaries and wages and supplies, as occurred in Appropriation Acts prior to the advent of global appropriations, accrual output based management and the Financial Management Act, in the early 1990s. Consequently, this provision should be updated.

The Auditor-General and the Committee do not dispute the need for some flexibility within state budgets. All other jurisdictions within Australia have budget flexibility similar to Victoria, but not as extensive. The issue raised by the Auditor-General relates to an appropriate balance between the powers held by the Treasurer and the need for scrutiny of expenditure by the Parliament as envisaged under the Constitution Act. It is also relevant that the Constitution Act makes no recognition of special appropriations which provide ongoing authority to the Treasurer to withdraw moneys from the Consolidated Fund, without the need for prior parliamentary scrutiny.

The Committee considers that the Constitution Act requires updating to reflect current practices with the control and management of appropriations and the disbursement of moneys held in the Consolidated Fund. It is an anomalous situation to have separate pieces of legislation of such significance to the parliamentary process in apparent conflict, notwithstanding the fact that the Financial Management Act has precedence.

The Committee also recognises the potential for future amendments to the Financial Management Act which could further weaken parliamentary scrutiny of the state's finances and at the same time, render the financial provisions in the Constitution Act even more irrelevant.

The Committee also notes that Section 11 of the Financial Management Act permits the Treasurer to withdraw moneys from the Consolidated Fund to meet any liabilities/debts arising from any borrowings for public purposes, contracts or other agreements which were guaranteed by the government. These withdrawals are deemed to be appropriated from the Consolidated Fund.

The government assumes a range of risks arising from commercial dealings, mainly with the private sector. On occasions these risks materialise and the government becomes liable for any shortfalls, which at times have to be met in an expedient manner, particularly where service delivery must continue. The 2003-04 Financial Report refers to payments of $1.5 million in fulfilment of guarantees during 2003-04, for which no recovery was made.[6] The Committee noted that the Financial Report disclosed no details of the payment.

Similar to section 11, section 40H of the Financial Management Act allows the Treasurer to withdraw moneys from the Consolidated Fund, which is deemed to be appropriated, to meet any liabilities arising from indemnities provided by the Treasurer under this section. Indemnities under this section are commonly provided by the Treasurer in respect of officers and directors of government companies and in respect of purchases of government entities/properties. As an example, the assets of the former Overseas Project Corporation of Victoria Ltd, which was experiencing

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6 Department of Treasury and Finance, *2003-04 Financial Report for the State of Victoria*, October 2004, p.157

financial difficulties, were sold in June 2004. The Treasurer, as part of the sale negotiations, indemnified the purchaser against any debts or liabilities incurred by the Corporation before May 2004. In addition, at the request of the Corporation, the Treasurer issued an indemnity for the Corporation's board and officers in respect of the sale.[7]

The Committee accepts the need for the Treasurer to provide guarantees and indemnities as part of the government's normal operations. However, where claims materialise in respect of these actions, the Committee considers that, as a matter of transparency within government, Parliament should be advised in advance of any intention to honour guarantees or indemnities. The occurrence of such claims directly reflects on the government's risk management strategies, with the Treasurer to be accountable for the guarantees and indemnities provided for in the first instance.

In addition to informing Parliament, the Committee also considers that the annual financial report of the government should disclose brief details of the background to such payments by the Treasurer.

The Committee recommends that:

Recommendation 1:	**The government seek expert advice on the relevance of and inconsistencies between the financial provisions contained in the *Constitution Act* 1975 and the budget management provisions contained in the *Financial Management Act* 1994 and annual appropriation acts.**
Recommendation 2:	**The *Constitution Act* 1975 be amended to reflect current practices in the collection and authorisation of the disbursement of all state revenues.**

7 Victorian Auditor-General's Office, *Results of special reviews and other investigations*, May 2004, pp.134–136

Recommendation 3: **The Treasurer be required to provide Parliament with details of all moneys withdrawn or to be withdrawn from the Consolidated Fund to satisfy any liabilities arising from guarantees or indemnities provided by the Treasurer in respect of any contracts, agreements in general, or actions of certain public servants, within seven days of each such payment being agreed to by the Treasurer.**

Recommendation 4: **The government's annual *Financial Report for the State of Victoria* include details of the circumstances leading to payment of liabilities arising from guarantees and indemnities provided by the Treasurer.**

CHAPTER 3: OPERATION OF EXISTING APPROPRIATION FRAMEWORK

3.1 Operation of global appropriations

3.1.1 Review by the Auditor-General

Global appropriations (also referred to as 'one line' appropriations) are provided to departments for the provision of outputs, additions to net asset base and payments on behalf of the Victorian Government. These latter payments can be: transfer payments, central financing costs and other expenditure not directly related to the purchase of goods and services by the government.

The global appropriations are '*base appropriations*' which are invariably supplemented through moneys provided by the Treasurer under the budget management provisions contained within the Financial Management Act and the Appropriation Act. The most common source of supplementation arises from the application of section 29 of the Financial Management Act, whereby certain revenues are '*annotated*' and can be retained by departments because they are '*deemed'* to be appropriated by the Treasurer on behalf of Parliament.

To support the global appropriations, section 40 of the Financial Management Act requires the Treasurer to provide information to Parliament via the budget papers on the total funds available to each department. This information is divided into outputs, descriptions of each output and a range of performance measures for each output reflecting quantity, quality, timeliness and cost. Examples of this information are contained in Budget Paper No. 3, *2004-05 Service Delivery*. The Auditor-General observed, however, that the details provided in the budget papers are not binding as the budget papers do not form part of the Appropriation Act. Consequently, departments are able to shift funding between outputs as circumstances change.[8]

The Auditor-General considered that while global appropriations provided substantial flexibility to the government in managing the state's financial affairs, including decisions regarding the quantity, quality and mix of outputs and services to be delivered, and determining asset investment, the consequence was that Parliament was only able to exercise limited control over government spending at a portfolio level or within individual agencies contained within portfolios.[9] In Victoria there are ten departments, servicing 44 portfolios containing multiple programs.

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8 ibid., p.34

9 ibid., p.36

In comparison with Victoria which provides global appropriations to departments that contain various ministerial portfolios and agencies, the Commonwealth Government provides global appropriations for specified outcomes within the respective government departments, including appropriations for each agency.[10] In New Zealand, appropriations are also provided for each output.

Given the diversity of portfolios and programs managed by Victorian Government departments, in conjunction with minimal parliamentary control over spending in key areas of government, the Auditor-General recommended that:

> *…consideration needs to be given to the role of Parliament in directing government expenditure to major areas of public service and/or policy, including the disaggregation of current global departmental appropriations to levels such as Ministerial portfolios or major public sector agencies within those portfolios.*[11]

3.1.2 Response by the Department of Treasury and Finance

The Secretary of the Department of Treasury and Finance responded to the Auditor-General's recommendation by referring to section 30 of the Financial Management Act which allows amounts to be moved between items of the appropriation within departments. It was considered that further disaggregation of appropriations as recommended by the Auditor-General would have no material impact on the ability of Parliament to control appropriations as designated appropriations could be changed during the year as a department determined (subject to approval by the Treasurer). To implement such a change, the existing structure of departments and the legislation would need to be changed.

The Deputy Secretary of the Budget and Financial Management Division advised the Committee that the shift to global appropriations was accompanied by enhanced information flows back to Parliament in the form of annual reports and other documents, including more detailed performance information and reporting. The need for flexibility in making decisions on changing priorities and achieving greater efficiency in outputs was emphasised. The shift to global appropriations has probably provided or removed some of the disincentives to efficient management of resources. The further disaggregation of global appropriation was seen as a disincentive for *'departments to co-operate on a more fulsome basis, in particular to join-up their service delivery*'.[12]

10 ibid.

11 ibid.

12 Mr S Helgeby, Deputy Secretary, Budget and Financial Management Division, Department of Treasury and Finance, PAEC private hearing, 8 December 2003, pp.3–4 *(approval given to use this evidence)*

3.1.3 Conclusion

The overall view of the Department of Treasury and Finance appears to be that the high level of flexibility available under the existing system of global appropriations is compensated for by increased accountability back to the Parliament. Further controls by Parliament could be regarded as dysfunctional and would act to reduce current management flexibility and incentives.[13]

Conversely, the Auditor-General's view after examining frameworks in other comparable Australian and overseas jurisdictions, is that the extent of control exercised by the Victorian Parliament over the appropriation process would seem less than in other jurisdictions.

The Committee acknowledges that the budget papers provide comprehensive details on outputs to be achieved, targets, proposed funding of outputs etc. However the global appropriation system does not require departments to adhere to those plans. As the Committee has observed through its reports on Budget Outcomes, there are often wide fluctuations between projected output costs and actual outcomes. In addition, the budget papers do not specify which portfolio Ministers are responsible for the respective outputs. In many cases outputs are *'shared'* between two or more Ministers, depending on the department. Such an arrangement, in the Committee's opinion, has implications for determining ministerial responsibility.

As an example, in the Committee's *Report on the 2003-2004 Budget Estimates* attention was drawn to the Department of Innovation, Industry and Regional Development which supports seven ministerial portfolios.[14] In this department, which operates under a 'matrix managed' system, only the Minister for Tourism had sole responsibility for an output group. All other Ministers had varying degrees of shared responsibility for the other outputs within the department, which resulted in a situation whereby it was virtually impossible to clearly delineate the respective responsibilities and budgets for each Minister.

In that report the Committee recommended that the Department of Innovation, Industry and Regional Development *'take immediate steps to resolve its complex framework of ministerial responsibilities'* and to *'clearly align its ministerial responsibilities with accountability for budget and departmental activities and resource issues'*. The department subsequently advised that no action would be taken on the recommendation. The complex framework of responsibilities were seen as reflecting the *'interconnectiveness'* of the various aspects of the state and regional development function. Despite this statement, the department also accepted the

[13] Mr W Cameron, Auditor-General, correspondence received 28 January 2004, p.2

[14] Public Accounts and Estimates Committee, *Report on the 2003-04 Budget Estimates*, pp.278–280

desirability of clear accountability for budget and departmental activities and this was to be considered.[15]

The above example of blurred responsibilities between portfolios was one of the more extreme examples within the general government sector, although similar situations exist within all government departments with shared responsibilities between Ministers for various outputs.

The Committee agrees with the Auditor-General's recommendation that in order for Parliament to better perform its role in authorising public expenditure, global appropriations should be disaggregated into portfolios and major public sector agencies. Under the Westminster system, the convention of ministerial responsibility requires Ministers to be accountable to Parliament for their own actions and those of their departments. It is difficult to envisage whether this concept can be fulfilled when the financial responsibilities of Ministers in relation to their individual portfolios often cannot be clearly defined under the existing global appropriation system. The existing system also has the consequence of not being able to identify for Parliament poor performance or very good performance within individual portfolios.

This situation is further complicated in that in most departments, the parliamentary appropriation only forms the major part of the total amount of moneys available under parliamentary authority as a result of the provisions contained in the Appropriation Act and the Financial Management Act. For example, in 2003-04 the Department of Human Services received total funding of $7,892.1 million of which the annual Appropriation was $6,491.5 million, or 82.6 per cent. Most of the remaining funding was from annotated receipts pursuant to section 29 of the Financial Management Act, unexpended appropriations from the previous year and special advances. Annotated receipts are *'deemed'* to be appropriated, but are not subject to parliamentary scrutiny as occurs with the annual Appropriation Act.

In order to allocate funding to specific portfolios, it would be necessary to amend existing legislation to take into account estimated receipts available from the budget management provisions contained in the Appropriation Act and the Financial Management Act. Where additional moneys become available during a financial year, these moneys could be appropriated by Parliament through a supplementary appropriation. A degree of budget flexibility would still remain through use of Treasurer's Advances as discussed in Chapter 4 of this report.

As stated previously, the Victorian system provides for global appropriations to be made to each department, which in turn administers various portfolios and agencies, with the transactions included in departmental output groups. This arrangement means that specific allocations to each portfolio and agency cannot be identified. In contrast, within the Commonwealth Government global appropriations are made to portfolios with specific appropriations made to the department and each agency within the

15 *Government response to the recommendations of the Public Accounts and Estimates Committee's 54th Report on the 2003-2004 Budget Estimates*, p.25

portfolio. The government department within each portfolio also receives specific allocations for each specified outcome the government has identified. The portfolio statements record revenue from other sources, including special appropriations and retained revenue to form a total appropriation for each output. The Commonwealth Government's appropriation system provides more detail to Parliament on revenue sources and the specific purposes for which appropriations are to be made within each portfolio.

The Committee does not necessarily accept that the approach taken by the Commonwealth is ideal. However the system does provide Parliament with a higher level of scrutiny over the purposes for which expenditure is to be applied, in conjunction with reinforcing ministerial responsibility for expenditure within each portfolio.

The Committee intends to evaluate the existing accrual output based management framework inclusive of global appropriations, by comparing it with that of other jurisdictions, particularly the Commonwealth Government, to determine whether the current system preserves the Westminster concept of ministerial responsibility for portfolios and provides Parliament with adequate opportunity to scrutinise and direct revenue and expenditure projections in line with intended government outcomes for each portfolio, department and agency.

3.2 Budget Management Provisions

3.2.1 Review by the Auditor-General

The Auditor-General drew attention to the flexibility available to the government to re-allocate and augment existing parliamentary appropriations as circumstances require, without express parliamentary approval. These provisions are contained in the Appropriation Act and the Financial Management Act as outlined in Chapter 2 of this report. The Auditor-General's report stated that as a percentage of the total appropriations applied, the use of these budget management provisions had increased from around eight per cent in 1998-99 to 13 per cent in 2001-02.[16]

The government maintains that budget management flexibility is offset by increased accountability to Parliament as to how appropriations and budget supplementations were expended. Reporting requirements identified by the Auditor-General included:[17]

- the annual Appropriation Act includes schedules detailing payments from the Treasurer's Advance and temporary advances provided by the Treasurer under section 35 of the Financial Management Act;

[16] Victorian Auditor-General's Office, *Parliamentary control and management of appropriations*, April 2003, pp.36–37

[17] ibid., p.38

- the government's annual financial report includes details of annotated receipts (section 29), transfers of appropriations between items (section 30 of the Financial Management Act), the carry forward of unused appropriations from the prior year (section 32 of the Financial Management Act), expenditure against unused appropriations carried forward, expenditure from the Treasurer's Advance (Appropriation Act) and temporary advances (section 35 of the Financial Management Act). This information is provided in relation to the Consolidated Fund and on an individual department basis. The information relates solely to financial transactions and no information is provided as to the nature of or reasons for the supplementations; and
- departmental annual reports are required to include a compliance statement, which provides a summary of all moneys available under the Appropriation Act, including the annual appropriation, Treasurer's Advances and other provisions, mainly section 3(2) of the Appropriation Act. The summary also includes moneys available under the provisions of the Financial Management Act and the total expenditure for the year in comparison with the total value of moneys provided under parliamentary authority. The Committee observed that some departments provided very brief reasons as to the need for any supplementary funding provided by the Treasurer.

A separate summary statement details the annual expenditure from moneys provided from Special Appropriations, which are standing legislative authorisations to the Treasurer to apply certain revenue for specified purposes.

The Auditor-General acknowledged the strong degree of accountability derived from these sources, but drew attention to the need to provide additional disclosure as to the composition of annotated receipts (section 29) which was the most widely used budget management provision.[18] Around $1,520 million was derived from this source in 2003-04.

The Auditor-General recommended that summary information on the composition of annotated receipts should be included in the budget papers, departmental statements and the government's annual financial report.[19]

The Auditor-General also reported that with the exception of the Treasurer's Advance (specified in the Appropriation Act) temporary advances (limited to 0.5 per cent of the total parliamentary appropriation) and borrowing against future appropriations (limited to three per cent of the total parliamentary appropriation), the extent to which the budget management provisions can be used to increase spending without further parliamentary approval is unlimited (other than by the balance in the Consolidated Fund). Particular attention was directed to the absence of limits on the level of unspent appropriations that can be carried forward to subsequent years, the extent to which

18 ibid.
19 ibid.

annotated receipts can supplement appropriations and the transfer of appropriations between purposes.[20]

In other jurisdictions, notably the United Kingdom, legislated limits are imposed on the extent to which budget management provisions, such as contingency funds and annotated receipts can be used to supplement appropriations. Once the limits are reached, the authority for additional expenditure can only be obtained from supplementary appropriations approved by Parliament. Although Victoria could utilise the supplementary appropriations mechanism, this has not been necessary because of the wide flexibility available under the current budget management provisions.

