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AND ESTIMATES COMMITTEE

85th REPORT TO THE PARLIAMENT

NEW DIRECTIONS IN ACCOUNTABILITY

Inquiry into Victoria’s Public Finance Practices and Legislation

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Inquiry into Victoria’s Public Finance Practices and Legislation

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Executive Officer: Valerie Cheong
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Specialist Advisor: Russell Walker
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Administration Officer (Temporary): Lisa Burton
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 ten members of Parliament drawn from both Houses of Parliament.

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;
- 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; and
- any proposal, matter or thing that is relevant to its functions and has been referred to the Committee by resolution of the Council or the Assembly or by order of the Governor in Council published in the *Government Gazette*.

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.
In June 2008, the Committee notified Members of both Houses of Parliament of its Inquiry into Victoria’s Public Finance Practices and Legislation. This Inquiry was conducted at the same time as the Government’s comprehensive review into the Financial Management Act 1994 and related legislation, known as the ‘public finance bill’ project.

Victoria is already a world leader in financial reporting, with advanced accrual based budgeting and appropriation frameworks. The Committee considered that the Government’s review of the legislation provided an opportunity for it to build on its past achievements and adopt a leading edge resource management and accountability framework.

In November 2008, the Committee issued a preliminary report of this New Directions in Accountability which outlined a range of issues, which the Committee considered could be included in the new legislation and action that could be undertaken by the Government, aimed at enhancing the financial management of the public sector and reporting requirements to Parliament. The issues identified by the Committee accorded with best practice in international jurisdictions.

Since the issue of the preliminary report, the Committee has considered feedback received on the ideas and options that were put forward in that report which assisted the Committee’s considerations and the contents of this final report.

This report of the Committee focuses on the:

- Budget framework;
- Timeframe for budget scrutiny;
- Appropriation framework;
- Accountability framework – both financial and performance reporting;
- Entities subject to the framework; and
- Other matters relating to the new legislative framework.

I regard the recommendations proposed in this report (44 in total) as vital for ensuring that Victoria progresses to a leading edge public finance and accountability framework.

Accordingly, in pursuit of achieving better practice in performance management and reporting, the Committee has a clear expectation that its recommendations will be implemented by the Government in Victoria’s new legislation relating to public finance and accountability.

What has also become clear to me as Chair of the Committee during this inquiry that it is easy to lose sight of the ‘wood for the trees’. As far as possible, transparency should translate into clear and complete reporting.

The Committee also learnt that there is great virtue in simplicity. I commend to the Parliament and the Government simpler reporting arrangements that are seen in some jurisdictions, e.g. a two page summary in budget papers and in the State Annual report for each major entity – department or key agency – with one page outlining key financial and program expenditure and the other containing key strategies and targets and major performance indicators.
Finally, I wish to thank members of the Committee for their valued considerations during this Inquiry and in finalising this report. Further, I wish to extend our thanks to the Committee’s Secretariat for helping deliver this report on this important Inquiry.

Bob Stensholt MP

Chair
RECOMMENDATIONS

BUDGET FRAMEWORK

Recommendation 1: Budgeted resources should be linked in the budget papers to the relevant individual outcomes the Government aims to achieve and ultimately its strategic priorities and policy service objectives. .................. 26

Recommendation 2: The performance indicators and targets outlined in the budget papers relating to the Government desired outcomes and outputs should:
   a) focus on effectiveness and efficiency, which include the concept of value add and equity; and
   b) take into account the new performance and assessment framework developed by COAG. ............. 27

Recommendation 3: There should be greater consistency in the timeframes covered in relation to the data outlined in the various budget documents. Projected data should be disclosed for the budget year and the three forward years, and actual (and projected) results for the two years prior to the budget year. The same level of disclosure should also appear in annual reports. ................................................................. 28

Recommendation 4: Budget papers should include every four years (in line with the parliamentary term), a generational report which should disclose projections over the longer-term, say 10 to 40 years, taking into account changing economic and demographic circumstances. ................................................................. 28

Recommendation 5: The budget papers should include a reconciliation of the value of appropriations recorded in the Annual Appropriation Bills with those published in the budget papers. ................................. 28

Recommendation 6: To facilitate more timely disclosure of budget information, the budget papers should disclose not only the asset investment initiatives for the budget year but also information relating to on-going capital asset construction projects and PPP arrangements for the budget (general government) sector. Such disclosure should include not only projected data for the budget year and three forward years, but for the life of the construction project/PPP arrangement. ................................. 29
Recommendation 7: The estimated financial statements included in the budget papers should be enhanced by ensuring that:

a) the total expenses outlined in the estimated ‘departmental’ operating statements agree with the total cost of providing ‘departmental’ outputs; and

b) the Estimated Financial Statements for the budget (general government) sector separately disclose, in addition to capital expenditure approved but not yet allocated, the contingent expenses for operating purposes.

Recommendation 8: The budget papers should be enhanced by including:

a) information not only on the budget (general government) sector, but also the other two sectors (public non-financial corporations and public financial corporations) which form the whole of government; and

b) a rural and regional statement.

Recommendation 9: The annual Budget Update and Pre-election Update should continue to be required to be produced.

Recommendation 10: The legislative frameworks require that individual entities prepare an annual strategic plan which should:

a) clearly outline, among other matters, their contribution to the State budget (that is, their portion of the projected outcomes/outputs, indicators and targets, and estimated revenue and expenses);

b) be agreed to by the responsible Minister and the Treasurer or the Minister for Finance, and be tabled in Parliament; and

c) form the basis for end of cycle reporting at an entity level of what has actually been delivered compared with that planned.
TIMEFRAME FOR BUDGET SCRUTINY

Recommendation 11: The legislative provisions relating to the budget papers and the accompanying appropriation bills should require that:

a) these documents be tabled in Parliament at least two months prior to the commencement of the financial year to which they relate to enable further time for Parliamentary scrutiny and debate; and

b) the appropriation bills be enacted prior to the commencement of the financial year to which they relate. ............................................................ 37

APPROPRIATION FRAMEWORK

Recommendation 12: The appropriation framework should be based on accrual based annual appropriations for the individual outcomes the Government aims to achieve, standing spending authorities (special appropriations) in specific legislation which are usually for payments of an on-going basis, and discretionary budget management arrangements outlined in legislation. ............................................................ 44

Recommendation 13: There should be separate appropriation authority relating to operating and capital expenditures for individual outcomes. However, consideration should be given to multi-year appropriation authority for capital expenditures which require long planning and construction periods. ......................... 45

Recommendation 14: The requirement to issue warrants prior to drawing down funds from the Consolidated Fund should be discontinued. ......................................................... 45

Recommendation 15: The enabling legislation should require the disclosure in the whole of government financial report of, not only the details of the amounts associated with each discretionary budget management arrangement, but also the underlying reasons for utilising such arrangements. ......................... 46

Recommendation 16: The whole of government financial report (Annual Financial Report) and departmental financial reports should be required by the enabling legislation to include a compliance statement which summarises the available appropriation authorities, the value of appropriations applied against these authorities and an explanation for any variances......................................................... 46
ACCOUNTABILITY FRAMEWORK - FINANCIAL REPORTING

Recommendation 17: The audited annual whole of government financial report (which includes the financial results for the budget (general government) sector) should be required to be tabled in Parliament within a period of three months (or 13 weeks) after the financial year to which they relate, which would be in line with better practice in a number of other jurisdictions and ASIC requirements. ........................................49

Recommendation 18: The unaudited interim results for the whole of government should continue to be produced on a six monthly basis. ........................................................................................................49

Recommendation 19: Consideration should be given by the Department of Treasury and Finance to the work being undertaken in Canada, on relevant and appropriate indicators for assessing the financial condition of government, when it undertakes its annual review of the indicators reported in the discussion and analysis section of the annual financial report.................................................................49

Recommendation 20: Departments and public bodies should be required to table in Parliament their reports of operations and audited financial reports within a period of three months (or 13 weeks) after the end of the financial year to which they relate which would be in line with better practice in a number of other jurisdictions and ASIC requirements. ........................................51

Recommendation 21: If particular entities are required by the Department of Treasury and Finance to bring forward the date of completion of the audited financial report, the date for the tabling in Parliament of the report of operations and audited financial report should also be advanced by the same period.................................................................51

Recommendation 22: Entities that cease to be a public body during a financial year should be required by the enabling legislation to prepare general purpose financial statements covering the period in that year they were a public body and once audited by the Auditor-General those statements should be tabled in Parliament.................................................................51
Recommendation 23: A two page summary (by way of a citizens’ report), which incorporates key extracts from the financial statements and performance statements, including comparative data, and cross referenced to the detailed statements, should be prepared and form an integral part of both the budget papers and annual reports. The summary which would assist users of the financial and performance reports, including Members of Parliament, should appear immediately before the detailed statements.

Recommendation 24: All entities that meet the definition of a department or public body should be required to continue to produce general purpose financial statements. Further, the current provision which enables entities, with the approval of the responsible Minister, to consolidate their financial affairs within the financial report of another entity should be retained in the new legislative framework.

Recommendation 25: To assist users and those preparing financial reports, the level of disclosure in general purpose financial statements should vary depending on the size of the entity. The Department of Treasury and Finance should work with the Australian Accounting Standards Board to assist the Board to finalise its differential reporting projects.

Recommendation 26: Public sector entities should enhance their management information systems so that, in the long term, complete, reliable and useful financial and non financial information is available to ensure accountability on an on-going (real time) basis.

Recommendation 27: Reporting to the Parliament of the unaudited interim results for the budget (general government) sector should continue to be produced on a quarterly basis.

Recommendation 28: The legislative framework should be enhanced to require the accountability reports on the whole of government, budget sector and individual entities to be prepared not only in a manner and form determined by the responsible Minister, but that also accords with the Australian Accounting Standards.

ACCOUNTABILITY FRAMEWORK - PERFORMANCE REPORTING

Recommendation 29: An annual whole of government performance report should be required to be prepared and tabled in Parliament.
Recommendation 30: As part of the budget papers major entities (departments and major agencies) should include a one page summary of outcomes and related outputs planned to be delivered in the coming year as well as key indicators and targets. ....................................71

Recommendation 31: All public sector entities that separately report to Parliament should be required to produce an annual performance report and include them together with their financial report, in their annual report. ...........................................................................73

Recommendation 32: The annual whole of government performance report and the annual performance reports of public sector entities should be required to be:

a) prepared in a manner and form determined by the responsible Minister and in accordance with generally accepted professional pronouncements; and

b) tabled in Parliament within a period of three months after the end of the financial year to which they relate. ...........................................................73

Recommendation 33: To achieve consistency in the reporting of performance across the public sector, performance reports should:

a) for entities that form part of the State budget, include the outcomes and related outputs, and related key indicators and targets, specified in the budget papers or in supporting Annual Plans;

b) for entities that do not form part of the State budget, include the outcomes and related outputs, and related key indicators and targets, specified in the entity’s Annual Plan;

c) for each indicator, include the targets and actual results for the period that the statement relates and the two previous financial years, and the targets for the following three financial years; and

d) in instances where actual results vary materially from the established targets, provide an adequate reason for the variance. ............73

Recommendation 34: A generally accepted conceptual framework that identifies the essential characteristics of performance reporting in the Victorian public sector context should be developed under the leadership of the Department of Treasury and Finance (the work undertaken in British Columbia would be a good reference point)............................................74
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Recommendation 36: Audit reports on performance indicators should be phased in so that entities have a sufficient period of time to ‘bed down’ their reporting processes, and underlying management control systems ...................... 75

ENTITIES SUBJECT TO THE FRAMEWORK

Recommendation 37: The Government should consider rationalising the number of public sector entities in Victoria. It should:

a) undertake a review to identify instances where existing entities could be consolidated with other public sector entities; and

b) establish a framework which could be utilised to determine whether it is appropriate to fulfil the roles and responsibilities outlined in proposed legislation through an existing entity or the establishment of a new entity ........................................ 80

Recommendation 38: The definition of public body in the legislation should be expanded to include entities of which the State or a public body has control .............................. 80

Recommendation 39: All entities, including a corporation within the meaning of the Corporations Act which is controlled by the State or a public body should be required, as far as possible, to comply with requirements of both the financial management and accountability frameworks ............................................. 81

Recommendation 40: All public sector entities should be required to comply with the legislative accountability, and financial and performance reporting requirements (reporting separately or consolidated with another entity) .......................................................... 81

Recommendation 41: A report should be tabled in Parliament, on an annual basis, identifying particular entities that do not meet the accountability and reporting requirements. The report should outline in each case the rationale why the particular requirement could not be met, the action being taken to overcome the difficulties being encountered and the timeframe required to implement appropriate action .......................................................... 81
OTHER MATTERS

Recommendation 42: The contents of other Acts that contain financial management matters should be considered for inclusion in the new legislation. .............................................84

Recommendation 43: The coverage of a range of matters, including borrowing and investing powers and procurement requirements/principles, should be extended to all entities in the public sector.....................................................84

Recommendation 44: The proposed legislation could be principle-based, except for those elements outlining the parliamentary requirements of the Government when it utilises the discretionary budget management provisions, and the accountability of the Government and individual public sector entities on their utilisation of public resources.......................85
CHAPTER 1: INTRODUCTION

1.1 Rationale for Inquiry

The aim of the Public Accounts and Estimates Committee’s (Committee) inquiry into the financial management and accountability framework was to identify areas which will assist the Government in achieving better practice in this field in the Victorian public sector.

The financial management and accountability framework is formalised in the Financial Management Act 1994 (FMA), the Regulations to that Act and in the Directions of the Minister for Finance. The purposes of the Act\(^1\) are:

- to improve financial administration of the public sector;
- to make better provision for the accountability of the public sector; and
- to provide for the annual reporting to the Parliament by departments and public sector bodies, which also includes the State budget papers and the State’s annual financial report.

The various forms of annual reports provided to Parliament under the Act, are regularly reviewed by the Committee as part of its statutory responsibilities on annual inquiries on the budget estimates, and financial and performance outcomes.

This inquiry was conducted at the same time as the Government’s comprehensive review into the FMA and related legislation (the public finance bill project) led by the Department of Treasury and Finance. The rationale for this inquiry was to ensure the Committee’s findings and recommendations on the subject were available to the Government in a timely manner and readily reflected in the results of its review project.

1.2 Terms of reference

The approved terms of reference for the inquiry are as follows.

The Committee will inquire into Victoria’s public finance practices and legislation and in particular will investigate:

a) modernisation of the Victorian public finance system based on world’s best practice;

b) new and flexible mechanisms for financial administration and reporting that reflect the changing nature of the Victorian economy and society;

c) simpler and more effective ways of public financial reporting;

d) recent developments in democratic systems including Westminster jurisdictions on government financial and performance management reporting and related matters to the Parliament; and

e) possible future changes to the legislative framework for financial administration and reporting in Victoria.

\(^1\) Section 1, Financial Management Act 1994
Importantly, the desired outcomes that the Committee seeks to influence for inclusion in a new public finance bill are that the financial management of the public sector and the State Government’s key reports to Parliament, including the state budget papers, the Annual Financial Report and annual reports of departments and public sector bodies, reflect best practice in advanced economies.

1.3 Scope of the Inquiry

In conducting this Inquiry, the Committee has focused on:

- budget framework;
- timeframe for budget scrutiny;
- appropriation framework;
- accountability framework - financial reporting;
- accountability framework - performance reporting;
- entities subject to the framework; and
- a range of other matters relating to the new legislative framework.

1.4 Inquiry process

In conducting this Inquiry, the Committee visited a number of overseas jurisdictions. Further, the Committee conducted a survey to determine the status of the accountability framework in a number of jurisdictions and sought written submissions from individuals and organisations addressing any aspects of the Inquiry. The Government did not make a submission to the Inquiry as it subsequently released a Discussion Paper for public comment on matters being considered for inclusion in a new public finance bill.

Information obtained from the overseas visits, together with research undertaken by staff of the Committee, written submissions received to the Inquiry and the results of the survey undertaken by the Committee have assisted in the preparation of this Report.

A preliminary report was tabled in Parliament in November 2008 which addressed each of the areas outlined in 1.3 Scope of the Inquiry, identifying better practice in other jurisdictions and areas for consideration for inclusion in the new legislative framework.

This final report builds on the preliminary report, taking account of feedback received on the ideas and options canvassed in that report.
CHAPTER 2: BUDGET FRAMEWORK

Key findings of the Committee:

2.1 Victoria currently has in place an accrual based budget and appropriation framework, with its key focus on outputs.

2.2 In 2001, the Government released its longer term vision, known as Growing Victoria Together which was revised in 2005. This document sets out the Government’s long term goals (outcomes) and performance measures (indicators). Significant enhancements in the State’s Budget Papers have occurred in recent years to improve the linking of government outcomes with outputs.

2.3 The Financial Management Act 1994 requires the Government to annually prepare budget papers (including Estimated Financial Statements) and table them in Parliament with the Annual Appropriation Bills. The Government is also required to prepare an annual Budget Update which must be tabled in Parliament by 15 December. A Pre-election Update prepared by the Department of Treasury and Finance must be released within 10 days after the issue of the writ for an election.

2.4 The Act also requires financial policy objectives (both short and long term) and strategies statements (including key financial measures and targets) to be outlined in the budget papers and Budget Update, covering the financial year to which the budget or budget update relates and the following three financial years.

2.5 The Government includes comprehensive information on the activities of the Victorian budget (general government) sector in the budget papers.

2.6 In line with better practice in the United Kingdom (UK), OECD countries, IMF members, the US Congress, Sweden, Canada and British Columbia, the Committee has identified a number of areas where opportunities exist for enhancing the information recorded in the budget papers, including:

- A greater focus on outcomes linked to the Government’s strategic priorities and policy objectives;
- Performance indicators to be subject to on-going review to ensure that they are evidence based and reflect appropriately the service outcomes on a continuous improvement basis;
- The timeframes covered in the budget papers to uniformly disclose data for the three forward years and the two years prior to the budget year;
- Once every Parliamentary term the budget papers should include projections over the longer term (10 to 40 years);
- A reconciliation should be included of the value of the appropriations recorded in the Annual Appropriation Bills with those recorded in the budget papers (in line with the ‘clear line of sight’ integration requirements as practised in the UK);
- The budget papers should disclose details of ongoing capital asset construction projects and public private partnership arrangements;
- The various estimated financial statements should disclose forward estimates and actual (projected) results, and contingent expenses for operating purposes; and
Individual entities should be required to prepare annual strategic plans (referred to as such by the UK government and as resource plans in British Columbia) which clearly outline, among other matters, their contribution to the State budget.

2.1 Better practice

2.1.1 The significance of outcomes and their relationship to outputs and inputs

The Committee consistently learnt on its evidence gathering visit to the United Kingdom, Sweden, the United State’s Congress and Canada that there needs to be a greater focus in budgets to outcomes.

Both the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) visited by the Committee have developed better practice guides relating to budget frameworks. The IMF has released a Code of Good Practices on Fiscal Transparency (2007) and the OECD has released a Best Practices for Budgetary Transparency (2002). The Committee was advised that both documents are not meant to constitute a formal standard for budget transparency, but provide guidance to jurisdictions aiming to increase the degree of budget transparency. Aspects of these better practice guides are referred to in this Report.

Victoria currently has in place an accrual based budget and appropriation framework, with its key focus on outputs. In 2001, the Government released its longer term vision, known as Growing Victoria Together which was revised in 2005. This document sets out the Government’s macro long term goals (outcomes) and performance measures (indicators). Significant enhancements in the State’s Budget Papers have occurred in recent years in linking the government outcomes with the departmental outputs.

In the context of this review, a key question that needs to be considered is in order to modernise the Victorian public finance system based on world’s best practice, does the current budget and appropriation system need to change from an emphasis on outputs to an emphasis on outcomes?

Intended outcomes of government are by their very nature diverse and encompass social, economic and environmental objectives. Their planned achievement may extend over a period of time and require the setting of short, medium and long-term goals. As a result of their direct relationship to the performance and accountability of government over time, the Committee believes that outcomes should be at the forefront of all budgetary forecasts associated ex-post performance reporting in the Victorian public sector.

Full reporting in annual budgets of short, medium and long term intended outcomes and the expected level of achievement in the ensuing budgetary period enables Parliament and the taxpayer community to identify the degree of effectiveness that a government expects to accomplish against intended outcomes across all ministerial portfolios over the budgetary period.

While projected performance against outcomes should be the predominant feature of annual budget papers, the Committee recognises there is a need for adequate disclosure of the projected allocations of financial resources (inputs) to programs and their planned conversion to products and services (outputs). This process of conversion of inputs to outputs identifies the planned efficiency of government operations and is a key component of the performance cycle.
The Committee considers that clear links in the annual budget papers of government between all three elements, inputs, outputs and outcomes, with a major emphasis on the latter, are necessary to fully meet the information needs of Parliament and the community.

Budgeting can focus on inputs, outputs and/or outcomes. This is illustrated in Figure 2.1. While the ultimate focus of budgeting and public performance reporting should be on outcomes, there is also interest in the outputs being delivered and the extent to which they contribute to the desired outcomes a government wishes to achieve. This position was emphasised by a number of entities visited by the Committee, including the World Bank, the Chartered Institute of Public Finance And Accountancy (CIPFA) in the United Kingdom and the Swedish National Financial Management Authority.

Performance-based budgeting and results-based management focus less on inputs, processes and activities, and more on outcomes that will benefit the community. In fact, outcome budgeting and reporting frameworks centre on the effectiveness of government in meeting their performance goals and therefore are more appropriate to meet the growing emphasis on program management and service delivery across government.

