PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

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NEW DIRECTIONS IN ACCOUNTABILITY

PRELIMINARY REPORT

INQUIRY INTO VICTORIA'S PUBLIC FINANCE PRACTICES AND LEGISLATION

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Parliament of Victoria

Public Accounts and Estimates Committee

New Directions In Accountability
(Preliminary Report)
Inquiry into Victoria's Public Finance Practices and Legislation

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DUTIES OF THE COMMITTEE

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

The Committee comprises 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.

CHAIR'S FOREWORD

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.

This preliminary report of the Committee outlines a range of issues, which it considers 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 accords with best practice in international jurisdictions.

This preliminary 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.

Victoria is already a world leader in financial reporting, with advanced accrual based budgeting and appropriation frameworks. The Committee considers that the review of the legislation provides an opportunity to adopt a leading edge resource management and accountability framework, focusing on the specific outcomes the government wishes to achieve linked to the outputs being delivered which contribute to each outcome.

The Committee identified from its visits to various overseas jurisdictions that every jurisdiction encountered challenges with the notion of identifying appropriate performance information. The report identifies that for performance indicators and targets included in the budget papers and annual reports to be relevant and appropriate, they need to focus on the relationship between outcomes, outputs and inputs, and the value to users of government services and the community.

The Committee considers that an opportunity exists to enhance the financial information provided to Parliament to make it more 'user friendly' for Members and the community. The Committee also considers that Parliament and the community would benefit from greater consistency in the reporting of performance information across the public sector, and outlines a range of actions that could be considered.

The Committee would welcome feedback on the ideas and options that are put forward in this preliminary report as well as any additional views. Such feedback will help inform the Committee's considerations and final report.

Finally, I wish to thank members of the Committee for their valued considerations during this inquiry and in finalising this preliminary report. Further, I wish to extend our thanks to the Committee's Secretariat for helping deliver this preliminary report on this important Inquiry.

Bob Stensholt

Bob Stensholt MP

Chair

ISSUES FOR CONSIDERATION

Budget Framework..p19-23

1. **The budgeted resources required to produce individual outputs could be linked in the Budget Papers to the individual outcomes the Government aims to achieve.**

2. **The performance indicators and targets outlined in the Budget Papers relating to the Government desired outcomes and outputs could:**

   a. **Focus on effectiveness and efficiency, which includes the concept of value add and equity; and**

   b. **Take into account the new performance and assessment framework to be developed by COAG.**

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

4. **The Budget Papers could include every four years (in line with the Parliamentary term), projections over the longer-term, say 10 to 40 years, taking into account changing economic and demographic circumstances.**

5. **Reconciliation could be included in the Budget Papers of the value of appropriations recorded in Annual Appropriation Bills with those recorded in the Budget Papers.**

6. **To facilitate more timely disclosure of budget information, the Budget Papers could disclose not only the asset investment initiatives for the budget year, but also on-going capital asset construction projects and public private partnership 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.**

7. **The Estimated Financial Statements for the budget (general government) sector could be enhanced by disclosing, in addition to capital expenditure approved but not yet allocated, the contingent expenses for operating purposes.**

8. **The Budget Papers could be enhanced by ensuring that the total expenses outlined in the estimated “departmental” operating statements agree with the total cost of providing “departmental” outputs.**

9. **The legislative framework could require that individual entities prepare an annual plan which could:**

   - **Clearly outline, among other things, their contribution to the State budget (that is, their portion of the projected outcomes/outputs, indicators and targets, and estimated revenue and expenses);**
   - **Be agreed to by the responsible Minister and the Treasurer or the Minister for Finance, and be tabled in Parliament if a Member of Parliament requested a copy of such a document; and**
   - **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 p27

1. **Consideration could be given to the legislative provisions relating to the budget papers and the accompanying appropriation bills requiring that: these documents be tabled in Parliament at least three months prior to the end of the financial year to enable further time for Parliamentary scrutiny and debate; and the appropriation bills be enacted prior to the commencement of the financial year to which they relate.**

Appropriation Framework p30-32

1. **The appropriation framework could 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.**
2. **Multi-year appropriation authority could be considered for capital expenditures which require long planning and construction periods.**
3. **The requirement to issue warrants prior to drawing down funds from the Consolidated Fund could be discontinued.**
4. **The enabling legislation could 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.**
5. **The enabling legislation could require both the whole of government financial report (Annual Financial Report) and departmental financial reports 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.**

Accountability Framework – Financial Reporting

Whole of Government financial reporting p33-34

1. **The audited annual whole of government financial report (which includes the financial results for the budget (general government) sector) could 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.**
2. **The unaudited interim results for the whole of government could continue to be produced on a six monthly basis.**
3. **Consideration could 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.**

Financial reporting at an entity level p34-39

1. **Departments and public bodies could 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.**

