

CHAPTER 1: INTRODUCTION

1.1 Background

The passing of the Appropriation Bills by the Parliament provides the Government with the authority to raise taxes and appropriate expenditure from the Consolidated Fund for the forthcoming year. Two separate Appropriation Bills are presented to Parliament – one relating to the operations of the Parliament (and the Office of the Auditor-General) and one relating to general government activities.

The Appropriation Bills relating to 2004-05 were passed by Parliament on 27 May 2004 (*Appropriation (Parliament 2004/2005) Act 2004*) and 10 June 2004 (*Appropriation (2004/2005) Act 2004*) and provided for expenditure of \$23,426 million.¹

Accompanying the introduction of the Appropriation Bills in Parliament are the Budget Papers. The Budget Papers cover the application of additional funds to support service delivery and capital that do not require approval by the Parliament on an annual basis. These additional funds include amounts that are appropriated by Parliament on an ongoing basis via special appropriations (trust funds – \$1,477.4 million in 2004-05), revenue received by agencies that is credited to appropriations (\$1,673.8 million in 2004-05) as well as amounts carried over from the previous year (\$218.3 million).²

The Budget Papers reveal that in 2004-05 the Government expects to receive revenue of \$28,984.9 million and expenses are budgeted to be \$28,429.9 million.³ These amounts are prepared in accordance with Australian accounting standards and can include the affects of a range of non-cash transactions, such as gains/losses on the disposal of assets, resources provided free of charge and the recognition of doubtful debts.

The Budget Papers also disclose that the cost of outputs delivered by departments in 2004-05 is expected to be \$24,810.4 million.⁴ Although in some cases the cost of outputs does reconcile with expenses at a departmental level, differences may emerge because revenue and expenses recognised under accounting standards can include activities other than those covered by outputs, such as the activities of controlled trusts. However, as noted by the Auditor-General,⁵ the Budget Papers do not include a reconciliation of the aggregated expenditures detailed in these Papers with the value of appropriations subject to parliamentary approval.

¹ *Appropriation (Parliament 2004/2005) Act 2004*, schedule 1; *Appropriation (2004/2005) Act 2004*, schedule 1

² Budget Paper No. 4, *2004-05 Statement of Finances*, pp.163–172

³ *ibid.*, p.7

⁴ Budget Paper No. 3, *2004-05 Service Delivery*, pp.54–258

⁵ Auditor-General Victoria, *Report on Parliamentary control and management of appropriations*, April 2003, p.43

To assist the Parliament to have a more effective oversight of the activities of the Government, the Public Accounts and Estimates Committee has been delegated the responsibility of undertaking a detailed review of the budget estimates and revenues contained in the Budget Papers.

The Committee's review of the Government's spending proposals involves a review of the budget estimates (undertaken during May and June) and a subsequent review of the budget outcomes. The review of the budget outcomes is undertaken during December and January and is largely based on departments' and agencies' annual reports for the preceding financial year, which are usually tabled in the Parliament during November.

While the Committee's report on the budget estimates is not tabled in Parliament until after the Appropriation Bills are passed by the Parliament and assented to by the Governor, the Committee believes that the detailed review of the budget estimates significantly enhances the transparency of the Government's revenue raising and spending activities and improves accountability to the Parliament and the community. The Committee believes that these arrangements can be further strengthened and intends to outline how the estimates process can be further improved in a report on the parliamentary appropriations process which will be tabled early in 2005.

1.2 Objectives of the Budget Estimates process

In submitting this report, the Public Accounts and Estimates Committee does not intend to replicate the information contained in the 2004-05 Budget Papers. Rather, the Committee is presenting information on selected areas where additional information may assist in the public understanding of those budget documents.

The Committee's analysis of the budget estimates aims to:

- facilitate a greater understanding of the budget estimates;
- assist the Parliament and the community of Victoria to assess the achievement of the planned budget outcomes against actual performance;
- constructively contribute to the quality and the presentation of the budget information; and
- enable more effective monitoring of the performance of departments and agencies.

1.3 Process followed by the Committee

In late March 2004, the Committee circulated a questionnaire to all departments requesting supplementary information to that likely to be contained in the 2004-05 Budget Papers. The Committee's questionnaire concentrated on several areas including:

- the accountability framework for departmental outputs;
- the strategic issues that have influenced the development of departments' budget estimates;
- key risks facing each department and its portfolio agencies in 2004-05 and the strategies to address those risks;
- changes to performance measures;
- asset investment projects including changes to timelines and capital budgets;
- the profile of departmental staff; and
- explanations for significant variations between estimated outcomes for 2003-04 and budgeted revenue and expenditure in 2004-05.