The Auditor-General acknowledged that although the imposition of limits on the use of budget management provisions and the use of supplementary appropriations would reduce the government's financial flexibility, such actions would serve to strengthen Parliament's oversight and control over public spending.[21]

3.2.2 Response by the Department of Treasury and Finance

The Department of Treasury and Finance advised that it:

> *...does not support any additional caps or limits on budget management provisions. Under current arrangements ex-post accountability is strong: the Financial Management Act 1994 requires departments to report on actual delivery at the detailed output level compared with what was published in the budget papers for the scrutiny of Parliament.*[22]

The Committee was advised by the department that the imposition of upper limits on the extent to which surpluses could be retained by departments would act as a disincentive for departments to achieve surpluses. It would also encourage departments to unnecessarily incur expenditure for services they would not otherwise purchase. This is particularly in light of central government's ability to withdraw surpluses, or capital, from a department at any point of time. The Committee is also aware that departments have the ability to transfer funding appropriated to outputs to capital purposes (section 30), thereby reducing any potential large surpluses. There was also an argument that surplus funds had already been appropriated, and under the accrual system there was no requirement for additional parliamentary authority in order to carry forward unexpended appropriations from a prior year, subject to the Treasurer's approval.[23]

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20 ibid.
21 ibid., p.39
22 ibid., p.60
23 Mr S Helgeby, Deputy Secretary, Budget and Financial Management Division, Department of Treasury and Finance, PAEC private hearing, 8 December 2003, p.4 *(approval given to use this evidence)*

The Committee was also informed that the additional disclosure of annotated receipts has been achieved through the inclusion of a note to the annual financial report which details the appropriation of receipts pursuant to section 29 of the Financial Management Act in terms of departments and the source of receipts, such as from outputs, commonwealth grants and other sources. The Department of Treasury and Finance advised that it was *'worth looking at'* the inclusion of summary information on the composition of annotated receipts in the budget papers and annual reports of departments.[24]

In June 2005, the Department of Treasury and Finance advised all departments that the annual financial report was to include a new note to the financial statements detailing the various types of annotated receipts and comparative figures between financial years, along with the title and name of each annotated receipt agreement approved by the Treasurer.

3.2.3 Conclusion

In 2003-04 the annual Appropriation Act authorised expenditure from the Consolidated Fund of $20,800,270,000. According to the annual reports of each department and Parliament, the total parliamentary authority provided for expenditure was $26,369,700,000. After excluding special appropriations of $3,139,100,000, other than section 10 special appropriations involving commonwealth grants, the total parliamentary authority available to departments was $23,230,600,000 of which $3,002.3 million represented supplementary funding under the budget management provisions of the Financial Management Act and the Appropriation Act which was not subject to parliamentary scrutiny and sanction.

Given the magnitude of this amount, questions are raised as to the validity of the view expressed by the Department of Treasury and Finance that the lack of parliamentary scrutiny of expenditure beyond what was appropriated by Parliament is offset by increased accountability in the form of annual reports and the government's annual financial report, which are prepared some months after the end of the financial year.

The Department of Treasury and Finance acknowledges that scope exists to further improve accountability.[25] The Committee agrees with this view as evidenced by the following recent examples. Despite the Department of Treasury and Finance advising the Committee that a strong measure of accountability existed in that departments are required to detail in their annual reports comparisons between the actual cost of outputs as compared to the output costs recorded in the budget papers, the Committee identified two recent examples of where this did not occur in 2003-04:

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24 ibid., p.4
25 ibid., p.2

- the Department of Education and Training did not include in its annual report a comparison of output costs published in the budget papers with actual performance against those output targets; and
- the Department of Justice in comparing actual output costs with estimated output costs recorded in the 2003-04 Budget Estimates, Budget Paper No. 3 utilised figures other than those recorded in the budget estimates in its 2003-04 annual report.

In addition, the Department of Education and Training in its 2003-04 annual report recorded its 2003-04 annual appropriation as $5,631.3 million[26] as compared to the 2003-04 Appropriation Act amount of $5,631.8 million, a variance of $500,000.[27] Similarly, the Department of Justice recorded in its 2003-04 annual report an appropriation for outputs of $1,940 million,[28] as compared to the 2003-04 Appropriation Act amount of $1,937.4 million.[29]

The Committee did not seek explanations for the above variances in what could be considered as basic information. However, these examples illustrated concerns as to the strength of the claimed trade-off between parliamentary scrutiny and authorisation as compared to increased accountability for outputs and performance.

When contemplating whether diminished parliamentary scrutiny and authorisation, including ceasing use of supplementary appropriations, can be offset by better accountability for performance, it is necessary to examine the reasons for supplementary funding. Common reasons for supplementary funding include:

- new policy initiatives, projects and activities;
- unforeseen cost increases, such as unforeseen demands for certain services and increases in employee benefits beyond levels anticipated in departmental funding models;
- failure to achieve planned savings;
- revenue shortfalls;
- unforeseen capital projects;
- obligations to fulfil government guarantees and indemnities; and
- unforeseen needs to meet urgent claims prior to obtaining parliamentary approval in a subsequent year.

It is the Committee's view that depending on the materiality of the amounts involved, the public would benefit from parliamentary scrutiny of the circumstances involved and actions needed in order to minimise the need for future withdrawals of a similar

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26 Department of Education and Training, *2003-04 Annual Report*, p.78
27 *Appropriation (2003-2004) Act* 2003, p.5
28 Department of Justice, *2003-04 Annual Report*, p.96
29 *Appropriation (2003-2004) Act* 2003, p.10

nature. For example, if a department has seriously under estimated its budget or has failed to exercise expenditure control, then surely it becomes appropriate for Parliament to be made aware of the situation, including the involvement of the responsible portfolio Minister, before authorising supplementary funding to a department. If a department requests extra funding, then Parliament has a right to question what has been achieved with the appropriation already provided. Under the existing system these actions would not occur. Extra scrutiny of these very large sums of public money could be achieved through limiting withdrawals by the Treasurer, as recommended by the Auditor-General, and the use of supplementary appropriations. The Committee acknowledges that a certain level of discretionary funding must remain available to the government, but questions the current extent of discretionary funding available without any parliamentary scrutiny of around 12.9 per cent of the state budget.

The Committee also noted that the reasons for supplementary funding provided to departments are not contained in the state's annual financial report and are rarely explained in annual reports of departments. In contrast, in Western Australia, budget supplementations must be explained in the annual reports of departments and are also reported on as a note in the Treasurer's financial statements for the whole of government. By inclusion as a note to the financial statements, explanations for budget supplementation become subject to audit by the Auditor-General.

In Queensland, legislation requires the Treasurer to table each year a statement of all budget supplementations provided to departments and the reasons therefore. Similar provisions also exist in Tasmania.

With regard to annotated receipts (section 29 of the Financial Management Act) the actions of the Department of Treasury and Finance of including a note to the annual financial report which details, by department, the value of annotated receipts appropriated, did not address the Auditor-General's recommendation that summary information on the composition or nature of annotated receipts should be included in the budget papers, as well as in the notes to the annual financial statements of the government. Nevertheless, the Committee recognises that the June 2005 direction from the Department of Treasury and Finance to all departments to provide more information on annotated receipts will provide a greater level of accountability for this source of revenue within departments.

The Committee considers that at a minimum, given the value of annotated receipts of $1,538 million which were deemed to be appropriated in 2003-04, the nature of such revenue should be publicly disclosed.[30]

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[30] Department of Treasury and Finance, *2003-04 Financial Report for the State of Victoria*, October 2004, p.133

The Committee recommends that:

Recommendation 5:	**The government give further consideration to the Auditor-General's recommendation that further statutory limits be placed on the extent of budget supplementation authorised by the Treasurer, and that exceeding these limits would require a supplementary appropriation.**
Recommendation 6:	**The government's annual *Financial Report for the State of Victoria* include an overview report explaining the use of budget supplementations by departments.**
Recommendation 7:	**The government's annual *Financial Report for the State of Victoria* and the budget estimates include summary information on the composition and nature of annotated receipts.**

3.3 Impact of accrual output based appropriations

3.3.1 Review by the Auditor-General

Accrual output based appropriations were introduced in 1998-99 under which departments are funded the full cost of service provision, inclusive of non-cash provisions such as depreciation and employee entitlements including long service leave and accrued annual leave. The notional funding for these non-cash items remains in the State Administration Unit (SAU) for draw-down in future years as these liabilities materialise. The SAU is a ledger account established within the Public Account that facilitates the accrual based output management arrangements. The account is credited with the value of appropriations authorised by Parliament and the Treasurer, which are progressively drawn down by departments to fund outputs, with cash paid from the Consolidated Fund into departmental bank accounts. As at 30 June 2004, the Consolidated Fund SAU liability, net of Public Account Advances to departments, was $932.9 million.[31]

Under the purchaser/provider model, appropriations are linked to the provision of agreed outputs by departments, with the government purchasing these outputs when the departments can prove to the Treasurer that the outputs have been delivered.

[31] Department of Treasury and Finance, *2003-04 Annual Report*, p.81

In circumstances where the cost of outputs has actually been less than the purchase price agreed with the Treasurer, departments can generate surpluses which can be applied in future years towards additional outputs or additions to the net asset base, subject to approval by the Treasurer.

The practical impact of these arrangements has been that large balances have accumulated in the SAU which can be drawn down in future years from the Consolidated Fund. In basic terms, the SAU represents that portion of annual appropriations which have not been drawn down by departments, representing creditors, accrued employee entitlements, accumulated depreciation and retained surpluses. The balance held in the SAU is recorded in the government's annual financial report as part of 'receivables', although the actual balance is not separately disclosed. The balance represents the accumulated amounts payable by the government to departments from the Consolidated Fund.

The Auditor-General's view was that the separate components recorded in the SAU and held in the Consolidated Fund should be disclosed in the annual financial report of the government and in the financial reports of the respective departments. It was also recommended that the accumulated surplus component of the SAU be capped, by establishing an upper limit on surpluses that can be retained by departments for subsequent draw-down from the Consolidated Fund in future years.[32]

3.3.2 Response by the Department of Treasury and Finance

The department supported in principle the greater disclosure of information relevant to assessing the performance of departments, but drew attention to the limited use of some of the information, which may be difficult to interpret and costly to produce. The department agreed there could be some merit in greater disclosure of the SAU balance.[33]

At the hearing, the department further advised that aggregate balances held in the SAU by departments were already reported in the financial reports of those departments and queried whether further disclosure would add value, especially as the major components were accumulated depreciation and employee entitlements. The department also considered that the Auditor-General's suggestion that caps be placed on the extent to which surpluses could be accumulated by departments would create a disincentive for departments to achieve surpluses.[34]

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32 Victorian Auditor-General's Office, *Parliamentary control and management of appropriations*, April 2003, pp.40–41

33 ibid., p.61

34 Mr S Helgeby, Deputy Secretary, Budget and Financial Management Division, Department of Treasury and Finance, PAEC private hearing, 8 December 2003, pp.4–5 *(approval given to use this evidence)*

3.3.3 Conclusion

The notes to the annual financial report refer only to 'receivables' and do not separately identify the SAU balance which under the existing accounting system is treated as an offset to receivables, such as debtors, instead of being recorded as a payable representing the amounts owed to departments by the government. This treatment is seen by the Department of Treasury and Finance as convenient for the purposes of elimination of the account when consolidating the financial statements for Victoria. Contrary to the assertions by the Department of Treasury and Finance, the notes to the financial statements of the respective departments also do not separately identify SAU balances. The balances are included as part of an aggregate figure for 'amounts owing from Victorian State Government'.

The Auditor-General did not detail reasons in his report for the recommendation that upper monetary limits be imposed on appropriation surpluses that can be retained by departments, other than the suggestion that this practice would enhance parliamentary control over appropriations. The Committee also understands that the Auditor-General considered that limiting surpluses would also impose a strict discipline on the Department of Treasury and Finance to ensure that the price paid for departmental outputs by the government was as accurate as possible.

The Treasurer already has mechanisms to control the accumulation of surpluses, namely:

- if surpluses are occurring due to the Treasurer paying too high a price for outputs, this factor can be addressed in subsequent years by reducing the price paid; and
- under section 34 of the Financial Management Act the Treasurer can reduce an appropriation if satisfied that the amount is no longer required for the purposes stated. Although not explicitly stated in this section, it allows the Treasurer to reduce accumulated surpluses on the basis that the excess appropriation that led to the surplus is no longer required and should form part of the Consolidated Fund.

Irrespective of these provisions, the intention of the departmental funding model is to encourage departments to create surpluses, which can then be used to fund additional outputs or additions to the net asset base, subject to agreement by the Treasurer. The Committee supports this concept. During 2003-04, $27.8 million was authorised by the Treasurer for such purposes under section 33 of the Financial Management Act – refer exhibit 2.1.

Given the existing powers available to the Treasurer to control surpluses if deemed excessive, the Committee does not support the suggestion by the Auditor-General that accumulated surpluses be capped. Nevertheless the Committee strongly supports the other recommendation of the Auditor-General that SAU balances be subject to greater disclosure in the annual financial report and the financial reports of the individual departments. Although not explicitly stated in the Auditor-General's report, the potential benefits of additional disclosure could include:

- enabling a comparison of accumulated employee entitlements held in the SAU with the provisions for employee entitlements recorded in the financial reports of the government and the respective departments. This would provide a measure of the ability of the government to meet employee entitlements as they fall due; and
- enabling Parliament to monitor the extent of accumulated surpluses held in the SAU in terms of :
  - better utilising the surpluses to fund unforeseen emerging demands within government; and
  - preventing the government from creating artificial reserves by accumulating surpluses that could be applied to funding new initiatives in an election year.

The Committee recommends that:

Recommendation 8: **The government's annual *Financial Report for the State of Victoria* and the financial reports of departments separately disclose the balances held in the State Administration Unit and the composition of the balances.**

3.4 Special Appropriations

3.4.1 Review by the Auditor-General

Special appropriations (also referred to as 'standing' appropriations) are ongoing spending authorities established under specific legislation. They are used to fund protected expenses such as the salaries of the judiciary, costs of Parliament, electoral expenses, employer contributions to superannuation funds and debt retirements. They also facilitate the direction of certain revenues towards specific purposes, such as the direction of certain gaming revenue to the Hospital and Charities Fund.

The budget management provisions contained within the Financial Management Act, namely section 10 (commonwealth grants), section 28 (borrowing against future appropriations) and section 33 (draw down of previously applied appropriations), are all regarded as special appropriations which do not require annual authority from Parliament. The Auditor-General also identified around 30 individual Acts of Parliament authorising special appropriations.

Of the total payments of $25,217 million in 2003-04 from the Consolidated Fund, special appropriation payments amounted to $3,254 million or around 12.9 per cent.[35]

The Auditor-General recommended that given the ongoing and generally uncapped nature of special appropriations emanating from specific legislation, it was important that the legislative authorities be continually reviewed to ensure they remained relevant.[36]

3.4.2 Response from the Department of Treasury and Finance

The Department of Treasury and Finance did not specifically respond to the Auditor-General's recommendation.

At the hearing the department agreed there was a need for an ongoing legislative review of special appropriations, including where the legislation was set up many years ago and changing circumstances may have removed the need for a special appropriation.[37] However, as special appropriations are a creation of Parliament, the department did not consider it appropriate to offer a view on the appropriateness of current individual special appropriations.[38]

3.4.3 Conclusion

Special appropriations represent a large portion of government expenditure for which there is no ongoing parliamentary scrutiny, other than from disclosure of expenditure from these sources in the annual financial report and financial statements of departments. Most special appropriations are of an indefinite duration with undefined monetary limits. For example, under the *Gaming Regulation Act* 2003 the venue operator of an approved gambling venue must pay a set proportion of the daily net cash balances into the Consolidated Fund. In turn, the legislation further provides that the total amounts paid into the Consolidated Fund from the gaming levy also referred to as the health benefit levy must be paid into Hospitals and Charities Fund and the Mental Health Fund, in such portions as determined by the Treasurer.

There is acceptance between the Auditor-General and the department that the basis for all special appropriations needs to be reviewed, although the Department of Treasury and Finance would not accept this role.