It is widely accepted that outcomes are more difficult to measure, as they entail the use of both qualitative and quantitative factors which may be subjective and challenging in measuring and benchmarking performance. They also involve the interaction of many factors (both planned and unplanned) such as action taken by other levels of government and external influences including action taken within the community, and the impact of demographic changes, cost pressures and changes in economic conditions. Notwithstanding the fact that the measurement of outcomes can be difficult, the key focus of governments in developing policies and delivering programs should be to achieve outcomes.

One of the gaps in budget and reporting frameworks is that the outputs being delivered are not always adequately linked with the desired outcomes. It is important that this issue is addressed up front at the budget planning phase and adequately embodied at the budget reporting stage.

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A number of jurisdictions specify both outputs and outcomes in budget papers:

- **Commonwealth Government of Australia** – Appropriations for operating purposes are structured around outcomes at an entity level, while portfolio budget papers specify the price, quality and quantity of outputs that agencies are required to deliver and the criteria they will use for demonstrating the combination of agency outputs and administered items to outcomes. Appropriations for non-operating purposes (capital purposes) are focused at an entity level.

- **The Netherlands** - Appropriations are derived for policy lines. These are outcomes the Dutch government aims to achieve. The policy objectives, the instruments to achieve them, the outputs to be delivered and the estimated means are described in an explanatory statement.

- **United Kingdom** – The Estimates are the means of obtaining from Parliament the legal authority to consume the resources and spend the cash the Government needs to finance department’s agreed spending programs for the financial year. Parliament gives statutory authority for both consumption of resources and for cash to be drawn from the Consolidated Fund by Acts of Parliament, but also limits the way in which resources can be used by prescribing how the overall sum is to be appropriated to the particular Request for Resources (the outcomes the Government wants to achieve). The Government makes use of performance measures to set targets to improve public services by means of Public Service Agreements (PSAs) and Service Delivery Agreements (SDAs). The PSAs set the outcomes that should be reached within the three-year fixed budget for Departmental Expenditure Limits (DELs). These budgets are, however, reviewed biennially. The PSAs are supplemented by output-oriented SDAs which outline how the department intends to deliver on its PSA targets.

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5 ibid.
• **Sweden** – The budget bill is organised into 27 expenditure areas concentrating on policies and outcomes. The budget bill addresses three levels: policy areas, activity areas or programs and sub-activity areas which are contained entirely within each agency. The objective, outcome, budget and cost are defined for each level. The policy areas are subdivisions of the expenditure areas and are used to allow a closer linkage between objectives, cost and results and to make it easier to see where the money goes. The budget document also contains proposals for the appropriation to the agencies and major transfer programs to be voted by the Parliament. The appropriations voted by the Parliament relate to agencies.

• **New Zealand** – Appropriations are for individual output classes, capital contributions, non-departmental operating costs, and loan and interest costs. To facilitate examination of the appropriations sought, the Estimates of Appropriations for the Government of New Zealand provide members of Parliament with details about the objectives for each vote (that is a grouping of one or more appropriations that are the responsibility of one minister and are administered by one department) and specification of the outputs to be purchased by the Vote Minister. The Government is required to show the link between resources used and desired outcomes by buying outputs.6

As part of the planning process, some jurisdictions have developed strategic and performance plans which include performance targets, while other jurisdictions have adopted performance agreements:

• **Commonwealth Government of Australia** – Resource agreements are entered into between the Department of Finance and Administration and the relevant departments and agencies.7

• **United Kingdom** – In addition to the PSAs and SDAs outlined above, Ministries approve agencies’ annual business plans, which establish goals and targets for the coming year. Performance agreements are also entered into between departments and H.M. Treasury stating agreed objectives and targets.

• **New Zealand**- Purchase agreements are in place between the minister and the relevant department which set out the agencies’ agreed outputs. There are also performance agreements between ministers and the chief executives of the departments.8

• **British Columbia** – Service plans are in place with relevant agencies that set out their objectives and their annual performance measures and targets.

The Committee identified the need for clear linkages between the various planning, budgeting and accountability documents. The HM Treasury advised the Committee that a major project is currently being undertaken in the United Kingdom to better link their budget estimates and resource accounts.

### 2.1.2 Performance indicators and targets

While, as mentioned above, some jurisdictions have developed, in addition to their budget papers, strategic and performance plans (which include performance information) at an agency level, it is relatively common for jurisdictions to include performance information in their budget papers.

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6 ibid.
8 ibid.
A question that needs to be considered is whether performance information included in budget papers should focus on outputs or outcomes or a combination of both?

An OECD survey reported in 2005 that 30 member countries found:9

……the most common way of including performance targets in the budget process is a combination of outputs and outcomes. Only 27% of countries include mostly outcomes and no country has mostly outputs. Countries appear to have recognised the difficulty in following an approach that concentrates solely on either outcomes or outputs. Only concentrating on outputs can give rise to goal displacement as agencies lose sight of the intended impact of their programmes on wider society and concentrate solely on quantifiable measures at the expense of activities that are less measurable. It can also result in less attention being paid to cross-cutting issues. While outcomes incorporate a wide focus on the impact of programmes on society and have greater appeal to politicians and the public, they are very difficult to measure in many cases and a mix of outputs, outcomes and inputs is desirable.

If performance information specified in budget papers is to focus on both outcomes and outputs, it is important that the performance indicators and targets are relevant and appropriate.

With the pressure on governments to ensure that funds are expended in an effective and efficient manner, some jurisdictions are developing their performance indicators and targets relating to outcomes and outputs (services) according to measures of effectiveness, efficiency and value adding.

Effectiveness indicators measure how well the outputs of a service achieve the stated objective of that service, and tend to focus on access, appropriateness and/or quality.10 These indicators provide information on the extent of, or progress within a reporting period towards achievement of government desired outcomes through the funding and production of agreed outputs. An example of an effectiveness indicator is the percentage of students in a jurisdiction reaching established benchmarks in reading.

Efficiency indicators require outputs to be produced at the lowest possible cost.11 They relate outputs produced to the level of resource inputs required to produce them. Indicators relating to efficiency (that is the input/output relationships) should focus on the results achieved (that is the key services or products delivered to users), rather than the processes by which those results are achieved. Further, while efficiency indicators tend to focus on financial resources, they can also cover improved service delivery and timeliness.12 An example of an efficiency indicator is the average cost per hour for providing crime prevention and public order services.

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Chapter 2: Budget Framework

The concept of public value also provides a useful way of thinking about the goals and performance of government. Public value or value added to the public is the value created by government through services, laws, regulation and other actions. Public value covers longer term outcomes and the means used to deliver the outcomes. In order to add value for the community, public sector entities should ensure that resources are used to achieve their objectives in an efficient and effective manner. The value added to the public is the difference between the benefits achieved and the resources and powers which citizens decide to give to their government. An example of public value is the extent of user/community satisfaction with the government service provided relative to the costs of providing the service.

The Productivity Commission has recently introduced the concept of ‘equity’ as a performance indicator. Equity indicators measure how well a service is meeting the needs of certain groups in society. For example, public hospitals have a significant influence on the equity of the overall healthcare system. While access to public hospital services is important to the community in general, it is particularly so for people of low socio-economic status that may have difficulty in accessing alternative services, such as those provided by private hospitals.13

The Western Australia Government, that has been at the forefront of performance reporting in Australia, require the disclosure in the budget papers of key effectiveness indicators for each outcome determined at an agency level, and key efficiency indicators for each service (output), in addition to disclosing the cost of each service (output). Refer to Chapter 6 of this Report on Accountability Framework-Performance Reporting for further comment on performance reporting in Western Australia.

The Ministry of Finance and the Auditor-General of Finland advised the Committee that agencies in Finland are required to establish two levels of indicators as part of the budget process—effectiveness and efficiency (operational) indicators. The Ministries responsible for policy planning and formulation establish targets for outcomes, while agencies responsible for policy execution establish targets for outputs.

A real concern with disclosing performance information is that too many indicators and targets can lead to ‘information overload’ but too few creates distortion effects. Jurisdictions tend to start out with large numbers of indicators and targets and subsequently reduce them. In the United Kingdom, when performance agreements were first introduced in 1998, there were in total 600 targets across government.14 The Scrutiny Unit, Committee Office, House of Commons advised the Committee that, in the 2004 spending review, there were 110, but in 2008 there were only 30, which cut across departments, breaking away from purely departmental silos.

2.2 Victorian position

The current budget framework is outlined in the Financial Management Act 1994 (FMA), supplemented by Budget and Financial Management Guidance issued to public sector entities by the Department of Treasury and Finance.

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Section 23C of the FMA requires the Government to establish and maintain a budgeting and reporting framework that is consistent with the principles of sound financial management outlined in section 23D of that Act which requires the Government to:

- manage financial risks faced by the State prudently, having regard to economic circumstances;
- pursue spending and taxing policies that are consistent with a reasonable degree of stability and predictability in the level of the tax burden;
- maintain the integrity of the Victorian tax system;
- ensure that its policy decisions have regard to their financial effects on future generations; and
- provide full, accurate and timely disclosure of financial information relating to the activities of the Government and its agencies.

The FMA requires the mandatory reporting as part of the budget process of key information. The FMA requires the Government to annually prepare budget papers and table them in Parliament with the Annual Appropriation Bills. The Act does not stipulate the timeframe required for the tabling of the budget papers in Parliament. The Government is also required to prepare an annual Budget Update which must be tabled in Parliament by 15 December. A Pre-election Update prepared by the Department of Treasury and Finance must be released within 10 days after the issue of the writ for an election. The Act requires the Budget Update to outline the date on which the update was undertaken.

Section 23 of the FMA also requires financial policy objectives (both short and long term) and strategies statements (including key financial measures and targets) to be outlined in the budget papers and Budget Update, covering the financial year to which the budget or budget update relates and the following three financial years. The objectives and strategies statements are required to be based on the principles of sound financial management and be transparent to establish a benchmark for evaluating government performance.

Section 40 of the FMA requires the budget papers (‘statement of information’) to contain:

- a description of the goods and services to be produced or provided by each department during the period to which the statement relates, together with comparative information for the preceding financial year;
- a description of the amount available or to be available to each department during the period to which the statement relates, whether appropriated by the Parliament for that purpose or otherwise received or to be received by the department, together with comparative figures for the preceding financial year;
- the estimated amount of the receipts and receivables of each department during the period to which the statement relates, together with comparative figures for the preceding financial year;
- any other information required by this Act to be included in the statement; and
- such other information as the Minister determines.

Other information required by the Act to be included in the budget papers includes:

- Estimated financial statements of the budget (general government) sector for the financial year covered by the budget year and the following three financial years (sections 23H to J of the FMA). The Audit Act 1994 requires these statements to be reviewed by the Auditor-General.
Chapter 2: Budget Framework

- Accompanying statement (section 23K of the FMA), in association with each set of estimated financial statements, comprising:
  - a statement of the material economic and other assumptions;
  - a discussion of the sensitivity to changes in the economic and other assumptions;
  - an overview of the estimated tax expenditures; and
  - a statement of the risks, quantified where feasible.

Notwithstanding the limited requirements outlined in the Act, the Government includes comprehensive information on the activities of the Victorian budget (general government) sector in the budget papers.

The 2009-10 Budget Papers which were tabled in Parliament on 5 May 2009 consisted of:

- Budget Paper No. 1 Treasurer’s Speech;
- Budget Paper No. 2 Strategy and Outlook;
- Budget Paper No. 3 Service Delivery;
- Budget Paper No. 4 Statement of Finances; and
- A Victorian Budget Overview document.

Budget Paper No.2, Strategy and Outlook, focuses on the State’s current economic and financial position and outlook. The related data disclosed in this budget paper generally covers the budget year and the three forward years.

Budget Paper No.3, Service Delivery, provides information about the goods and services the Government intends to deliver. For the departmental outputs to be delivered, indicators (performance measures) and targets are disclosed relating to quantity, quality, timeliness and cost. The related output data is disclosed for the budget year and the previous two financial years. The Budget Paper also discloses information relating to output, asset investment and revenue initiatives. The related data is disclosed for the budget year and the three forward years.

Budget Paper No.4, Statement of Finances, provides the financial details of the aggregated Victorian general government sector. For the Estimated Financial Statements for the Victorian General Government Sector, data is disclosed for the budget year and the three forward years, while the departmental financial statements disclose data for the budget year and the two previous years.

The information disclosed in Budget Papers No. 2 and 3 for departmental outputs and departmental financial statements relates to all entities within each portfolio, within the budget (general government) sector, including the responsible department.

After the commencement of each financial year, further budget information is made available to Parliament. Budget Information Paper No.1, Public Sector Asset Investment Program relating to 2008-09, was tabled in Parliament in October 2008. This Budget Information Paper is compiled in association with the annual budget papers to inform Parliament and the community about Victoria’s capital asset program. For individual projects, the following data is disclosed:

- Total estimated investment;
- Expenditure to the end of the financial year, prior to the budget year;
- Estimated expenditure for the budget year; and
- Expenditure remaining.
2.3 Areas requiring enhancement

Based on an analysis of better budgetary practice in advanced economies, the Committee has identified the following areas requiring enhancement.

2.3.1 Outcomes

Significant enhancements have occurred in recent years in the State Budget Papers in linking the Government’s outcomes outlined in *Growing Victoria Together* with outputs. However, the major emphasis in the budget papers is on outputs.

The principal aim of the Government in developing policies, strategic priorities and delivering programs is to achieve intended outcomes linked to these policies and strategic priorities. Accordingly, there should be widened coverage in the budget papers on outcomes. Information on some outputs (services being delivered) might need to be retained, as there is parliamentary interest in the outputs projected to be delivered and the extent to which they contribute to the desired government outcomes.

The disclosure of desired government outcomes and outputs in budget papers is consistent with better practice in other jurisdictions. In addition, under the reforms to the Commonwealth-State funding arrangements by the Council of Australian Governments (COAG), the new partnership agreements will focus on agreed outputs and outcomes, with the aim of providing greater flexibility for jurisdictions to allocate resources to areas where they will produce the best outcomes for the community.15

While the linking of government desired outcomes to outputs is disclosed in the budget papers, further enhancements should be made by linking the budgeted resources required to produce the individual outputs to the individual outcomes the Government aims to achieve. This form of presentation could be facilitated by change in the purpose of funding stipulated in appropriation acts from the provision of outputs to the provision of outcomes. Refer to Chapter 4 of this Report for further comment on this issue.

One of the key advantages of focusing on individual outcomes the Government aims to achieve, rather than outputs or outcomes at a portfolio or departmental level, is that they are more appropriate for joined-up government arrangements, involving program management and service delivery that extend across government. There is an increasing trend by governments in utilising these types of arrangements.

Recommendation 1: Budgeted resources should be linked in the budget papers to the relevant individual outcomes the Government aims to achieve and ultimately its strategic priorities and policy service objectives.

2.3.2 Performance indicators and targets

If the budget papers are to be enhanced by placing a greater focus on outcomes, with the linking of the budgeted resources required to produce the individual outputs to the individual outcomes the Government aims to achieve, the current performance indicators and targets should be reviewed to ensure that they are relevant and appropriate within this changed framework.

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15 Council of Australian Governments (COAG), *Communique*, 26 March 2008, p.3
Some jurisdictions are focusing their performance indicators and targets relating to outcomes and outputs (services) on effectiveness and efficiency, and are considering the concepts of value add and equity. These concepts have considerable merit as they focus on the relationship between outcomes, outputs and inputs, and as the user of government services on the usefulness to the community.

Under the reforms to the Commonwealth-State funding arrangements that will focus on agreed outputs and outcomes, a new performance and assessment framework was developed to support public reporting against ‘performance measures and milestones’. Any action to be taken by the Government to enhance the performance indicators and targets relating to outcomes and outputs should complement the new performance and assessment framework developed by COAG.16

Recommendation 2: The performance indicators and targets outlined in the budget papers relating to the Government desired outcomes and outputs should:

a) focus on effectiveness and efficiency, which include the concept of value add and equity; and
b) take into account the new performance and assessment framework developed by COAG.

2.3.3 Timeframes covered by the budget papers

The users of the budget papers and the Budget Information Paper relating to the public sector asset investment program would benefit if there was greater consistency in the timeframes covered in relation to data outlined in these documents. The following data is currently disclosed:

- Departmental outputs and performance information - budget year and previous two years;
- Estimated Financial Statements for the Victorian General Government Sector - budget year and three forward years;
- Departmental financial statements - budget year and previous two years; and
- Public sector asset investment program - total estimated investment, total expenditure to date, estimated expenditure for budget year and estimated expenditure remaining.

The Committee considers there should be a consistent reporting for all of these matters, projected data disclosed for the budget year and the three forward years, and actual (including projected) results for the two years prior to the budget year. The same level of disclosure should appear in annual reports.

In relation to the public sector asset investment program (details of individual major capital asset construction projects and public private partnership (PPP) arrangements), in addition to the suggested disclosure as outlined above, projected data should also be disclosed for the total estimated commitments over the life of the construction of the project/PPP arrangement and the balance of projected commitments after the three forward year period. If the PPP arrangement provides for the handover to the State of the related asset at the end of the arrangement, the associated gain should be recognised in the relevant forward estimates.

16 ibid.
Recommendation 3: There should be greater consistency in the timeframes covered in relation to the data outlined in the various budget documents. Projected data should be disclosed for the budget year and the three forward years, and actual (and projected) results for the two years prior to the budget year. The same level of disclosure should also appear in annual reports.

2.3.4 Projections over longer-term

Better practice guidance issued by the OECD and the IMF suggest that the Government should publish a periodic report (at least every five years) on long-term public finances. An alternative could be to include longer-term information in the annual budget papers once every four years, in line with the Parliamentary term. A representative from the World Bank expressed support to the Committee for the incorporation of longer-term information with budget papers. Such information is currently produced by New Zealand, United Kingdom and United States of America.

It is suggested in the better practice guides that the information to be included should assess the long-term sustainability of current policies, and the budgetary implications of demographic change, such as population ageing, and other potential developments over the long-term (10 to 40 years).

Further, the inclusion of longer-term information would be consistent with an outcomes approach as longer timeframes can be required to achieve certain outcomes.

Recommendation 4: Budget papers should include every four years (in line with the parliamentary term), a generational report which should disclose projections over the longer-term, say 10 to 40 years, taking into account changing economic and demographic circumstances.

2.3.5 Linkage of Budget Papers with Appropriation Bills

Parliamentarians would benefit if there was a clear linkage between data recorded in the budget papers and the Appropriation Bills. Reconciliation should be disclosed in the budget papers of the value of the appropriations recorded in the Annual Appropriation Bills with those recorded in the budget papers.

The inclusion of such information in the budget papers would enable Members of Parliament to readily ascertain the extent to which funding of budget (general government) sector expenditure is to be subject to parliamentary control through the voting on the Annual Appropriation Bills and that portion that will be subject to the controls outlined in the discretionary budget management provisions contained in the FMA.

Recommendation 5: The budget papers should include a reconciliation of the value of appropriations recorded in the Annual Appropriation Bills with those published in the budget papers.
2.3.6 Capital asset projects

While the budget papers disclose details of asset investment initiatives for the budget year, details of on-going capital asset projects for the State are disclosed in Budget Information Paper No.1 which is made available in October each year, around five months after the tabling of the budget papers in Parliament.

As the Annual Appropriation Bills relate to not only the ‘provision of outputs’ but also ‘additions to the net asset base’, parliamentarians would benefit from the early contemporaneous disclosure in the budget papers of not only the asset investment initiatives for the budget year, but also information relating to on-going capital asset construction projects and PPP arrangements for the budget (general government) sector. The information to be disclosed should be in line with that outlined in paragraph 2.3.3.

Recommendation 6: To facilitate more timely disclosure of budget information, the budget papers should disclose not only the asset investment initiatives for the budget year but also information relating to on-going capital asset construction projects and PPP arrangements for the budget (general government) sector. Such disclosure should include not only projected data for the budget year and three forward years, but for the life of the construction project/PPP arrangement.

2.3.7 Estimated financial statements

The total expenses outlined in the estimated ‘departmental’ operating statements, disclosed in Budget Paper No.4, should agree with the total cost of providing ‘departmental’ outputs, disclosed in Budget Paper No.3. However, they do not agree in all instances. Where this is the case, the footnote to the departmental output summaries in Budget Paper No.3 acknowledges this fact and states that it is ‘due to additional expenses in Budget Paper No.4 that are not included in departmental output costs’.

The disclosure in the Estimated Financial Statements for the budget (general government) sector should be enhanced by not only disclosing forward estimates but also the actual (projected) results for the two financial years prior to the budget year (refer to recommendation 3 above). Further, while the statements separately disclose the capital expenditure approved but not yet allocated, they do not separately disclose contingent expenses for operating purposes. The contingent operating expenses within the budget and Annual Appropriation Bills relate to output contingencies not allocated to departments, and advances to the Treasurer to meet urgent claims that may arise before Parliamentary approval.
Recommendation 7: The estimated financial statements included in the budget papers should be enhanced by ensuring that:

a) the total expenses outlined in the estimated ‘departmental’ operating statements agree with the total cost of providing ‘departmental’ outputs; and
b) the Estimated Financial Statements for the budget (general government) sector separately disclose, in addition to capital expenditure approved but not yet allocated, the contingent expenses for operating purposes.

2.3.8 Contents of budget papers

The budget papers currently consist of the Treasurer’s speech, the Government strategy and outlook, the expected level of service delivery and financial details of the aggregated Victorian general government sector and individual departments.

It is the Committee’s view that the Parliament would benefit if the disclosure in the budget papers was not restricted to the budget (general government) sector but also included the other sectors (public non-financial corporation and public financial corporation sectors) which form the whole of government.

Further, the budget papers in their current form do not separately disclose the significant contributions made and resources expected to be applied to rural and regional Victoria.

It is the Committee’s view that the Parliament would benefit if the budget papers included a rural and regional statement.