2. **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 could also be advanced by the same period.**

3. **Entities that cease to be a public body during a financial year could be required by the enabling legislation to prepare general purpose financial statements covering the period they were a public body, and once audited by the Auditor-General those documents be tabled in Parliament.**

4. **A one page summary, which incorporates key extracts from the financial statements (as outlined in this preliminary report), including comparative data, and cross referenced to the detailed statements, could be prepared and form an integral part of the financial report. The summary which should assist users of the financial report, including Members of Parliament, could appear immediately before the detailed statements.**

5. **Entity financial reports could 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.**

6. **All entities that meet the definition of a department or public body could be required to continue to produce general purpose financial statements. However, 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.**

7. **To assist users and those preparing financial reports, the level of disclosure in general purpose financial statements could vary depending on the size of the entity. The Department of Treasury and Finance could work with the Australian Accounting Standards Board to develop accounting standards for small entities in the not-for-profit sector, which would be applicable to a significant portion of the entities in the public sector.**

Budget sector financial report.. p39-40

1. **The unaudited interim results for the budget (general government) sector could be produced on a six-monthly basis.**

2. **The legislative framework could be enhanced to require the accountability reports on the budget sector to be prepared not only in a manner and form determined by the responsible Minister, but also in accordance with the Australian Accounting Standards.**

Accountability Framework – Performance Reporting

1. **Annual whole of government performance report could be:**

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

1. **All public sector entities that separately report to Parliament could be required to produce an annual performance report and include them together with their financial report, in their annual report.**

2. **Annual performance reports could be required to be:**

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

3. **To achieve consistency in the reporting of performance across the public sector, performance reports could:**

   - **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 supporting Annual Plans;**
   - **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 entities 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; and**
   - **In instances where actual results vary materially from the established targets, provide an adequate reason for the variance.**

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

2. **The Department of Treasury and Finance could 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).**

1. **Consideration could be given to audit reports not initially accompanying performance reports until entities have had a sufficient period of time to "bed down" the reporting processes and the underlying management control systems.**

Entities subject to the framework.. p53-55

1. **Consideration could be given to rationalising the number of public sector entities. The Government could consider:**

   - **Undertaking a review to identify instances where existing entities could be consolidated with other public sector entities activities; and**
   - **Establishing 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 via the establishment of a new entity.**

2. **The definition of public body in the legislation could be expanded to include entities of which the State or a public body has control.**

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

4. **All public sector entities could be required to comply with the legislative accountability and financial and performance reporting requirements (reporting separately or consolidated with another entity).**

5. **A report could be tabled in Parliament, on an annual basis, identifying particular entities that do not meet the accountability and reporting requirements. The report could 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.**

Other matters.. p57-58

1. **The contents of other Acts that contain financial management matters could be considered for inclusion in the new legislation.**

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

3. **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.**

CHAPTER 1: INTRODUCTION

1.1 Rationale for Inquiry

The aim of the Public Accounts and Estimates Committee (Committee) inquiry into the financial management and accountability framework was to identify areas for improvement.

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 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 is being conducted at the same time as the government's comprehensive review into the FMA and related legislation (the public finance bill project) which is being led by the Department of Treasury and Finance.

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.

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 Victorian Government did not make a submission to the Inquiry as the Government subsequently released a Discussion Paper for public comment on matters being considered for inclusion in the 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, has assisted in the preparation of this preliminary report.

The preliminary report addresses 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.

The Committee would welcome feedback on the ideas and options that are put forward in this preliminary report as well as any additional views. Such feedback will help inform the Committee's considerations and final report.

CHAPTER 2: BUDGET FRAMEWORK

2.1 Better practice

2.1.1 Outcomes, outputs and inputs

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 to be used by jurisdictions in order to increase the degree of budget transparency. Aspects of these better practice guides are referred to in this preliminary 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 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.

A key question that needs to be considered is **-** 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?

Budgeting can focus on inputs, outputs and/or outcomes. This is illustrated in Figure 2.1. While the ultimate for budgeting and public performance reporting is to focus on outcomes, there is also great interest in the outputs being delivered which contribute to the desired outcomes the 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 focuses less on inputs, processes and activities, and more on outputs and outcomes that will benefit the community.[1] In fact, outcome and output budgeting and reporting frameworks are more appropriate to meet the growing focus on program management and service delivery that go across government.

It is widely accepted that outcomes are more difficult to measure, as they entail the use of qualitative and quantitative measures which may be subjective and challenging in measurement and benchmarking referencing. They also involve the interaction of many factors (both planned and unplanned)[2] 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 is 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 planning phase.