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35 Department of Treasury and Finance, *2003-04 Financial Report for the State of Victoria*, October 2004, pp.124–125

36 Victorian Auditor-General's Office, *Parliamentary control and management of appropriations*, April 2003, p.42

37 Mr S Helgeby, Deputy Secretary, Budget and Financial Management Division, Department of Treasury and Finance, PAEC private hearing, 8 December 2003, p.12 *(approval given to use this evidence)*

38 ibid.

The Committee agrees with the need to review special appropriation legislation, especially if the original purposes for directing special revenue are no longer relevant; alternative accounting mechanisms now exist; or the need for certain special appropriations is no longer in line with government priorities. Eliminating obsolete special appropriations would result in more moneys becoming available for other government priorities. The Committee considers that departments have an ongoing obligation to ensure that special appropriation legislation remains relevant and to advise the government if legislative changes are required. If the Department of Treasury and Finance was not prepared to accept responsibility, the review of the legislation could be undertaken by the Department of Justice or by the Victorian Government Solicitor's Office with input from the Department of Treasury and Finance.

Under the Financial Management Act all departments are required to disclose in their annual financial reports details of the use of special appropriations, including the parliamentary authority provided under the respective legislation and the expenditure applied under the various authorities. The government's annual financial report records the aggregate expenditure for special appropriations within the general government sector, supplemented by similar information for each department.

While the provision of the above information is satisfactory, the Committee considers that accountability for special appropriations could be enhanced by requiring departments and the government to also disclose special appropriation legislation available that has not been utilised during the financial year or where funding sources for special appropriations have been exhausted. Such a requirement would assist in highlighting obsolete legislation.

The Committee recommends that:

Recommendation 9: **The government use the resources of the Department of Treasury and Finance and/or Department of Justice to conduct a review of the ongoing appropriateness of all legislation providing for special appropriations in the context of the current financial management arrangements within government.**

Recommendation 10: **The Minister for Finance issue a direction under the *Financial Management Act* 1994 requiring all departments to disclose in their annual financial reports special appropriation provisions in legislation under their control, which have not been used during a financial year.**

3.5 Parliamentary scrutiny and oversight of budget estimates and outcomes

3.5.1 Review by the Auditor-General

Under the existing appropriations framework in Victoria, the government tables budget papers to support the annual appropriations. The government is not legally bound to comply with the budget estimates contained in the budget papers, as the estimates are regarded as supplementary information, which does not form part of the annual Appropriation Act.[39] The Auditor-General drew attention to the absence of a reconciliation between the total expenditure authorised under the Appropriation Act, Special Appropriations and the budget management provisions under the Financial Management Act, with the total expenditure for the general government sector detailed in the budget papers in the form of the Estimated Financial Statements.[40]

The Auditor-General considered that Members of Parliament should be able to reconcile the estimated total expenditure of the government with the expenditure authority contained in the annual Appropriation Act and other legislation.

Budget papers contain information on targets set for the previous financial year, expected outcomes and targets set for the forthcoming financial year. Departments have the ability to change targets and measures as they see appropriate, depending on the circumstances. The Auditor-General commented that, due to the frequency of such changes and poor disclosure of changes, it became difficult for Parliament to assess performance between financial reporting periods.[41]

The Auditor-General acknowledged the substantial information available to Parliament that is included in budget papers on government and departmental objectives, outputs and associated measures and targets. It was noted that departments and public sector agencies were not required to table in Parliament their corporate plans inclusive of broader corporate objectives, priorities, key indicators of efficiency and effectiveness and performance targets. The Auditor-General considered this information would assist Parliament in its assessment of the budget papers and

[39] Victorian Auditor-General's Office, *Parliamentary control and management of appropriations*, April 2003, p.42
[40] ibid., p.43
[41] ibid.

Appropriation Bills, as well as enabling a comparison of information contained in annual reports with projected performance recorded in corporate plans.[42]

Overall, the Auditor-General concluded that the above factors, in conjunction with the use of global appropriations, acted to reduce the effectiveness of parliamentary oversight over government spending.

The Auditor-General recommended:[43]

- a reconciliation between estimated expenditures in the budget papers with the total value of appropriations submitted to Parliament for approval;
- the strengthening of output performance reporting requirements including the rationale for discontinuing any performance measures and further information that would assist in comparing performance information between periods;
- requiring departments to disclose in their audited financial reports information on both the actual and budgeted revenues and expenditures for each output class for both the current and previous financial years; and
- establishing a requirement for all public sector agencies to table in Parliament their corporate plans, including key performance indicators and targets.

3.5.2 Response by the Department of Treasury and Finance

The Department of Treasury and Finance advised that the Financial Management Act already required departments to report on actual delivery at detailed output level as compared with the output information included in the budget papers.[44]

The department supported in principle greater disclosure of information relevant to assessing the performance of departments. However, some information could be of limited use, difficult to interpret and costly to produce, including:[45]

- a detailed reconciliation of estimated budget expenditures and parliamentary appropriations;
- ongoing reporting of discontinued performance measures; and
- the inclusion of actual and budgeted financial data for outputs.

The department believed that the intentions and performance of departments were well reflected in the budget papers and annual reports that are tabled in Parliament. Although effective planning is crucial to achieving government outcomes, the

[42] ibid.
[43] ibid., p.44
[44] ibid., p.60
[45] ibid.

disclosure and details (included in corporate plans) were considered to be internal matters for departmental consideration rather than a matter for Parliament.[46]

Subsequent to the initial response to the Auditor-General, the department advised the Committee that the budget papers now contain information on the impact of machinery of government changes on outputs, and disclosure of discontinued outputs and/or performance measures. The Committee noted that Budget Paper No. 3, *2004-05 Service Delivery*, Appendix D sets out the 2003-04 departmental outputs and performance measures that were discontinued in 2004-05, along with some limited information on the need for the changes.

The department accepted that a reconciliation could occur between the aggregate value of all appropriations made by Parliament with the estimated expenditure for the general government sector as detailed in the Estimated Financial Statements. The value of such a reconciliation, which was technically difficult and costly to undertake, was questioned by the department.[47] The main problem was that the Estimated Financial Statements encompassed the operations of trust accounts and many organisations external to departments that generate their own revenue outside of the Consolidated Fund, which is used for operating expenses and asset investment. These organisations included public hospitals, TAFE colleges, emergency service organisations and catchment management authorities. Revenue earned by these organisations was seen as difficult to measure reliably.

3.5.3 Conclusion

The Department of Treasury and Finance has subsequently accepted some of the Auditor-General's suggestions including:

- the reporting in the budget papers of discontinued outputs and/or performance measures, along with explanatory information; and
- the disclosure in annual reports of targets and outcomes for each output, including budgeted and actual output costs. Major variations are usually explained.

The Committee acknowledges that the above actions serve to enhance public accountability. The Committee also noted that while some explanations were provided as to major variances in output costs, very little or no information was provided on major variations in revenue collections as compared to budgets.

The Victorian Auditor-General's Office maintains the view that there should be a direct linkage between the total expenses for the general government sector as recorded in the Estimated Financial Statements and the Appropriation Bill presented

46 ibid., p.61

47 Mr J Monforte, Director, Budget Formulation Advice, Department of Treasury and Finance, PAEC private hearing, 8 December 2003, p.8 *(approval given to use this evidence)*

for parliamentary approval. Apart from trust fund and special appropriation activity, the main variance between parliamentary authority and total expenses relates to the retention of own source revenue from internal activities of general government sector agencies, which is used to fund expenditure, but not subject to appropriation by Parliament.

From the perspective of the Department of Treasury and Finance, these are two aspects of the Auditor-General's recommendation, namely:

- the difficulty and cost of undertaking such a reconciliation as compared to what are considered the minimal benefits to be obtained; and
- the various other processes and structures in place which culminate in the preparation of the Appropriation Bill.

The department informed the Committee that in order for a reconciliation to occur, it would be necessary for the department to make a large number of assumptions, particularly with organisations such as hospitals, TAFE colleges and catchment authorities, as to what expenditure was actually financed from appropriation funding as compared to expenditure from internally generated revenue, such as patient fees, student charges and rates and levies. In addition, subjective assessments have to be made as to the level of appropriation funds applied to expenditure, including accrued expenses as distinct from capital purchases. Similarly with special appropriations, distinctions are not made as to which proportion of a special appropriation will fund operating expenditure as distinct from capital investment. A reconciliation would also have to take into account the application of trust fund revenues and unexpended appropriations carried forward from previous years.

Apart from the difficulty in preparing a reconciliation, recognition needs to be made of the processes undertaken within the Department of Treasury and Finance to determine the amounts to be appropriated by Parliament from the Consolidated Fund. As a base line, the government progressively reviews and updates its budget estimates of revenue and expenditure and projected surpluses. These updates take into account a range of factors, including economic and demographic factors, investment returns, policy decisions, changes to output groups and decisions of the Expenditure Review Committee impacting on outputs and asset investment decisions.

Utilising the above information, along with budget submissions from departments, the government determines what levels of outputs it will purchase from departments and the price to be paid. Recognition is made of cash flow projections and what level of outputs it can afford to purchase after taking into account capital works and the need to generate surpluses.

These updates, which are reviewed by the Auditor-General as required by the Audit Act, along with budget estimates from departments, set the foundation for determining the budget estimates and the corresponding Appropriation Bill. Appropriations to the net asset base, which are reliant on the generation of operating surpluses, draw downs from the Growing Victoria Infrastructure Reserve and the cash equivalent of non-cash charges such as depreciation recorded in the SAU and held in the Consolidated Fund as unspent appropriations, are influenced by the projected surpluses arising from the progressive updates of budget estimates.

Full application of appropriations up to the limit authorised by Parliament will never be precise due to many factors outside the control of government. Although regarded as the upper limit of authority, on occasions departments may, for a variety of reasons, choose not to spend their full authority.

The Department of Treasury and Finance emphasised to the Committee that the annual appropriation represents a legal authority to spend money from the Consolidated Fund up to a certain level. This is separate from the actual expenditure by a department, which can be sourced from moneys provided from sources other than the appropriation. As such, any reconciliation was seen by the department as being of limited value as it would require departments to attempt to identify only expenditure reliant on appropriated funds. Various mechanisms are available to government to safeguard against expenditure over runs including:

- a new departmental funding model whereby the government determines the outputs it requires and the price to be paid, inclusive of an escalation factor. Departments are required to manage within these funding levels, including absorption of any increases in employee benefits due to wage award increases incorporated in enterprise agreements. Access to the Treasurer’s Advance becomes very limited;
- specification of output deliverables and targets. Agreement is reached between the Department of Treasury and Finance and the respective departments as to the targets to be used each quarter in order to assess the delivery of outputs. Departments are paid from the Consolidated Fund each quarter relative to the delivery of outputs achieved against the agreed targets published in the budget papers. Performance is assessed in terms of quality, quantity, timeliness and cost, with explanations required as to any major variances between actual performance and agreed targets. The Auditor-General reviews the quarterly performance assessments as part of his annual audit of the *Financial Report for the State of Victoria*; and
- the government is unable to withdraw any moneys from the Consolidated Fund unless a warrant is prepared by the Treasurer, examined by the Auditor-General and authorised by the Governor.

In addition to the above factors, the budget papers also provide comprehensive information on a departmental basis on the total appropriation approved by Parliament along with retained revenue under section 29 of the Financial Management Act and the value of unspent appropriations authorised for carry over from the previous year.

The Committee appreciates the view of the Auditor-General that Parliament, when voting on an Appropriation Bill, should be informed of the nexus between the funding provided by Parliament and the total expenditure of the general government sector.

The Committee also appreciates the view of the Department of Treasury and Finance that to prepare a reconciliation between the amount requested from Parliament and the total expenditure of around 210 agencies in the general government sector, most of which generate revenue internally which is applied towards expenditure and capital investment, is a very complex task with subjective evaluations made as to what funding sources were to be applied towards operating expenses and capital investment. The Committee considers, however, that many of the assumptions that needed to be taken into account in preparing a reconciliation would have already been made as part of the preparation of the Estimated Financial Statements, thereby eliminating the need for substantial additional work.

The Committee is also aware that, under section 23I of the Financial Management Act, the purpose of the estimated financial statements is to *'set out the projected financial results for the Victorian general government sector calculated on the basis of the government's stated financial policies and assumption'*. No reference is made to the purpose of the statements being the basis for the level of appropriation funding to be provided by Parliament.

The Committee accepts that the arguments for and against a reconciliation both have considerable merit and need to be investigated further. A further benefit of a reconciliation was seen by the Auditor-General as highlighting to Parliament the extent to which Parliament remains relevant in authorising expenditure from the Consolidated Fund, in comparison with the legislative authority provided to the Treasurer. The Auditor-General's report highlighted that in 1998-99 only around eight per cent of total government expenditure was authorised under the various discretionary management provisions contained in the Financial Management Act and the Appropriation Act. By 2001-02 this percentage increased to 13 per cent.[48] In 2003-04 the percentage had decreased slightly to 12.9 per cent. Irrespective of the minimal percentage reduction in expenditure authorised by budget management provisions, the actual level of expenditure authorised by the Treasurer outside of the scrutiny of Parliament was $3,002.3 million in 2003-04.[49]

On balance, the Committee considers that a reconciliation should occur, thereby providing a definitive link between the Estimated Financial Statements and the appropriation sought from Parliament. The onus would then be placed on the Department of Treasury and Finance to justify to the government why such a reconciliation could not be justified in relation to the benefits available from such an exercise. The budget papers could then include a table similar to exhibit 2.1 demonstrating the linkage between funding sources and estimated budget expenditure.

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[48] Victorian Auditor-General's Office, *Parliamentary control and management of appropriations*, April 2003, p.37

[49] Refer exhibit 2.1. Excluding Special Appropriations the total amount provided under Parliamentary Authority was $23,230.6 million of which the budget management provisions represented $3,002.3 million or 12.9 per cent of the appropriated amount approved by Parliament

Of equal concern to the Committee are the processes followed by the Department of Treasury and Finance and the general government sector in developing the budget papers, which also include the Estimated Financial Statements, given the often wide variations between budgeted and actual revenue and expenditure. The Committee has suggested to the Auditor-General that a review be undertaken of the budget formulation mechanisms, the outcome of which could provide further assurances to Parliament when voting on Appropriation Bills.

With regard to the Auditor-General's recommendation that all public sector agencies table in Parliament their corporate plans, the Committee has reservations about the benefits from such an exercise, including the use that Parliament would make of such plans. Corporate plans usually cover a three to five year period and tend to be of a very broad nature, with limited detail as to how the plans are to be implemented and the measurement of outcomes.

Although intended as *'living documents',* corporate plans may not be regularly updated to reflect changes to government policy, changes to outputs or funding priorities. In addition, it is common for visionary statements included in such documents to be incapable of measurement. Such plans however, are very useful in shaping the broad directions of agencies in future years.

The Committee is aware that the New South Wales Government requires State Owned Corporations to table their corporate plans in Parliament. However, the benefits gained or the extent of use of such information was unclear. The Committee encourages all general government sector agencies to include corporate plans on their websites for access by interested persons, but does not support a requirement for corporate plans to be tabled in Parliament. Increased benefits and accountability improvements can be gained from the enhancement of performance information contained in annual reports, through the comparison of budget projections, outputs achieved and desired government outcomes, as referred to later in this report.

The Committee recommends that:

Recommendation 11: **The government amend the Model Financial Report to require departments to include explanations in their annual reports on major variations in revenue collections as compared to budgets and the previous year's collections.**

Recommendation 12: **The Minister for Finance issue a direction requiring all general government sector agencies, where practical, to include their corporate plans on their web-sites.**

Recommendation 13:	**The Department of Treasury and Finance, unless justification to the contrary can otherwise be demonstrated, provide Parliament with a reconciliation between the Appropriation Bill and expenditure estimates contained in the Estimated Financial Statements, after taking into account retained revenue under section 29 of the Financial Management Act.**

3.6 Performance measurement and output certification

3.6.1 Review by the Auditor-General

As referred to in the previous chapter, each quarter the Department of Treasury and Finance and each department agree on the extent to which outputs have been delivered and the Treasurer 'purchases' these outputs on behalf of government through application of the appropriation. This process is referred to as revenue certification.