As outlined previously, the FMA requires the Government to prepare an annual Budget Update which must be tabled in parliament by 15 December, and a Pre-election Update which must be released within 10 days after the issue of a writ for an election. Both these documents should continue to be required to be produced under the new legislative framework.

Recommendation 8: The budget papers should be enhanced by including:

a) information not only on the budget (general government) sector, but also the other two sectors (public non-financial corporations and public financial corporations) which form the whole of government; and
b) a rural and regional statement.

Recommendation 9: The annual Budget Update and Pre-election Update should continue to be required to be produced.
2.3.9 Supporting entity annual strategic plans

Currently, the information disclosed in *Budget Papers No.2 and 3* for departmental outputs and departmental financial statements relates to all entities within each portfolio, within the budget (general government) sector, including the responsible department. At the end of the financial year, departments are required to disclose in their annual report unaudited information comparing actual results at a portfolio level with the output targets and portfolio financial statements published in the budget papers.

If the budget papers are to continue to have a portfolio focus, it is important that individual entities that make up the portfolio are required by the legislative framework to prepare annual plans (sometimes referred to as strategic plans or resource plans) which should clearly outline, among other matters, their contribution to the State budget. This would enable each entity’s portion of the projected outcomes/outputs, indicators and targets, and estimated financial statements to be identified up-front.

Such information should also form the basis for end of cycle reporting at an entity level of what has actually been delivered compared with that planned.

Such plans should be agreed at an appropriate level and be tabled in Parliament.

Recommendation 10: The legislative frameworks require that individual entities prepare an annual strategic plan which should:

a) clearly outline, among other matters, their contribution to the State budget (that is, their portion of the projected outcomes/outputs, indicators and targets, and estimated revenue and expenses);

b) be agreed to by the responsible Minister and the Treasurer or the Minister for Finance, and be tabled in Parliament; and

c) form the basis for end of cycle reporting at an entity level of what has actually been delivered compared with that planned.
CHAPTER 3:  TIMEFRAME FOR BUDGET SCRUTINY

Key findings of the Committee:

3.1 Better practice in OECD member countries and in British Columbia requires the submission to Parliament of the Government’s budget papers which accompany the appropriation bills three months prior to the financial year to which they relate, to allow sufficient time for parliamentary review of the budget.

3.2 The timeframe required for the tabling in Parliament of the budget papers and the enactment of the appropriation bills is not stipulated in legislation.

3.3 It has been the practice of the Government to table in Parliament the annual budget papers and accompanying appropriation bills at the beginning of May each year and for the appropriation bills to be enacted in late June each year. Accordingly, in practice, the time available for scrutiny and debate of the budget by both the Public Accounts and Estimates Committee (PAEC) and the Parliament is less than two months.

3.1 Better practice

Throughout this Report, it is highlighted that the role of Parliament is paramount in the financial management and accountability framework. It is therefore important to keep this important principle in mind when considering options for enhancing the timeframe available for Parliamentary Committees and the Parliament in the examination of the State budget and other matters associated with financial management of the State.

The OECD Best Practices for Budget Transparency states that the Government’s budget papers which accompany the appropriation bills should be submitted to Parliament far enough in advance to allow Parliament to review them properly. It states that ‘In no case should this be less than three months prior to the start of the fiscal year. The budget [appropriation bills] should be approved by Parliament prior to the start of the fiscal year’.

Further the OECD Best Practices for Budget Transparency states that ‘Parliament should have the opportunity and the resources to effectively examine any fiscal report that it deems necessary’.

The following table highlights the legal requirements for the date of submission to the legislature of the budget in other jurisdictions, including a number visited by the Committee. On average, budgets are required to be submitted three months prior to the beginning of the financial year to which they relate in OECD countries.

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18 ibid., p.14
Table 3.1  Legal requirements for submission of the budget to the legislature: Selected countries

<table>
<thead>
<tr>
<th>Number of months in advance of fiscal year</th>
<th>Legal requirement</th>
<th>Practice</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Constitution</td>
<td>Law</td>
</tr>
<tr>
<td>More than 6 months</td>
<td>United States (8 months)</td>
<td></td>
</tr>
<tr>
<td>4-6 months</td>
<td>Denmark (4 months), Finland* (4 months)</td>
<td>Norway (4 months)</td>
</tr>
<tr>
<td>2-4 months</td>
<td>France, Spain (3 months), Korea (90 days)</td>
<td>Japan (2-3 months), Sweden (3½ months)</td>
</tr>
<tr>
<td>0-2 months</td>
<td>New Zealand (no later than one month after year begins)</td>
<td>Canada</td>
</tr>
<tr>
<td>After year begins</td>
<td>United Kingdom</td>
<td></td>
</tr>
</tbody>
</table>

* Finland’s Constitution requires submission of the budget “well in advance”. In line with this requirement, the budget normally is submitted about four months before the new fiscal year begins.


In other jurisdictions, the Parliamentary committee process for the review of the budget varies from it being undertaken by a specific committee to it being undertaken by sectoral committees. The following table highlights the different approaches adopted by the jurisdictions visited by the Committee and other OECD countries.
## Table 3.2  Role of the Legislature

**ROLE OF THE LEGISLATURE – 9**

What best describes the committee structure for dealing with the budget?

<table>
<thead>
<tr>
<th>Country</th>
<th>A single budget committee deals with all budget-related matters. Sectoral committees may make recommendations, but budget committee does not have to follow them</th>
<th>A single budget committee deals with budget aggregates. Sectoral committees deal with appropriations for each respective sector</th>
<th>No budget committee in place. Sectoral committees deal with appropriations for each respective sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
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*a* Members of the respective sectoral committees join the budget committee when appropriates relating to their sectors are being discussed.

*b* The budget bill shall first be referred to the competent standing committees which shall report the results to their examination to the speaker. The speaker shall then refer the budget bill to the special budget and settlement committee.

*c* A special budget committee is in place, but it only offers technical assistance to the sectoral committees as they discuss their respective parts of the budget.

*d* There are discussion at the level of sectoral committees (concerning expenditures of their specific areas) prior to discussion and deliberations of the budget committee.

*e* Budget committees of both Houses deal with budget aggregates. Appropriation committees, consisting of 13 sectorally based sub-committees consider annual spending legislation. Substantive sectoral committees are responsible for legislation creating entitlement (transfer) and other mandatory programmes.

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**Source:**  OECD Journal on Budgeting, Volume 1, No. 3, 2002, France, p. 164

**Note 1:**  Whereas at a federal level, there is no parliamentary budget committee, at a state level in Victoria, the Public Accounts and Estimates Committee makes investigations and recommendations into the State's forward budget estimates each year.
The effectiveness of the Parliamentary scrutiny process is dependent upon the quality of the information made available to the Parliament and its various committees, and the areas where committees focus their attention.

The Scrutiny Unit, Committee Office, House of Commons advised the Committee that as a result of the project that is currently in place of better aligning the budget, estimates and resource accounts in the United Kingdom, potentially the benefits are that the select committees will better understand the related numbers and be more involved in the scrutiny process. Further, other jurisdictions visited advised that select committees should be probing performance regimes, but in reality they spend a lot of time questioning if claims made by agencies are justified.

The Scrutiny Unit supports the select committee process in the United Kingdom. It was established in 2002 to provide specialist help to select committees in the scrutiny of the Government’s financial and performance reporting and draft bills. The Unit also carries out other work for committees as resources permit and supports the evidence-taking work of the Public Bill Committees.

In 2007, the Unit produced a very good guide for Members of Parliament entitled ‘Financial scrutiny uncovered - How the government manages its finances and how Parliament scrutinises them’. Members of the Victorian Parliament may benefit from the development of a similar guide.

### 3.2 Victorian position

In Victoria, it has been the practice of the Government to table in Parliament the annual budget papers and accompanying appropriation bills at the beginning of May each year and for the appropriation bills to be enacted in late June each year, prior to the financial year to which they relate. The legislation does not stipulate when these two events should occur.

Accordingly, in practice the time available for scrutiny and debate of the budget by the parliamentary committees and the Parliament respectively is around two months. Currently, the review of the budget is undertaken by the Public Accounts and Estimates Committee (PAEC). The review process by the PAEC includes the conduct of public budget estimates hearings for each ministerial portfolio. The results are presented to Parliament in May and June to facilitate scrutiny and debate of the appropriation bills. Parliament’s timeframe for scrutiny and debate could be reduced if the Government’s early May self imposed deadline for the tabling of the budget papers and accompanying appropriation bills was not achieved.

The PAEC not only scrutinizes the budget papers, but it has a broader role of investigating and reporting to Parliament on matters associated with financial management of the State. Its functions under the *Parliamentary Committees Act 2003* are to inquire into, consider and report to the Parliament on, among other things:

- any proposal, matter or thing connected 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.
3.3 Areas requiring enhancement

If the better practice requirements were adopted in legislation, for the submission to Parliament of the Government’s budget papers which accompany the appropriation bills, a timeframe of around three months would be available to review the budget. This widened timeframe could facilitate more extensive analysis of the Budget Estimates. The Committee is cognisant however that the budget cycle is a tight one given the holiday season in Australia. Producing a budget in March would be impossible. The Committee is therefore of the view that consideration should be given to bring down a budget as early as possible to allow sufficient time for its consideration.

Recommendation 11: The legislative provisions relating to the budget papers and the accompanying appropriation bills should require that:

a) these documents be tabled in Parliament at least two months prior to the commencement of the financial year to which they relate to enable further time for Parliamentary scrutiny and debate; and

b) the appropriation bills be enacted prior to the commencement of the financial year to which they relate.
CHAPTER 4: APPROPRIATION FRAMEWORK

Key findings of the Committee:

4.1 The desirable features of an appropriation framework is that the law should specify the categories, basis, nature and duration of appropriations. Further, the law should require that large changes be approved by the legislature and that the government reports regularly and in full on all changes in budget appropriations that it makes under delegated authority from parliament.

4.2 The appropriation framework in Victoria is centred on the Constitution Act 1975, annual Appropriation Acts and standing legislation, known as special appropriations, which are supplemented by discretionary budget management arrangements outlined in the Financial Management Act 1994, such as ‘annotated appropriations’ and Advances to the Treasurer.

4.3 The current government review to determine the appropriate budget framework could result in a change in the purpose of funding stipulated in appropriations acts from the provision of outputs to the provision of outcomes. The appropriation of funds for individual outcomes has merit as the key focus of the Government in developing policies and delivering programs is to achieve outcomes.

4.4 The current legislative framework provides flexibility to the Government in managing the financial affairs of the State in that, when required, it can re-allocate approved appropriations from one purpose to another, and supplement annual appropriations under the authority of discretionary budget management provisions. While the current framework (annual and special appropriations and discretionary budget management arrangements) provides flexibility to the Government, it requires Government accountability to Parliament for its use of powers to determine the purpose and extent of spending of public funds.

4.5 While some of the discretionary budget management arrangements will change if the provision of funding changes from outputs to outcomes, there are opportunities to enhance the accountability requirements associated with the utilisation of discretionary budget management arrangements.

4.6 The current legislative framework contains the long standing requirement for warrants to be prepared by the Treasurer, and signed by the Auditor-General and the Governor specifying that funds are legally available prior to drawing down funds from the Consolidated Fund. This long standing requirement could be discontinued as the Government has the responsibility of ensuring all expenditure is incurred in accordance with Parliamentary authority. Further, the Auditor-General has a duty to inform the Parliament if funds are expended without Parliamentary authority.
4.1 Better practice

The ‘supremacy of Parliament’ in budget matters is a widely accepted principle in all democratic countries, in that no taxation and expenditure funded from such sources should take place without the approval in law by the legislature. A continuing challenge in structuring appropriations is finding ways to balance parliamentary control with managerial flexibility.

The 2004 study published by the Organisation for Economic Co-operation and Development (OECD) identified desirable features that should be included in law for, among other things, budget adoption and execution. The study included a comparison of OECD country frameworks for budget systems. The countries examined as part of the study were Canada, France, Germany, Japan, Korea, New Zealand, Spain, United Kingdom, the United States and four Nordic countries.

In relation to appropriation frameworks, the desirable features identified included that the law should: 'specify the categories, basis, nature and duration of appropriations. In particular a budget system law should:

- Distinguish between fixed appropriations – legally binding maximum expenditures for a 12-month period – and unlimited appropriations;
- Specify the basis for appropriations: cash, accrual, or commitment (or obligation);
- Distinguish between net versus gross appropriations; and
- Identify multi year and/or appropriations of unlimited durations.

During a financial year, the funding limits outlined in annual appropriation acts need to be varied due to a variety of reasons such as additional funding being made available from the Commonwealth Government and unforeseen expenditure associated with urgent claims. In relation to this matter, the above mentioned study states that:

In general, the more sizeable the change, the higher the level of authority that is needed for approval. The law should require that large changes be approved by the legislature and that the executive reports regularly and in full on all changes in budget appropriations that it makes under delegated authority from parliament. At year end, a full reconciliation between the opening authorisation, final authorisation and actual spending should be required by law.

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19 OECD Journal on Budgeting (Volume 4 - No. 3) - special issue titled The Legal Framework for Budget Systems-An International Comparison, 2004, Paris, France, p.64
22 ibid., p.135
A review undertaken by the Committee of the appropriation frameworks of a number of
Australian and overseas jurisdictions, such as the United Kingdom, revealed that changes in
budget appropriations only occur through supplementary appropriations approved by Parliament
and/or delegated authority from Parliament stipulated in discretionary budget management
provisions outlined in legislation. Further, the trend is to have accrual based appropriations. Refer
to appendix 1 for further details.

The duration of appropriations is generally annual, with legislative authority in place to enable the
carry over to subsequent periods of unused appropriation authority. However, the above study
identified that: 23

...some countries (eg. France, Germany, Japan, Korea, United
States) have, for some time, provided a legal basis for multi-
year budget authority for certain expenditures, notably those
that require long planning and ordering periods. In other
countries, such flexibility is more recent (Westminster and
Nordic countries). Multi-year budget authority is, in practice,
generally confined to investment spending, although budget
system laws in some countries are worded generally so that
multi-year budget authority for current expenses is also
permissible. For example; in Finland’s State Budget Act,
'transferable’ appropriations relate to appropriations that may
be transferred either across time (i.e. multi-annual
appropriations, up to two years) or across government
agencies. Regarding ‘flexible’ appropriations in Sweden, the
State Budget Act simply states that unused funds may be
carried over and used during a subsequent fiscal year.

Nearly all OECD countries allow carryover of budget authority
for current and capital expenditure that is unused at end-year,
under certain conditions...

A number of jurisdictions have appropriations for specific outcomes, with output and outcome
information contained in the budget papers. The Australian, Netherlands, United Kingdom and
Sweden governments have in place appropriations for outcomes and not for outputs24. The
Commonwealth Government of Australia appropriates funds for operating purposes at an entity
level based on the entity’s outcomes in relation to their outputs, administered expenses, and
payments to States, ACT, NT and local government. Funds for non-operating purposes (capital
purposes) are appropriated at an entity level.

4.2 Victorian position

The appropriation framework in Victoria is centred on the Constitution Act 1975, annual
Appropriation Acts and standing legislation, known as special appropriations, which is
supplemented by discretionary budget management arrangements outlined in the Financial

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23 OECD Journal on Budgeting (Volume 4 - No. 3) - special issue titled The Legal Framework for Budget
24 Sterck, M., Scheers, B, The use of output and outcome information in public budgeting: trends and
challenges, September 2003, Belgium, pp.15-17
The Constitution Act 1975 (section 89) requires all taxes, royalties, imposts and all other revenue of the Crown in the right of the State of Victoria to be regarded as Consolidated Revenue. That Act (section 92) requires that the Consolidated Revenue shall be subject to be appropriated to such purposes as provided by an Act of Parliament and that there will be annual appropriation bills (section 69). Further, that Act (section 93) stipulates that ‘no part of the Consolidated Fund shall be issued or shall be made issuable except in pursuance of warrants under the hand of the Governor directed to the ‘Treasurer of Victoria’. The FMA outlines the specific requirements associated with the issue of warrants (section 17).

As stated previously, budget papers are required to be tabled in Parliament outlining the outputs to be provided and the funding available, including the amount appropriated by Parliament. Parliament’s authorisation is given to government spending via the passing of Appropriation Acts annually and through special appropriations.

The financial management and accountability legislative framework provides:

- Flexibility to the Government to re-allocate approved appropriations from one purpose to another, and to supplement annual appropriations under the authority of discretionary budget management provisions; and
- Accountability requirements on the Government for its use of powers to determine the purpose and extent of spending of public funds.
- Since 1998-99 in Victoria, annual appropriations to departments have generally been provided for the following purposes:
  - Provision of outputs (accrual output-based) - acquisition or production of goods and services;
  - Additions to net asset base - the acquisition or construction of assets or the injection of capital funding; and
  - Payments made on behalf of the State.

The annual appropriations are provided on an accrual basis, covering all costs incurred in the acquisition of goods and services, including cash outlays and accrued costs, such as the depreciation of assets and accrued employee entitlements which may become payable over future financial periods.

The outputs expected to be provided by each department outlined in the budget papers is not binding, in that the Government is free to change the mix of outputs to be provided by each department without recourse to Parliament as long as the parliamentary authority for the amount to be expended on the provision of total outputs at an individual departmental level is not exceeded.

While parliamentary control has been at the aggregate level (departmental outputs, additions to net asset base etc) the responsible central agency, namely the Department of Treasury and Finance has maintained control not only at the aggregate level within departments but also at the output level. A control framework implemented by the Department of Treasury and Finance over output transfers allows the Department to monitor agency activities.25

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25 Department of Treasury and Finance, BFMG 05 – Evaluations, Output Resource Allocation Reviews and Price Reviews, 31 October 2007, Victoria
The annual appropriations represent the base amount that the Parliament has authorised that the Government can spend, with the authority limits able to be increased through the operation of various legislative discretionary budget management provisions. Such provisions include those outlined under section 29 of the FMA which enables the parliamentary authority to be increased by amounts equivalent to the value of ‘annotated receipts’ collected by departments. The other provisions relate to:

- Salaries and related costs increases (under section 3(2) of the Annual Appropriation Act);
- Advances to the Treasurer to enable the Treasurer to meet urgent claims (included in schedule 1 of the Annual Appropriation Act);
- Appropriation of additional Commonwealth Government grants (under section 10 of the FMA);
- Borrowing against future appropriations (under section 28 of the FMA);
- Transfer between items of departmental appropriation (under sections 30 and 31 of the FMA);
- Carry forward of unused appropriations (under section 32 of the FMA);
- Draw down of accrual-based appropriations in future years (under section 33 of the FMA);
- Reduction in amounts applied to meet future payments (under section 34 of the FMA); and
- Issue of temporary advances (under sections 35 and 36 of the FMA).

The special appropriations are standing spending authorities in specific legislation, usually for payments of an on-going basis. This authority is provided by around 30 individual Acts of Parliament. While such appropriations do not require annual approval by the Parliament, estimates of such appropriations expected in the year are included in the annual budget papers. Special appropriations are established to fund among other things debt retirements, employer contributions to superannuation funds, salaries of the judiciary and electoral expenses. This standing spending authority does not lapse until the relevant Acts are amended or repealed.

While the quantum of appropriation authority can be changed via legislative discretionary budget management arrangements, the legislative framework requires government accountability to Parliament on the application of these arrangements. The current level of required reporting, in relation to these arrangements, includes:

- Annual Appropriation Bills
  - accompanying schedules of payments made in the most recent completed financial year from temporary advances under section 35 of the FMA and advances to the Treasurer, with payments made deemed to be appropriated once the Bills are passed by the Parliament.
  - details of the transactions on the Public Account (under section 24(2)(b) of the FMA); and
  - details of amounts associated with each of the discretionary budget management provisions (under section 24(2)(c) to (i) of the FMA).
• Departmental financial reports
  – in the notes to the financial statements, a compliance statement which provides a summary of the available appropriation authorities, the value of appropriations applied against these authorities and an explanation for any variances (under Financial Reporting Direction 13 issued pursuant to section 8 of the FMA). Refer to appendix 2 for an example of a departmental compliance statement.

These forms of reporting to Parliament provide accountability on the application of the various available appropriation authorities.

4.3 Areas requiring enhancement

Based on an analysis of better practice in advanced economies, the Committee has identified the following areas requiring enhancement.

4.3.1 Appropriations

The current government review to determine the appropriate budget framework could result in a change in the purpose of funding stipulated in appropriations acts from the provision of outputs to the provision of outcomes. The appropriation of funds for individual outcomes has merit as the key focus of the Government in developing policies and delivering programs is to achieve outcomes.

Notwithstanding the framework that is implemented, if the widely accepted principle of the ‘supremacy of Parliament’ in budget matters is to be maintained, any changes in funding limits to that outlined in appropriation acts need to be supported by supplementary appropriations approved by Parliament and/or delegated authority from Parliament stipulated in discretionary budget management provisions outlined in legislation.

There appears to be considerable merit in having the financial management framework centred on accrual based annual appropriations for outcomes, standing spending authorities (special appropriations) in specific legislation which are usually for payments of an on-going basis, and discretionary budget management arrangements outlined in legislation.

However, there should be separate appropriation authority relating to operating and capital expenditures, but there could be multi-year appropriation authority for capital expenditures as capital projects require long planning and construction periods. As outlined previously in this report, the budget papers should disclose in relation to capital works, the expenditure estimates for the budget year and the three forward years, and the balance of the projected expenditure after that period.

Recommendation 12: The appropriation framework should be based on accrual based annual appropriations for the individual outcomes the Government aims to achieve, standing spending authorities (special appropriations) in specific legislation which are usually for payments of an on-going basis, and discretionary budget management arrangements outlined in legislation.
Recommendation 13: There should be separate appropriation authority relating to operating and capital expenditures for individual outcomes. However, consideration should be given to multi-year appropriation authority for capital expenditures which require long planning and construction periods.