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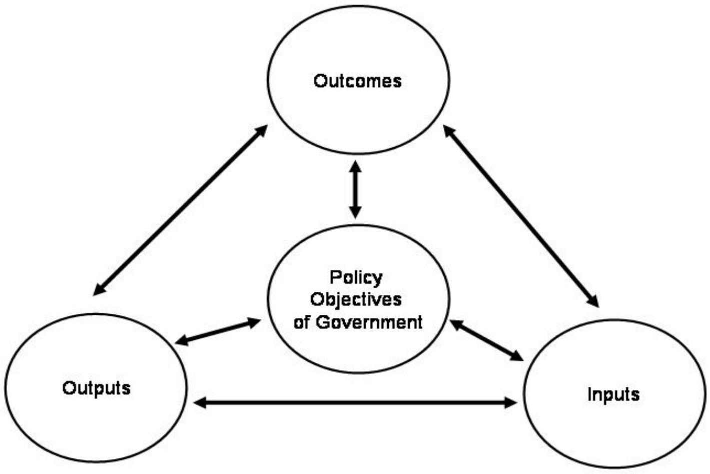
1 Office of the Auditor General of British Columbia, *Strengthening Accountability in British Columbia – Trends and Opportunities in Performance Reporting*, April 2008, p.17

2 Curristine, T., *Government Performance: Lessons and Challenges – OECD Journal on Budgeting, Volume 5*, No.1, 2005, Paris, France, p.146

Figure 2.1 Focus of Budgeting



A number of jurisdictions specify both the outputs and outcomes in the 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 agencies will deliver and the criteria they will use for demonstrating the combination of agency outputs and administered items to outcomes.[3] Appropriations for non-operating purposes (capital purposes) are focused at an entity level.
- **The Netherlands** - Appropriations are made 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 the explanatory statement.[4]
- **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.
- **Sweden** – The budget bill is organised into 27 expenditure areas concentrating on policies and outcomes. The budget bill focus is at 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.

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3 Sterck, M., Scheers, B, *The use of output and outcome information in public budgeting: Trends and challenges*, September 2003, Belgium, pp.15-17

4 ibid.

- **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.[5]

As part of the planning process, some jurisdictions have developed strategic and performance plans which include performance targets (both outputs and outcomes-based), 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.[6]
- **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.[7]
- **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 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. 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 of 30 member countries found that:

> *"… 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*

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5 Sterck, M., Scheers, B, *The use of output and outcome information in public budgeting: trends and challenges,* September 2003, Belgium, pp.15-17

6 Curristine, T., *Government Performance: Lessons and Challenges – OECD Journal on Budgeting, Volume 5*, No. 1, 2005, Paris, France, p.133

7 ibid.

and the public, they are very difficult to measure in many cases a mix of outputs, outcomes and inputs is desirable."[8]

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 – which could be based on better practice in similar service delivery programs.

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

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.[9] 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.[10] 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. An example of an efficiency indicator is the average cost per hour for providing crime prevention and public order services.

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.[11] 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 who may have difficulty in accessing alternative services, such as those provided by private hospitals.[12]

The Western Australia Government who has been at the fore front 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 Preliminary Report on Accountability Framework - Performance Reporting for further comment on performance reporting in Western Australia.

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8 OECD, *Modernising Government – The Way Forward*, 2005, Paris, France, p.64

9 Productivity Commission, *Report on Government Services – Volume 1*, January 2008, Victoria, Australia, p.1.17

10 Productivity Commission, *Report on Government Services – Volume 1*, January 2008, Victoria, Australia,p.1.18

11 Kelly,G, Muers S and Mulgan G, *Creating Public Value: An analytical framework for public service reform*, London, Prime Minister's Strategy Unit, Cabinet Office, 2002, p.6

12 Productivity Commission, *Report on Government Services – Volume 2*, January 2008, Victoria, Australia,p.10.23

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 who are responsible for policy planning and formulation establish targets for outcomes while agencies who are responsible for policy execution establish targets for outputs.

A real concern with disclosing performance information is that if there are too many indicators and targets it creates "information overload" but if there are too few it 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.[13] 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 Issues for consideration

The current budget framework is outlined in the FMA, supplemented by Budget and Financial Management Guidance issued to public sector entities by the Department of Treasury and Finance. 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 which are outlined in section 23D of that Act.

Comprehensive information is currently made available to Parliament on the activities of the Victorian Budget (general government) sector in the various budget papers and budget updates.

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, and a Pre-election Update which must be released within ten 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, among other things, in relation to each department for the budget year and preceding year, a description of the goods and services to be produced or provided, a description of the amount available or to be available, and an estimate of the amount of the receipts and receivables.

Other information required by the Act to be included in the Budget Papers (section 23H to K of the FMA) includes:

- Estimated financial statements of the budget (general government) sector:
- Statement of the material economic and other assumptions;
- Discussion of the sensitivity to changes in the economic and other assumptions;
- Overview of the estimated tax expenditures; and

[13] OECD, *Modernising Government – The Way Forward*, 2005, Paris, France, p.77

- Statement of the risks, quantified where feasible.