The Auditor-General emphasised that the integrity of the output performance information provided by departments was critical to the overall effectiveness of the revenue certification process. Despite this factor, it was observed that the quarterly assessment system did not incorporate any systematic and periodic independent validation of the performance information submitted by departments. The certification process was seen as similar to practices adopted with the partial delivery of goods and services to government by external suppliers where progress payments are made.[50]

Attention was drawn to a five year program which commenced in December 2000, whereby staff from the Departments of Treasury and Finance and Premier and Cabinet were to systematically evaluate all departmental outputs in terms of pricing, alignment with departmental objectives and desired government outcomes. Concerns were subsequently raised about the availability and reliability of departmental data on output performance. Observation was made that in the United Kingdom and the United States government agencies are required to substantiate procedures used to validate performance data.[51]

Performance measures and targets should seek to reflect the major activities within each output in terms of quantity, quality, timeliness and cost. Despite this concept there were inherent difficulties with the output based system in Victoria. A small number of very large departments deliver a diverse range of often complex services and programs which are grouped into various outputs. (For example, in 2004-05 the Department of Human Services had 16 output groups, containing 68 outputs and

[50] Victorian Auditor-General's Office, *Parliamentary control and management of appropriations*, April 2003, p.47

[51] ibid.

around 319 measures of quantity, quality, timeliness and cost.) Given the size of operations, it was recognised that the performance measures used may not be reflective of the diversity of activities within each output group and the overall output performance of departments, a situation which further illustrated the difficulty of accurately assessing output performance as part of the revenue certification process.

Despite the above difficulties and reservations as to the appropriateness of certain of the performance measures, the Auditor-General observed that for the year ended 30 June 2002, 99 per cent of the revenue claimed by departments was agreed to by the Department of Treasury and Finance. The Auditor-General also identified instances where certification was given by the Department of Treasury and Finance despite outputs not being delivered by certain departments.

Key recommendations of the Auditor-General included:[52]

- appropriate strategies and processes be developed and implemented to provide periodic assurances to the Treasurer as to the reliability and integrity of the underlying management information systems used to develop performance information;
- the output measures and targets published in the budget papers should reflect the key aspects of output delivery and be supported by brief information describing the complexities and key drivers of quality and quantity impacting on each output cost; and
- a comprehensive methodology be developed by the Department of Treasury and Finance to better guide/assist assessments of departmental output performance with a view to achieving better government outcomes.

3.6.2 Response by the Department of Treasury and Finance

The department supported more focused, relevant and comprehensive performance measures for outputs, as well as mechanisms for ensuring the integrity and reliability of management information systems used to develop performance information. Equally important was the evidence based evaluation of the effectiveness of outputs in achieving the government's desired outcomes.[53]

The department considered that the quarterly certification process was as accurate and fair as possible, even though it was impossible to be completely objective in the certification of outputs and *'not particularly profitable to attempt to do so'*.[54] The department provided regular training courses to assist its officers as well as departments in developing the necessary skills to apply certification consistently.[55]

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52 ibid., pp.50, 52
53 ibid., p.61
54 ibid.
55 ibid.

The department further advised in its response to the Committee's 2003-04 Budget Estimates Report that it had developed a series of best practice publications that will enhance output specification and assist agencies in setting performance measures which are accountable and quantifiable. The Committee was advised by the department that it agreed with the Auditor-General that more work was needed to be undertaken on defining outputs and associated performance measures.[56] The department accepted that outputs were broadly defined, thereby allowing some flexibility as to whether specific deliverables were fully met within outputs. However if outputs were deemed as not delivered under the existing certification process, then certification would not be provided by the department.

3.6.3 Conclusion

In the context of evaluating performance, a distinction is made between *'performance measures'* and *'performance indicators'*. Performance measures are recorded in the budget papers and annual reports and are primarily used as part of the quarterly certification process to measure the progress of departments in achieving outputs. Performance measures relate to quantity, quality, timelines and cost. In contrast, performance indicators relate to the extent to which departmental objectives and outputs are contributing to desired government outcomes in terms of economy, efficiency and effectiveness.

The Committee is in agreement with the concept of the certification process in that departments should be able to demonstrate through the use of phased quarterly performance targets, the extent to which outputs have been achieved and be reimbursed accordingly from the Consolidated Fund by the Treasurer. The major difficulty arising from this process involves devising performance measures that are indicative of the performance of large outputs, inclusive of various diverse programs that contribute to a greater or lesser extent to output deliverables.

Unless performance measures are uniquely appropriate to the particular output and can be relied on as to their integrity, a situation can arise where certain activities within outputs escape measurement, thereby removing incentives for improvement.

Performance indicators, as distinct from performance measures used in the budget process, are critical in that they provide information to Portfolio Ministers, who are ultimately responsible for outcomes achieved, on whether the departmental outputs are actually achieving government outcomes. To ensure that public spending continues to be allocated to the programs that are most beneficial to the public, the government needs to evaluate its programs regularly to assess whether they are still relevant, effective and affordable and to report back to the Parliament on the results of those evaluations.

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56 ibid.

In the above regard, the budget papers contain a comprehensive list of new output and asset initiatives each year. However the departmental outputs which will encompass these initiatives are not identified. Consequently under the current government framework which concentrates on performance measures which reflect the progress departments are making in delivering outputs, it is not possible to determine from operational material contained in the annual reports how effective new output and asset initiatives have been in contributing to outputs and community outcomes in line with the *Growing Victoria Together* policy.

Identifying in the budget papers the respective outputs which encompass new output and asset initiatives would be a relatively simple exercise for departments and should be undertaken. However, to determine the impact of these initiatives on portfolio outcomes it would be necessary to further disaggregate the output groups into portfolios and agencies as previously suggested, accompanied by performance statements which were capable of being audited by the Auditor-General. Even then, the Committee recognises that the impact of some of the lower level output and asset initiatives would be very difficult to assess individually, although collectively it would be expected that output performance should improve. Notwithstanding these limitations, it still remains incumbent on the government to introduce measures whereby the Parliament and the community can evaluate whether outputs, including new budget initiatives, are achieving their stated aims and where further improvements are warranted.

The Committee is aware that considerable progress is still needed in reporting performance information, particularly in relation to the community interest in assessing whether moneys generated by government in the form of taxes and charges are actually leading to better outcomes for the public. Although admittedly a very difficult task, ongoing emphasis must continue to be given to the development of meaningful performance indicators reflecting the effectiveness of outputs in achieving specified outcomes within communities. Such indicators need to be clear, understandable, reliable, economical and relate to established benchmarks, if available.

The Committee noted that according to the Auditor-General's report, for the year ended 30 June 2002, 99 per cent of the revenue claimed by departments was agreed to by the Department of Treasury and Finance. As previously stated, revenue certification is based on the achievement of targets and performance measures detailed in the budget papers. Invariably these measures which relate to measures of quantity, quality, timelines and cost, are the same measures and targets recorded in annual reports of the departments.

Although all departments are apparently funded in full for their outputs, the Committee has consistently recorded in its reports on Budget Outcomes the ongoing failure of many departments to meet performance targets, with achievements being as low as 70 per cent. The Committee acknowledges that failure to achieve certain targets, particularly those of a specific timelines nature, in conjunction with changing circumstances, would not always warrant the withholding of revenue from a department. However, this is not always the situation which raises doubts as to the appropriateness of certain performance measures used in the revenue certification process as referred to above.

In relation to quality measures recorded in budget papers and annual reports, such measures often relate to customer needs, and include measures such as customer satisfaction, accessibility to services, awareness of services, quality standards and throughput against targets. While this information is important, it is sometimes difficult to relate these measures and the other measures involving quantity, timeliness and cost to the desired government outcomes which are specified in the budget papers for each output group. Such a link could be achieved through the development of meaningful performance indicators which provide information on the extent to which the outcomes specified have been achieved through the funding and production of agreed outputs.

The Committee accepts the difficulty in developing performance indicators, but noted that in Western Australia the Treasurer requires all government departments and statutory authorities to include in their annual reports key effectiveness indicators for each outcome, relating outputs to outcomes achieved. Similarly, the Portfolio Budget Statements used by the Commonwealth Government set out a range of performance targets to be met as contributions to outcomes.

The use of performance indicators is also very relevant to the certification process in that ongoing funding should not be given where the desired outcomes from departmental outputs are not or only partially being achieved. Under the existing system the emphasis is on releasing revenue to fund outputs based on demonstrated progress in producing outputs, as distinct from evaluating whether the outputs produced are actually achieving desired government outcomes.

The Committee accepts that the Department of Treasury and Finance is committed to the development of financial management performance indicators. As part of the government's Financial Management Compliance Framework, which was progressively implemented from 1 July 2003, departments are required to undergo an annual certification process in terms of their level of compliance with key aspects of the framework, including Financial Management Reporting. Departments must develop financial key performance indicators designed to measure and monitor their financial management performance and to report the outcomes on a quarterly basis. These indicators were seen as providing the tools necessary for assessing performance in the delivery of outputs.

The Committee acknowledges the above initiatives taken by the Department of Treasury and Finance, but reiterates its view that more attention needs to be given to developing performance indicators that reflect the effectiveness of departments in achieving government outcomes. As stated previously, the above task is extremely difficult given the often very large outputs for which departments are responsible, invariably encompassing more than one portfolio and various programs, sometimes spread across other outputs and departments. It subsequently becomes virtually impossible to develop key performance indicators that accurately reflect all major activities within any given output. This task would be made easier if separate appropriations were made on a portfolio basis as referred to earlier in this report. This view was also endorsed by the Auditor-General in his report on *Performance management and reporting.*[57]

The Auditor-General has reservations about the quality of performance measures currently contained in the budget papers and the Department of Treasury and Finance has agreed that there remains considerable scope for improvement. The Committee has suggested to the Auditor-General that a review be undertaken as to the role of the Department of Treasury and Finance in bringing about substantial improvement in the quality of performance measurement across the public sector.

In the Auditor-General's April 2003 report on *Performance management and reporting*, attention was drawn to the failure of the government to complete the Victorian performance management and reporting framework which the government had been developing for some years.[58] The framework sought to align departmental outputs with departmental objectives and desired government outcomes. The development of performance indicators addressing the efficiency, effectiveness and impact of government programs in the medium to long term was a critical component of the framework.

The Auditor-General advised that the failure of the government to finalise the framework inhibited his ability to audit performance indicators that would reflect the performance of government agencies in achieving devised government outcomes.[59] This is still the situation, as the Committee understands that the development of the intended framework has stalled.

Apart from financial accountability, of equal importance should be the accountability of the government to Parliament for its performance in meeting its policy commitments. The Financial Management Act requires all public sector agencies to compile a 'Report of Operations' which should include qualitative and quantitative information on the agency's operations. The operations report is intended to provide users with general information about the agency or department as to its activities, operational highlights, future initiatives and other relevant information not included in the financial statements. Ideally this report should include performance indicators of a non-financial nature linking achievements to desired government outcomes, but there is no requirement to do so. Non-financial and financial indicators considered together provide a clearer picture of how well a government collects and spends money in the public interest.

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57 Victorian Auditor-General's Office, *Performance management and reporting*, *Progress report and case study*, April 2003, pp.19–23

58 ibid., pp.28–29

59 ibid., p.vii

The Committee is concerned that although the Standing Directions of the Minister for Finance state that public sector agencies must develop financial management performance indicators, there is no requirement to develop performance indicators of a non-financial nature reflecting economy, efficiency and effectiveness considerations. This is a serious deficiency within Victoria compared to certain other jurisdictions within Australia, such as Western Australia and other countries operating under the Westminster system, particularly the United Kingdom. The Committee acknowledges that some progress is occurring, with the Auditor-General now able to audit performance information in the statements of operations produced by the water industry, local government and, more recently, TAFE institutions. Nevertheless, the Committee considers that the statement of operations produced by government departments should become capable of being audited as soon as possible, given that the annual expenditure within the general government sector in 2003-04 was around $28.8 billion and is projected at $30.3 billion in 2005-06.

Notwithstanding the preceding comments, the Committee acknowledges that, for the past two years, the government has reported in the budget papers its progress in achieving the objectives of its major policy document *Growing Victoria Together* which was launched in November 2001.[60] The report outlines at a high level, the progress the government has made in achieving the visions and goals outlined in the policy document. *Growing Victoria Together* was never intended to reflect all desired government outcomes, nor does it reflect outcomes from government agencies.

The underlying concept of *Growing Victoria Together* is that all departmental outputs must demonstrate a contribution towards the objectives of *Growing Victoria Together*. Accordingly this strategy, along with the production of the *Growing Victoria Together* progress report is seen as providing additional accountability for the government's performance in managing Victoria.

The production of the report is a commendable initiative, but performance evaluation must be further extended to the major programs and projects administered by departments which should be reported on in terms of measurable performance in the Report of Operations.

The Committee was not in a position to assess the robustness of computerised management information systems within departments that are used to produce performance information and statistics. Integrity of performance data is critical to the information used to improve performance.

The Committee considers that the capability and integrity of computerised management information systems used to produce performance data across the general government sector could be evaluated by the Office of the Chief Information Officer within the Department of Premier and Cabinet.

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60 Budget Paper No. 3*, 2005-06 Service Delivery*, Appendix B

The Committee recommends that:

Recommendation 14: **The government finalise the development of the Victorian Performance Management and Reporting Framework or a similar framework in order that performance information on portfolio programs and projects recorded in the Report of Operations of public sector agencies and departments can be audited by the Auditor-General, with the impact of operations on community outcomes becoming more readily identifiable.**

Recommendation 15: **The Minister for Finance issue a direction to all public sector agencies to include appropriate performance indicators in their Statement of Operations reflecting the extent to which departmental objectives and desired government outcomes are being implemented through various programs and projects and are being met with regard to economy, effectiveness and efficiency.**

Recommendation 16: **The Chief Information Officer in the Department of Premier and Cabinet be requested by the government to undertake a review of the capability of computer systems across the general government sector to collect data that can be used for performance monitoring and the development of suitable performance measures and indicators that are clear, understandable, economical and soundly based.**

Recommendation 17: **As part of the certification process introduced under the whole of government Financial Management Compliance Framework, accountable officers be required to certify that, based on regular testing of information technology operations, information produced by the systems for performance purposes is accurate and complete.**

3.7 Inconsistencies between appropriation funding and departmental outputs

3.7.1 Review by Auditor-General

Appropriations authorised by Parliament represent the price paid for outputs based on the full cost of delivering the outputs, inclusive of depreciation and the provision for employee entitlements such as long service leave to be paid in future periods. The full cost of delivery on an accrual basis also includes the various services provided by government agencies which contribute to the outputs delivered by departments.

Despite departments receiving funding on an accrual basis, inclusive of the cost of service delivery provided by agencies contributing to the outputs, the full funding is not passed on to the agencies. Agencies are funded on a cash basis based on cash flows, with no funding for non-cash expenses such as depreciation. In these circumstances, the agencies rely on capital grants from departments to replace assets and purchase new assets.

The Auditor-General referred to the funding arrangements in place between departments and TAFE institutions, public hospitals and various Arts agencies. The implications arising from the funding arrangements were identified by the Auditor-General as:[61]

- creating a gap between depreciation costs and capital funding can lead to a run-down of an agency's capability of providing services; and
- with TAFE institutions the Auditor-General identified a build up of $102 million at 30 June 2001 in the SAU account for the Department of Education and Training, representing unspent appropriations from prior years that were provided for the depreciation of TAFE assets. In the subsequent year, the department utilised $88 million of the accumulated funds on the acquisition of assets for primary and secondary schools, effectively utilising potential capital funding for the TAFE sector for other purposes.

The Auditor-General acknowledged that the retention of funding intended for agencies allows departments to exercise greater control over investment management decisions. This policy can also have a negative impact on the capacity of agencies to manage assets and plan capital works as they have no certainty as to future capital funding.[62]

The Auditor-General recommended that the impacts of the current funding arrangements with agencies be examined as to the inconsistency with the purchaser/provider output based model utilised by government and the corresponding

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[61] Victorian Auditor-General's Office, *Parliamentary control and management of appropriations*, April 2003, pp.55–56

[62] ibid., p.56

effect on agency operations of withholding funding for non-cash expenditure including depreciation (which is often applied for purposes not associated with the agencies for which the funding was provided).[63]

It was further recommended that the budget papers be enhanced to provide more information to Parliament on the extent and impact of the funding arrangements with agencies that contribute to departmental outputs.