4.3.2 Warrants

While appropriation acts provide authority to make payments from the Consolidated Fund for the purposes and up to the limits specified in the particular acts, under the current legislative framework, warrants must be prepared by the Treasurer, and signed by the Auditor-General and the Governor specifying that funds are legally available prior to drawing down funds from the Consolidated Fund.

The Committee is of the view that there is no longer a need to retain the long standing requirement to issue warrants prior to drawing down funds from the Consolidated Fund, as the Government as part of its stewardship role delegated by Parliament has a responsibility to ensure that funds are legally available prior to drawing down funds from the Consolidated Fund. Further, the Auditor-General as Parliament’s auditor has a duty to inform Parliament if funds are expended without Parliamentary authority.

Recommendation 14: The requirement to issue warrants prior to drawing down funds from the Consolidated Fund should be discontinued.

4.3.3 Accountability on the application of appropriations

While the appropriation framework (annual and special appropriations and discretionary budget management arrangements) provides flexibility to the Government in managing the financial affairs of the State, the current framework requires accountability to Parliament on the application of appropriations. However, some of the legislative accountability requirements, associated with the appropriation framework, should be enhanced in the following areas:

- Details of amounts associated with each of the discretionary budget management provisions are required to be disclosed in the whole of government financial report (Annual Financial Report). While it is accepted that some of the discretionary budget management arrangements will change if the provision of funding changes from outputs to outcomes, the whole of government financial report should disclose the underlying reasons for utilising such arrangements. Currently, while the quantum of unused appropriations carried forward to the following financial year are required to be disclosed in the whole of government financial report, the rationale to support the carrying forward of unused appropriations is not required to be disclosed.
Accountability requirements at both a whole of government and departmental level are generally stipulated in the enabling legislation. Currently, the requirement for a department to provide a full reconciliation between the opening authorisation contained in appropriation acts, the final authorisation and actual spending is stipulated in a Financial Reporting Direction issued under the delegated authority of the Minister for Finance pursuant to section 8 of the FMA. The enabling legislation should require both the whole of government financial report (Annual Financial Report) and departmental financial reports to include a compliance statement which summaries the available appropriation authorities, the value of appropriations applied against these authorities and an explanation for any variances.

Recommendation 15: The enabling legislation should require the disclosure in the whole of government financial report of, not only the details of the amounts associated with each discretionary budget management arrangement, but also the underlying reasons for utilising such arrangements.

Recommendation 16: The whole of government financial report (Annual Financial Report) and departmental financial reports should be required by the enabling legislation to include a compliance statement which summarises the available appropriation authorities, the value of appropriations applied against these authorities and an explanation for any variances.
Key findings of the Committee:

5.1 Victoria has been at the forefront of financial reporting at an entity and whole of government level.

5.2 The legislation currently requires that the audited whole of government financial report (annual financial report) be tabled in Parliament by 15 October. Based on the experiences in other jurisdictions the time period for reporting could be shortened.

5.3 Victoria is well placed compared with other jurisdictions in public sector entities producing audited financial reports and making them available for tabling in Parliament. The majority of public sector entities have publicly reported on a full accrual basis for a number of decades. While quality financial reports are produced, opportunity exists to implement enhancements which may assist in their overall usefulness for users.

5.4 The legislation currently requires all entities’ report of operations, including audited financial reports, to be tabled in Parliament by 31 October. The time period for reporting at an entity level should also be shortened based on the experiences in other jurisdictions to three months.

5.5 For entities regarded as significant from a whole of government financial reporting perspective, the Department of Treasury and Finance requires that their audited financial reports be completed around 5 weeks earlier than that required in the legislation. However, the Department has not brought forward by a similar margin the required date for tabling the respective entity’s report of operations, including audited financial reports, in Parliament.

5.6 The legislation framework needs to ensure that there is proper accountability to Parliament over the operations of an entity up to the date it ceases to be a public body. Currently, reliance is placed on appropriate wording being incorporated in agreements to achieve this outcome.

5.7 Some jurisdictions are experimenting with providing, as part of the annual reporting process, summarised financial information to assist users in better understanding the financial affairs of the entity.

5.8 Entity financial reports should be required to not only be prepared in a manner and form determined by the responsible Minister, but also in accordance with Australian Accounting Standards.

5.9 To assist users and preparers of financial reports, the level of disclosure in general purpose financial statements could vary depending on the size of the entity.

5.10 Comprehensive reporting has occurred in relation to the results for the budget (general government) sector. These results have been made available on a quarterly basis.

5.11 Public sector entities should enhance their management information systems so that, in the long term, complete, reliable and useful financial and non financial information is available to ensure accountability on an on-going (real time) basis.
In reporting the financial results in the public sector, accountability responsibilities are equally embraced at a whole of government, budget (general government) sector and individual entity level.

In the private sector, reporting entities are accountable to the shareholders, who are the ultimate owners of the entity. By contrast, in the public sector, reporting entities are accountable to Parliament, whose members represent the ultimate owners – the Victorian community, who are also the users of the services provided by the reporting entities. Accordingly, it is important that Parliament has in place an appropriate legislative accountability and reporting framework, and ensures that it obtains feedback if entities do not comply with the framework. In addition, the credibility of the accountability of Government is enhanced if appropriate information is made available publicly in a timely manner and reports containing such information are prepared in accordance with accounting profession pronouncements.

5.1 Whole of government financial reporting

Victoria has been at the forefront of whole of government financial reporting. The first set of audited whole of government financial statements (annual financial report) to be tabled in Parliament were produced for the 1996/97 financial year. High quality financial statements have consistently been prepared in accordance with the requirements of the Australian Accounting Standards.

Such reporting occurs on a six monthly and annual basis. The mid-year report, which is not subject to audit review, is required to be tabled in Parliament by 15 March (around 11 weeks after the end of the reporting period). The annual financial report must be provided to the Auditor-General on or before 20 September following the financial year to which it relates and must be tabled in Parliament by 15 October (less than 16 weeks after the end of the financial year).

5.1.1 Frequency and timeliness of reporting

As part of this Inquiry, the Committee visited a number of overseas jurisdictions and also conducted a survey to determine the status of the accountability framework, including the frequency and timeliness of reporting the whole of government results to Parliament.

The information gathered by the Committee disclosed that both Sweden and the Commonwealth of Australia produce mid-year interim reports similar to Victoria, while British Columbia and Western Australia produce interim reports on a quarterly basis, and New Zealand and Canada on a monthly basis. Only the interim reports produced in Sweden are subject to audit review. Refer to appendix 3 for further details.

The Committee is of the view that the production of the mid-year interim report meets the needs of members of Parliament in Victoria.

While the majority of jurisdictions produce audited annual financial reports at a whole of government level, the United Kingdom has not at this stage introduced annual whole of government reporting.

In the private sector in Australia, the Corporations Act 2001 (section 319) requires disclosing entities to lodge their annual report with the Australian Securities and Investments Commission (ASIC) within three months after the end of the financial year.
Based on the requirements of a number of other jurisdictions and ASIC, it is reasonable that the annual financial report (which includes the financial results for the budget (general government) sector) continue to be audited by the Auditor-General, but be required to be tabled in Parliament within a period of three months (or around 13 weeks) after the end of the financial year. This would be an advancement on the current requirement of tabling in Parliament by 15 October.

**Recommendation 17:** The audited annual whole of government financial report (which includes the financial results for the budget (general government) sector) should be required to be tabled in Parliament within a period of three months (or 13 weeks) after the financial year to which they relate, which would be in line with better practice in a number of other jurisdictions and ASIC requirements.

**Recommendation 18:** The unaudited interim results for the whole of government should continue to be produced on a six monthly basis.

### 5.1.2 Analysis of financial results

Over a number of years, the discussion and analysis section of the Annual Financial Report has included commentary on the financial condition of the State of Victoria. The analysis is broadly based on the concepts and a range of indicators drawn from a research report titled *Indicators of Government Financial Condition* published in 1997 by the Canadian Institute of Chartered Accountants (CICA).

The indicators identified in the research study described key relationships, ratios and trends which were intended to assist Parliament, decision makers and the public in gaining an enhanced understanding of, and monitoring, the overall financial condition of the State in terms of three main concepts, namely sustainability, flexibility and vulnerability.

In 2006 a project was initiated in Canada to update and build on the work undertaken in the 1997 CICA research study. The objective of the project, which was planned to be finalised in late 2008, was to issue a new Statement of Recommended Practice with recommended guidance, for each level of government, on the reporting of indicators of financial condition.

The outcome of this project is of interest to the Committee, as it is keen to ensure that the Department of Treasury and Finance takes it into consideration to ensure that relevant and appropriate indicators are reported in the discussion and analysis section of the Annual Financial Report.

**Recommendation 19:** Consideration should be given by the Department of Treasury and Finance to the work being undertaken in Canada, on relevant and appropriate indicators for assessing the financial condition of government, when it undertakes its annual review of the indicators reported in the discussion and analysis section of the annual financial report.
5.2 Financial reporting at an entity level

Victoria has also been at the forefront of financial reporting at an entity level. The majority of public bodies have publicly reported on a full accrual basis for a number of decades. Departments commenced publicly reporting on a full accrual basis in the mid 1990’s.

Individual entities that meet the definition of a department or public body as described in the FMA must make available for presenting to Parliament the report of operations and audited financial reports by 31 October (within four months or 18 weeks of the end of the financial year to which they relate).26

If an entity is regarded as significant from a whole of government reporting perspective, they are required by the Department of Treasury and Finance to produce audited financial reports by 15 August (within seven weeks after the end of the financial year) to facilitate the preparation of the whole of government financial report. However, the timeframe for these entities to table in Parliament their report of operations and audited financial report remains unaltered. Accordingly, for this category of entity, the tabling date is some 11 weeks (compared with around six weeks for all other entities) after the date stipulated by the Department of Treasury and Finance that the audit of the financial reports should be completed.

In addition, an entity does not have to produce a financial report and separately report to Parliament if the responsible Minister grants approval under section 53 of the FMA for that particular entity to consolidate its financial report within the financial report of another entity.

Further, the report of operations and the audited financial report of all entities that meet the definition of a department or public body must be tabled in Parliament, except where the entity has expenses less than $5 million. The report of operations and the audited financial report of entities in this category are only required to be tabled in Parliament if a Member of Parliament requests a copy of such documents.

While quality financial reports are produced, opportunity does exist to implement enhancements which may assist in their overall usefulness for users. The following specific financial reporting issues have been identified by the Committee for enhancement.

5.2.1 Timeliness of reporting

The information gathered by the Committee disclosed that better practice in other jurisdictions, in relation to the timeliness of reporting the financial results of individual entities to Parliament, is within three months of the end of the financial year. Sweden, British Columbia, New Zealand and Western Australia have this benchmark. Refer to appendix 4 for further details.

As outlined previously, in the private sector in Australia, the Corporations Act 2001 (section 319) requires disclosing entities to lodge their annual report with the Australian Securities and Investments Commission (ASIC) within three months after the end of the financial year.

Based on better practice in other jurisdictions and the requirements of ASIC, it is reasonable that entities that meet the definition of a department or public body should be required to table their report of operations and audited financial report at least three months (or 13 weeks) after the end of the financial year. This would be an advancement of around five weeks on the current requirements.

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26 Victoria, Australia, Financial Management Act 1994, Part 7, Section 45-46
However, if the Department of Treasury and Finance requires entities to bring forward the date they require the audit of the financial statements to be completed by five weeks to 15 August (due to the entity’s impact from a whole of government reporting perspective), there are compelling reasons for requiring the date for tabling in Parliament the report of operations and audited financial report to be advanced by the same period. Such an approach would ensure that once information becomes available, Parliament is provided with it in a timely manner.

**Recommendation 20:** Departments and public bodies should be required to table in Parliament their reports of operations and audited financial reports within a period of three months (or 13 weeks) after the end of the financial year to which they relate which would be in line with better practice in a number of other jurisdictions and ASIC requirements.

**Recommendation 21:** If particular entities are required by the Department of Treasury and Finance to bring forward the date of completion of the audited financial report, the date for the tabling in Parliament of the report of operations and audited financial report should also be advanced by the same period.

### 5.2.2 Accountability up to the date an entity ceases to be a public body

During a financial year, entities can cease to be a public body for a number of reasons, including a restructure of an entity’s ownership interest and the sale of an entity to the private sector.

In the past, ensuring appropriate accountability to Parliament in an entity’s final year of operation, has been dependant on clauses being inserted in, for example, sale agreements requiring general purpose financial statements to be prepared, and once audited by the Auditor-General for those documents to be tabled in Parliament.

The legislative framework needs to ensure that there is proper accountability to Parliament over the operations of an entity up to the date an entity ceases to be a public body, and not rely on appropriate wording being incorporated in agreements to achieve the required outcome.

**Recommendation 22:** Entities that cease to be a public body during a financial year should be required by the enabling legislation to prepare general purpose financial statements covering the period in that year they were a public body and once audited by the Auditor-General those statements should be tabled in Parliament.
5.2.3 Meeting the needs of users

Generally, annual reports as presented do not give prominence to audited financial reports. However, detailed financial reports are essential for full accountability. Public accountability is not adequately served where brevity comes at the expense of transparency.

Some jurisdictions, (for example the United States) are experimenting with providing summarised financial information, in addition to detailed financial reports as part of the annual reporting process, which may appeal to a wider audience. While such summaries may prove to be useful in the longer term, from a public accountability perspective they should be supported by more detailed reporting, such as the audited financial report.

Consideration should be given to producing a two page summary which incorporates key extracts from the financial statements and performance statements, including comparative data, and is cross referenced to the detailed statements. The summary should form an integral part of the annual report and appear immediately before the detailed financial and performance statements. The summary should not be seen as a substitute for the detailed discussion and analysis of the statements (which should include comparative information for up to five years) which is a key part of the report of operations.

The summary should assist users of the financial report, including Members of Parliament. The financial summary statement information outlined in Table 5.1 should be included in the two page summary.

While accountability reports are currently required to be prepared in a manner and form determined by the responsible Minister, the legislative framework should be enhanced to also require that they are prepared in accordance with the accounting profession pronouncements, namely the Australian Accounting Standards. Such an approach enhances the credibility of the accountability of the Government.

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## Table 5.1: Financial Summary Statement

<table>
<thead>
<tr>
<th>Financial Summary Statement</th>
<th>Prior Financial Years</th>
<th>Current Financial Year</th>
<th>Cross Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Statement</strong></td>
<td></td>
<td></td>
<td>xx</td>
</tr>
<tr>
<td>Total revenue</td>
<td>xxx</td>
<td>xxx</td>
<td></td>
</tr>
<tr>
<td>Total expenditure</td>
<td>xxx</td>
<td>xxx</td>
<td></td>
</tr>
<tr>
<td>Net result for the period</td>
<td>xxx</td>
<td>xxx</td>
<td></td>
</tr>
<tr>
<td><strong>Balance Sheet</strong></td>
<td></td>
<td></td>
<td>xx</td>
</tr>
<tr>
<td>Total assets</td>
<td>xxx</td>
<td>xxx</td>
<td></td>
</tr>
<tr>
<td>Total liabilities</td>
<td>xxx</td>
<td>xxx</td>
<td></td>
</tr>
<tr>
<td>Net assets/ net liabilities</td>
<td>xxx</td>
<td>xxx</td>
<td></td>
</tr>
<tr>
<td><strong>Cash Flow Statement</strong></td>
<td></td>
<td></td>
<td>xx</td>
</tr>
<tr>
<td>Net cash flows from operating activities</td>
<td>xxx</td>
<td>xxx</td>
<td></td>
</tr>
<tr>
<td>Net increase/decrease in cash and cash equivalents for the financial year</td>
<td>xxx</td>
<td>xxx</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents at the end of the financial year</td>
<td>xxx</td>
<td>xxx</td>
<td></td>
</tr>
<tr>
<td><strong>Other Information</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For each line of Annual Parliamentary Appropriation:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total parliamentary authority</td>
<td>xxx</td>
<td>xxx</td>
<td></td>
</tr>
<tr>
<td>Total amount applied</td>
<td>xxx</td>
<td>xxx</td>
<td></td>
</tr>
<tr>
<td>Variance</td>
<td>xxx</td>
<td>xxx</td>
<td></td>
</tr>
<tr>
<td>Amount of parliamentary special appropriation applied</td>
<td>xxx</td>
<td>xxx</td>
<td></td>
</tr>
<tr>
<td>Reference to data on accountable officers and related party transactions</td>
<td>xxx</td>
<td>xxx</td>
<td></td>
</tr>
<tr>
<td>Total operating commitments</td>
<td>xxx</td>
<td>xxx</td>
<td>xx</td>
</tr>
<tr>
<td>Total capital commitments</td>
<td>xxx</td>
<td>xxx</td>
<td></td>
</tr>
<tr>
<td>Reference to data on contingent liabilities and contingent assets</td>
<td>xx</td>
<td>xx</td>
<td></td>
</tr>
<tr>
<td>Reference to any events after the end of the financial period which may have significant impacts on subsequent reported results</td>
<td>xx</td>
<td>xx</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Created by the Public Accounts and Estimates Committee*
Entities that meet the definition of a public body have prepared what is known as *general purpose financial statements* rather than *special purpose financial statements*. While the preparers of general purpose financial statements must include comprehensive information, that comply with all applicable Australian Accounting Standards, the preparers of special purpose financial statements are not required to disclose important information, such as segment information and data related to financial instruments.

An entity is able to produce special purpose financial statements instead of general purpose financial statements only when there is a narrow range of expected users of the entity’s financial information, and it is reasonable to assume that all expected users are able to demand the entity to prepare reports specifically tailored for their information needs. Clearly, entities that meet the definition of a public body have many users, including Members of Parliament, the community of Victoria who are the ultimate owners and who are the recipients of the services provided by the particular entity, creditors, suppliers, regulators and other tiers of government who may provide funding or be the recipient of funding from the particular entity.

Even though an entity with total expenses of less than $5 million is only required to table in Parliament their report of operations and audited financial report if a Member of Parliament requests a copy of such documents, such an entity must still produce general purpose financial statements due to the many users of such statements as outlined above.

To assist users and those preparing financial reports, the level of disclosure in general purpose financial statements should vary depending on the size of the entity.

The United Kingdom’s Accounting Standards Board, which was visited by the Committee, has in place a Financial Reporting Standard for Smaller Entities.28

In a copy of a letter provided to the Committee which outlined the Australian Accounting Standards Board (AASB) response to the October 2008 Department of Treasury and Finance Discussion Paper: Public Finance in Victoria – Practices & Legislation, the AASB referred to its progress in differential reporting projects relating to general purpose financial reporting in the public sector. The AASB’s tentative decision includes that public sector entities should adopt one of the following three possible frameworks:

- All relevant AASB standards [which are International Financial Reporting Standards (IFRSs) as adopted for the not-for-profit public sector in Australia];
- A second tier AASB Standard [which would be the IFRS for private entities as adopted for the not-for-profit public sector in Australia], which is yet to be finalised; and
- AASB recognition and measurement requirements plus limited specific disclosures, which is yet to be finalised.

Further, under section 53 of the FMA, an entity does not have to produce a financial report and separately report to Parliament if approval is obtained from the responsible Minister for that particular entity to consolidate its financial report within the financial report of another entity. The relevant approval has been obtained to obviate the need for school councils to make available to Parliament their report of operations and audited financial reports but enable their financial reports to be consolidated with those of the Department of Education and Early Childhood Development. It is important that this provision is retained in the new legislative framework.

28 Accounting Standards Board – United Kingdom, Financial Reporting Standards for Small to Medium Entity’s, April 2008
Victoria is well placed compared with other jurisdictions, with its requirement for public sector entities to produce audited financial reports and make them available for tabling in Parliament. While there are a small number of areas requiring further attention, Victoria has been proactive in addressing accountability issues which has enabled public sector entities to produce high quality financial reports, with the vast majority receiving clear audit reports.

Recommendation 23: A two page summary (by way of a citizens’ report), which incorporates key extracts from the financial statements and performance statements, including comparative data, and cross referenced to the detailed statements, should be prepared and form an integral part of both the budget papers and annual reports. The summary which would assist users of the financial and performance reports, including Members of Parliament, should appear immediately before the detailed statements.

Recommendation 24: All entities that meet the definition of a department or public body should be required to continue to produce general purpose financial statements. Further, the current provision which enables entities, with the approval of the responsible Minister, to consolidate their financial affairs within the financial report of another entity should be retained in the new legislative framework.

Recommendation 25: To assist users and those preparing financial reports, the level of disclosure in general purpose financial statements should vary depending on the size of the entity. The Department of Treasury and Finance should work with the Australian Accounting Standards Board to assist the Board to finalise its differential reporting projects.

5.3 Budget sector financial reports

Comprehensive reporting has developed over the years in relation to the financial results for the budget (general government) sector.

The results for the budget (general government) sector are produced on the converged GAAP and GFS basis, and made available on a quarterly basis. The previously discussed six monthly and annual whole of government financial reports also incorporate the results for the budget (general government) sector. The September quarter results for the budget (general government) sector are released in a stand alone document. The March quarter results are incorporated in the budget papers. Only the annual financial report for this sector is audited by the Auditor General, as part of the audit of the whole of government financial report.

The following are specific issues identified by the Committee for enhancement in relation to budget (general government) sector reporting.

5.3.1 Frequency and timeliness of reporting

The information gathered by the Committee on the frequency and timeliness of reporting the financial results of the budget (general government) sector to Parliament in other jurisdictions disclosed evidence of interim reporting on a monthly basis. This is consistent with the OECD Best Practices for Budget Transparency. Monthly reporting occurs in Canada, New Zealand, Commonwealth of Australia, Western Australia, and New South Wales. It is only in Sweden (who produces a mid-year report) where these interim reports are subject to audit review.