Based on an analysis of better practice in advanced economies, the Committee has identified the following enhancements that could be considered.

2.2.1 Outcomes and outputs

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

As the key focus of the government in developing policies and delivering programs is to achieve outcomes, consideration needs to be given to increasing the focus in the Budget Papers to outcomes. Information on outputs (services being delivered) needs to be retained, as there is parliamentary interest in the outputs projected to be delivered which 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.[14]

While the linking of Government desired outcomes to outputs is disclosed in the Budget Papers, further enhancements could be made to the Budget Papers by linking the budgeted resources required to produce the individual outputs to the individual outcomes the Government aims to achieve. This could facilitate a 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 Preliminary 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, that is program management and service delivery that goes across government. There is an increasing trend by governments in utilising these types of arrangements.

2.2.2 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.

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 the user of the government services and 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 will be 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 needs to consider the new performance and assessment framework to be developed by COAG.[15]

[14] Council of Australian Governments (COAG), *Communiqué*, 26 March 2008, p.3

[15] ibid.

2.2.3 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.

In relation to these matters, projected data could be disclosed for the budget year and the three forward years, and the actual (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 could 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 forward estimates.

2.2.4 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 budget papers including longer-term information. 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.

2.2.5 Linkage of Budget Papers with Appropriation Bills

Parliamentarians would benefit if there was a clear linkage between the Budget Papers and the Appropriation Bills. Reconciliation could be disclosed in the Budget Paper 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.

2.2.6 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 2.2.3.

2.2.7 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 Papers No.4 that are not included in departmental output costs"*.

The disclosure in the Estimated Financial Statements for the budget (general government) sector could be enhanced by not only disclosing forward estimates but also the actual (projected) results for the two financial years prior to the budget year. 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.

2.2.8 Supporting entity annual 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 matters, their contribution to the State budget. This would enable each entities portion of the projected outcomes/outputs, indicators and targets, and estimated financial statements to be identified up-front. Such information could 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 could be agreed to by the responsible Minister and the Treasurer or the Minister for Finance, and be tabled in Parliament if a Member of Parliament requested a copy of such documents.

Based on the issues outlined above, consideration could be given to the following matters relating to the budget process:

1. **The budgeted resources required to produce individual outputs could be linked in the Budget Papers to the individual outcomes the Government aims to achieve.**

2. **The performance indicators and targets outlined in the Budget Papers relating to the Government desired outcomes and outputs could:**

   - **focus on effectiveness and efficiency, which includes the concept of value add and equity; and**
   - **take into account the new performance and assessment framework to be developed by COAG.**

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

4. **Budget Papers could include every four years (in line with the parliamentary term), projections over the longer-term, say 10 to 40 years, taking into account changing economic and demographic circumstances.**

5. **Reconciliation could be included in the Budget Papers of the value of appropriations recorded in Annual Appropriation Bills with those recorded in the Budget Papers.**

6. **To facilitate more timely disclosure of budget information, the Budget Papers could 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.**

7. **The Estimated Financial Statements for the budget (general government) sector could be enhanced by disclosing, in addition to capital expenditure approved but not yet allocated, the contingent expenses for operating purposes.**

8. **The Budget Papers could be enhanced by ensuring that the total expenses outlined in the estimated “departmental” operating statements agree with the total cost of providing “departmental” outputs.**

9. **The legislative framework could require that individual entities prepare an annual plan which could:**

   - **clearly outline, among other-things, their contribution to the State budget (that is, their portion of the projected outcomes/outputs, indicators and targets, and estimated revenue and expenses);**
   - **be agreed to by the responsible Minister and the Treasurer or the Minister for Finance, and be tabled in Parliament if a Member of Parliament requested a copy of such document; and**
   - **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

3.1 Better practice

Throughout this preliminary 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 it 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"*.[16]

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"*.[17]

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.

Table 3.1 Legal requirements for submission of the budget to the legislature: Selected countries

Number of months in advance of fiscal year	Legal requirement			Practice
	Constitution	Law	Regulation of Parliament	
More than 6 months		United States (8 months)		
4-6 months	Denmark (4 months), Finland*	Germany (4 months)	Norway (4 months)	
2-4 months	France, Spain (3 months), Korea (90 days)	Japan (2-3 months), Sweden (3⅓ months)		
0-2 months				Canada
After year begins		New Zealand (no later than one month after year begins)		United Kingdom

* 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.

Source: OECD Journal on Budgeting – The Legal Framework for Budget Systems: An International Comparison, Volume 4, No. 3, 2004, p. 91

16 *OECD Journal on Budgeting*, Volume 1 – No. 3, 2002, Paris, France, p. 8
17 ibid., p.14

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?