3.7.2 Response by the Department of Treasury and Finance

The Department of Treasury and Finance acknowledged that the funding arrangements between departments and agencies contributing to outputs do not automatically involve the passing on of depreciation funding. This was not a departmental decision, but a government decision leading to the investment decisions recorded in the budget papers.[64]

The department believed that this approach:

> *…allows the government the greatest flexibility as an owner in determining the quantum and timing of asset investment in its businesses, so as to best achieve its outcomes by varying the level of asset investment between various priority areas.*[65]

3.7.3 Response by the Department of Human Services

The department advised the Committee that although funding depreciation through Revenue for Outputs was considered an appropriate method of funding departments for its Asset Investment Program, it did not necessarily follow that departments should then pass on depreciation funding to its agencies, such as public hospitals.

The funds earned by departments for depreciation revenue are tied to the delivery of the government's Asset Investment Program and cannot be used in a discretionary manner to fund hospitals for depreciation.

The department agreed that the incorporation of depreciation funding for the replacement of plant and equipment in public hospitals had merit and would examine the feasibility of such an approach. However, the department did not agree that the depreciation funding for the replacement of hospital buildings should be provided to individual hospitals. Such an approach would disadvantage those hospitals that require redevelopment over those that have been recently redeveloped and would not support the government's strategic approach to major developments.[66]

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63 ibid.
64 ibid., p.61
65 ibid.
66 Ms P Faulkner, Secretary, Department of Human Services, response received 8 June 2004, p.3

3.7.4 Conclusion

At face value there would appear to be an anomaly in the accrual output based budgeting system in that all departments are fully funded on an accrual basis for the cost of providing outputs. Agencies that contribute to the provision of outputs are not funded on the same basis. Funds provided by the Treasurer for non-cash expenditure by agencies, such as depreciation and employee benefits are recorded in the SAU, with cash held in the Consolidated Fund. This resource is then utilised for asset investment within the general government sector in accordance with government priorities.

The Committee acknowledges that infrastructure investment is a very high government priority and the cash equivalent of non-cash items provides a valuable source of funding for asset investment. In addition, given the limitations on funding for asset investment it is logical that priority be given to projects consistent with the government's objectives. Notwithstanding this view, situations should be avoided where public sector agencies, especially those with limited ability to generate extra funding for major capital works, are neglected to the extent that service provision is impinged on.

The Committee acknowledges that instead of funding depreciation, capital grants are provided by departments to the agencies providing outputs on behalf of the departments. However capital grants invariably remain less than the accumulated depreciation, leading in some instances over time to serious deterioration in the asset base which may not become apparent. This situation has been acknowledged by the Minister for Finance who advised the Committee that:

> *The current asset management arrangements do not fully support sector-wide strategic investment and management because the current annual process does not include whole of asset life considerations and provides limited whole of government consideration.*[67]

The Committee's fifty-eighth report to the Parliament on the Victorian Rural Ambulance Service exemplified the above situation in that Rural Ambulance Victoria over a period of years received inadequate capital funds from the Department of Human Services. Despite the heavy dependence of rural ambulance services on effective communication systems, the ongoing lack of funding eventually contributed to a situation whereby Rural Ambulance Victoria remained the only ambulance service in Australia without a computer-aided dispatch system, along with other serious deficiencies in communications. Following the Committee's report, this situation has since been rectified by the government in the 2005-06 Budget. Although Rural Ambulance Victoria was identified by the Committee with serious infrastructure problems, it is possible that other government agencies may also require urgent capital funds.

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[67] Mr J Lenders, MLC, Minister for Finance, response to the Committee's follow-up questions, received 21 July 2005, p.8

The Committee acknowledges the progress made by the government in increasing general government sector net infrastructure investment, with a record $10.2 billion investment in infrastructure planned over the next four years commencing from 2004-05. Most of the investment relates to major projects, however, this should not be to the detriment of providing adequate capital funds to smaller government agencies contributing to departmental outputs.

The Committee is not aware of any actions within government reflecting acceptance of the Auditor-General's recommendations, nor is there any information contained within the budget papers or other documentation from which the impact of the funding arrangements on any backlog of asset replacement and new investment could be assessed. The Committee acknowledges that all governments would be reluctant to disclose such information.

All departments are required to provide the Department of Treasury and Finance with a ten year asset strategy which is aligned with the departmental corporate strategy. The asset strategy plan in turn provides the government with a basis on which to plan the delivery of infrastructure in the future consistent with government strategies as to desired outputs and outcomes. As an extension of this information, the government intends to introduce a new Asset Management Framework within the Victorian public service commencing from July 2006.[68]

As the intended framework is still in the transitional stage, from the information available the Committee was unable to determine whether the concerns of the Auditor-General in maintaining adequate capital funding for agencies contributing to service delivery will be addressed.

Given the Committee's experience with the Rural Ambulance Service, it could be a beneficial exercise for the Department of Treasury and Finance to independently request ten year forward plans from agencies and to compare such plans with the ten year asset strategy provided by departments which reply on these agencies to grow their service capacity. Such a comparison, which would need to recognise internal funding sources within agencies, would indicate the extent to which departments have recognised capital funding needs of agencies, as well as reflecting on the existing practice of not funding agencies for depreciation.

The Committee also considers such an exercise could determine whether agencies should be partly funded for depreciation, in order to provide some certainty as to future maintenance as well as capital investment and enable planning to be undertaken. As it currently stands, agencies have no certainty as to capital grants beyond one year.

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68 Department of Treasury and Finance, Budget and Financial Management Bulletin No. 4, *Asset Management Framework*, 8 April 2005, http://domino.intranet.vic.gov.au/BudgetGuide/default.htm, accessed 24 August 2005

The Committee recommends that:

Recommendation 18:	**The Department of Treasury and Finance undertake a review of the forward asset requirements of all general government sector departments and agencies as set out in the ten year asset strategies adopted by government, with a view to determining any shortfalls in whole of government asset funding in the forward estimates and other projections, and the potential impact on service delivery.**
Recommendation 19:	**The Department of Treasury and Finance undertake a review of the ten year asset strategies submitted by departments, to determine whether those strategies as adopted, adequately provide for the capital investment needs of government agencies of each department, and the potential impact of any shortfalls on service delivery.**

CHAPTER 4: USE OF THE TREASURER'S ADVANCE

4.1 Review by the Auditor-General

The Treasurer's Advance represents a specific appropriation provided to the Treasurer under the Appropriation Act to meet 'urgent' claims that may arise before parliamentary sanction is obtained. Parliamentary approval occurs when the details of the expenditure incurred during the year are included in the subsequent year's Appropriation Act.

The Advance is included as part of the annual appropriation to the Department of Treasury and Finance. For 2004-05 the estimate was $474,228,000. As state budgets represent estimates of revenue and expenditure based on a range of assumptions, the Auditor-General accepted the need for a Treasurer's Advance and considered the size of the Advance to be reasonable.

Of concern to the Auditor-General was the absence of a clear definition within the Appropriation Act or in other legislation as to what constituted an 'urgent' claim. In addition, there was no documented guidance from the Department of Treasury and Finance as to the circumstances in which the use of the Treasurer's Advance is appropriate. Given the lack of interpretation and guidance, the Auditor-General concluded that the type of expenditure which could be funded from the Advance was open to wide interpretation at the discretion of the government.[69]

An alternative to the use of the Treasurer's Advance was seen as supplementary appropriations approved by Parliament. Victoria does not utilise this provision because of the extensive legislative powers available to the Treasurer to authorise additional expenditure from the Consolidated Fund without seeking parliamentary approval. The Auditor-General identified several payments made during 2001-02 from the Treasurer's Advance which he regarded as open to interpretation as to whether they represented expenditure of an urgent nature, as distinct from payments of a discretionary nature. The Auditor-General further considered that unless Parliament's intentions on the use of the Advance were clearly articulated, the Advance could continue to be used for the funding of new or additional outputs and capital works of a discretionary nature (which more properly should have been recognised as part of the budget estimates).[70]

The Auditor-General recommended that consideration be given to more explicitly defining in the Appropriation Act the purposes to which the Treasurer's Advance might be applied, along with guidelines on its application.[71]

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[69] Victorian Auditor-General's Office, *Parliamentary control and management of appropriations*, April 2003, p.67

[70] ibid.

[71] ibid., p.68

4.2 Response by the Department of Treasury and Finance

The department acknowledged that definitions of what constitutes 'urgent claims' and 'discretionary expenses' will remain liable to interpretation. As accountability was achieved through disclosure in the subsequent year's Appropriation Act and the annual financial report, the more important issue was that the Advance could be utilised immediately, potentially avoiding more serious ramifications if delays occurred (in seeking other forms of authorisation of the expenditure). It was considered unlikely that *'a more precise circumscribing of the application of the Advance to the Treasurer'* would significantly change the situation.[72]

4.3 Conclusion

There have been no legislative changes to more clearly define the purpose of the Treasurer's Advance. The Department of Treasury and Finance in August 2003 issued some guidance to departments in that they would determine whether a Treasurer's Advance or a Temporary Advance repayable under section 35 of the Financial Management Act, was the most appropriate form of budget supplementation. Departments were also required to demonstrate that they could not fund the expenditure from other sources and the impact of the expenditure on outputs.[73]

In September 2004, the department apparently decided that guidance was required on the use of the Treasurer's Advance and issued a budget bulletin containing *Guidelines for Approval of the Treasurer's Advance.* The definition of 'urgent' was defined as '*where a department has exhausted or is close to exhausting all available legal sources of funding'*. Legal sources of funding were to include retained operating surpluses, third party revenue or accumulated depreciation equivalent balances held in the SAU.

The Committee acknowledges the guidance provided which addresses one of the major concerns of the Auditor-General in defining what constitutes an 'urgent' request for additional funding from the Treasurer. The Committee considers that a definition should be provided in the legislation or in a direction from the Minister for Finance in order to reinforce that the use of the Treasurer's Advance can only be regarded as a last resort, rather than just another avenue of supplementary funding that is not subject to parliamentary scrutiny until the subsequent year's Appropriation Bill is passed.

As previously noted, the Department of Treasury and Finance considers that adequate accountability exists for use of the Treasurer's Advance in that the expenditure is disclosed in the annual financial report as well as in the subsequent year's annual Appropriation Act.

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72 ibid., p.69

73 Department of Treasury and Finance, BFMG-42, *Budget Supplementation*, pp.3–4, http://domino.intranet.vic.gov.au/BudgetGuide/BFMG-42.html, accessed 24 August 2005

Detailed below are payments from the Treasurer's Advance in 2003-04, as recorded in the 2003-04 annual financial report.

Exhibit 4.1: Payments from Advance to the Treasurer for the year ended 30 June 2004

Department	Purpose	2004 ($000)
Education and Training	Apprentice Trainee completion bonus	3,440
	Services to students with disabilities	4,000
	School maintenance	7,100
	Workforce management strategy	2,910
		17,450
Human Services	Security and counter terrorism	1,462
	Emergency response to the briquette shortage	4,000
	Price index for the non-government sector	16,600
	Price index for the preschool sector	3,076
	Workforce management strategy	1,968
	Completion of Commonwealth funded mental health program	955
	Drought response funding	2,780
	Capital Assets Charge for Kew Residential Services/Royal Women's Hospital	4,800
	Supplementation to the Hospitals & Charities Fund	112,643
	Hospital sustainability	79,169
	Concessions to pensioners and beneficiaries	23,100
	Mental health services – transmission of business	6,815
	Medical indemnity premium – recognition of claims incurred but not reported	36,300
		293,668

Exhibit 4.1 – *continued*

Department	Purpose	2004 ($000)
Infrastructure	Emergency response to the briquette shortage	277
	Renegotiation of train and tram partnership agreements	21,000
	New public transport partnership agreements	94,981
	Bus services planning	300
	Public and products liability insurance	1,887
	Public transport: ongoing management costs	2,200
	Review of Freight Australia Limited arrangements	300
	Electricity Network Tariff Rebate Scheme	39,000
	Melbourne CityLink Authority compensation settlement	5,315
		165,260
Innovation, Industry and Regional Development	Victorian Endowment of Knowledge, Science and Innovation	1,299
	Rural Leadership and Community Event Program	250
	Coode Island redevelopment	5,996
	Co-operative airline marketing program	1,000
	Victorian contribution to the Union Education Foundation	1,500
	Drought response funding	1,500
	Reinstatement of government's contribution to Film & TV Studio	10,100
	Investment Support Program	18,500
	Overseas Projects Corporations of Victoria	4,386
		44,531
Justice	Life Saving Victoria: financial support	100
	Security and counter terrorism	924
	Operational support for Victoria Police	10,000
	Handgun Buyback Program	16,061
		27,085

Exhibit 4.1 – *continued*

Department	Purpose	2004 ($000)
Premier and Cabinet	Bushfire Inquiry	446
	National Gallery relocation	625
	National Gallery of Victoria and Australian Centre for Moving Image fitout costs	760
	The 2004 Melbourne International Arts Festival	3,000
	2004 Eureka Week Celebrations	150
	New public service career structure implementation	1,250
	Centralised Industrial Relations Governance Model	850
	National Gallery of Victoria – Ian Potter Centre and Australian Centre for Moving Image rent of public spaces	832
	St Paul's Cathedral Restoration Program	1,000
	National Gallery of Victorian insurance premium	3,120
	Ombudsman – Additional salary related expenses	382
		12,415
Primary Industries	State contribution to exceptional circumstances drought relief to the Rural Finance Corporation	670
	Eradication Program for Red Imported Fire Ant	5,247
	Drought response funding	1,725
	Recovery of underspend funding for research and development	2,898
		10,540
Sustainability and Environment	Timber Salvage Harvesting Program	4,200
	Fire risk management	22,615
	Bushfire recovery initiatives	6,200
	Development of a geospatial emergency information network business case	250
	Drought response funding	800
	Contribution to the Murray Darling Basin Commission	3,052
		37,117

Exhibit 4.1 – *continued*

Department	Purpose	2004 ($000)
Victorian Communities	Transfer of Business Migration Program from the Department of Innovation, Industry and Regional Development	80
	Community Jobs Program	1,390
	Corporate operations associated with establishment of the department	4,591
	Office of Commonwealth Games Co-ordination Projects	1,268
	Queen Elizabeth Oval upgrade	213
	Transfer of responsibility for the office of Minister for Local Government & Minister for Housing	360
	Funding provided for achieving reconciliation and private sector skills development program	4,327
	Melbourne 2006 Commonwealth Games Village – site remediation works	500
	Melbourne 2006 Commonwealth Games – associated administration and legal costs	400
	Melbourne 2006 Commonwealth Games – Refurbishment of heritage buildings	1,230
	Corporate shared services costs	1,300
		15,659
Parliament	Parliament extended sitting hours and other operating costs	300
	Vehicle lease costs	200
	Payroll tax and WorkCover expenses – Members of Parliament	743
		1,243
Total Payments from Advance to the Treasurer		**624,968**

Source: Department of Treasury and Finance, 2003-04 Financial Report for the State of Victoria, October 2004, p.94

The Committee noted that total payments from the Treasurer's Advance in 2003-04 amounted to around $625 million by comparison with $589 million in 2002-03. Although representing an increase of $36 million, the actual increase was substantially more than this amount as the Treasurer's Advance was utilised in 2002-03 to pay approved wage increases, a practice which has since been discontinued with the government now utilising section 3(2) of the Appropriation Act to pay any wage increases that could not be absorbed by departments. Moneys utilised for this purpose are not separately disclosed in the annual financial report, but are recorded in the annual reports of the respective departments as forming part of the legislative authority to withdraw moneys from the Consolidated Fund.

The Committee considers that disclosure of the aggregate amount withdrawn from the Consolidated Fund to meet wage increases should at a minimum be disclosed in the annual financial report, given that prior approval from Parliament for the expenditure is not required under existing legislation. This factor is also relevant to the new funding model introduced in 2004-05 in that the price paid to departments for the provision of outputs includes an escalation factor, whereby cost increases, including salary and wage increases, are required to be absorbed. Where salary and wage increases are unable to be absorbed and use is made of the legislative provision in the Appropriation Act to fund increases, the Committee believes that accountability should exist for this expenditure, including reasons why departments were unable to absorb the increase as intended under the new funding model. Where this expenditure was authorised in the past from the Treasurer's Advance, accountability existed for these advances which were recorded in the subsequent year's Appropriation Act. Based on information recorded in the annual reports of departments, the Committee calculated that expenditure under section 3(2) of the Appropriation Act amounted to $114.9 million in 2003-04. Separate disclosure of this expenditure as a note to the annual financial report would provide a measure of the success or otherwise of the government's wage policy.