Better practice for annual reporting is that the audited financial reports are tabled within three months after the end of the financial year. This occurs in Sweden, British Columbia, New Zealand, Commonwealth of Australia, and Western Australia. Refer to appendix 5 for further details on interim and annual reporting in other jurisdictions.

The ultimate aim in interim reporting, especially in reporting the results of the budget sector to Members of Parliament, is to provide complete, reliable, and useful information which should be available on an on-going (real time) basis.

The information provided might not just be financial information, but might include both key financial and non-financial performance information associated with outcomes.

However, to make available complete, reliable, and useful financial and non-financial performance information for day to day decision making, and ensure accountability on an on-going (real time) basis, relies on entities having in place quite sophisticated management information systems. It is an on-going challenge of entities in the public sector to enhance their management information systems to meet this ultimate level of reporting.

Even though real-time information on the budget sector is not readily available, consideration could be given to more regular reporting. The level of reporting for the budget (general government) sector is currently quarterly. A move to more frequent reports would require a significant and expensive IT upgrade to achieve ‘real time’ status.

The OECD Journal on Budgeting Volume 4 – No. 3 The Legal Framework for Budget Systems An International Comparison (OECD 2004), in part 4.4.3 In-year reporting to the legislature on budget execution (page 119) states that:

Only a few countries’ laws require monthly financial statements on budget execution. Reporting delays (e.g. four to six weeks after the end of the month) are generally not written into law. New Zealand’s Public Finance Act is one exception; this law contains relatively extensive legal provisions relating to timing, accounting basis, and coverage of monthly financial statements. France’s 1922 Law on Controlling Expenditure Commitments requires expenditure commitments to be reported each month, but not complete monthly financial statements. Many countries (including Germany, Japan, the Nordic countries and the United Kingdom) publish monthly budget execution data as a matter of course, although this is not a legal requirement. The reporting delay of such data in most OECD countries is one month or less (OECD, 2003, Q.5.2.f).

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Monthly budget reports are identified in the OECD Best Practices for Budget Transparency (OECD Journal on Budgeting Volume 1 – No. 3 (OECD 2002)) as a means of increasing budget transparency. The best practice guide in relation to monthly budget reporting states that:

- ‘Monthly reports show progress in implementing the budget. They should be released within four weeks of the end of each month.

- They should contain the amount of revenue and expenditure in each month and year-to-date. A comparison should be made with the forecast amounts of monthly revenue and expenditure for the same period. Any in-year adjustments to the original forecast should be shown separately.

- A brief commentary should accompany the numerical data. If a significant divergence between actual and forecast amounts occurs, an explanation should be made.

- Expenditures should be classified by major administrative units (e.g., ministry, agency). Supplementary information classifying expenditure by economic and functional categories should also be presented.

- The reports, or related documents, should also contain information on the government’s borrowing activity...’

In a copy of a letter provided to the Committee which outlined the Australian Accounting Standards Board (AASB) response to the October 2008 Department of Treasury and Finance Discussion Paper: Public Finance in Victoria – Practices & Legislation, the AASB referred to the Commonwealth progressing its Standard Business Reporting (SBR) initiative. The initiative involves the use eXtensible Business Reporting Language (XBRL) in gathering, storing and disseminating financial and other information. The AASB is assisting the SBR initiative with XBRL having the potential to be broadly applied across a wide range of entities in the private and public sectors.

The outcome of this project could assist in achieving more frequent reporting of the interim results of the budget (general government) sector.

From evidence received by the Committee from various jurisdictions, it was clear that there were significant lags in reporting. Monthly reports provided some four to six weeks after the end of a month would be of limited value. The Committee does not support legislating monthly reporting at this stage. However, it would like to see the Department of Treasury and Finance continue to improve financial management reporting systems so that they might in the long-term allow ‘real time’ reporting.

**Recommendation 26:**
Public sector entities should enhance their management information systems so that, in the long term, complete, reliable and useful financial and non financial information is available to ensure accountability on an on-going (real time) basis.

**Recommendation 27:**
Reporting to the Parliament of the unaudited interim results for the budget (general government) sector should continue to be produced on a quarterly basis.
5.3.2 **Compliance with applicable Australian Accounting Standards**

The accountability reports on the budget sector (including quarterly financial reports) are currently required to be prepared in a manner and form determined by the responsible Minister, having regard to appropriate financial reporting frameworks. This approach allows scope for departure from the accounting requirements specified in applicable financial reporting standards. Accordingly, the legislative framework needs to be enhanced to also require that the accountability reports on the budget sector are prepared in accordance with the accounting profession pronouncements, namely the Australian Accounting Standards.

**Recommendation 28:** The legislative framework should be enhanced to require the accountability reports on the whole of government, budget sector and individual entities to be prepared not only in a manner and form determined by the responsible Minister, but that also accords with the Australian Accounting Standards.
CHAPTER 6: ACCOUNTABILITY FRAMEWORK - PERFORMANCE REPORTING

Key findings of the Committee:

6.1 Effective public accountability by public sector entities is dependent on the provision to Parliament of not only financial reports but also performance reports.

6.2 Based on an analysis of a number of jurisdictions’ accountability processes, the trend in public performance reporting is to focus on both outcomes and outputs.

6.3 For those jurisdictions that publicly report performance information, it is an ongoing challenge to ensure that the performance indicators and targets are both relevant and appropriate, and that the underlying performance management infrastructure and systems are in place to provide year round reliable information. The Committee consistently encountered this advice in its discussions with the US Government Accountability Office, Cour des comptes, the Treasury Board of Canada and the Auditor-General of British Columbia.

6.4 The more progressive jurisdictions require all public sector entities to produce audited performance reports and include them, with their audited financial reports, in their annual reports tabled in Parliament.

6.5 Western Australia has been at the forefront of annual public performance reporting in Australia, with the key efficiency and effectiveness indicators subject to audit by the Auditor-General.

6.6 In the Victorian public sector, there are varying requirements with regard to the reporting of performance information, such as:

- Departmental annual reports are required to disclose unaudited performance information which includes among other things:
  - a comparison of the output targets specified in the State Budget with actual performance against those targets;
  - a comparison between their portfolio financial statements published in *Budget Paper No. 4* and actual results for the portfolio for the corresponding financial year; and
  - a summary of their financial results;

- Regional water authorities are the only entities required to disclose in their annual reports an audited statement of performance.

6.7 At a whole of government level, the budget papers disclose a range of high-level measures which are aimed at illustrating how the Government is progressing in achieving its *Growing Victoria Together* vision and goals.

6.8 The Parliament and the community would benefit from greater consistency in the reporting of performance information across the public sector.

6.9 In Victoria only limited guidance is available to assist preparers of performance reports.
6.1 Better practice

In achieving effective public accountability in the public sector, the performance information to be disclosed should extend beyond financial information to encompass both financial and non-financial information. For reported performance information to be effective, performance indicators and targets must be relevant and appropriate, and reported results should be based on reliable information and presented in a fair manner.

In the public sector, performance reporting occurs at three levels, namely within an entity for management purposes, to lead agencies for monitoring purposes, and to Parliament and the community for public accountability purposes. This is illustrated in Figure 6.1.

**Figure 6.1 Performance reporting at three levels**

At an entity level, organisations should produce and use data to monitor their own performance and make informed decisions. There appears to be a correlation between those entities that utilise performance information effectively for management purposes and those entities which produce effective performance information for public accountability purposes.

For those jurisdictions that publicly report performance information, it is an ongoing challenge to ensure that performance indicators and targets are both relevant and appropriate, and that the underlying systems are in place to provide reliable information.

The Committee identified from its visits to the various overseas jurisdictions that every jurisdiction struggled with the notion of identifying appropriate performance indicators. This issue lies not with whether the targets are achieved, but whether they are the right targets, whether they properly demonstrate the desired outcomes, and whether the targets skew the performance of the agency - in other words, trying to meet the target rather than trying to deliver on core objectives. In addition, if the targets are achieved, there is a further issue as to the soundness of the underlying data.
Performance reporting for accountability purposes can focus on inputs, outputs and/or outcomes. The Chief Executive of the Advanced Performance Institute in the United Kingdom advised the Committee that the majority of the focus tended to inappropriately centre on outputs. This was illustrated using policing as an example – outputs are associated with deploying more police officers onto the streets; the desired outcome is a reduction in crime levels; and enablers (inputs) are training and recruiting the appropriate police officers to do their work. When indicators and targets are developed, they tend to focus only on the output level, and overlook outcomes and the enablers (inputs).

As outlined previously in Chapter 2 of this report, one of the gaps in budget and reporting frameworks is that the outputs being delivered are not always adequately linked with the desired outcomes. It is important that this issue is addressed upfront at the planning phase as this will assist in linking budgeting with annual reporting.

While linking performance information in budgets to reporting was identified as critical, a number of the jurisdictions visited by the Committee, including the Department of Finance and the Treasury Board of Canada, emphasised the significant gains which have been obtained from effectively linking performance information to decision making.

Key lessons gained in its visits to organisations in the United Kingdom, France, the OECD, the European Commission and Canada are that appropriate, useful and referenced performance measures should be developed and applied. The choice of performance measures needs to be defensible, reliable, transparent and supplemented by interpretation analysis. Care needs to be exercised to ensure that such measures are realistic and that the performance management system does not become so complicated as to be virtually unworkable.

In implementing a cultural shift to performance outcomes-based reporting, essential re-training of public sector managers should be undertaken by each reporting entity. This training should aim to recognise strategic objectives and priorities at an entity level linked to the government policies to be achieved. Training also helps frame or strategically map key performance questions for community outcome improvements to be achieved against objectives. Cross-cutting targets across reporting entities should also be allowed for.

Along with re-training, adequate investment in integrated IT infrastructure or performance management systems for enhancement of year round monitoring and reporting purposes will require serious government consideration, as invested by the US Government Accountability Office and the Treasury Board of Canada and advised to the Committee during its evidenced gathering visit to these jurisdictions.

In British Columbia, where Crown corporations provide best-rated performance reports, the Committee was pleased to note that they challenge themselves by setting realistic targets, not easy ones, that are harder to achieve.

As part of this Inquiry, information was obtained on the status of performance reporting from a whole of government and entity perspective in a range of jurisdictions, including those visited by the Committee.

Based on the results of the information obtained, Sweden, British Columbia and New South Wales have annual reporting of performance indicators at a whole of government level which is subject to audit review. Most jurisdictions have annual reporting of performance indicators at an entity level, with three jurisdictions, namely Sweden, New Zealand and Western Australia requiring the performance information to be subject to audit review. Refer to appendices 6 and 7 for further details.
New Directions In Accountability

To assist in identifying the most appropriate form of performance reporting for public accountability purposes, the following part of this Report outlines the developments that have occurred in a number of jurisdictions, including the United States of America and British Columbia which were visited by the Committee.

6.1.1 United States of America

The Government Performance & Results Act 1993 requires annual performance reporting in the public sector in the United States of America.\(^{31}\) Responsibility for performance targets, which ultimately are disclosed in an agency’s annual program performance report, is divided between the agencies themselves (who initially propose their own targets), the Office of Management and Budget (OMB) (who consult over them) and the Congress (who finally approve them).\(^{32}\)

There is no specific format for the annual performance report; however the Government Performance & Results Act 1993 requires that each agency include the following information in their performance reports.\(^{33}\)

- a review of the success of achieving the performance goals of the fiscal year;
- an evaluation of the performance plan for the current fiscal year relative to the performance achieved toward the performance goals in the fiscal year covered by the report;
- a summary of the findings of any program evaluations during the year covered by the report; and
- disclosure of the actual results for the preceding three years.

In the instance where a performance goal is not met, an explanation of the following is also required:\(^{34}\)

- why the goal was not met;
- schedules in place for planned achievement of the goal; and
- if the performance goal is impractical or not feasible, why that is the case and what action is recommended.

The circulars issued by the OMB state that the most useful performance reports clearly articulate how the work of the agency benefits the public (i.e. its outcomes), enables the public to understand the progress towards performance goals, and gives confidence that the agency is doing everything it can to improve and address shortfalls in performance.

The OMB when analysing the best practice performance reports produced by agencies, for the 2007 financial year, highlighted that agencies include the following.\(^{35}\)

- their overall mission statement, key visions, and a discussion of their overall performance framework;
- a discussion of the organisation’s activities and approach to achieving the strategic and performance goals set down in their performance plan (most commonly presented via linking the strategic goals, strategic outcomes and annual resources used to reach the outcomes); and

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31 United States of America, *Government Performance and Results Act, 1993*, section 1116
33 United States of America, *Government Performance and Results Act, 1993*, section 1116
34 United States of America, *Government Performance and Results Act, 1993*, section 1116
• an analysis of each performance goal and related performance measures, and whether the targets have been reached or not.

The US Government Accountability Office does not audit agencies annual program performance reports.

The Office of Federal Financial Management advised the Committee that a pilot has been conducted requiring selected agencies to combine their annual program performance report with the financial statement and accountability report (collectively known as the Performance and Accountability Report (PAR)).

Selected agencies are required to produce a Citizens’ Report, which is not to exceed 25 pages, presenting key performance and financial information published in their Performance and Accountability Report (PAR). To ensure the Citizens’ Report provides full transparency, agencies are required to make extensive use of specific hyperlinks that take the user directly to the detailed information supporting the report.

6.1.2  British Columbia

In 2000, the Budget Transparency and Accountability Act came into force which requires government agencies to produce service plans for the coming three years and an annual report detailing the agencies success against their plan. ‘Performance Reporting Principles for the British Columbia Public Sector’ (BC Reporting Principles), were also developed in 2003 by the government and the Auditor-General of British Columbia, and endorsed by the Legislative Assembly’s Select Standing Committee on Public Accounts, to outline the expectations for public reporting.

The Auditor-General’s Office of British Columbia advised the Committee that both ministry and crown corporations are now required to produce annual performance reports in accordance with the BC Reporting Principles. However, these reports are not subject to audit by the Auditor-General.

The BC Reporting Principles encompass the following:

• **Explain the public purpose served** – Public performance reporting should explain why an organisation exists and how it conducts its business, both in terms of its operations and in the fundamental values that guide it. This is important to interpreting the means and significance of the performance information being reported.

• **Link goals and results** – Public performance reporting should identify and explain the organisation’s goals, objectives and strategies and how the results relate to them.

• **Focus on the few critical aspects of performance** – Public performance reporting should focus on the few, critical aspects of performance.

• **Relate results to risk and capacity** – Good performance reporting should report results in the context of an organisation’s risks and its capacity to deliver on its programs, products and services.

• **Link resources, strategies and results** – Public performance reporting should link financial and performance information to show how resources and strategies influence results. Related to this is how efficiently the organisation achieves its results.

• **Provide comparative information** – Public performance reporting should provide comparative information about past and expected future performance of similar organisations when it would significantly enhance a reader’s ability to use the information being reported.
• **Present credible information, fairly interpreted** – Public performance reporting should be credible – that is, based on quantitative and qualitative information that is fairly interpreted and presented, based on the best judgement of those reporting.

• **Disclose the basis for key reporting judgements** – Public performance reporting should disclose the basis on which information has been prepared and the limitations that should apply to its use.\(^{36}\)

In September 2007, guidance on public performance reporting was issued at a national level by the Canadian Institute of Chartered Accountants (CICA). The CICA’s Public Sector Accounting Board (PSAB) *Statement of Recommended Practice SORP-2, Public Performance Reporting*, while not identical to the BC Reporting Principles, is consistent with them.

In relation to the quality of performance reports produced, the Auditor-General’s Office of British Columbia advised the Committee that top rated organisations:

• report about half as many performance measures;

• missed their targets at a far higher rate than the other lower rated organisations as they are more challenging; and

• report more clearly, stating the target was met or not met with reasons for the variance - instead of using more vague descriptions, such as ‘substantially met’.

### 6.1.3 Western Australia

Western Australia has been at the forefront of performance reporting in Australia. Since 1986 public sector agencies have been required to produce annual reports which contain the agencies annual financial report and performance indicators. The Auditor-General is required to audit the performance indicators and form an opinion on whether ‘the key performance indicators are relevant and appropriate to assist users to assess the agency’s performance and fairly represent indicated performance for the period under review’.

Public sector agencies (except certain exempted government enterprises) are required to disclose in their annual reports:\(^{37}\)

• the government-desired outcomes to which each service relates;

• key effectiveness indicators for each outcome;

• key efficiency indicators for each service (if applicable); and

• key cost-effectiveness indicators for each outcome (if applicable).

If efficiency indicators are not disclosed for a service, then a cost-effectiveness indicator must be disclosed for the corresponding outcome.

As there is a lag between the provision of services and the achievement of outcomes, agencies are required to estimate the projected timing of outcomes and forecast milestones that indicate progress towards achieving the outcomes. Further, as outcomes may be influenced by a number of agencies, other levels of government and external influences, agencies are required to report in narrative the progress towards achieving the outcomes and the other influences on the outcomes.

\(^{36}\) Performance reporting principles for the British Columbia public sector: Principles endorsed by Government, the Select Standing Committee on Public Accounts and the Auditor General of British Columbia, November 2003, pp.6-21

\(^{37}\) Department of Treasury and Finance – Western Australia, *Treasurer’s Instruction 904*, 2007
For government departments and authorities that form part of the State Budget, the government’s desired outcomes are required to be those specified in the budget papers, while for other agencies the government’s desired outcomes are required to be those identified within the relevant legislation or those specified by the responsible Minister. Outcomes are to focus on the effect, impact, result on or consequence for the community or target client of the services produced.

In addition to annual reports, accountability for the achievement of outcomes and efficient service delivery in Western Australia is addressed in resource agreements.38

6.2 Victorian position

In Victoria, performance reporting occurs at both a whole of government and entity level.

At a whole of government level, in Appendix B in Budget Paper No. 3 for 2009-10, a series of measures are outlined which illustrate how the Government is progressing in achieving its Growing Victoria Together vision and goals. In addition, information about the Government’s priorities, strategies and initiatives in the 2009-10 Budget that is directed towards achieving Growing Victoria Together is also provided in that particular budget paper.

Further, in Chapter 1 of Budget Paper No.2 for 2009-10, the Government’s short-term and long-term financial objectives and targets are outlined. The rationale for, and progress against, each of the five objectives, including how the 2009-10 budget aims to support the achievement of the objectives are also outlined in the chapter.

At an entity level, a pivotal element of the accountability framework established for entities forming part of the Victorian public sector is the presentation of annual reports to the Parliament. These annual reports include the audited financial reports of the relevant entity together with a report of operations which provides the Parliament and other users, including the Victorian community, with information about the entity, its objectives, activities and performance during the reporting period.

The FMA establishes the accountability requirements of public sector entities. Part 5 of the FMA relates to financial responsibility and covers the whole of government financial report (Annual Financial Report) and the budget (general government) sector financial report, while part 7 of the FMA relates to accountability and reporting and covers the report of operations and the audited financial report of individual reporting entities.

Neither of these parts in the enabling legislation refers to the requirement for performance reporting at a whole of government, budget (general government) sector and individual entity level. However, both parts include the following sub-sections:

"...may include any other information the Minister considers appropriate..."

Further, section 50 in part 7 of the FMA requires that:

"...Information that may be prescribed or required...extends to information relating to previous financial years and to proposals and forecasts for future years..."

From a public accountability perspective, both the Standing Directions of the Minister for Finance and the Financial Reporting Directions (both given pursuant to section 8 of the FMA) require the reporting of performance information at an entity level.

38 ibid.
Specifically, section 4.2 of the Standing Directions of the Minister for Finance requires among other things that:

- The Report of Operations should include qualitative and quantitative information on the operations of the Public Sector Agency and be prepared on a basis consistent with the financial statements prepared by the Public Sector Agency pursuant to the FMA. This report should provide users with general information about the entity and its activities, operational highlights for the reporting period, future initiatives and other relevant information not included in the financial statements...

- A Government Department must include a comparison of the outputs targets specified in the State Budget with actual performance against those targets.

- Government Departments must include in their annual report, but not forming part of the audited financial report, a comparison between their portfolio financial statements published in Budget Papers No.4 and actual results for the portfolio for the corresponding financial year...

Further, the Standing Directions require public sector agencies to develop appropriate financial management performance indicators and monitor their performance against these indicators for use in management decision making. In relation to government departments these performance indicators are required to be established for their departmental objectives and output targets. Departments are required to establish these indicators in accordance with the business rules published by the Department of Treasury and Finance which are contained in the Budget and Financial Management Guidance BFMG-08 Objectives Specification, Performance Indicators, and in the Budget and Financial Management Guidance BFMG-09 Output Specification, Performance Measures.

Supplementary material to the Standing Directions states that public sector agencies should take into account the following factors (known as the ‘SMART’ application) when developing internal key financial performance indicators:

- Specific
- Measurable
- Achievable
- Realistic
- Time specific

The requirement to report performance information at an entity level is outlined in a number of Financial Reporting Directions. Specifically the Directions require among other things:

- an entity’s report of operations must contain general and financial information, including other relevant information, outlining and explaining an entity’s operations and activities for the reporting period (FRD 22B Standard Disclosures in the Report of Operations);

- an entity’s report of operations should include a summary of the financial results, with comparative information for the preceding four reporting periods (FRD 22B Standard Disclosures in the Report of Operations);

- report in their annual report, but not forming part of the audited report of operations or financial report, a comparison between their portfolio financial statements published in Budget Paper No.4 and actual results for the portfolio for the corresponding financial year (FRD 8A Consistency of Budget and Departmental Reporting); and
• an applicable entity must include in its report of operations an audited statement of performance [only regional water authorities have been declared as applicable entities]. The statement of performance must include:
  – the relevant performance targets and indicators as determined by the portfolio Minister;
  – the actual results achieved for that financial year against pre-determined performance targets and indicators; and
  – an explanation of any significant variance between the actual results and performance targets and indicators (FRD 27A Presentation and Reporting of Performance Information).