The Committee requested departments to provide their response by 7 May 2004. Only two departments – the Department of Treasury and Finance and the Department of Education and Training – met this timeframe, with the last response received from the Department for Victorian Communities on 13 May 2004. This is a substantial improvement on the previous year and the Committee expresses its appreciation to Ministers and departments for meeting the tight deadline.

The 2004-05 Budget Estimates were subjected to 55 hours of scrutiny by the Committee at public hearings held with the Premier, each Minister and the Presiding Officers of the Victorian Parliament during the period May to June 2004 (see Appendix 3).

In preparing for the estimates hearings, the Committee draws heavily on the information contained in a range of documents, including departmental responses to the Committee's estimates questionnaire (see Appendix 2), the Budget Papers and the Auditor-General's reports.

Part one of the Auditor-General's mid-year review of public sector agencies was tabled on 12 May 2004,⁶ three weeks earlier than the previous year. The tabling of this report meant that the Committee had this valuable source of information while it reviewed the proposed expenditure for the 41 portfolios, including the major Departments of Premier and Cabinet, and Treasury and Finance.

The second part of the Auditor-General's review, which includes useful information relating to the audits for agencies with balance dates other than 30 June, was tabled on 26 May 2004.⁷ While this information was not available for the first week of estimates hearings, it was tabled early enough to allow the Committee to follow-up issues with some Ministers.

⁶ Victorian Auditor-General's Office, *Report on Public Sector Agencies: Results of special reviews*, May 2004

⁷ Victorian Auditor-General's Office, *Report on Public Sector Agencies: Results of special reviews and financial statement audits for agencies with 2003 balance dates other than 30 June*, May 2004

The Committee appreciates the efforts of the Auditor-General to table these important reviews earlier than in previous years, which was a recommendation of the Committee in its *Report on the 2002-2003 Budget Estimates*.⁸

Following the estimates hearings, the Committee wrote to Ministers to request answers to questions that had been taken on notice at the estimates hearings. In addition, because there is a myriad of complex policies, plans and strategies which underpin the financial and performance information contained in the Budget Papers, the Committee sought additional information on some matters. In most cases, the Committee requested this information be provided within three to four weeks to enable this report to be completed in time for the resumption of the Parliament in late August.

For most portfolios this deadline was not met and, in a few cases, the information was not provided by the time this report was being finalised. In some instances, responses indicated that this material would be provided 'when finalised', 'as soon as practicable' or 'after validation has been completed'.

The work of the Committee was further delayed on several occasions by responses to follow-up questions that clearly did not fully address the questions being asked by the Committee. Where departments and Ministers do not fully address the Committee's follow-up questions the Committee's secretariat and the Chair spend a considerable amount of time trying to clarify outstanding matters.

The Committee intends to follow-up on all information that was not provided in time for inclusion in this report in its review of the 2003-04 Budget Outcomes later in 2004.

The Committee is also concerned at the procedures within some departments when explanations or clarifications are sought about information contained in responses to both the departmental questionnaires and follow-up questions. The Committee believes that when matters need to be clarified that are of a technical nature and straightforward and the original information has already been provided with the agreement of the relevant Minister or Departmental Secretary, then arrangements should be made to ensure a prompt response to the Committee's request.

The Committee is very keen for the time lag between the tabling of the Budget Papers and the Committee's report on its review of the budget estimates to be reduced in order that:

- the Parliament can be better informed about the Government's proposed spending plans and consequently more effective in its oversight and accountability roles;

⁸ Public Accounts and Estimates Committee, *Report on the 2002-2003 Budget Estimates*, 52nd Report, June 2003, p.103

- the Government has sufficient time to consider the Committee's recommendations prior to finalising the budget for the next financial year; and
- the Government's response to the recommendations contained in the Committee's report is received prior to the Committee commencing its next review of the budget estimates and budget outcomes.

As discussed earlier, the Committee intends to present a report on its review of the parliamentary appropriations process early next year. As part of this review, the Committee will be considering as one of the options establishing a protocol to improve the current arrangements.

Notwithstanding these concerns, the Committee is grateful to Ministers and senior department officers for their assistance at the estimates hearings and in providing responses to the Committee's follow-up questions.