	A single budget committee deals with all budget-related matters. Sectoral committees may make recommendations, but budget committee does not have to follow them	A single budget committee deals with budget aggregates. Sectoral committees deal with appropriations for each respective sector	No budget committee in place. Sectoral committees deal with appropriations for each respective sector
Australia			X
Austria	X		
Belgium			
Canada		X	
Czech Republic		X	
Denmark	X		
Finland	X		
France	X[a]		
Germany	X		
Greece	X		
Hungary		X	
Iceland	X		
Ireland			X
Italy		X	
Japan	X		
Korea	X[b]		
Luxembourg			
Mexico	X[a]		
The Netherlands			X[c]
New Zealand		X	
Norway		X	
Poland		X	
Portugal	X[d]		
Slovak Republic			
Spain	X		
Sweden		X	
Switzerland	X		
Turkey	X		
United Kingdom		X	
United States		X[e]	
Total	**14**	**10**	**3**
Per cent of total	**52%**	**37%**	**11%**

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.

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

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, the Scrutiny Unit advised that select committees should be probing performance regimes, but in reality they spend a lot of time "getting off first base", that is, questioning if claims made by departments 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 Issues for consideration

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 only undertaken by one of the select committees – the Public Accounts and Estimates Committee). This timeframe for scrutiny and debate could be reduced if the early May self imposed deadline for the tabling of the Budget Papers and accompanying appropriation bills was not achieved.

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 may facilitate more extensive analysis of the Budget Estimates.

Consideration could be given to the legislative provisions relating to the budget papers and the accompanying appropriation bills requiring that: these documents be tabled in Parliament at least three months prior to the end of the financial year to enable further time for Parliamentary scrutiny and debate; and the appropriation bills be enacted prior to the commencement of the financial year to which they relate.

CHAPTER 4: APPROPRIATION FRAMEWORK

4.1 Better practice

The "supremacy of Parliament" in budget matters is a widely accepted principle in all democratic countries[18], 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.[19]

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.[20]

> *"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 associates 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."*[21]

A review undertaken by the Committee of the appropriation frameworks of a number of Australian and overseas jurisdictions 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.

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18 *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

19 United States Government Accountability Office, *Performance Budgeting: Efforts to Restructure Budgets to Better Align Resources with Performance*, 2005, pp.31-32

20 *OECD Journal on Budgeting (Volume 4 - No. 3) - special issue titled The Legal Framework for Budget Systems-An International Comparison*, 2004, Paris, France, p.24

21 *ibid.*, p.135

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:

> *"… 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…"*[22]

A number of jurisdictions have appropriations for the specific outcomes the government aims to achieve, 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 outputs.[23] 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 Issues for consideration

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 FMA, such as *'annotated appropriations'* and Advances to the Treasurer.

The current 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.

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22 *OECD Journal on Budgeting (Volume 4 - No. 3) - special issue titled The Legal Framework for Budget Systems-An International Comparison*, 2004, Paris, France, p.105

23 Sterck, M., Scheers, B, *The use of output and outcome information in public budgeting: trends and challenges*, September 2003, Belgium, pp.15-17

However, there could be multi-year appropriation authority for capital expenditures as capital projects require long planning and construction periods. As outlined previously in the discussion paper, consideration could also be given for the disclosure in the Budget Papers 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.

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 need to retain the long standing requirement to issue warrants prior to drawing down funds from the Consolidated Fund should be questioned, as the Government as part of its stewardship role 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.

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 the appropriations. However, some of the legislative accountability requirements, associated with the appropriation framework, could be enhanced in the following areas:

(a) 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, consideration needs to be given to disclosing in the whole of government financial report 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.

(b) 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 could 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.

Consideration could be given to the following matters relating to the appropriation framework:

1. **The appropriation framework could 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.**

2. **Multi-year appropriation authority could be considered for capital expenditures which require long planning and construction periods.**

3. **The requirement to issue warrants prior to drawing down funds from the Consolidated Fund could be discontinued.**

4. **The enabling legislation could 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.**

5. **The enabling legislation could require both the whole of government financial report (Annual Financial Report) and departmental financial reports 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.**

CHAPTER 5: ACCOUNTABILITY FRAMEWORK - FINANCIAL REPORTING

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.

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).

(a) 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 on a monthly basis. Only the interim reports produced in Sweden are subject to audit review.

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.

(b) Analysis of financial results

Over a number of years, the discussion and analysis part of the Annual Financial Report has included an analysis of 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).

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 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 project is expected to be finalised in late 2008.

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.

(c) Issues for consideration

1. **The audited annual whole of government financial report (which includes the financial results for the budget (general government) sector) could 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.**

2. **The unaudited interim results for the whole of government could continue to be produced on a six monthly basis.**

3. **Consideration could 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).[24]

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.