In accordance with these requirements, departmental reports of operations include a comparison of the output targets specified in the State Budget with actual performance against those targets, and a comparison between a portfolio’s financial statements published in Budget Paper No.4 and actual results for the portfolio for the corresponding financial year. The disclosure of this information in the report of operations are important links between what is planned to be delivered and the cost of delivery, as outlined in the budget papers, and what is actually delivered and at what cost. Refer to Appendix 8 and 9 for examples of this disclosure.

As outlined above, the requirement to produce a statement of performance in the current framework is stipulated in the Financial Reporting Directions (FRD 27A). Entities required to produce statements of performance by this FRD must have them audited by the Auditor-General. The FRD is currently only applicable to regional water authorities. Performance statements are also produced by the majority of TAFE Institutions, but under agreement only. These statements are also subject to audit by the Auditor-General. Refer to appendix 10 for an extract of this FRD.

The Auditor-General has a general power to audit performance indicators in entities’ report of operations. Specifically, section 8(3) of the Audit Act 1994 requires that:

The Auditor-General may audit any report of operations of an authority under section 45 of the Financial Management Act 1994 to determine whether any performance indicators in the report of operations -

(a) are relevant to any stated objectives of the authority; and

(b) are appropriate for the assessment of the authority’s actual performance; and

(c) fairly represent the authority’s actual performance.

While this legislative provision provides discretion to the Auditor-General in determining the timing and extent of any such audits undertaken of performance indicators, it nevertheless reflects Parliament’s expectation that audit assurance will be provided in relation to this important area of public sector reporting in order to improve the accountability of entities to the Parliament and the community.
The Committee in its May 2008 Report on the 2006-07 Financial and Performance Outcomes (pages 666 and 667) stated that:

The quality and quantity of performance information reported was generally poor, but there were a small number of agencies and departments that have adopted excellent reporting practices.

Aside from the requirements of the Financial Reporting Directives and the output targets from the budget process, most reports include little or no information about their performance during the year. Most reports focus primarily on reporting activities and projects, rather than achievement of objectives.

... Structure aside, the quality of performance information provided in most annual reports is very poor and would appear to reflect a degree of confusion by agencies about the purpose and nature of annual reporting. Annual reports should be about enhancing the accountability of agencies but may appear to view them as little more than a public relations exercise. The Committee noted the following issues relating to the quality of performance reporting in annual reports:

- few agencies have reported performance against milestones and targets...
- the planned objectives of activities and projects are rarely established...
- none of the annual reports reviewed made good use of benchmarking data...
- where agencies have reported performance data it is often presented on its own without reference to the performance in previous years ...

The Auditor-General in his submission to this inquiry identified a range of common findings from recent audits which indicate some key areas for improvement in public sector performance reporting. Specifically, the Auditor-General’s submission to this enquiry on this issue stated that:

Recently, we tabled two audit reports to Parliament recommending improvement in performance reporting in the Victorian public sector: Performance Reporting by Public Financial Corporations (2007-08:30) and Performance Reporting in Local Government (2007-08:29). Last year, our report on Parliamentary Appropriations: Output Measures (2007-08:8) made findings and recommendations on the systems underlying the main performance reporting requirements established under the FMA for departments.
These reports identify issues for entities across Victoria. Many of the findings echoed issues routinely uncovered through our audits of individual programs, projects and entities and seminal work conducted by the Office [Report on Ministerial Portfolios (June 2001); Departmental performance management and reporting (Nov 2001); Performance management and reporting; progress report and a case study (April 2003)] since the Auditor-General was given the current mandate in 1999. Common findings from recent audits indicate some key areas for improvement in public sector performance reporting include:

- **Focus on outputs and outcomes** - Performance reporting should answer the question: have objectives been met?
- **Comprehensiveness** - Performance indicators should assess performance against all objectives. The recent audits found that important data are not being reported on the efficiency, timeliness and quality of government services, and on the achievement of outcomes;
- **Consistency and comparability** - Data used for performance reporting should be calculated consistently over time and preferably be comparable across organisations;
- **Context** - Data should be provided for prior period performance, including trends, and on the reasons for any significant variance from targets or expected results. This information should be included in agency annual reports, accompanied by an assessment of the extent to which output delivery has contributed to achievement of departmental objectives and government outcomes;
- **Integration** - Performance reporting should form part of internal management reporting and planning activity, rather than being undertaken for compliance purposes; and
- **Integrity and controls** - Quality performance information depends on robust automated information systems and good quality assurance mechanisms. Our audits have found that there are weaknesses in the information systems, data collection methods and costing methodologies used to develop performance information.39

### 6.3 Areas requiring enhancement

While there is public reporting in Victoria of a range of performance information, the Committee has identified the following areas requiring enhancement.

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39 Victorian Auditor General’s Office, Submission on the Inquiry into Victoria’s public finance practices and legislation, 21 August 2008, p.8
6.3.1 Whole of Government Reporting

At a whole of government level, performance reporting should focus on the outcomes the government is aiming to achieve. The whole of government policy framework, such as Growing Victoria Together, with its defined objectives and outcomes, should be the ‘centre piece’ for performance reporting.

In Appendix B in Budget Paper No.3 for 2008-09, a series of measures are outlined which illustrate how the Government is progressing in achieving its Growing Victoria Together vision and goals. As the budget papers are tabled in Parliament in May each year, the reported results against the established indicators and targets are interim results for the financial year.

The reported results against the established indicators and targets for Growing Victoria Together should also be as at the end of the financial year, and could be reported to Parliament in the document containing the whole of government financial report (Annual Financial Report). Currently, the progress made against each of the short-term and long-term financial objectives and strategies are contained in the Annual Financial Report.

Recommendation 29: An annual whole of government performance report should be required to be prepared and tabled in Parliament.

6.3.2 Entity Reporting

Based on an analysis of a number of jurisdiction’s accountability processes, there is a growing trend in public performance reporting to focus on both outcomes and outputs.

For performance reporting to be effective, Government and individual entities need to identify at the commencement of the performance cycle what is planned to be delivered, and at the end of the cycle report what has actually been delivered compared with that planned.

(a) Planning phase

At the commencement of the planning cycle, the outcomes and related outputs planned to be delivered, and related key indicators and targets, need to be identified and made available to users such as the Parliament, community and central agencies, so that they are aware of what is planned to be achieved in the period. That information should also be included in the public performance reports at the end of the financial period to enable comparisons to be made between what was planned to be delivered and what was actually delivered.

The focus needs to be on the critical aspects of performance, and relate to the social, economic and environmental dimensions of sustainable performance of the reporting entity. For public accountability purposes, only the key performance indicators and targets need to be identified. It is an ongoing challenge to ensure that the indicators and targets that are identified for those purposes are both relevant and appropriate.

A number of key outcomes and related outputs that are planned to be delivered, especially associated with ‘joined-up government’ programs, can impact on a number of entities. Performance indicators and targets that reflect the overall performance of programs need to be specified in the budget papers, together with the lead entity associated with each program. This could also be summarised on one page for major entities (departments and major entities). A second page could summarise financial information by key programs.
For government departments and other entities that form part of the State Budget, the government-desired outcomes and outputs, and related key indicators and targets, that could be included in public performance reports at the end of the performance cycle should be those specified in the budget papers or in supporting Annual Plans.

For entities that do not form part of the State Budget, the desired outcomes and outputs, and related key indicators and targets that could be included in public performance reports should be those specified in the entity’s Annual Plan. It is important that the government-desired outcomes included in these documents be those identified within the legislation applicable to the entity and those specified by the responsible Minister.

**Recommendation 30:** As part of the budget papers major entities (departments and major agencies) should include a one page summary of outcomes and related outputs planned to be delivered in the coming year as well as key indicators and targets.

**(b) Reporting phase**

Effective public accountability by public sector entities is dependent on the provision to Parliament of not only financial reports but also performance reports. Across the Victorian public sector there are varying requirements with regard to the reporting of performance information. The Parliament and the community would benefit from greater consistency in the reporting of performance information across the public sector.

To achieve consistency in the reporting of performance information, performance reports could include the information outlined in Table 6.2.

The more progressive jurisdictions require all public sector entities to produce an annual audited performance report and include them, with their audited financial report, in their annual report which is tabled in Parliament.

However, one of the shortcomings being experienced by jurisdictions with extensive experience in performance management and the annual reporting of performance outcomes is that too much focus has been on the annual process instead of the longer-term. This was an issue raised with the Committee by the Swedish National Financial Management Authority.

The performance information included in the performance report needs to be both reliable and free from bias.

Performance reports should be based on data that can be replicated by independent observers to produce similar results and be independently verified. They must be free from bias that may lead users to make assessments or decisions that are influenced by the way performance is measured or information is presented. It is important that explanatory narrative included in performance reports is precise and clearly stated in plain, non-technical language. It should focus on critical facts and matters to enable users to obtain reasonable insights or draw reasonable conclusions.40

While effective public performance reporting provides an important source of information about performance, it is not a substitute for in-depth independent evaluations of the efficiency and effectiveness of programs which, in most jurisdictions, are conducted by Auditor-Generals or equivalent officials.

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# Table 6.2: Public Sector Entity Performance Reports

– Information that should be disclosed

## PUBLIC SECTOR ENTITY PERFORMANCE REPORT

- For entities that form part of the State Budget, include the outcomes and outputs, and related key indicators and targets, specified in the budget papers or in a supporting Annual Plan;

- For entities that do not form part of the State Budget, include the outcomes and outputs, and related key indicators and targets, specified in the entity’s Annual Plan;

- For each indicator, include the targets and actual results for the period that the statement relates and the two previous financial years, and the targets for the following three financial years;

- Disclose the basis on which the performance report has been prepared. In particular:
  
  I. a statement acknowledging the entity’s responsibility for the preparation of the report;
  
  II. the basis on which those responsible for the preparation of the report have confidence in the reliability of the information in the report;
  
  III. a description of the reporting entity;
  
  IV. the rationale for selecting the outcomes and related outputs, and related indicators and targets included in the report;
  
  V. description of the outcomes and related outputs, and related indicators and targets;
  
  VI. identify instances where desired outcomes and related outputs have changed between reporting periods and the rationale for the change; and
  
  VII. identify instances where the indicators and/or targets have changed between reporting periods, the rationale for the change and whether or not the reported prior period comparative information is consistent with the revised indicators and/or targets.

- In instances where the actual results have exceeded the targets, an explanation as to why they have been exceeded and whether the targets for future financial years will need to be adjusted; and

- In instances where the targets have not been achieved, an explanation as to:
  
  I. why the target was not met;
  
  II. future actions to be taken to facilitate achievement of the target; and
  
  III. if the target is impractical or not feasible, why that is the case and what action is to be taken.

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Source: Table compiled by the Public Accounts and Estimates Committee

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41 Canadian Institute of Chartered Accountants, *Statement of Recommended Practice (SORP-2)*, 15 May 2007, p.2

42 *Government Performance and Results Act 1993*, United States of America, p.4
Recommendation 31: All public sector entities that separately report to Parliament should be required to produce an annual performance report and include them together with their financial report, in their annual report.

Recommendation 32: The annual whole of government performance report and the annual performance reports of public sector entities should be required to be:

a) prepared in a manner and form determined by the responsible Minister and in accordance with generally accepted professional pronouncements; and
b) tabled in Parliament within a period of three months after the end of the financial year to which they relate.

Recommendation 33: To achieve consistency in the reporting of performance across the public sector, performance reports should:

a) for entities that form part of the State budget, include the outcomes and related outputs, and related key indicators and targets, specified in the budget papers or in supporting Annual Plans;
b) for entities that do not form part of the State budget, include the outcomes and related outputs, and related key indicators and targets, specified in the entity’s Annual Plan;
c) for each indicator, include the targets and actual results for the period that the statement relates and the two previous financial years, and the targets for the following three financial years; and
d) in instances where actual results vary materially from the established targets, provide an adequate reason for the variance.

6.3.3 Framework for Performance Reporting

In Victoria, only limited guidance is available to assist preparers of performance reports. Under the current framework, this is stipulated in the Financial Reporting Directions (FRD 27A).

The Canadian Comprehensive Auditing Foundation advised the Committee that central agencies can play a major role in improving performance reporting through, among other things, providing guidelines and encouraging the development of standards.

As outlined previously, British Columbia has developed a generally accepted conceptual framework which outlines the expectations for public performance reporting. The framework known as Performance Reporting Principles for the British Columbia Public Sector (BC Reporting Principles), was developed by the government and the Auditor-General, and endorsed by the Legislative Assembly’s Select Standing Committee on Public Accounts.
The development of such a framework enables preparers of public performance plans and reports, the Parliament and the community as users of such documents and the Auditor-General who assesses them to do so from a common basis, with agreement on the fundamentals of meaningful performance reporting. The Committee considers that a generally accepted conceptual framework that identifies the essential characteristics of performance reporting in the Victorian public sector context should be developed under the leadership of the Department of Treasury and Finance.

The Victorian Auditor-General in his submission to this inquiry, identified the growth in reporting on performance, in both the private and public sectors, in particular sustainability reporting. The submission also referred to a paper soon to be released by the New Zealand Office of the Auditor-General on the growth of sustainability reporting and the emerging need for consistency in reporting frameworks and assurance over the information provided.

In Canada, the Canadian Institute of Chartered Accountants’ Public Sector Accounting Board (PSAB) has issued a *Statement of Recommended Practice SORP-2 on Public Performance Reporting*. The Committee considers that a specific accounting standard for performance reporting should be developed in Australia, based on the work undertaken in Canada, which would assist in achieving consistency in reporting frameworks, and be of assistance to preparers and users of performance reports, including Members of Parliament.

**Recommendation 34:** A generally accepted conceptual framework that identifies the essential characteristics of performance reporting in the Victorian public sector context should be developed under the leadership of the Department of Treasury and Finance (the work undertaken in British Columbia would be a good reference point).

**Recommendation 35:** The Department of Treasury and Finance should work with the Australian Accounting Standards Board to develop a specific accounting standard for performance reporting (the work undertaken in Canada would be a good reference point).

### 6.3.4 Level of Assurance

Effective accountability to the Parliament and the community by governments and public sector entities is dependent upon the provision of information which is relevant, reliable, consistent from one period to the next, fairly presented and understandable, and can be independently verified.

Third party assurance from the independent external auditor, the Auditor-General, about the quality of the information reported to the Parliament and the community gives confidence to the users of that information as to its relevance and reliability.

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43 *Performance reporting principles for the British Columbia public sector: Principles endorsed by Government, the Select Standing Committee on Public Accounts and the Auditor General of British Columbia*, November 2003, p.1

In Victoria, there is inconsistent legislative requirements regarding the level of assurance required on performance information. While some entities are required by the Financial Reporting Directions to present a statement of performance for external audit review, a large portion of the performance information required to be reported by entities is included in the report of operations and is not subject to external audit review. Accordingly, for the majority of the performance information publicly reported, reliance is placed on management assurance.

The credibility of performance information contained in accountability reports is subject to question when it is not accompanied by assurance provided by the independent external auditor appointed by Parliament (the Auditor-General), stating whether or not the performance indicators and targets are relevant and appropriate, and the reported results are based on reliable information and fairly presented.

Wherever possible performance measurers should be based on accepted benchmarks such as ABS data or OECD indicators.

Annual financial reports produced by public sector entities are considered incomplete if they are not accompanied by audit reports issued by the Auditor-General stating whether or not the information is fairly presented. The Parliament and the community would benefit from greater consistency in reporting of performance information, and have confidence in the reported information, if it was also accompanied by a similar level of assurance provided by the Auditor-General.

As outlined previously, all public sector entities who separately report to Parliament should prepare performance reports and include them in their annual reports. It is acknowledged by the Committee that entities will require a period of time to ‘bed down’ the associated reporting processes and the underlying management control systems, prior to such reports being subject to a formal audit.

It is important that public sector entities produce performance reports even if they have concerns that they would not obtain positive audit clearance. If entities have such concerns, they should include in the notes to the reports any shortcomings in the actual reported information (such as missing or incomplete data or the reporting of estimated instead of actual data). The notes to the reports should also indicate in what reporting period the entity estimates it will be in a position to report complete and quality performance information.

Recommendation 36: Audit reports on performance indicators should be phased in so that entities have a sufficient period of time to ‘bed down’ their reporting processes, and underlying management control systems.
CHAPTER 7: ENTITIES SUBJECT TO THE FRAMEWORK

Key findings of the Committee:

7.1 There is effective parliamentary control over the accountability of governments when:
   - the legislative financial management and reporting requirements are applicable to all entities controlled by the responsible jurisdiction; and
   - the Parliament is informed in a timely manner if entities do not comply with the legislative accountability and reporting requirements.

7.2 The framework in Victoria ensures that the majority of entities controlled by the State are captured by the legislative requirements relating to accountability and reporting.

7.3 One of the issues unique with Victoria compared with other jurisdictions, is that the Victorian public sector is made up of a small number of large departments and a large number of public statutory authorities of varying size and significance established under separate legislation with their own boards and governance arrangements.

7.4 Consideration should be given to rationalising the number of entities in the Victorian public sector.

7.5 A corporation is required by the legislative framework to report to Parliament if all the shares are owned (directly or indirectly) by the State. Other corporations which are controlled by the State (but not fully owned) report to Parliament once administrative action has been taken to have the entity declared by the Governor in Council as a body corporate.

7.6 A corporation fully owned by the State and a declared body corporate are required by the legislation to table their annual report in Parliament but are not currently required to comply with the framework’s other requirements, such as those relating to financial management and the form and content of the annual report, including financial and performance reports.

7.7 Parliament should be informed on an annual basis if individual entities do not meet particular legislative accountability and reporting requirements.
7.1 Better Practice

The financial management and accountability framework in Victoria not only relates to the State Budget and estimated financial statements which are incorporated in the budget papers, and whole of government and general government financial reports, but also to reporting to Parliament by departments and public bodies.

From a better practice perspective, entities controlled by the government who provide services to the community should be fully accountable to Parliament for the work they undertake and the results they achieve. That is, effective parliamentary control over the accountability of governments to Parliament occurs when the legislative financial management and reporting requirements are applicable to all entities controlled by the responsible jurisdiction.

Further, Parliament needs to be informed in a timely manner of instances of non-compliance with such requirements, the details of the corrective action being undertaken to address any difficulties being encountered, and the timeframe required to implement appropriate action. The Office of Federal Financial Management advised the Committee that in the United States of America, Congress is advised of any non-compliance with accountability obligations.45

7.2 Victorian position

The legislative framework in Victoria includes an extensive definition of a department and a public body, with the entities that meet the definitions required to comply with the financial management and accountability requirements. The FMA provides the following definitions of departments and public bodies which assist in identifying those entities which should be subject to the framework.

A department means:

- a department within the meaning of the Public Administration Act 2004; or
- an office specified in section 16(1) of that Act.

A public body means:

- a public statutory authority;
- a State business corporation or State body within the meaning of the State Owned Enterprises Act 1992; or
- a body, office or trust body:
  - established by or under an Act or enactment; or
  - established by the Governor in Council or a Minister

and that is declared by the Minister, by notice published in the Government Gazette, to be a body or office to which Part 7 applies).46

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45 United States Federal Financial Management Improvement Act 1996, United States of America, s.803(b)(2) and s.804(b)
46 Financial Management Act 1994, Part 1, Section 3
There is a specific annual reporting provision (section 53A of the FMA) relating to:

- a corporation within the meaning of the Corporations Act (other than a State owned company within the meaning of the *State Owned Enterprises Act 1992*), all the shares in which are owned by or on behalf of the State or a statutory authority (whether or not a public statutory authority), whether directly or indirectly; and

- a body corporate declared by the Governor in Council by notice published in the *Government Gazette* to be a body to which the section applies.

Further, section 53 of the FMA enables, with the responsible Minister’s approval, the consolidation of an entity’s financial report with that of another entity.

### 7.3 Areas requiring enhancement

Although the framework in Victoria ensures that the majority of entities controlled by the State are captured by the legislative requirements relating to accountability and reporting to Parliament, the Committee has identified the following areas that require enhancement.

#### 7.3.1 Number of public sector entities

One of the issues unique to Victoria compared with other jurisdictions, especially at a federal level, is that the Victorian public sector is made up of a small number of large departments but a large number of public statutory authorities established under separate legislation with their own boards and governance arrangements.

As a significant number of entities meet the definition of public body as outlined in the FMA, they are bound by the accountability requirements outlined in the legislation. The entities range from major bodies such as the Victorian WorkCover Authority and the Transport Accident Commission to small entities such as registration boards.

Due to the entities being controlled by Government and providing services to the community, it is important that they are required to make available for tabling in Parliament their annual report.

Consideration needs to be given to rationalising the number of existing public sector entities through the consolidation of their activities. Policy and community expectations change over time and activities once peripheral can become mainstream (e.g. energy efficiency and sustainability). Further, a framework needs to be established which could be utilised to determine whether it is appropriate to fulfil the roles and responsibilities outlined in proposed legislation through an existing entity or the establishment of a new entity. Such an initiative would reduce the number of entities that comprise the Victorian public sector and, through economies of scale, promote more efficient use of existing resources and more effective accountability.
Recommendation 37: The Government should consider rationalising the number of public sector entities in Victoria. It should:

a) undertake a review to identify instances where existing entities could be consolidated with other public sector entities; and
b) establish a framework which could be utilised to determine whether it is appropriate to fulfil the roles and responsibilities outlined in proposed legislation through an existing entity or the establishment of a new entity.

7.3.2 Controlled entities

In accordance with the framework, a corporation within the meaning of the Corporations Act is only required to annually report to Parliament if all the shares are owned (directly or indirectly) by the State.