The Committee accepts that a degree of accountability exists for expenditure from the Treasurer's Advance, albeit several months after the close of a financial year when the annual financial report is prepared. The annual reports of departments record the aggregate amount received from the Treasurer's Advance, but do not record any information as to the composition of the advances or the reasons for them.

The Committee has reservations as to the existing practice of the government to provide accountability for the Treasurer's Advance well after the closure of the financial year in which the expenditure was incurred. Given Parliament's ultimate responsibility under the Constitution Act to control expenditure from the Consolidated Fund, there is an argument that Parliament should be progressively informed of expenditure of an 'urgent' nature from the Treasurer's Advance. For example, should Parliament be advised during the course of a year of departmental performance that leads to Treasurer's Advances due to:

- exceeding budget estimates before the close of a financial year;
- failure to achieve projected savings;
- shortfalls in own source revenue utilised for expenses;
- poor budget preparation; and
- expenditure of a nature which should have been reasonably foreseen at the time of preparing budget estimates.

The Committee did not seek to examine any of the expenditure recorded in exhibit 4.1 for 2003-04, as this is the role of the Auditor-General. Observation was made however, that the Department of Human Services received $293.7 million or 47 per cent of the Treasurer's Advance of $625 million in 2003-04.

Included in the advances to the Department of Human Services were amounts of $112.54 million described as 'supplementation to the Hospitals and Charity Fund' and $79.17 million described as 'Hospital Sustainability'. No references could be found in the annual report of the department as to the need for this 'urgent' funding. The Committee is of the view that funding of this magnitude and the reasons therefore should be brought to the attention of Parliament during the year, in order that informed debate could occur as to the circumstances involved.

With regard to the payment to the Hospitals and Charity Fund, which is a trust account established under the Health Services Act to receive gambling revenue to be applied for hospital and other health related purposes, no accountability is provided by the government as to the receipts and disbursements from this fund. This issue is discussed further in the next chapter of this report.

Other Australian jurisdictions provide for regular parliamentary scrutiny of expenditure from the Treasurer's Advance:

- in Western Australia, the Treasurer must publish in the Government Gazette movements in the Treasurer's Advance each quarter;
- in the Australian Capital Territory, following serious concerns of the Auditor-General as to certain expenditures from the Treasurer's Advance, legislation passed in 2003 provides for the Treasurer to report to the Legislative Assembly within three days of providing an advance, a copy of the authorisation and a statement of reasons for providing the funding; and
- the Commonwealth Government requires statements on the use of the Treasurer's Advance to be tabled in the Senate each month. A summary is also compiled at the end of each financial year for approval by the Senate.

The Committee considers that accountability for the use of the Treasurer's Advance needs to be improved in order to demonstrate to Parliament that use of the Advance is totally restricted to urgent claims only, which could not have been reasonably foreseen at the time of preparation of budget estimates and that no other sources of funding are available other than use of the Treasurer's Advance.

In terms of other sources of funding, the separate disclosure of balances held by each department in the State Administration Unit as previously recommended by the Committee would provide Parliament with an indication of alternative available funding.

A potential option for the government could be the inclusion of expenditure from the Treasurer's Advance, along with detailed reasons for the usage thereof, in the Quarterly Financial Reports tabled by the government in Parliament.

The Committee recommends that:

Recommendation 20:	**The Minister for Finance issue a direction clearly defining the purpose of the Treasurer's Advance, the circumstances in which it can be used as compared to other legislative alternatives and what constitutes 'urgent' expenditure.**
Recommendation 21:	**The government's annual *Financial Report for the State of Victoria* provide details on a departmental basis of supplementary funding for salary and wage increases authorised by the Treasurer under section 3(2) of the Appropriation Act.**
Recommendation 22:	**Details of expenditure authorised by the Treasurer from the Treasurer's Advance be provided to Parliament at least on a quarterly basis. Details and reasons for the expenditure should also be provided.**
Recommendation 23:	**The government require all departments to disclose in their annual reports the reasons why any supplementary funding was sought from the Treasurer's Advance and the subsequent impact of the funding on their operations.**

CHAPTER 5: ROLE OF THE TRUST FUND

5.1 Background

The Trust Fund is established under part 4 of the *Financial Management Act* 1994 as a separate component of the Public Account. It currently comprises around 82 separate trust accounts broadly classified into:

- accounts established to record the receipt of certain levies imposed by Parliament and their disbursement for specified purposes, and accounts established to receive moneys provided in the annual budget and subsequent expenditure. Accounts receiving hypothecated revenue, such as gaming revenue directed into the Hospitals and Charities Fund, are also included;
- specific purpose operating accounts, usually related to commercial activities separate from the normal operations of a department;
- suspense and clearing accounts that facilitate accounting procedures;
- Treasury Trust Fund, agency and deposit accounts. Examples include the Victorian Government Solicitor's Trust Account, the Estate Agents Guarantee Trust Account, the Public Works Agency Trust Account and departmental suspense accounts;
- Commonwealth and joint Commonwealth/State trust accounts that record the receipt and disbursement of Commonwealth funds to organisations/individuals or for state purposes; and
- other trust accounts, that record the receipt and payment of moneys received from private sources such as bequests, donations, prizes, scholarships and research grants.

Trust accounts may be established under specific legislation or by the Minister for Finance under the Financial Management Act. The Minister may also direct the closure of trust accounts, with any remaining balances paid into the Consolidated Fund or another trust account.

Funds held within trust accounts should only be used for the purpose for which the trust account has been established. The financial transactions and balances of trust accounts are included in the financial reports of the administering departments. Trust accounts are normally established for specific departments, although a small number of trust accounts are accessed by more than one department.

All Trust Fund transactions are consolidated into the government's annual financial report. A note to the financial report records details of trust fund cash flows and the total balances held in the various categories of trust accounts, but does not record details of the transactions in individual trust accounts. At June 2004, there were 82 individual trust accounts, with an aggregated balance of $1,582,859,000.

5.2 Review by the Auditor-General

The Auditor-General drew attention to the lack of any requirement for departments to report in their annual reports on the operations and balances of individual trust accounts for which they were responsible. As expenditure from trust accounts in 2001-02 exceeded $7 billion, the Auditor-General considered that there was a need for greater transparency and accountability.[74]

A further observation was that a number of trust accounts had been established many years ago when cash accounting was used by the government. Examples included:

- the Hospitals and Charities Fund – established in 1988 to receive certain gambling revenues to fund hospitals and other health services. This account had a cash balance of $50.4 million at 30 June 2004;
- the Department of Natural Resources and Environment (now known as Department of Sustainability and Environment) Plant and Machinery Fund – established in 1987 to provide for the replacement of plant and machinery by imposing hire charges on the capital works where assets were used. This account had a cash balance of $4.7 million at 30 June 2004; and
- the Department of Natural Resources and Environment (now known as Department of Sustainability and Environment) Stores Suspense Account – established in 1987 as a suspense account, where the costs associated with stores, plant, vehicles and forest equipment are recouped from the capital works on which these items are used. This account had a balance of $128,344 at 30 June 2004.

The Auditor-General commented that, with the introduction of new accrual output based management principles and practices, the transactions of these accounts could be adequately managed within the existing accountability framework, without a need to operate separate trust accounts.[75] The above two trust accounts which provided for asset replacement, for example, appear to be unnecessary as asset replacement is now provided through appropriations to the net asset base, asset sales and the cash equivalent of depreciation charges.

Reference was made to the Treasury Trust Fund which was originally established within each department to record the receipt and disbursement of unclaimed moneys and other funds held in trust. The Auditor-General observed that although the initial purpose of this trust account had not changed, the volume of transactions had increased significantly over time. This increase was attributed to departments processing a variety of transactions through the trust account, some of which appeared inconsistent with the purpose of the account, such as the delivery of departmental programs. On other occasions, certain receipts were paid into the trust account which

[74] Victorian Auditor-General's Office, *Parliamentary control and management of appropriations*, April 2003, p.77

[75] ibid., pp.78–79

more appropriately should have been paid into the Consolidated Fund in accordance with the Financial Management Act. Additionally, the unspent portion of moneys appropriated into the trust account to deliver certain programs was not repaid into the Consolidated Fund when the programs were completed.[76]

The Auditor-General recommended that:[77]

- annual reporting requirements for the government and departments be enhanced to provide for additional disclosure of Trust Fund transactions, including information about the establishment of any new trust accounts; the closure of existing trust accounts; and greater detail on the transactions and balances of individual trust accounts;
- the Department of Treasury and Finance examine all trust accounts to ensure they still remain relevant and appropriate in the context of the current accrual output based financial management framework and operating environment;
- the operations of the Treasury Trust Fund be reviewed to compare existing usage of the Treasury Trust Fund with the statutory purpose of the account;
- guidelines be developed governing the future operation of the Treasury Trust Fund; and
- all unexpended appropriations held in the Treasury Trust Fund be repaid into the Consolidated Fund.

5.3 Response by the Department of Treasury and Finance

The department noted it had been some time since departmental trust accounts were reviewed and that it would be timely for all departments to undertake a systematic review of their current trust accounts. This review could determine whether the use of trust accounts remained the best way to continue their business and indicate how best to report on and account for them.[78] It was agreed that unspent appropriations should be repaid to the Consolidated Fund.

In a budget financial management guide on the management of trust accounts issued by the department in August 2003, a direction was given that trust accounts must be closed when the purpose for which they were created no longer existed. Other trust accounts were to be periodically reviewed to justify their existence and only appropriate balances were to be maintained.[79]

76 ibid., pp.79–80
77 ibid., pp.77, 79, 81
78 ibid., p.81
79 Department of Treasury and Finance, BFMG-18, Trust Accounts, http://domino.intranet.vic.gov.au/BudgetGuide/BFMG-18.html, accessed 25 August 2003

The guidelines further stated that unless there was a strong case for retention, accrual output management principles should be able to generate sufficient accounting information without a need for separate trust accounts. The department advised the Committee that trust accounts are always under review.[80] The department did not comment on the Auditor-General's recommendation that there was a need for greater accountability for Trust Fund transactions.

In June 2005 the Department of Treasury and Finance issued a revised Model Financial Report to all government departments to assist in the preparation of annual financial reports. The Model Financial Report contained an additional requirement for all departments to include a note to their financial statements detailing cash and investment balances for all trusts at 30 June each year. In addition, details were required for all trust accounts opened and closed during the financial year.

5.4 Conclusion

The Committee noted that subsequent to the Auditor-General's review, the number of identifiable trust accounts has increased from 77 to 82. The aggregate balance held in the Trust Fund has substantially increased from $1,041 million at 30 June 2002 to $1,583 million at 30 June 2004, an increase of $542 million or 52.1 per cent.[81] Total expenditure from the Trust Fund increased from $7,791 million in 2001-02 to $9,053 million in 2003-04.[82] In reality, the use of trust accounts has proliferated, despite assertions that the need for trust accounts is constantly under review. The Committee also became aware that within certain trust accounts there can also be a large number of sub-trust accounts. For example, within the 'Office of TAFE Managed Funds Trust Fund' controlled by the Department of Education and Training (balance of cash and investments 30 June 2004 - $103.5 million) there are 171 sub-trust accounts, each with individual balances. Accordingly, the actual extent of trust accounts within the public sector could not readily be determined by the Committee.

New trust accounts established since the Auditor-General's review include:[83]

- the Casey Hospital Escrow Trust Account, to manage and control payments to the contractor for the completion of the Casey Hospital refurbishment;
- the Fisheries Plant and Equipment Fund, to purchase boats, plant and other equipment used by Fisheries Victoria for the purposes of the *Fisheries Act* 1995 and to provide for the operations, repair and maintenance of the equipment;

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80 Mr S Helgeby, Deputy Secretary, Budget and Financial Management Division, Department of Treasury and Finance, PAEC private hearing, 8 December 2003, p.12 *(approval given to use this evidence)*

81 Department of Treasury and Finance, *2003-04 Financial Report for the State of Victoria*, October 2004, p.129

82 ibid., p.128

83 Trust Fund History provided to the Committee by the Department of Treasury and Finance, 15 April 2005

- the Liability Claims Trust Account, to pay medical indemnity claims prior to July 2003 by the Department of Human Services, and the costs incurred by the Victorian Managed Insurance Authority in managing the claims;
- the Snowy River Flows – 2012 Trust Account, which receives contributions from the Commonwealth Government and appropriations from the Victorian Government, which in turn are transferred to State Trustees Ltd for management; and
- the Vehicle Lease Trust Account, to record transactions relating to the government's vehicle pool and fleet management business.

The Committee did not seek details about why it was necessary to establish trust accounts for the above purposes, but questions the need for a trust account to manage capital works associated with the Casey Hospital.

The Auditor-General questioned whether the Plant and Machinery Fund controlled by the Department of Sustainability and Environment could continue to be justified in the current financial management environment. Despite this comment, the Department of Primary Industries has chosen to open a Plant and Machinery Fund in 2004 for the purposes of the Fisheries Act, with functions identical to the Department of Sustainability and Environment's Plant and Machinery Fund.

The Department of Treasury and Finance in its response to the Auditor-General's report undertook to request departments to conduct a systematic review of all their current trust accounts with a view to justifying whether the trust accounts needed to continue.[84] The Committee, in its 2003-04 Budget Outcomes questionnaire sought confirmation from all departments as to whether such a review occurred. With the exception of the Department of Sustainability and Environment and the Department of Innovation, Industry and Regional Development, no specific reviews were undertaken. Within the latter department four trust accounts were identified as unnecessary and were subsequently closed. The Department of Treasury and Finance and the Department for Victorian Communities maintained that all trust accounts under their control are subject to ongoing review as to their relevance.

The Committee questions how much effort has been made by the government to determine the need for some trust accounts. Various examples were found where from year to year, balances were recorded as nil or investment balances were the same as the previous year and no transactions had occurred in the intervening period. For example, the Sailors Welfare Trust Account which is controlled by the Department of Human Services was to be closed by that department in 1997-98 but still remained open at the date of this report, despite the trust account becoming inactive.

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84 Victorian Auditor-General's Office, *Parliamentary control and management of appropriations*, April 2003, p.81

Similarly, the Department of Treasury and Finance advised the Committee in its response to the 2005-06 Budget Estimates questionnaire of the existence of the Department of Treasury and Finance Youth Employment Scheme trust account (balance of $192,000) and the Sinking Fund on State Debt trust account (balance of $220,000). Both of these trust accounts have been static for several years and the purpose of the accounts was obscure. The Committee noted that neither of these trust accounts appeared on a listing of all trust accounts within departments at 30 June 2004 provided to the Committee by the Department of Treasury and Finance.[85]

More effort needs to be made by the Department of Treasury and Finance to justify all existing trust accounts, given the authority provided under the Financial Management Act to the Minister for Finance to direct the closure of any trust accounts no longer utilised or where alternative mechanisms existed, such as the use of section 29 of the Financial Management Act to retain certain revenues applicable to trust funds and to apply such revenues for specified purposes.

Questions need to be asked of each department operating trust accounts as to whether a trust account remains essential to the activities of a department and will resource management be enhanced as a result of maintaining a trust account.