[24] Victoria, Australia, *Financial Management Act 1994*, Part 7, Section 45-46

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 consideration.

(a) 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.

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 could 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.

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 entities' impact from a whole of government reporting perspective), there appears to be insufficient compelling reasons for not 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.

(b) 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 interests and the sale of an entity to the private sector.

To enable appropriate accountability to Parliament, over the operations of an entity from the commencement of a financial year up to the date of privatisation, 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.

(c) Meeting the needs of users

Generally, there is a lack of interest from users of annual reports in the audited financial reports. However, detailed financial reports are essential for full accountability. Public accountability is not 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.[25] While such summaries may prove to be useful in the longer term, from a public accountability perspective they still must be supported by more detailed reporting, such as the audited financial report.

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

The one page summary which should assist users of the financial report, including Members of Parliament, could include the information outlined in Table 5.1.

While accountability reports are currently required to be prepared in a manner and form determined by the responsible Minister, consideration needs to be given to enhancing the legislative framework 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.

[25] Office of Management and Budget, *Circular A-136 – Financial Reporting Requirements*, United States of America, June 2008

Table 5.1: Financial Summary Statement

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

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 related party transactions, 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.[26] To assist users of financial statements in Australia, including Members of Parliament, the Committee considers that accounting standards for small entities in the not-for-profit sector should be developed, which would be applicable to a significant portion of public sector entities.

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 which enables school councils not to make available to Parliament their report of operations and audited financial reports but for 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.

Victoria is well placed compared with other jurisdictions, with public sector entities producing audited financial reports and making them available for tabling in Parliament. While there are a small number of areas requiring further attention,[27] 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.

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26 A*ccounting Standards Board – United Kingdom, Financial Reporting Standards for Small to Medium Entities*, April 2008

27 Victorian Auditor General's Office, *Results of Financial Statement Audits for Agencies with 30 June 2007 Balance Dates, December 2007*, pp.133-134; Victorian Auditor General's Office, R*eview of major public cemeteries*, July 2006, pp.108-109

(d) Issues for consideration

1. Departments and public bodies could 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.

2. 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 could also be advanced by the same period.

3. Entities that cease to be a public body during a financial year could be required by the enabling legislation to prepare general purpose financial statements covering the period they were a public body, and once audited by the Auditor-General those documents be tabled in Parliament.

4. A one page summary, which incorporates key extracts from the financial statements (as outlined in this preliminary report), including comparative data, and cross referenced to the detailed statements, could be prepared and form an integral part of the financial report. The summary which should assist users of the financial report, including Members of Parliament, could appear immediately before the detailed statements.

5. Entity financial reports could 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.

6. All entities that meet the definition of a department or public body could be required to continue to produce general purpose financial statements. However, 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.

7. To assist users and those preparing financial reports, the level of disclosure in general purpose financial statements could vary depending on the size of the entity. The Department of Treasury and Finance could work with the Australian Accounting Standards Board to develop accounting standards for small entities in the not-for-profit sector, which would be applicable to a significant portion of the entities in the public sector.

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 six monthly and annual whole of government financial reports also incorporate the results for the budget (general government) sector. 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 consideration in relation to budget (general government) sector reporting.

(a) 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 that better practice is for interim reporting to occur on a monthly basis, which is consistent with in the OECD Best Practices for Budget Transparency.[28] 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.

The Committee is of the view that interim reports could be produced on a six-monthly basis, instead of quarterly, as the impact of the September quarter results are reflected in the Budget Update and the March quarter results are disclosed in the Budget Papers.

(b) 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.

(c) Issues for consideration

1. **The unaudited interim results for the budget (general government) sector could be produced on a six-monthly basis.**

2. **The legislative framework could be enhanced to require the accountability reports on the budget sector to be prepared not only in a manner and form determined by the responsible Minister, but also in accordance with the Australian Accounting Standards.**