Further, a body, office or trust body can be declared by the Minister which requires that entity to comply with the framework’s accountability and reporting requirements. In addition, a body corporate can be declared by the Governor in Council to be a body which is required to table its annual report, including its audited financial statements, in Parliament. These categories of entities are reliant on action taken by either the Minister or the Governor in Council to ensure they are accountable to Parliament.

To ensure consistency of application and that controlled entities directly fall within the ambit of the framework, the legislation could include a definition of an ‘authority’, similar to that outlined in the Audit Act 1994, which includes a department, public body and an entity of which the State or a public body has control.

A corporation and a declared body corporate are both required by the legislation to table their annual reports, including their audited financial reports, in Parliament. However, the legislation in its current form does not require these entities (such as metropolitan water retail companies) to comply with the framework’s other accountability and reporting requirements, such as those relating to financial management governance and oversight, financial management structure, systems, policies and procedures, and the form and content of the annual report, including financial and performance reports.

While it is accepted that an entity caught by another jurisdiction’s annual reporting requirements (for example the Corporation Act) must comply with those requirements, such entities should also be required to comply with their own jurisdiction’s financial management and accountability requirements as long as they are in addition to, and not inconsistent with, the requirements in the other jurisdiction.

Recommendation 38: The definition of public body in the legislation should be expanded to include entities of which the State or a public body has control.
Recommendation 39: All entities, including a corporation within the meaning of the Corporations Act which is controlled by the State or a public body should be required, as far as possible, to comply with requirements of both the financial management and accountability frameworks.

7.3.3 Compliance with accountability and reporting requirements

All entities that meet the definition of a department and public body are required to comply with part 7 of the FMA which relates to accountability and reporting. The legislation outlines some high level principles regarding the contents of the annual report (report of operations and the financial statements). The more detailed reporting requirements are outlined in the Standing Directions of the Minister for Finance and in the Financial Reporting Directions.

Notwithstanding the legislative accountability and reporting requirements, the Auditor-General on a number of occasions has brought to the attention of Parliament that a range of entities had met the definition of public body but did not comply with the FMA requirements.

To ensure that there is effective accountability of entities to Parliament, the legislative accountability, and financial and performance reporting requirements should be applicable to all entities (reporting separately or consolidated with another entity). As outlined in Chapter 5 of this report:

- the current provision (section 53 of the FMA) which enables entities, with the approval of the responsible Minister, to consolidate their affairs within the financial report of another entity should be retained in the new legislative framework; and
- the level of disclosure in financial reports should vary depending on the size of entities.

If individual entities do not meet particular legislative accountability and reporting requirements, the Parliament should be informed of such cases on an annual basis.

Recommendation 40: All public sector entities should be required to comply with the legislative accountability, and financial and performance reporting requirements (reporting separately or consolidated with another entity).

Recommendation 41: A report should be tabled in Parliament, on an annual basis, identifying particular entities that do not meet the accountability and reporting requirements. The report should outline in each case the rationale why the particular requirement could not be met, the action being taken to overcome the difficulties being encountered and the timeframe required to implement appropriate action.

The Committee also noted that the State also contracts with and makes payments to non-State entities and that such payments and investments need to be properly accounted for.

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CHAPTER 8: OTHER MATTERS

Key findings of the Committee:

8.1 The development of the new public finance and accountability legislation provides an opportunity for Parliament to determine whether a range of other financial management matters included in other Acts should be included in the new legislation.

8.2 The Department of Treasury and Finance is considering whether the proposed public finance and accountability legislation should be principle-based rather than the traditional prescriptive form.

8.3 The elements of the new legislation relating to the parliamentary requirements of the Government when it utilises the discretionary budget management provisions, and the accountability of the Government and entities, relating to both financial and non-financial matters, need to be determined by the Parliament and therefore should be prescriptive.

8.4 Consideration could be given to the other matters covered by the new legislation being principle based.

8.1 Financial management matters in other Acts

The preceding chapters of this Report have focused on Victoria’s budget and accountability frameworks and related sections established under the FMA. However, the FMA addresses a range of other matters including:

- indemnities (Part 6A);
- guarantees (Part 6B);
- financial accommodation levy (Part 6C);
- supply management (Victorian Government Purchasing Board) (Part 7A);
- acquisition, leasing and licensing of land and premises (Part 7B); and
- general matters relating to write-offs, overpayments, loss or damage and unclaimed property (Part 8).

The development of new public finance and accountability legislation provides an opportunity for the Government to also undertake a review to determine not only whether these existing provisions should be retained and incorporated in the new legislation, but whether a range of other financial management matters included in other Acts could be included in the new legislation. Other Acts that contain financial management matters that could be considered for inclusion in the new legislation include:

- *Borrowing and Investment Powers Act 1987* – provides powers to those entities set out in a schedule to the Act to borrow and invest State funds, and sets out the processes and accountability mechanisms to ensure that the Government has knowledge of, and some control over, the extent of the investment of State funds;
• *Monetary Units Act 2004* – provides for the indexation of Government fees and penalties listed in a schedule to the Act;

• *Public Authorities (Dividends) Act 1983* – provides authority for the Government to obtain annual dividends from those entities set out in a schedule to the Act; and

• *Administrative Arrangements Act 1983* – provides for the reallocation of responsibility and finances when there are machinery of government changes that impact on departments.

However, some of the above mentioned Acts and provisions in the FMA are only applicable to a limited element of the public sector, such as the borrowing and investing powers, and procurement requirements/principles. The development of the new legislation provides an opportunity for the Government to reassess whether the coverage of such matters should be extended to all entities in the public sector.

**Recommendation 42:** The contents of other Acts that contain financial management matters should be considered for inclusion in the new legislation.

**Recommendation 43:** The coverage of a range of matters, including borrowing and investing powers and procurement requirements/principles, should be extended to all entities in the public sector.

### 8.2 Principle-based or prescriptive legislation

The Committee was advised in a briefing with the Department of Treasury and Finance on 23 June 2008 that it was considering whether new financial management legislation should be principle-based rather than the traditional prescriptive legislation.

Principle-based legislation outlines the fundamental principle of the law, with the related requirements outlined in subordinate instruments, such as Ministerial Directions. Such legislation creates a legal requirement that something needs to be done but the subordinate instruments outline specifics such as how it should be done.

The new public finance and accountability legislation in Victoria should adequately outline the responsibilities of the relevant Minister and the requirements of the Parliament.

Principle-based legislation could be supported in relation to outlining the responsibilities of the relevant Minister, on the basis that the Government via a Minister would outline the related requirements in subordinate instruments, such as Ministerial Directions.

The parliamentary requirements relate to essential matters such as control and oversight of the ‘public purse’ which should be determined by the Parliament. Specifically they relate to:

- the parliamentary requirements of the Government when it utilises the discretionary budget management provisions; and
- the accountability of the Government and individual public sector entities on the utilisation of public resources.
Under principle-based legislation, the Parliament would not have control over the details outlined in Ministerial Directions on such matters. The constitutional principle of separation of powers could be thwarted as the detailed requirements would be determined by the Government.

For example, in relation to the accountability to the Parliament of individual public sector entities, Parliament should have the ability and power to prescribe:

- what entities should be accountable;
- what they should be accountable for (financial and/or non financial information);
- whether the form of the accountability report should be determined by a Minister and/or in accordance with generally accepted professional pronouncements;
- timeframe for reporting to Parliament after the end of the reporting period; and
- whether the accountability report should be audited by the Auditor-General.

The Committee is of the view that the parliamentary requirements associated with such matters should be prescribed in the proposed new legislation.

**Recommendation 44:** The proposed legislation could be principle-based, except for those elements outlining the parliamentary requirements of the Government when it utilises the discretionary budget management provisions, and the accountability of the Government and individual public sector entities on their utilisation of public resources.
APPENDICES
**APPENDIX 1: APPROPRIATION FRAMEWORKS OF A NUMBER OF AUSTRALIAN AND OVERSEAS JURISDICTIONS – AN OVERVIEW**

<table>
<thead>
<tr>
<th>Basis of Appropriations</th>
<th>Victoria</th>
<th>New South Wales</th>
<th>Queensland</th>
<th>South Australia</th>
<th>Northern Territory</th>
<th>Commonwealth of Australia</th>
<th>New Zealand</th>
<th>United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global accrual output-based departmental appropriations for output provision, additions to net assets, and payments on behalf of State.</td>
<td>Global cash input-based departmental appropriations, for recurrent and capital purposes.</td>
<td>Global accrual output-based departmental appropriations, for controlled outputs, controlled equity adjustments, and administered items.</td>
<td>Global accrual departmental appropriations, for operations, equity contributions for capital acquisitions.</td>
<td>Accrual-based output/outcome appropriations to departments, although does not encompass non-cash accrual costs. It is provided to fund the delivery of outputs and is based on previous year’s requirements with adjustments for new initiatives, inflation, salary parameters and efficiency dividends. Capital appropriation is provided to agencies in relation to asset purchases and capital projects.</td>
<td>Accrual-based output/outcome appropriations to departments and public sector agencies. All appropriations are global and made for outputs, equity injections, and loans. Administered appropriations for expenses are outcome-based, while one global appropriation is provided for administered capital purposes for each department and public sector agency.</td>
<td>Accrual output-based departmental appropriations for individual output classes, capital contributions, non-departmental operating costs, and loan and interest costs.</td>
<td>Accrual Global input-based departmental appropriations, with appropriations referenced to the key departmental aims and parliamentary authority provided on both an accruals and net-cash basis.</td>
<td></td>
</tr>
<tr>
<td>Authority to apply appropriations vested in:</td>
<td>Victoria</td>
<td>New South Wales</td>
<td>Queensland</td>
<td>South Australia</td>
<td>Northern Territory</td>
<td>Commonwealth of Australia</td>
<td>New Zealand</td>
<td>United Kingdom</td>
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<td>--------------------------------------------</td>
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<td>----------------</td>
</tr>
<tr>
<td>The Treasurer</td>
<td>The Treasurer</td>
<td>Portfolio Ministers</td>
<td>The Treasurer</td>
<td>The Treasurer - total appropriation limits applied at commencement of financial year.</td>
<td>The Treasurer</td>
<td>The Finance Minister (however, the authority is generally delegated to Ministers or departmental senior officials)</td>
<td>Vote Ministers</td>
<td>Departments</td>
</tr>
</tbody>
</table>

<p>| Treasurer's Advance | ✔️ Specific 'urgent claims' allocation included in the Annual Appropriation Act. | ✔️ Specific allocation for recurrent and capital purposes included in the Annual Appropriation Act | ✔️ The Treasury Department's appropriations include provision for a 'Treasurer's Advance' which may be paid to line departments where their appropriations are insufficient. | ✔️ Specific contingency allocation included in the Annual Appropriation Act. In addition, a 'Governor's appropriation fund' provides a further allocation of up to 3% of total annual appropriations for unforeseen events. | ✔️ Specific contingency allocation included in the Annual Appropriation Act. Where Administrator agrees, TA pool may be increased by 5 per cent of total appropriation. Paid at end of financial year to departments where their appropriations are insufficient. | ✔️ Specific allocation to the Finance Minister for application under specified conditions, mainly relating to urgent and unforeseen need, and erroneous omission or understatement of other appropriations. | × Supplementary appropriations generally provide the means to fund unexpected/new expenditures. | × Supplementary appropriations generally provide the means to fund unexpected/new expenditures. |</p>
<table>
<thead>
<tr>
<th></th>
<th>Victoria</th>
<th>New South Wales</th>
<th>Queensland</th>
<th>South Australia</th>
<th>Northern Territory</th>
<th>Commonwealth of Australia</th>
<th>New Zealand</th>
<th>United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Other (temporary) advances</strong></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
<td>✓</td>
</tr>
<tr>
<td>(to meet urgent claims)</td>
<td>Authority limit capped at 0.5 per cent of total annual appropriations - for 'urgent claims'</td>
<td>Authority limit not capped for 'exigencies' of government, but requires approval by the Governor on the Treasurer's recommendation.</td>
<td>Authority limit not capped for 'unforeseen expenditure' incurred, but requires approval by the Governor-in-Council on the Treasurer's recommendation during a financial year or within a further four weeks post year-end.</td>
<td>No other advances. Public Finance and Audit Act 1987 allows Treasurer to appropriate additional funds to meet ratified industrial agreements.</td>
<td>No other advances.</td>
<td>No other advances.</td>
<td>The Public Finance Act provides the Minister of Finance authority to appropriate expenses or capital up to 2 per cent or $10,000 (whichever is greater) in excess of an appropriation. This is uncapped in respect of emergency expenditure.</td>
<td>Contingency Fund capped at 2 per cent of prior year cash appropriation.</td>
</tr>
<tr>
<td><strong>Appropriation transfers</strong></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Only within the same department.</td>
<td>Only between departments.</td>
<td>Within the same department, within the department's vote for the financial year, and between departments in certain circumstances.</td>
<td>Within the same department and between departments.</td>
<td>Permitted within department and between departments. Applies to both output and capital appropriation.</td>
<td>Not permitted.</td>
<td>Appropriation transfers possible with Cabinet approval.</td>
<td>Not permitted.</td>
<td>Not permitted.</td>
</tr>
<tr>
<td><strong>Receipt annotation / retention</strong></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Receipt annotation, with legislative authority limit uncapped.</td>
<td>Receipt retention, with legislative authority limit uncapped.</td>
<td>Receipt retention, with legislative authority limit uncapped.</td>
<td>Receipt retention, with legislative authority limit uncapped.</td>
<td>Receipt retention, Line agency receipt &amp; annotation. Treasurer's approval required for use of additional revenue in excess of $0.1m.</td>
<td>Receipt retention, with legislative authority limit uncapped.</td>
<td>Receipt retention, with authority limit capped in legislation.</td>
<td>Receipt annotation, with authority limit capped by Appropriation Act.</td>
<td>Receipt annotation, with authority limit capped by Appropriation Act.</td>
</tr>
<tr>
<td></td>
<td>Victoria</td>
<td>New South Wales</td>
<td>Queensland</td>
<td>South Australia</td>
<td>Northern Territory</td>
<td>Commonwealth of Australia</td>
<td>New Zealand</td>
<td>United Kingdom</td>
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<td>--------------------------------</td>
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</tr>
<tr>
<td><strong>Carry-forward of unused appropriations</strong></td>
<td>✓ Subject to Treasurer approval.</td>
<td>✗ Not permitted.</td>
<td>✗ Only available for 2 weeks post year-end</td>
<td>✗ Not necessary given that the total parliamentary appropriation limits applied each year. Appropriation can be paid into deposit accounts and carried forward to subsequent years.</td>
<td>✓ Subject to Treasurer approval.</td>
<td>✓ Departmental appropriations remain available to the Government over future years until applied. Administered appropriations which are unapplied at year-end, may be carried-forward to future years unless the Minister for Finance reduces the amount that can be carried forward.</td>
<td>✗ Generally not permitted. Transfers can be considered where outputs or capital projects cannot be achieved within the annual appropriation timeframe or are explicitly deferred. This requires the approval of the Minister of Finance and the Vote Minister.</td>
<td>✗ Not permitted.</td>
</tr>
<tr>
<td><strong>Borrowing against future year appropriations</strong></td>
<td>✓ The Treasurer, with the approval of the Governor-in-Council, may approve additional expenditure which accrues benefits for future years, with the authority limit capped at 3 per cent of the relevant department’s annual appropriation.</td>
<td>✗ Not permitted.</td>
<td>✗ Not permitted.</td>
<td>✗ Not permitted. Chief Executives may pull forward future expenditure authority, however cash requirements must be met from existing appropriation sources.</td>
<td>✗ Not permitted</td>
<td>✗ Not permitted.</td>
<td>✗ Not permitted.</td>
<td>✗ Not permitted.</td>
</tr>
</tbody>
</table>
### Appendix 1

<table>
<thead>
<tr>
<th>Other provisions facilitating increased parliamentary appropriation authority and management flexibility</th>
<th>Victoria</th>
<th>New South Wales</th>
<th>Queensland</th>
<th>South Australia</th>
<th>Northern Territory</th>
<th>Commonwealth of Australia</th>
<th>New Zealand</th>
<th>United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relate to increased salary and associated costs resulting from industrial awards or determinations, and additional expenditure associated with Commonwealth grants received post-budget. Furthermore, unspent accrual appropriations are available for departmental working capital purposes, and departmental surpluses may be expended without the need for further parliamentary sanction.</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relate to additional expenditure associated with Commonwealth grants received post-budget.</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unspent accrual appropriations that have been previously applied are available for departmental working capital purposes, and departmental 'controlled' surpluses may be expended by departments without the need for further parliamentary sanction.</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The total appropriation authority/limit is applied and provided to departments each year, with any unspent amount available for departmental purposes in the following financial year without the need for further parliamentary sanction once appropriation has been paid from Consolidated Account into departmental deposit accounts.</td>
<td></td>
<td></td>
<td></td>
<td>Nil.</td>
<td></td>
<td>Unspent departmental appropriations remain available for departmental purposes, and may be expended by departments without the need for further parliamentary sanction.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**

(a) Represents the frameworks in operation at the various jurisdictions as at 30 September 2008 except for the United Kingdom which shows the framework from 2002.

✓ Represents availability of the relevant feature within the jurisdiction.

× Represents non-availability of the relevant feature within the jurisdiction.

**Original source:** Victorian Auditor-General’s Office, Parliamentary control and management of appropriations, April 2003, pp.85-89 (updated as part of this inquiry)
## APPENDIX 2: OTHER JURISDICTIONS - FINANCIAL REPORTING AT A WHOLE OF GOVERNMENT LEVEL

<table>
<thead>
<tr>
<th>Interim Reporting to Parliament</th>
<th>Statutory Timeframe for Reporting to Parliament</th>
<th>Is it audited?</th>
<th>Annual reporting to Parliament</th>
<th>Statutory Timeframe for Reporting to Parliament</th>
<th>Is it audited?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>Yes – mid year</td>
<td>Yes</td>
<td>Yes</td>
<td>Within 3 months after year end</td>
<td>Yes</td>
</tr>
<tr>
<td>New Zealand</td>
<td>Yes - Monthly</td>
<td>No</td>
<td>Yes</td>
<td>Within 3 months after year end</td>
<td>Yes</td>
</tr>
<tr>
<td>Canada</td>
<td>Monthly, but no statutory requirement</td>
<td>No</td>
<td>Yes, but no statutory requirement</td>
<td>No statutory requirement, but tabled within 6 months of year end</td>
<td>No</td>
</tr>
<tr>
<td>British Columbia</td>
<td>Quarterly</td>
<td>No</td>
<td>Yes</td>
<td>Within 3 months after year end</td>
<td>Yes</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>No</td>
<td>N/A</td>
<td>No – trial occurring for 2009-10</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Commonwealth of Australia</td>
<td>Yes – Mid Year</td>
<td>No</td>
<td>Yes</td>
<td>Specific timelines are not stated in legislation</td>
<td>Yes</td>
</tr>
<tr>
<td>Western Australia</td>
<td>Yes - Quarterly</td>
<td>No</td>
<td>Yes</td>
<td>90 days after year end</td>
<td>Yes</td>
</tr>
<tr>
<td>New South Wales</td>
<td>No</td>
<td>N/A</td>
<td>Yes</td>
<td>No statutory requirement but policy is to table within 4 months after year end</td>
<td>Yes</td>
</tr>
<tr>
<td>Queensland</td>
<td>No</td>
<td>N/A</td>
<td>Yes</td>
<td>6 months after year end</td>
<td>Yes</td>
</tr>
<tr>
<td>South Australia</td>
<td>No</td>
<td>N/A</td>
<td>Yes, but no statutory requirement</td>
<td>No statutory requirement – but table within 6 months from year end</td>
<td>Yes, but no statutory requirement</td>
</tr>
</tbody>
</table>

Source: Responses to the Committee’s Public Finance Inquiry Questionnaire, 2 September 2008
## APPENDIX 3: OTHER JURISDICTIONS - FINANCIAL REPORTING AT AN ENTITY LEVEL

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Annual reporting to Parliament</th>
<th>Statutory Timeframe for Reporting to Parliament</th>
<th>Is it audited?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden (a)</td>
<td>Yes</td>
<td>Within 52 days after year end</td>
<td>Yes</td>
</tr>
<tr>
<td>New Zealand</td>
<td>Yes</td>
<td>Within 3 months after year end</td>
<td>Yes</td>
</tr>
<tr>
<td>Canada</td>
<td>No stand alone reporting requirements</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>British Columbia</td>
<td>Yes</td>
<td>Within 3 months after year end</td>
<td>Yes</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Yes</td>
<td>Deadline for tabling in Parliament is 31 January (i.e. 10 months after year end). In practice however, most departments table their accounts in Parliament by the 3rd week in July (i.e. before summer parliamentary recess).</td>
<td>Yes</td>
</tr>
<tr>
<td>Commonwealth of Australia</td>
<td>Yes</td>
<td>Within 4 months after year end</td>
<td>Yes</td>
</tr>
<tr>
<td>Western Australia</td>
<td>Yes</td>
<td>Tabled no later than the prescribed day each year to the Minister (Currently 5 days after the audit completion) 90 days after year end</td>
<td>Yes</td>
</tr>
<tr>
<td>New South Wales</td>
<td>Yes</td>
<td>Within 16 weeks after year end</td>
<td>Yes</td>
</tr>
<tr>
<td>Queensland (b)</td>
<td>Yes</td>
<td>Within 4 months after year end must submit to Minister.</td>
<td>Yes</td>
</tr>
<tr>
<td>South Australia</td>
<td>Yes</td>
<td>Statements required to be submitted to Auditor-General within 42 days of year end</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Notes:  
(a) Sweden – This is the only jurisdiction that undertakes interim reporting at an entity level – Interim reports are produced monthly and are audited.  
(b) Queensland – The Financial Management Standard 1997 is currently being re-drafted. In this legislation, it is proposed that the timelines for reporting to Parliament will be decreased to 3 months after year end