The Committee noted the substantial increase in the aggregate balance of the Trust Fund which increased from $1,041 million at 30 June 2002 to $1,583 million at 30 June 2004, an increase of 52.1 per cent. During the same period Trust Fund expenditure increased from $7,791 million to $9,053 million, an increase of 16.3 per cent. The far lower rate of increase in expenditure by comparison with the cash and investment balance suggests to the Committee that certain trust accounts are holding large balances which are under utilised or in excess of foreseeable commitments. As an example, the Department of Primary Industries operates a trust account known as the Projects Trust Account. The account was established by the Treasurer under the Financial Management Act in 1994 to receive funds and make payments associated with various departmental activities provided on a fee for service basis. In response to the Committee's 2005-06 Budget Estimates questionnaire, the department advised that the opening balance at 1 July 2005 was expected to be $21.9 million.[86] Receipts during 2005-06 were projected at $29.3 million, estimated expenditure was $28.8 million, leaving a closing cash balance of $21.9 million. A very similar account referred to as the Projects Trust Account is operated by the Department of Sustainability and Environment. The opening balance projected for 2005-06 was $35.7 million. Receipts during the year were projected at $18.2 million and expenditure was estimated at $20.1 million, leaving an anticipated balance of $33.8 million.[87]

85 Department of Treasury and Finance, response to the Committee's 2005-06 Budget Estimates questionnaire, received 6 May 2005, p.25

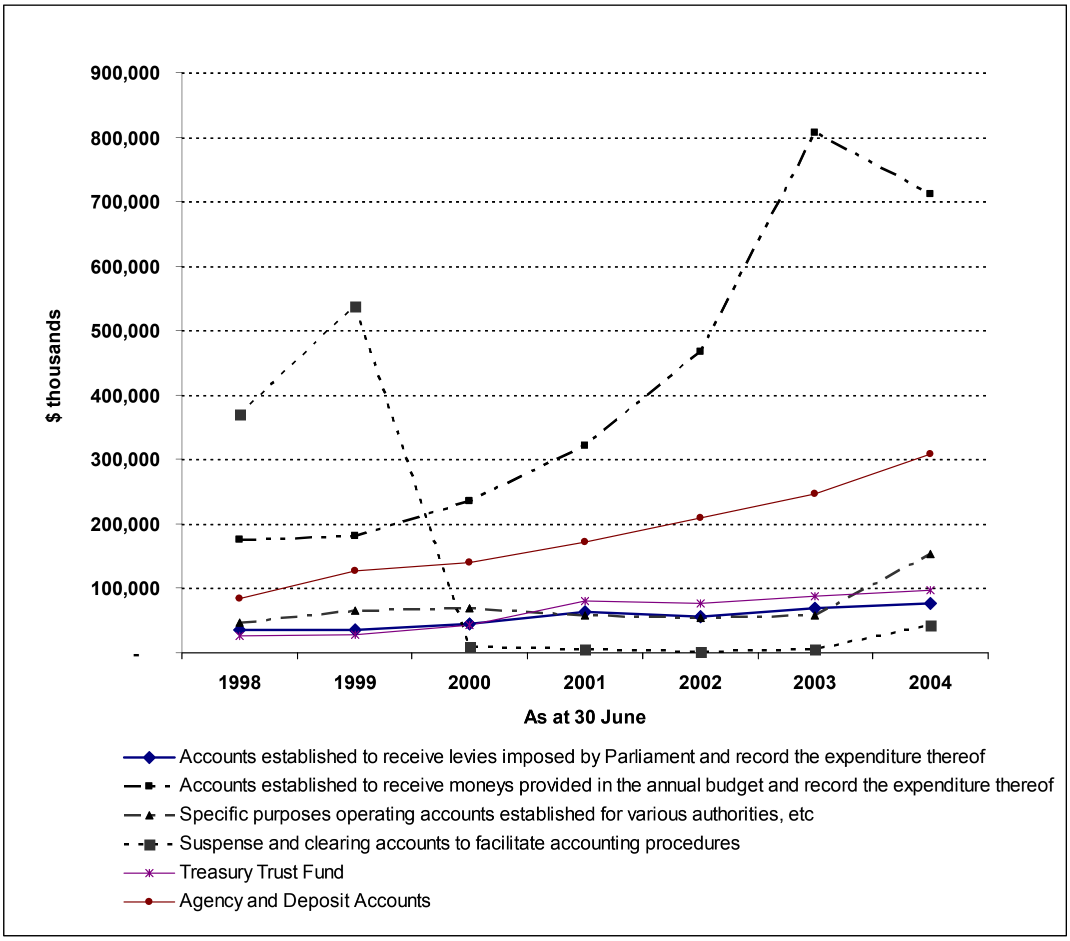
86 Department of Primary Industries, response to the Committee's 2005-06 Budget Estimates questionnaire, received 4 May 2005, p.20

87 Department of Sustainability and Environment, response to the Committee's 2005-06 Budget Estimates questionnaire, received 4 May 2005, p.21

As can be seen from the above projections, both of the trust accounts' expenditure roughly equates with revenue, suggesting very strongly that the accumulated balances of $21.9 million and $33.8 million represent surplus funds, most of which should be transferred to the Consolidated Fund.

Exhibit 5.1 illustrates the substantial increase in trust account cash and investment balances which relate predominately to those trust accounts which were established to receive moneys provided in the annual budget.

Exhibit 5.1: Movements in cash/investment balances in Victorian Government trust funds between 1998 and 2004



Source: *Annual Financial Reports for the State of Victoria from 1998 to 2004*

There are 11 trust accounts established to receive budget appropriations ranging from the Anzac Day Proceeds Fund (balance of $27,750 at 30 June 2004) to the Public Transport fund (balance of $364,574,758 at 30 June 2004).[88]

[88] Department of Treasury and Finance, Trust Fund Summary for 2004 provided to the Committee, 3 May 2005

The Committee sought to establish what levels of accountability existed for the above trust accounts which collectively had $710.9 million in cash and investment balances at 30 June 2004.[89] With the exception of the Department of Innovation, Industry and Regional Development which gave a description in its annual report of the financial transactions and grants approved from the Regional Infrastructure Development Fund, no other department disclosed the financial transactions of trust accounts for which they were responsible. Of particular concern was the absence of details relating to the Better Roads Victoria Trust Account (balance of $91.6 million at 30 June 2004) and the Hospitals and Charities Fund (balance of $50.4 million at 30 June 2004).[90]

The Better Roads Victoria Trust Account was established in 1993 and was funded by a fuel levy of three cents per litre on all petrol and diesel sales. The trust account is controlled by the Department of Infrastructure although no reference to the account could be found in the department's 2003-04 annual report. In August 1997 the fuel levy was abolished. The government has continued pursuant to the legislation establishing the account to make payments to the trust account *'in such instalments and at such times as are determined from time to time by the Treasurer'* despite the original purpose of the account ceasing to exist. The Committee also noted the trust moneys shall be expended on the construction and maintenance of roads, *'as the Treasurer determines'*. In other words, the Treasurer, without any need for parliamentary scrutiny, determines what revenue should be paid into the trust account and also the projects on which the trust moneys will be expended.

The above legislative arrangements, which are quite obscure, would appear to have the features of a special appropriation which does not require annual parliamentary approval. However, no record of a special appropriation to the trust account was recorded in the government's annual financial report for 2003-04. VicRoad's annual report for 2003-04 records that it received $148.4 million from the trust account in 2003-04 which was applied to metropolitan and rural road projects which were detailed in the report.[91] The report also recorded that the trust account receives funding from a $17 levy applied to motor vehicle registration fees, in addition to amounts appropriated by the Treasurer.

There is no transparency and accountability for the transactions in this trust account, other than the amount received by VicRoads. The amount received by VicRoads does not represent all disbursements from the Trust Account, as evidenced below. The budget papers, the government's annual financial report and the annual report of the Department of Infrastructure make no reference to the trust account, despite the substantial transactions which occur within the account. The need for greater accountability has also been emphasised as a result of the 2005-06 budget, whereby all money raised from speeding and red light camera fines are to be directed into the Better Roads Victoria Trust Account from 1 July 2005. Previously this revenue,

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89 ibid.

90 ibid.

91 VicRoads, *2003-04 Annual Report*, p.67

estimated at around $324 million in 2005-06 was paid into the Consolidated Fund.[92] The Committee considers that motorists are entitled to know how this revenue is expended on the construction of better roads and other road safety initiatives.

The lack of accountability for the trust account was also illustrated in a media report in February 2005, in which it was reported that the state opposition found it necessary to use Freedom of Information laws to establish that $32 million was provided from the Fund to acquire land for the Mitcham Frankston Tollway. A further $17 million was provided to establish the Southern and Eastern Integrated Transport Authority, a statutory body set up to manage the tollway.[93] Both of these payments appeared to be outside of the purpose of the trust account and would have been subject to scrutiny by Parliament without the need to use Freedom of Information legislation had adequate accountability provisions been in place.

The ongoing need for a specific trust account for 'better roads' is questionable, given that VicRoads received $443.7 million in appropriation funding in 2003-04 for basically the same purpose.

Trust account expenditure, inclusive of grants to VicRoads, is not separately disclosed in the budget papers but forms part of the Department of Infrastructure's output – 'Road System Management' – whereby funding increased by $69.2 million between 2004-05 and the budget for 2005-06 of $761.7 million. Under the existing output structure, grants to agencies such as VicRoads are not separately identified although VicRoads would be responsible for most of the service delivery. The Committee also noted that the asset initiatives for the department of $253.9 million in 2005-06 included a range of road projects. However, again it was not possible to determine the contribution from the Better Roads Victoria Trust Account to these projects.

Due to the existing budgeting arrangements, it therefore became impossible for the Committee to determine the impact of the additional revenue of around $324 million from speeding and red light camera fines to be paid into the Better Roads Victoria Trust Account for the purpose of road construction and maintenance, as compared to the funding for roads that would be provided to VicRoads from appropriation sources. If the intention of the use of the Better Roads Victoria Trust Fund is to establish a transparent link between traffic camera and speeding revenue with the government's expenditure on road safety and road maintenance programs, then this will best be achieved through full disclosure of all transactions within the trust account through inclusion in annual financial reports.

As stated earlier in this report, $112.6 million was provided in 2003-04 from the Treasurer's Advance to the Hospitals and Charities Fund. Similar to the Better Roads Victoria Trust Account, there is no accountability for the transactions and balances within the Fund, as disclosure of transactions within individual trust accounts is not required under existing financial management legislation.

92 Budget Paper No. 4, *2005-06 Statement of Finances*, p.158

93 P Mickelburough, 'Road cash diverted to tollway', *Herald Sun*, 2 February 2005, p.12

The Department of Human Services advised the Committee that since the advent of accrual output based funding, the trust accounts operated by that department, including the Hospitals and Charities Fund, '*have essentially become accounts for the pass through of Appropriations'* and *'serve no substantive benefit to the department and are essentially managed in the same manner as other appropriated funds'*.[94] This statement was seen by the Committee as supporting the Auditor-General's view that with the advent of accrual output based accounting there is no need to maintain trust accounts.

The Committee is aware that in many other jurisdictions within Australia, including the Commonwealth Government, separate disclosure of individual trust accounts transactions is required from controlling departments and forms part of the government's annual financial report. As an example, the trust accounts policy in the Commonwealth Government is as follows:[95]

> *Australian Government agencies are to separately disclose in their financial statements the total receipts, payments and balances for each Special Account (trust account) within their portfolio. Additionally, receipts must be separated into those from appropriations and those from other sources.*

The Committee accepts that there is little value to be gained from disclosing details of trust accounts established to facilitate accounting procedures, such as working accounts, suspense accounts and other accounts of a similar nature, although the ongoing need for such accounts needs to be closely scrutinised in the existing financial management environment. Conversely, the Committee strongly supports the recommendation of the Auditor-General that the annual reporting requirements of the government and its agencies be enhanced to provide additional disclosure of all other trust account transactions in the notes to the financial statements, as occurs elsewhere in Australia and certain other countries such as New Zealand and Canada that operate under the Westminster system.

The Committee also noted that many of these jurisdictions provide comprehensive guidance on the use of trust accounts. Scope exists to further expand the limited guidance on trust accounts currently provided by the Department of Treasury and Finance to general government sector agencies.

Failure to enhance accountability for the trust account, diminishes Parliament's ability to scrutinise public expenditure totalling around $9 billion per year. Scrutiny of the revenue and expenditure would also provide an additional safeguard against inappropriate transactions and the unnecessary accumulation of funds which could be applied for alternative public purposes.

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94 Ms P Faulkner, Secretary, Department of Human Services, correspondence received 8 June 2004

95 Australian Government, *Guidelines for the Management of Special Accounts*, October 2003, p.25

The actions of the Department of Treasury and Finance in requiring all departments to disclose cash and investment balances for trust accounts in their annual financial reports for 2004-05 is a very positive move which will enhance accountability. Nevertheless, the Committee considers that trust fund transactions, assets and liabilities should also be disclosed as occurs in other jurisdictions.

With regard to the excessive accumulation of balances in certain trust accounts, the Committee considers it would be a relatively simple exercise for the Department of Treasury and Finance to identify large accumulating balances and request departments to identify forward commitments for expenditure. Surplus funds could then be transferred into the Consolidated Fund at the direction of the Treasurer, provided legislative authority existed for this purpose. Such an exercise could also identify restrictive legislation, whereby the application of trust account moneys may be very limited pursuant to the enabling legislation, resulting in the accumulation of large balances for no specified purpose. On these occasions, amending legislation may become necessary to expand the purposes for which moneys could be applied.

The Department of Treasury and Finance in its response to the Auditor-General's report, acknowledged that it could be timely to request departments to review their current trust accounts. The review was to include the Treasury Trust Fund, which the Auditor-General identified as being used for purposes other than what was intended under legislation. The original primary purpose of the Treasury Trust Fund was to facilitate the recording and accounting for unclaimed and unidentified money held by departments. The balance of the Treasury Trust Fund at 30 June 2004 was $96.3 million.

No action has since been taken by the Department of Treasury and Finance on the Auditor-General's recommendation that clear guidelines/rules be established to govern the future operations of the Treasury Trust Fund. The most recent guidelines issued by the department on the use of trust accounts were in August 2003.[96] Other than acknowledging the existence of the Treasury Trust Fund, no directions were given as to its purpose and usage. The Committee is in agreement with the Auditor-General that it is inappropriate to use the Treasury Trust Fund for the recording of extraneous financial transactions, including implementation of programs that should be funded and accounted for as part of the appropriation process. There is a strong need to enhance accountability of the use of the Treasury Trust Fund and to restrict its usage to specified purposes, which must be clearly defined.

96 Department of Treasury and Finance, BFMG-18, Trust Accounts, http://domino.intranet.vic.gov.au/BudgetGuide/BFMG-18.html, accessed 25 August 2003

The Committee recommends that:

Recommendation 24:	**The Department of Treasury and Finance review the ongoing need for all existing trust accounts in the general government sector.**
Recommendation 25:	**The transactions, assets and liabilities of all individual trust accounts, be disclosed in the notes to the financial statements of the respective departments, supplemented by additional disclosure at the whole of government level.**
Recommendation 26:	**The Minister for Finance establish comprehensive guidelines and monitoring provisions for the use of the Treasury Trust Fund.**
Recommendation 27:	**The government periodically review all trust accounts with large balances above a prescribed level, with a view to requiring departments to either justify the need to retain such balances or to return surplus funds to the Consolidated Fund.**

CHAPTER 6: NEED TO ENHANCE THE ROLE OF PARLIAMENT IN SCRUTINISING APPROPRIATIONS

The Auditor-General's report drew attention to the original role of Parliament under the Westminster system of government to collect all revenues in the Consolidated Fund and to appropriate these revenues for such specific purposes as Parliament directs through legislation. Successive amendments to the Financial Management Act have progressively weakened this directive role, to the stage whereby the Treasurer can withdraw substantial moneys from the Consolidated Fund for virtually any purpose without seeking prior approval from Parliament.[97] As previously referred to in Chapter 3, in 2003-04 the annual appropriation approved by Parliament represented around 87 per cent of the total funding provided to the departments, with the remaining 13 per cent provided from the Consolidated Fund by the Treasurer as authorised under the Financial Management Act and sections of the Appropriation Act.

The Auditor-General suggested the situation had been reached whereby the role of Parliament has been diminished with the government now having substantial discretion over the spending of taxpayer funds. This situation has further developed with the purchaser/provider model whereby the government purchases outputs from departments at an agreed price. These outputs, inclusive of expenditure from trust accounts and Special Appropriations, are not readily identified in many instances with Ministerial Portfolios, individual government agencies contributing to outputs or major government programs identified as part of election commitments.[98] Accordingly, it has become more difficult to hold Ministers responsible for the activities within their respective portfolios when the financial parameters of the portfolio often cannot be clearly defined, let alone the absence of meaningful performance information on the many programs within portfolios.

The Department of Treasury and Finance maintains that any diminution in parliamentary control over the appropriation process has been offset by enhanced transparency and accountability for the outputs and outcomes produced. The department's view was basically that the Auditor-General's report unduly focused on the role of Parliament in scrutinising budget estimates and the need to disaggregate global appropriations to a portfolio and agency level without adequate recognition of the initiatives taken by government to more clearly define outputs, management of risks and enhancing accountability, particularly through the provision of additional information in financial reports. The Committee acknowledges that outputs have been more clearly defined, but not to the extent whereby the type of expenditure which contributes to an output can be identified. In other words, there are limited controls to

97 Victorian Auditor-General's Office, *Parliamentary control and management of appropriations*, April 2003, pp.37–38

98 ibid., p.36

ensure that expenditure within outputs clearly relates to the stated purpose of the outputs.