[28] *OECD Journal on Budgeting,* Volume 1, No. 3, Paris, France, 2002, pp.9-14

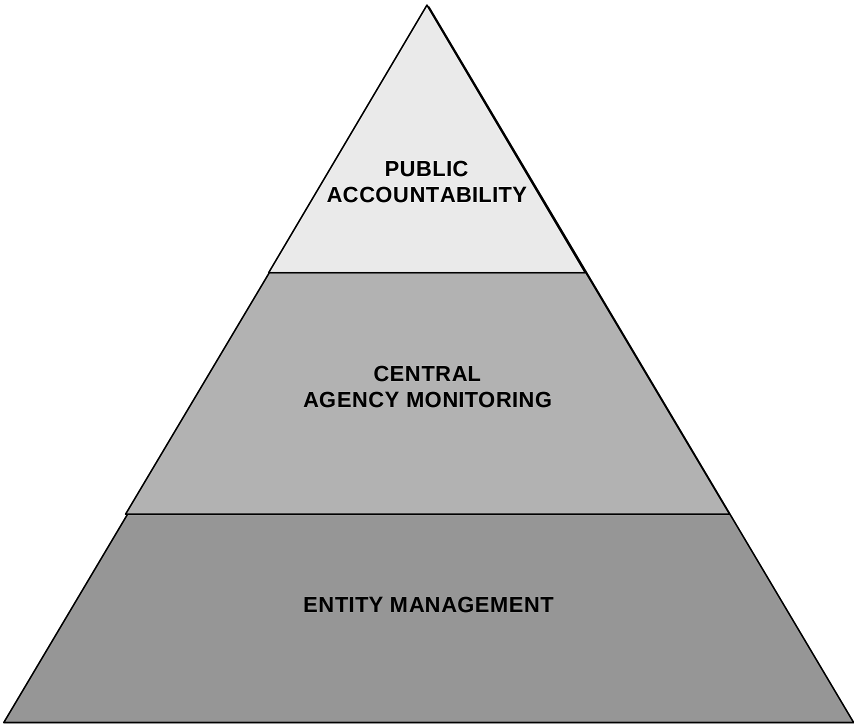
CHAPTER 6: ACCOUNTABILITY FRAMEWORK - PERFORMANCE REPORTING

6.1 Better practice

In achieving effective public accountability in the public sector, the performance information to be disclosed is not restricted to financial information but includes both financial and non financial information. For the reported performance information to be effective, the performance indicators and targets must be relevant and appropriate, and the 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 3 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 the 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 the 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 outline previously in Chapter 2 of this preliminary 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.

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.

To determine the most appropriate form of performance reporting for public accountability purposes, the following part of this preliminary 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.[29] 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).[30]

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:[31]

- 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.

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[29] United States of America, *Government Performance and Results Act, 1993,* section 1116

[30] Office of Management and Budget, *Circular A-11*, United States of America, 2008, section 230

[31] United States of America, *Government Performance and Results Act, 1993,* section 1116

In the instance where a performance goal is not met, an explanation of the following is also required:[32]

- 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:[33]

- 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
- an analysis of each performance goals and performance measures, and whether the targets have been reached or not.

The Government Accounting 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 hyper-links 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, 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.

32 United States of America, *Government Performance and Results Act, 1993*, section 1116

33 Office of Management and Budget, *Circular A-11*, United States of America, 2008, section 230

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.[34]

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'.

[34] *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

6.1.3 Western Australia

Western Australia has been at the fore front 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:[35]

- 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.

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.[36]

6.2 Issues for consideration

In Victoria there is public reporting of a range of performance information, including:

- At a whole of government level, the Budget Papers disclose performance information which illustrate how the Government is progressing in achieving its *Growing Victoria Together* vision and goals, and its short-term and long-term financial objectives;
- At a departmental level, their annual reports disclose unaudited performance information which includes among other things: a comparison of the outputs targets specified in the State Budget with actual performance against those targets; a comparison between their portfolio financial statements published in Budget Papers No.4 and actual results for the portfolio for the corresponding financial year; and a summary of their financial results;
- At an entity level (other than departments), their annual reports disclose a range of unaudited performance information; and

35 Department of Treasury and Finance – Western Australia, *Treasurer's Instruction 904*, 2007
36 ibid.

- Regional water authorities and the majority of TAFE Institutions include in their annual reports an audited statement of performance.

While there is public reporting of a range of performance information, the following areas have been identified for consideration.

6.2.1 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 G*rowing 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 could 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.

Consideration could be given to requiring an annual whole of government performance report to be:

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

6.2.2 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 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 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 such programs need to be specified in the Budget Papers, together with the lead entity associated with each program.

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 entities 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.

(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 on critical facts and matters to enable users to obtain reasonable insights or draw reasonable conclusions.[37]

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.

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[37] Canadian Institute of Chartered Accountants, *Statement of Recommended Practice (SORP-2)*, 15 May 2007, pp.1-2

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 entities 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:**[38]

  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 outputs, and related indicators and targets included in the report;**

  V. **description of the outcomes and outputs, and related indicators and targets;**

  VI. **identify instances where desired outcomes and/or 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.**[39]

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

39 *Government Performance and Results Act 1993*, United States of America, p.4

Consideration could be given to the following matters relating to performance reporting at an entity level (in addition to current departmental requirements):

1. **All public sector entities that separately report to Parliament could be required to produce an annual performance report and include them together with their financial report, in their annual report.**

2. **Annual performance reports could be required to be:**

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

3. **To achieve consistency in the reporting of performance across the public sector, performance reports could:**

   - **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 supporting Annual Plans;**
   - **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 entities 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; and**
   - **In instances where actual results vary materially from the established targets, provide an adequate reason for the variance.**

6.2.3 Framework for Performance Reporting

In Victoria, only limited guidance is available to assist prepares 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 assess them to do so from a common basis, with agreement on the fundamentals of meaningful performance reporting.[40]

The Committee considers that a generally accepted conceptual framework that identifies the essential characteristics of performance reporting in the Victorian public sector context could be developed under the leadership of the Department of Treasury and Finance.