Source: Responses to the Committee’s Public Finance Inquiry Questionnaire, 2 September 2008
## APPENDIX 4: OTHER JURISDICTIONS - FINANCIAL REPORTING AT A BUDGET SECTOR LEVEL

<table>
<thead>
<tr>
<th></th>
<th>INTERIM REPORTING</th>
<th>ANNUAL REPORTING</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Intervals for Interim Reporting to Parliament</td>
<td>Statutory Timeframe for Reporting to Parliament</td>
</tr>
<tr>
<td>Sweden</td>
<td>Yes – Mid year</td>
<td>Within 4 months after end of period</td>
</tr>
<tr>
<td>New Zealand</td>
<td>Yes - Monthly</td>
<td>Within 6 weeks after end of period</td>
</tr>
<tr>
<td>Canada</td>
<td>Monthly report of actuals with quarterly economic updates</td>
<td>No statutory requirement but policy is to table within 50 days after month end</td>
</tr>
<tr>
<td>British Columbia</td>
<td>No</td>
<td>N/A</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>No</td>
<td>N/A</td>
</tr>
<tr>
<td>Commonwealth of Australia</td>
<td>Yes – Monthly</td>
<td>As soon as practical after the end of each month</td>
</tr>
<tr>
<td>Western Australia</td>
<td>Yes - Monthly</td>
<td>Within 6 weeks after end of period</td>
</tr>
<tr>
<td>New South Wales</td>
<td>Yes - Monthly</td>
<td>Within 1 month after end of period</td>
</tr>
<tr>
<td>Queensland</td>
<td>Yes - Mid Year</td>
<td>No legislated timeframe</td>
</tr>
<tr>
<td>South Australia</td>
<td>Quarterly cash transactions through Consolidated Account only.</td>
<td>No statutory requirement, but policy is to table within 3 months of year end</td>
</tr>
</tbody>
</table>

Source: Responses to the Committee’s Public Finance Inquiry Questionnaire, 2 September 2008
## APPENDIX 5: OTHER JURISDICTIONS - PERFORMANCE REPORTING AT A WHOLE OF GOVERNMENT LEVEL

<table>
<thead>
<tr>
<th></th>
<th>Is there annual reporting of performance indicators?</th>
<th>If yes, what do they relate to?</th>
<th>Statutory Timeframe for Reporting to Parliament</th>
<th>If there is annual performance reporting – is it audited?</th>
<th>Requirements for reporting and auditing stipulated in legislation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>Yes</td>
<td>Outputs</td>
<td>Within 9 months after end of period</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>New Zealand</td>
<td>No</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>British Columbia</td>
<td>Yes</td>
<td>Inputs, outputs, outcomes</td>
<td>Within 5 months of end of period</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>No (a)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Western Australia</td>
<td>No (b)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>New South Wales</td>
<td>Yes</td>
<td>Outcomes and Outputs</td>
<td>4 months after financial year end</td>
<td>Yes</td>
<td>No statutory requirement, however stipulated in the Government’s State Plan</td>
</tr>
<tr>
<td>Queensland</td>
<td>No (c)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>South Australia</td>
<td>No (d)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Notes:

(a) Plan for central government to report twice a year (Spring and Autumn) based on outcomes, outputs and inputs
(b) The Whole of Government financial reports include performance reporting against the Government’s financial targets
(c) Anticipated performance reporting at a whole of government level will be published annually from 2009 onwards
(d) State Strategic Plan targets (Outcomes, Outputs and Inputs) are reported on every two years

Source: Responses to the Committee’s Public Finance Inquiry Questionnaire, 2 September 2008
## APPENDIX 6: OTHER JURISDICTIONS - PERFORMANCE REPORTING AT AN ENTITY LEVEL

<table>
<thead>
<tr>
<th></th>
<th>Is there annual reporting of performance indicators?</th>
<th>If yes, what do they relate to?</th>
<th>Statutory Timeframe for Reporting to Parliament</th>
<th>If there is annual performance reporting – is it audited?</th>
<th>Requirements for reporting and auditing stipulated in legislation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>Yes</td>
<td>Outputs</td>
<td>Within 52 days after year end</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>New Zealand</td>
<td>Yes</td>
<td>Outputs (Quality, Quantity and Cost)</td>
<td>Within 3 months after year end</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>United States of America</td>
<td>Yes</td>
<td>Outcomes and resources</td>
<td>Within 6 months after year end</td>
<td>No</td>
<td>Yes (Reporting requirements only)</td>
</tr>
<tr>
<td>British Columbia</td>
<td>Yes</td>
<td>Outcomes, outputs, inputs</td>
<td>Statutory requirements vary for individual entities (however usually within 6 months)</td>
<td>Only one entity required to be audited. Range of other entities audited on a voluntary basis</td>
<td>Yes (however mainly relate to reporting)</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Biannual reporting at a departmental level</td>
<td>Outcomes, outputs and inputs</td>
<td>No statutory requirement, however timeframe for reporting established by HM Treasury</td>
<td>No – Validation (undertaken on a rolling basis) is limited to actual data systems underpinning the performance framework</td>
<td>No</td>
</tr>
<tr>
<td>Western Australia</td>
<td>Yes</td>
<td>Outcomes and outputs</td>
<td>Within 90 days after end of period</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>New South Wales</td>
<td>Yes (a)</td>
<td>Outcomes and Outputs</td>
<td>Annual Reports: Departments – within 5 months of end of period. Reporting associated with Service Plans – timelines not stipulated in legislation.</td>
<td>No</td>
<td>Yes (Reporting requirements only)</td>
</tr>
<tr>
<td>Queensland</td>
<td>No - report annually to Government(b)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>South Australia</td>
<td>Yes (c)</td>
<td>Outcomes, Outputs and Inputs</td>
<td>No statutory requirement, however annual reports are tabled within 3 months of year end</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>
Notes:  
(a) Departments are required to report in their Service Plans, however other Agencies are encouraged to include performance information in report of operations. Departments also include some performance information in their annual reports. 
(b) Currently relate to outputs, however the new Performance Management Framework (endorsed by Cabinet on 1 Sept 2008) extends consideration of performance to ‘agency objectives’ and ‘services’ (similar to outcomes and outputs). 
(c) In both annual reports of agencies and in Portfolio statements prepared to support annual budget papers. 
Source: Responses to the Committee’s Public Finance Inquiry Questionnaire, 2 September 2008
APPENDIX 7: BUDGET PORTFOLIO – OUTPUT PERFORMANCE MEASURES

Extract taken from the 2007-08 Annual Report of the Department of Primary Industries

Department of Primary Industries - Output Performance Measures

<table>
<thead>
<tr>
<th>Major Outputs/ Deliverables</th>
<th>Performance Measures</th>
<th>Unit of measure</th>
<th>2006-07 Actual</th>
<th>2007-08 Target</th>
<th>2007-08 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Industries Policy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Develop policy frameworks and legislative reforms that aim to improve investment in, and protection of, energy and resources and primary industries through the establishment of efficient and equitable resource definitions, allocation and management processes leading to improved market access, industry competitiveness, or recurrent resource use and reduced adverse impacts on the environment.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quantity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exercise strategies for maintaining security of electricity and gas supply (a)</td>
<td>Number</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Industry information packages released targeted at minerals and petroleum (b)</td>
<td>Number</td>
<td>10</td>
<td>12</td>
<td>12</td>
<td>14</td>
</tr>
<tr>
<td>Major strategic policy advice on energy matters to Government (c)</td>
<td>Number</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Number of policy initiatives and legislative reforms completed that enhance industry competitiveness and sustainability (d)</td>
<td>Number</td>
<td>4</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Number of structural management arrangements in place for fisheries (e)</td>
<td>Number</td>
<td>11</td>
<td>19</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Policy projects in progress that promote efficient policies and resource allocation mechanisms (f)</td>
<td>Number</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Powerline relocation grants approved (g)</td>
<td>Number</td>
<td>25</td>
<td>20</td>
<td>20</td>
<td>17</td>
</tr>
<tr>
<td>Strategic policy briefings on energy matters to portfolio minister (h)</td>
<td>Number</td>
<td>220</td>
<td>233</td>
<td>200</td>
<td>246</td>
</tr>
<tr>
<td>Quality</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliance with criteria for approval of Powerline Relocation Grants (a)</td>
<td>Per seat</td>
<td>nm</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Enhanced/Fishing/Geoscience program components meet agreed milestones for delivery (b)</td>
<td>Per seat</td>
<td>nm</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Percentage of key management performance indicators for the relevant stage of current fisheries management plans that are measured and reported (c)</td>
<td>Per seat</td>
<td>91</td>
<td>91</td>
<td>90</td>
<td>92</td>
</tr>
<tr>
<td>Proportion of Minerals &amp; Petroleum division publications and packages requiring post-release correction or recall (d)</td>
<td>Per seat</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Timeliness</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fisheries Management Plans’ actions implemented within agreed timelines (e)</td>
<td>Per seat</td>
<td>91</td>
<td>91</td>
<td>90</td>
<td>92</td>
</tr>
<tr>
<td>Key energy policy deliverables and projects managed on time – in line with planned and agreed project timeline (f)</td>
<td>Per seat</td>
<td>95</td>
<td>97</td>
<td>95</td>
<td>100</td>
</tr>
<tr>
<td>Minerals &amp; Petroleum division input to Environment Effects Statements (EES) completed according to EES panel timelines (g)</td>
<td>Per seat</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Western Port recreational fishing plans established within agreed timelines (h)</td>
<td>Per seat</td>
<td>nm</td>
<td>nm</td>
<td>nm</td>
<td>nm</td>
</tr>
<tr>
<td>Cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total output cost</td>
<td>$ million</td>
<td>31.2</td>
<td>46.2</td>
<td>44.5</td>
<td>62.5</td>
</tr>
</tbody>
</table>

Notes:
(a) This performance measure was transferred from the Department of Infrastructure as part of the machinery of government changes effective from 1 January 2007. Historical results have been taken from the Department of Infrastructure.
(b) Target was exceeded due to two additional projects being conducted relating to National Inter-jurisdictional Gas components and the National Liquid Fuels Emergency.
(c) Target was exceeded due to the release of the new Gold Undercovers program geotechnical reports.
(d) Target was exceeded due to the provision of advice including the Victorian Energy Efficiency Target Scheme, the Advanced Metering Infrastructure project, the 14 January 2007 bushfire-related power outages, the National Framework for Economic Regulation of Distribution, the Emissions Trading Scheme and the Zero Emissions.
(e) Cranbourne, Warrnambool and West Gippsland. Fishery Management plans have been delayed but will be declared in first half of 2008-09.
(f) Target not met due to timing of project submissions in 2008 with 12 new projects to be considered in July 2008.
(g) Target was exceeded due to a number of complex and continuous energy policy issues including wind farm events, feed-in tariffs, energy pricing and emissions trading.
(h) This is a new measure to reflect the new initiatives to enhance exceptional fishing opportunities.
(i) Some milestones have not been met due to complexities requiring more detailed analysis including initiatives relating to the artificial reef trial, the native fish production facility and adopt-a-stream grants programs. These initiatives are expected to meet over 30 milestone in third quarter of 2008-09.
(j) This is a new measure to reflect the new initiative implementing a new recreational fishing haven in Western Port.
(k) Actual expenditure exceeded budget mainly due to higher than expected costs for the structural adjustment of Western Zone Power Laboratory building and the establishment of the Victorian Renewable Energy Target scheme administration.

Source: Department of Primary Industries, 2007-08 Annual Report, Appendix 1, p. 42
APPENDIX 8: BUDGET PORTFOLIO – FINANCIAL OUTCOMES

Extract taken from the 2007-08 Annual Report of the Department of Justice

Department of Justice - Budget Portfolio Outcomes

Budget Portfolio Outcomes

The Budget Portfolio Outcomes provide a comparison between the actual financial statements of all general government sector entities within the portfolio and the forecasted financial information published in the Budget Papers No.4 Statement of Finances 2007-08 (BP4). The Budget Portfolio Outcomes comprises the operating statement, balance sheet, cash flow statement, statement of changes in equity, and administered item statement.

The Budget Portfolio Outcomes have been prepared on a consolidated basis and include all general government sector entities within the portfolio. Financial transactions and balances are classified into either controlled or administered in accordance with AAS 29 Financial Reporting by Government Departments and agreed with the Treasurer in the context of the published statements in BP4.

The following Budget Portfolio Outcomes statements are not subject to audit by the Victorian Auditor-General's Office and are not prepared on the same basis as the department's financial statements as they include financial information of the following entities:

- Department of Justice
- Judicial College of Victoria
- Office of Police Integrity
- Office of Public Prosecutions
- Office of the Victorian Privacy Commissioner
- Residential Tenancies Bond Authority
- Sentencing Advisory Council
- Victoria Police
- Victorian Commission for Gambling Regulation
- Victorian Electoral Commission
- Victorian Equal Opportunity and Human Rights Commission
- Victorian Institute of Forensic Medicine
- Victorian Law Reform Commission
- Victorian State Emergency Service Authority

Operating statement for the year ended 30 June 2008

<table>
<thead>
<tr>
<th>Department of Justice</th>
<th>2007–08 Actual S’000</th>
<th>2007–08 Budget S’000</th>
<th>Variation as %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Output appropriations</td>
<td>2,911,674</td>
<td>3,055,960</td>
<td>(4.7)</td>
</tr>
<tr>
<td>Special appropriations</td>
<td>88,884</td>
<td>93,852</td>
<td>(5.3)</td>
</tr>
<tr>
<td>Resources received free of charge or for nominal consideration</td>
<td>14,732</td>
<td>14,701</td>
<td>0.2</td>
</tr>
<tr>
<td>Sale of goods and services</td>
<td>18,092</td>
<td>19,935</td>
<td>65.5</td>
</tr>
<tr>
<td>Other grants</td>
<td>33,851</td>
<td>43,150</td>
<td>(21.6)</td>
</tr>
<tr>
<td>Fines and fees</td>
<td>7,754</td>
<td>7,670</td>
<td>1.1</td>
</tr>
<tr>
<td>Revenue from other parties and other income</td>
<td>250,817</td>
<td>141,423</td>
<td>77.4</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>3,325,584</strong></td>
<td><strong>3,367,691</strong></td>
<td><strong>(1.2)</strong></td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee benefits expense</td>
<td>(1,761,009)</td>
<td>(1,790,104)</td>
<td>(1.6)</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(132,488)</td>
<td>(148,297)</td>
<td>(10.7)</td>
</tr>
<tr>
<td>Resources provided free of charge or for nominal consideration</td>
<td>(55)</td>
<td>0</td>
<td>100.0</td>
</tr>
<tr>
<td>Grants and other payments</td>
<td>(245,600)</td>
<td>(258,923)</td>
<td>(5.1)</td>
</tr>
<tr>
<td>Capital asset charge</td>
<td>(122,458)</td>
<td>(122,458)</td>
<td>0.0</td>
</tr>
<tr>
<td>Supplies and services</td>
<td>(907,876)</td>
<td>(977,054)</td>
<td>(7.1)</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(46,034)</td>
<td>(48,549)</td>
<td>(5.2)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(721)</td>
<td>(1,469)</td>
<td>(50.9)</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>3,216,301</strong></td>
<td><strong>3,346,854</strong></td>
<td><strong>(3.9)</strong></td>
</tr>
<tr>
<td><strong>Net result for the reporting period</strong></td>
<td><strong>109,283</strong></td>
<td><strong>20,837</strong></td>
<td><strong>425.5</strong></td>
</tr>
</tbody>
</table>

(a) Variation between 2007–08 Actual and 2007–08 Budget.
APPENDIX 9: PRESENTATION AND REPORTING OF PERFORMANCE INFORMATION

FRD 27A Presentation and Reporting of Performance Information

Purpose
To require entities scheduled in Appendix 1 to present and report any performance information required by the responsible portfolio Minister in an audited statement of performance as part of its report of operations.

Application
Applies to all entities scheduled in Appendix 1 which meet the definition of either a public body or department under section 3 of the Financial Management Act 1994.

Requirement
- An applicable entity must include in its report of operations an audited statement of performance.
- The statement must contain the details as required by the responsible portfolio Minister.
- The statement of performance must include:
  (a) the relevant performance targets and indicators as determined by the responsible portfolio Minister;
  (b) the actual results achieved for that financial year against pre-determined performance targets and indicators; and
  (c) an explanation of any significant variance between the actual results and performance targets and indicators.

Operative Date
- Reporting periods commencing 1 July 2005.
- FRD 27 ‘Presentation and Reporting of Performance Information’ is withdrawn and superseded effective 1 July 2005.

Guidance
Appendix 2 contains an example statement of performance.

Background
Under section 8(3) of the Audit Act 1994, the Auditor-General is empowered to audit any performance indicators in the report of operations of an authority under section 45 of the Financial Management Act 1994, which includes public bodies and departments.

With a view to improve the efficiency and consistency in the reporting of performance information across public sector entities, this FRD requires the disclosure of such information in a concise statement of performance as part an entity’s report of operations. Relevant targets and indicators to be included in the statement of performance are determined by the responsible portfolio Minister to ensure that consistent and comparable information is reported across similar entities.

The audited statement of performance forms part of an entity’s report of operations and does not form part of the financial report.

This FRD was updated for reporting periods commencing 1 July 2005 to reflect changes to Regional Water Authorities listed in Appendix 1 resulting from:
- amalgamations between authorities; and
- the inclusion of some previously exempt authorities.
# Appendix 2 – Example Statement of Performance

## Statement of Performance for the 2005-06 Financial Year

<table>
<thead>
<tr>
<th>Performance Indicators *</th>
<th>2005-06 Target</th>
<th>2005-06 Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Indicators</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual financial performance – operating surplus</td>
<td>5% variance from projection</td>
<td>5% variance from projection</td>
<td>Nil</td>
</tr>
<tr>
<td>Total annual debt level as a percentage of total revenue</td>
<td>Less than 60%</td>
<td>64%</td>
<td>4%&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>Achieve financial plan targets</td>
<td>Achieve all targets</td>
<td>5 out of 6 targets achieved</td>
<td>1 target&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
<tr>
<td>Standard and Poors rating</td>
<td>Maintain AAA rating</td>
<td>AAA rating reaffirmed</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Social Indicators</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall customer satisfaction</td>
<td>80%</td>
<td>95%</td>
<td>15%&lt;sup&gt;3&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>Environmental Indicators</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction of greenhouse gas emissions from operations</td>
<td>5%</td>
<td>6%</td>
<td>1%</td>
</tr>
<tr>
<td>Reduction in total energy consumption</td>
<td>2%</td>
<td>2%</td>
<td>Nil</td>
</tr>
<tr>
<td>Percentage increase in the use of GreenPower</td>
<td>2.5%</td>
<td>10%</td>
<td>7.5%&lt;sup&gt;4&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

**Explanation of significant variances:**

1. The total annual debt level as a percentage of total revenue did not achieve the target due to the borrowings undertaken for implementing the entity’s Customers’ Satisfaction Program over the next 5 years.
2. The entity achieved 5 of the 6 its financial plan targets in the 2005-06 financial year. The target of reducing the debt/equity ratio to 15 per cent was not achieved as a result of the entity’s borrowings for the Customers’ Satisfaction Program.
3. The entity is committed to achieving high customer satisfaction in its service delivery. This has been achieved by the implementation of the entity’s Customers’ Satisfaction Program.
4. The entity purchased a fleet of hybrid vehicles in implementing its Environmental Action Plan to increase the use of GreenPower.

# Please note: the example performance targets and indicators are for illustrative purposes only. The relevant portfolio Minister will determine applicable performance targets and indicators for each entity.
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<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>36.</td>
<td>European Commission, Financial Regulation and implementing rules applicable to the general budget of the European Communities, 2008, Luxembourg</td>
</tr>
<tr>
<td>37.</td>
<td>European Commission, Presentation slides from the 2008 Presentation to the delegation from the Public Accounts and Estimates Committee – Victoria, Australia, 7 July 2008, Brussels, Belgium</td>
</tr>
<tr>
<td>38.</td>
<td>Financial Management Act 1994 (Vic)</td>
</tr>
<tr>
<td>40.</td>
<td>French Court of Auditors, Bicentenary of the Court of Auditors - Reconstitution of the First Official Audience of the Court of Auditors since 5 November 1807 (DVD), 5 November 2007, Paris, France</td>
</tr>
<tr>
<td>41.</td>
<td>French Court of Auditors, Certification of the Accounts of the State 2007, May 2008, Paris, France</td>
</tr>
<tr>
<td>42.</td>
<td>French Court of Auditors, Certification of the Accounts of the State 2006, May 2008, Paris, France</td>
</tr>
<tr>
<td>43.</td>
<td>French Court of Auditors, Information Booklets, September 2007, Paris, France</td>
</tr>
<tr>
<td>44.</td>
<td>French Court of Auditors, Presentation slides from the 2008 Presentation to the delegation from the Public Accounts and Estimates Committee – Victoria, Australia, 4 July 2008, Paris, France</td>
</tr>
<tr>
<td>46.</td>
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</tr>
</tbody>
</table>
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New Directions In Accountability


ERRATUM

Public Account and Estimates Committee
Report on New Directions in Accountability
Inquiry into Victoria’s Public Finance Practices and Legislation
June 2009

Delete Figure 2.1 Focus of Budgeting, top of page 20

Insert at the top of page 20, Figure 2.1 Focus of Budgeting

Figure 2.1 Focus of Budgeting

Outcomes

Evaluation

Policy Objectives of Government

Outputs

Efficiency

Economy

Inputs

Source: Figure from the Public Accounts and Estimates Committee

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