All interested parties agree there needs to be an appropriate balance between the level of control exercised by Parliament in authorising expenditure of public funds and, at the same time, providing flexibility to departments to determine the appropriate mix of outputs and resources required to meet desired government outcomes, accompanied by strong accountability mechanisms. The department also considered that Parliament exercises a large degree of control over government activities through legislation such as the Constitution Act, Appropriation Act, Audit Act and Financial Management Act.[99] The Committee does not entirely agree with this view on control as the financial provisions in the Constitution Act have become largely irrelevant and most of the financial flexibility available to the government has arisen from the existing provisions within the Financial Management Act and the Appropriation Act. Any attempt to limit these provisions was seen by the Department of Treasury and Finance as limiting the responsiveness of the public service to the executive government and the community.

All parties agree that the Treasurer must have some flexibility beyond the funding provided from the appropriation, which should be accompanied by transparency and accountability to Parliament for budget supplementations. The central issue is whether the right balance has been reached between the ability of Parliament to scrutinise proposed government expenditure prior to authorising use of the Consolidated Fund, as compared to the accountability of government to the Parliament for outputs and outcomes achieved, inclusive of budget supplementations authorised by the Treasurer.

The Auditor-General remains firmly of the view that the extent of discretion/flexibility available in Victoria (to amend and supplement budgets without parliamentary scrutiny) was more extensive than in other jurisdictions in Australia. This was in contrast to all other jurisdictions within Australia *'which have established tighter boundaries over government spending and have used supplementary appropriations to authorise unanticipated expenditure'*.[100]

The Auditor-General acknowledged the argument of the Department of Treasury and Finance that the introduction of further controls by Parliament would be dysfunctional and would act to reduce management flexibility and incentives. The Auditor-General accepted that further controls would reduce the extent of discretion available to the government without recourse to Parliament, but, at the same time, would strengthen the role and influence of Parliament.[101]

99 Mr S Helgeby, Deputy Secretary, Budget and Financial Management Division, Department of Treasury and Finance, PAEC private hearing, 8 December 2003, p.2 *(approval given to use this evidence)*

100 Mr W Cameron, Auditor-General, correspondence received 28 January 2004, p.2

101 ibid.

The Committee is not convinced that further controls would have a detrimental impact on the ability of the Victorian Government to manage spending, particularly given that additional controls implemented elsewhere in Australia were seen as warranted to preserve the role of an elected Parliament in controlling taxpayer's funds in a democratic society. At the same time, the Committee cannot accept that the absence of such controls in Victoria is leading to better outcomes as compared to other states and the Commonwealth Government.

Throughout this report, the Committee has drawn attention to various areas of concern raised by the Auditor-General in his April 2003 report, which have either not been acted on, partly addressed or were not accepted by the Department of Treasury and Finance. Examples include:

- the advent of global appropriations to departments has meant that appropriations to ministerial portfolios and agencies providing outputs on behalf of departments are no longer capable of identification in budget papers. Ministerial responsibility for specific outputs has become blurred as a consequence;
- in order to provide Parliament with additional control over budget supplementation the Auditor-General suggested that monetary limits be placed on the Treasurer's authority, the exceeding of which would require a supplementary appropriation by Parliament. This recommendation was rejected;
- balances held in the State Administration Unit representing accumulated surpluses, employee entitlements and accumulated depreciation should be separately disclosed in financial statements. No action has occurred;
- the ongoing relevance of all legislation authorising special appropriations should be reviewed. The Department of Treasury and Finance agreed but did not see a review as their role;
- further improvement was required in the quality of performance measures used as part of the quarterly certification process. This recommendation was accepted by the department and some improvements are occurring;
- the Auditor-General has not been able to audit performance information contained with the Report of Operations produced by departments because the government is still to finalise a Performance Management Reporting Framework;
- although departments are funded for the full cost of service delivery, inclusive of non-cash expenses such as depreciation and employee entitlements, this funding is not always passed on to agencies contributing to departmental outputs but is instead utilised to fund the government's asset investment program. This process has contributed to a deterioration of infrastructure in some agencies. The Department of Treasury and Finance acknowledged the problem, but emphasised that asset investment priorities were determined by the government; and

- there is minimal accountability for the transactions and balances of around 82 identifiable individual trust accounts contained within the Trust Fund which is a separate component of the Public Account. The Department of Treasury and Finance initially did not respond to the Auditor-General's recommendation to improve the transparency and accountability of trust account transactions which are not subject to scrutiny by Parliament, despite expenditure from these accounts exceeding $9 billion per annum. The Committee acknowledges the recent action by the Department of Treasury and Finance to require all departments to disclose cash and investment balances for trust accounts in their annual financial reports. However, more disclosure needs to occur to ensure that transactions with trust accounts clearly related to the purpose of the trust account.

The Committee has made a range of recommendations to the government on the above matters which are central to the accountability of the Executive Government to Parliament.

The Committee accepts that accountability mechanisms have improved since the Auditor-General's report although considerable scope still exists for further improvement as evidenced throughout this report. Mechanisms include:

Parliamentary debate on budget papers

More information has been included in budget papers, including comprehensive information on estimated receipts and payments from the Consolidated Fund. However, as the budget papers do not form part of the Appropriation Act, financial projections contained in the budget papers can be altered as departments decide, depending on circumstances. As previously referred to, departmental outputs are inclusive of all transactions involving each portfolio within the department, trust account transactions, agency transactions and special appropriations. The outputs do not detail specific or major categories of expenditure, thereby limiting any debate on how funds are to be distributed.

Public Accounts and Estimates Committee

The Committee examines the budget estimates in detail and reports back to Parliament each year on its findings and subsequent recommendations. This is a very important role performed on behalf of Parliament. However, logistically it is not possible for the Committee to prepare a detailed report within the short timeframe between the tabling of the budget estimates and the subsequent passing of the Appropriation Bill by Parliament.

Estimated financial statements

The Estimated Financial Statements are prepared for the general government sector, examined by the Auditor-General and included in the budget papers.

Mid-year budget update

This document updates the earlier Estimated Financial Statements taking into account the impact of any subsequent government decisions and changes in circumstances.

Quarterly financial reports

Provide progressive updates of financial activities relative to budget projections.

Mid-year financial report

Provides an analysis and summary of the financial performance, financial position and cash resources application for the general government sector for the first six months of each financial year (to December).

Annual financial report

Contains audited consolidated financial statements of the State of Victoria and the general government sector.

Annual reports for departments and government agencies

Contain audited financial statements and reports on operations which have not been audited due to the absence of appropriate and auditable performance information.

Ministerial directions

Represents standing directions issued by the Minister for Finance which must be complied with under the Financial Management Act. The directions mainly relate to financial management practices, governance arrangements and financial performance measurement.

The Committee acknowledges the strong commitment of the government to provide progressive information throughout the year on the financial position of the general government sector. As a consequence, the Department of Treasury and Finance argues that this information, which is probably more comprehensive than similar information provided in other states, more than compensates for the very considerable financial flexibility provided to the government under existing arrangements. The department nevertheless accepted that scope still existed for further improvements in financial reporting, performance reporting, the quality of annual reports and the linkages between outputs and desired government outcomes.[102]

Paramount to this whole issue is what level of control should Parliament exercise over the appropriation of public funds to the Executive Government pursuant to the Victorian Constitution and if Parliament is provided with additional information for decision-making purposes, what difference could it make.

As a general rule, quality information leads to more informed decision making. The Committee is supportive of the Auditor-General's suggestion that global budgets should be further disaggregated into a portfolio and agency level, as occurs in the Commonwealth Government. An immediate benefit would be to clearly delineate the area of financial responsibility for responsible portfolio Ministers, accompanied by performance measures more sharply focused on performance targets within portfolios.

The existing performance measures are often so broad as to be virtually meaningless in attempting to assess the performance within portfolios. The measures are designed to enable certification of revenue each quarter, as distinct from whether the government is providing value for money in providing services in line with election commitments.

The Committee is aware that both the Department of Premier and Cabinet and the Department of Treasury and Finance do not agree with the Auditor-General's suggestion. The Department of Premier and Cabinet stated:

> *While a shift to Ministerial portfolio-based accountability would perhaps assist in sharpening performance objectives as a link between outcomes and outputs, there is significant risk that the cost of such a shift would outweigh the benefits…. There is significant evidence that the consolidation of departments (up to the point where there are now 10) has produced very substantial shifts to more joined-up policy development and service delivery. There is a real danger that changing the focus of accountability from departments to Ministerial Portfolios could diminish co-ordination within departments.*[103]

The Department of Treasury and Finance advised:

> *It is not clear that there is a strong case to vary the accountability of departments which typically cover several portfolios.*

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102 Mr S Helgeby, Deputy Secretary, Budget and Financial Management Division, Department of Treasury and Finance, PAEC private hearing, 8 December 2003, pp.2, 4 *(approval given to use this evidence)*

103 Victorian Auditor-General's Office, *Performance management and reporting*, April 2003, p.22

> *To fragment the current departments into numerous portfolios could potentially involve greater instability in performance measurement than the current approach whereby departments are accountable to government for the delivery of outputs. It could also hinder emerging opportunities for innovative and joined-up delivery in the future.*[104]

The Committee observed that while the Department of Premier and Cabinet acknowledged that a shift to ministerial portfolio based accountability would perhaps assist in sharpening performance objectives which provide the link between outputs and (desired government) outcomes, the Department of Treasury and Finance considers it is more important for departments (inclusive of various portfolios), to be accountable to the government for the delivery of outputs. The Committee maintains that unless portfolio based accountability is implemented, it will remain impossible to determine the performance of individual portfolios in terms of the contribution of individual programs and projects within the portfolios to community outcomes.

The Department of Treasury and Finance advised the Committee:

> *The shift to global appropriations has provided or removed some of the disincentives to efficient management of resources. One of the key issues about the disaggregation of global appropriations is the disincentives it would send for departments to co-operate on a more fulsome basis, in particular to join up their service delivery.*[105]

The Auditor-General subsequently advised the Committee in relation to this comment:

> *I do not understand or support this statement. The configuration of service models can be established and managed independently of the funding source.*[106]

The central issue to this argument is whether Ministers should be directly accountable to Parliament for the management of their portfolios, or is it more important for departments to be accountable to the Executive Government for outputs provided. A move to portfolio based reporting would also enable the identification and inclusion of public sector agencies which contribute to the achievement of portfolio outcomes.

The Committee firmly believes in the concept of ministerial responsibility under the Westminster system of government particularly in relation to Ministers being accountable for the very substantial powers they possess over the expenditure of public moneys within their portfolios. Accordingly, the Committee endorses the Auditor-General's viewpoint. Adoption of ministerial portfolio based accountability could also result in the development of performance indicators, other than indicators of a financial nature, whereby the effectiveness of programs within the portfolio could

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104 ibid.

105 Mr S Helgeby, Deputy Secretary, Budget and Financial Management Division, Department of Treasury and Finance, PAEC private hearing, 8 December 2003, p.4 *(approval given to use this evidence)*

106 Mr W Cameron, Auditor-General, correspondence received 28 January 2004, p.3

be assessed by Parliament and the public. This critical aspect needs enhancing. In the United Kingdom, legislative authority is required by the government to establish new programs prior to the release of public funds. Progressive reporting also occurs on the outcomes achieved from the programs relative to the expenditure involved.

There is no evidence to suggest that portfolio based accountability, as occurs in other jurisdictions, notably the Commonwealth Government, is any less efficient than the existing departmental based system in Victoria.

The other major issue arising from the Auditor-General's report is the use of budget supplementations authorised by the Treasurer under standing legislative authority without the need to seek parliamentary approval. In most other jurisdictions Parliament is informed of such advances and use of supplementary appropriations is common. The Department of Treasury and Finance does not agree with the use of supplementary appropriations as it argues that the existing accountability mechanisms, as outlined previously in this chapter, compensate for any need to seek additional approvals from Parliament for budget supplementations.

The Committee does not accept this view, notwithstanding the range of accountability mechanisms in place in conjunction with a need to provide the Treasurer with some flexibility in addressing unforeseen budget demands.

The need for supplementary appropriations to be approved by Parliament where budget supplementation exceeds a prescribed limit warrants consideration by the government and is supported by the Committee. Notwithstanding the use of supplementary appropriations, the Committee considers that as a minimum, Parliament should be progressively informed in advance by the Treasurer of any intention to provide budget supplementation.

For example, where additional funds are provided by the Commonwealth Government pursuant to the Financial Management Act, then surely Parliament has the right to provide input into how this funding is intended to be allocated. Again, where departments are unable to absorb salary costs under the existing funding model and supplementation is requested from the Treasurer pursuant to section 3(2) of the Appropriation Act, then Parliament should be made aware of the reasons for the supplementation, which may also be a reflection on the department's ability to mange its resources. Similar comments can also be made about budget supplementation provided under other legislative provisions, including use of the Treasurer's Advance.

In summary, the Committee considers there is a compelling need to examine the existing system in terms of: the role of Parliament in scrutinising budget supplementations; ministerial responsibility for portfolios versus departmental reporting to the government; the appropriateness of global budgets provided on a departmental basis; performance information on portfolio performance in contributing to better government outcomes; and the lack of accountability for trust accounts. Overall, the Committee considers that Parliament is not being provided with adequate information on government expenditure in order to properly fulfil its role under the Westminster system of government.

The Committee intends to further examine the existing accrual output based accountability process which focuses on departmental outputs, as distinct from portfolio based outputs, to determine whether it is fulfilling the needs of Parliament, by comparison with other jurisdictions within Australia.

This report was adopted by the Public Accounts and Estimates Committee at its meeting held on 5 September 2005 in Meeting Room 1 at Parliament House, Melbourne.

APPENDIX 1: LIST OF INDIVIDUALS/ORGANISATIONS THAT GAVE EVIDENCE

5 May 2003 – Private Hearing

Victorian Auditor-General's Office

Mr W Cameron, Victorian Auditor-General
Mr R Walker, Assistance Auditor-General, Strategic Planning and Sector Liaison
Ms S Mitsas, Director, Statewide and Central Agencies

8 December 2003 – Private Hearings

Victorian Government – Department of Treasury and Finance

Mr S Helgeby, Deputy Secretary, Budget and Financial Management Division
Mr S Gurr, Director, Resource Management Reform
Mr P Fuhrmann, Assistant Director, Financial Reporting
Mr J Monforte, Director, Budget Formulation Advice
Mr P Wild, Assistant Director, Resource Management Reform

28 April 2004 – Private Hearings

Audit Office of New South Wales

Mr B Sendt, Auditor-General
Mr L White, Assistant Auditor-General, Financial Audit Branch

New South Wales Treasury

Mr M Ronsisvalle, Acting Deputy Secretary, Resources and Budget
Mr D Houlihan, Principal Policy Analyst, Financial Management Improvement
Mr A Hunter, Acting Senior Director, Financial Management and Reporting
Mr M Smith, Principal Policy Analyst, Financial Management

Parliament of New South Wales

Mr J D Evans, Clerk of the Legislative Council and Clerk of the Parliaments
Mr W Cahill, Usher of the Black Rod and Clerk of Committees
Mr P E McLeay, MP, Vice Chair, New South Wales Public Accounts Committee
Ms G Berejiklian, MP, Member, New South Wales Public Accounts Committee
Ms V Buchbach, Secretariat, New South Wales Public Accounts Committee
Ms S Hesford, Secretariat New South Wales Public Accounts Committee Secretariat

29 April 2004 – Private Hearings

Australian Government – Department of Finance and Administration

Mr J Hutson, Division Manager
Mr M Mowbray-d'Arbela, Branch Manager, Financial Management Group
Mr D Yarra, Division Manager

Australian National Audit Office

Mr T Burgess, Acting Deputy Auditor-General, Group Executive Director - Financial Audit
Mr M Watson, Group Executive Director - Financial Audit
Mr D Box, Executive Director — Technical Branch
Mr K Caruana, Senior Manager — Technical Branch
Mr B Boyd, Performance Audit

Australian Federal Parliament

Mr H Evans, Clerk of the Senate