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[40] *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

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.[41]

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 could 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.

Consideration could be given to the following matters relating to frameworks for performance reporting:

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

2. **The Department of Treasury and Finance could 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).**

6.2.4 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 quality and accuracy.

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 will always be questioned 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.

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 accompanied by assurance provided by the Auditor-General.

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41 V*ictorian Auditor General's Office, Submission on the Inquiry into Victoria's public finance practices and legislation*, 21 August 2008, p.10

As outlined previously, all public sector entities who separately report to Parliament could prepare performance reports and include them in their annual reports. **Consideration could be given to audit reports not initially accompanying performance reports until entities have had a sufficient period of time to "bed down" the reporting processes, and the underlying management control systems.**

CHAPTER 7: ENTITIES SUBJECT TO THE FRAMEWORK

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 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, there is effective parliamentary control over the accountability of governments to Parliament when the legislative financial management and reporting requirements are applicable to all entities controlled by the responsible jurisdiction.

Further, from a better practice perspective, the 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 the 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.[42]

7.2 Issues for consideration

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, the Committee has identified the following areas for further consideration.

7.2.1 Number of public sector entities

A significant number of entities meet the definition of public body as outlined in the FMA, and accordingly are bound by the accountability requirements outlined in the legislation. The entities range from those that are significant 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 could be given to the number of existing public sector entities being rationalised through the consolidation of their activities. Further, a framework could 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 via the establishment of a new entity. Such an initiative would reduce the number of entities that form the Victorian public sector and, through economies of scale, promote more efficient use of existing resources and more effective accountability.

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[42] *United States Federal Financial Management Improvement Act 1996*, United States of America, s.803(b)(2) and s.804(b)

Consideration could be given to rationalising the number of public sector entities. The government could consider:

- **Undertaking a review to identify instances where existing entities could be consolidated with other public sector entities activities; and**
- **Establishing 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 via the establishment of a new entity.**

7.2.2 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 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.

Consideration could be given to the following matters relating to controlled entities:

1. **The definition of public body in the legislation could be expanded to include entities of which the State or a public body has control.**

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

7.2.3 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[43] 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 could be applicable to all entities (reporting separately or consolidated with another entity). As outlined in Chapter 5 of this preliminary 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
- level of disclosure in financial reports could vary depending on the size of entities.

If individual entities do not meet particular legislative accountability and reporting requirements, the Parliament could be informed of such cases on an annual basis. The Parliament could also be informed of the rationale for entities non compliance, details of the corrective action being undertaken to address the shortcomings and the timeframe required to implement appropriate action.

Consideration could be given to the following matters relating to compliance with accountability and reporting requirements:

1. **All public sector entities could be required to comply with the legislative accountability, and financial and performance reporting requirements (reporting separately or consolidated with another entity).**

2. **A report could be tabled in Parliament, on an annual basis, identifying particular entities that do not meet the accountability and reporting requirements. The report could 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.**

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43 Victorian Auditor General's Office, *Report on Ministerial Portfolios*, May 1999; Victorian Auditor General's Office, *Results of Financial Statement Audits for Agencies with 30 June balance dates*, February 2007; Victorian Auditor General's Office, *Results of Financial Statement Audits for Agencies with 30 June 2007 balance dates*, pp.48-51; Victorian Auditor General's Office, *Results of 30 June 2005 financial statement and other audits*, December 2005, pp.73-75; Victorian Auditor General's Office, *Review of major public cemeteries*, July 2006, pp.108-109

CHAPTER 8: OTHER MATTERS

8.1 Financial management matters in other Acts

The preceding chapters of this preliminary report have focused on the budget and accountability frameworks and related sections of the FMA. However, the FMA covers a range of other matters including indemnities (Part 6A) and guarantees (Part 6B).

The development of the new public finance and accountability legislation provides an opportunity for the Government to 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 the 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. As part of the development of the new legislation, it also provides an opportunity for the Government to reassess whether the coverage of such matters could be extended to all entities in the public sector.

Based on the issues outlined above, consideration could be given to:

1. **The contents of other Acts that contain financial management matters being included in the new legislation; and**

2. **The coverage of a range of matters, including borrowing and investing powers and procurement requirements/principles, being 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 they were considering the new Bill being 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 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 over sight 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 parliamentary requirements associated with such matters should be prescribed in the proposed new legislation.

Based on the issues outlined above, 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.

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