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Mr John Carter  
Sectional Committee Secretary  
The Commonwealth Parliament Joint Committee  
Of Public Accounts and Audit  
Parliament House  
CANBERRA ACT 2600

Dear Mr Carter

**RESPONSES TO FaCS FOLLOW UP QUESTIONS**

I refer to your letter of 3 July and attached follow up questions from the Inquiry into the Review of the Accrual Budget Documentation of 22 June 2001.

Please find attached the responses to those questions prepared by the Department of Family and Community Services.

Yours sincerely

Alex Dolan  
Assistant Secretary  
Budget Development Branch

27 July 2001

**JCPAA – ACCRUAL BUDGET DOCUMENTATION REVIEW  
RESPONSES TO FaCS FOLLOW UP QUESTIONS**

**Question 1**

Report of the Senate Finance and Public Administration Legislation Committee (SFPALC), *The Format of the Portfolio Budget Statements, Third Report*.

The SFPALC concluded that Senators were ‘exhibiting varying levels of patience with the current levels of instability in the reporting frameworks in some portfolios; there is a clear expectation that the frameworks should stabilise sooner rather than later.’ (Report, p.39)

- Do you feel you are achieving year-on-year stability in the outputs/outcomes structure and performance measures which are contained within your Budget documents and annual report?

**Answer**

FaCS recognises the importance of maintaining year-on-year stability in its outcomes and outputs structure and performance indicators. However, FaCS believes that it is important to continue to identify and make improvements to its outcomes and outputs structure and to introduce change where the benefits of improved clarity and accountability outweigh the potential disadvantage of change. FaCS is of the view that it is maintaining an appropriate balance in this area.

**Question 2**

Currently agencies check with ANAO on an ad hoc basis as to whether accounting policy is in accordance with accounting standards. The ANAO has suggested that agencies should be encouraged to consult with it on the accounting policies in respect of new or complex financial arrangements at the time of budget preparation.

- Do you agree with this view?

**Answer**

The statement that agencies check with the ANAO on an ad hoc basis on whether accounting policy is consistent with accounting standards is not correct in FaCS’ case. FaCS enjoys a very productive relationship with the ANAO and accounting policies on new or complex arrangements are agreed with the ANAO before the policy is employed in either the budgeted financial statements or the annual financial statements.

The development of accounting policies in FaCS is a joint effort by the qualified accountants employed by FaCS, officers from the ANAO and liaison with the Department of Finance. In some cases expert advice is obtained from accounting firms.

### **Question 3**

The PBS does not currently provide forward performance information in addition to forward financial information. This does not assist members and senators to understand how agencies are performing today and how they expect to perform in the longer term.

- Would you discuss the merits and feasibility of providing forward performance information in addition to forward financial information in the PBS?

### **Answer**

It would be technically possible to provide future performance information in the PBS. Such information may be of some use to readers, although it must be noted that there is a large number of performance indicators presented in the FaCS PBS, showing various dimensions of performance. The utility of providing forward estimates for each indicator where possible, may be questioned, especially in the light of additional efforts required to produce the estimates. Accordingly, the merits of the proposal would need to be considered against the broader objectives of the PBS (primarily as an explanatory statement for the Appropriation Bills) and the trade-offs noted above.

The inclusion in the 2001-02 FaCS PBS titled "Future Trends in Expenses" provided an opportunity to highlight high level trends in social policy outcomes and corresponding impact on expenses.

### **Question 4**

An annual report is not tabled in Parliament for some time after the Parliament has had the opportunity to consider the Budget estimates. This issue was raised by the Senate Finance and Public Administration Legislation Committee in *The Format of the Portfolio Budget Statements, Third Report (page 41)*.

There appears merit in agencies providing at budget time, an estimated actual performance outcome to allow comparison of that information with the estimated actual financial information in the budget papers.

- Would you comment on this proposal?

### **Answer**

The proposal needs to be considered in light of the purpose of the PBS and its relationship with the Annual Report. The PBS is not a document that should be used as an accountability mechanism for past performance – that is the role of the Annual Report.

Including estimated actual performance outcomes, while technically feasible (albeit at a price of additional effort at critical times), would create the risk of blurring the purpose of the PBS. This is especially so as analysis of past performance inevitably

requires analysis that goes well beyond the presentation of an estimate of prior year's performance.

### **Question 5**

Many outcomes involve the achievement of a desired state of affairs over a longer-term. It may not be possible to report meaningfully against all aspects of the outcome in the shorter term. The ANAO considers that there are benefits in agencies specifying intermediate outcomes. These include:

- Assisting management to articulate and communicate achievable short-term objectives across the organisation;
  - Demonstrating practical linkages between outputs and desired outcomes; and
  - Assisting in planning, monitoring and performance reporting of long term objectives.
- Would you comment on the use of intermediate outcomes to measure progress towards achieving your longer-term outcomes?

### **Answer**

FaCS supports the concept. In fact, FaCS's effectiveness performance indicators in the current performance reporting framework are, for practical purposes, the articulation of intermediate outcomes that relate achievements to the higher level social policy outcomes. By definition, the term "effectiveness" is an outcome concept so that the existing performance reporting principles and guidelines already provide for intermediate outcomes.

### **Question 6**

It has been suggested that the following could assist departments/agencies to accurately measure their outputs:

- Develop a data dictionary of the terminology used in their outcomes and outputs framework;
  - Promulgate agency wide measurement methodologies and counting rules to ensure consistent measurement of performance measures particularly, where more than one functional area is involved in reporting agency performance; and
  - Set up appropriate audit trails to monitor progress against delivery of their outputs.
- Has the guidance provided by DoFA been useful?
- Do you already use some or all of these methods? If yes, which methods?

### **Answer**

FaCS has established a coordination function and provided resources to maintain its performance reporting framework on an ongoing basis. The Strategic Management Branch is responsible for this work which includes work in terms of terminology definition, agency wide methodologies and audit trails. FaCS acknowledges that

there is considerable work that is still needed in these areas. These areas are particularly challenging in a diverse and complex business but various strategies are being pursued to continue to improve the accuracy of performance assessments. The relationship between the performance reporting framework and FaCS's research and evaluation framework is also important to maintain complementarity and validity of the range of performance assessment tools that are available.

### **Question 7**

The main aim of the CUC was to encourage agencies to recognise their assets and promote good asset management.

- Would you discuss whether in practice the CUC has been beneficial?

### **Answer**

FaCS is a relatively small asset holding department. FaCS agrees with the concept of a return on capital employed however the current structure of the capital use charge has not made a significant impact on asset management within FaCS.

The combination of incentives and penalties in the new framework at times provides perverse incentives to agencies. For example, an agency may sell an asset at a loss (ie less than its book value) and receive a windfall gain from the CUC funding, as a loss on disposal would reduce the agency's net asset position. This type of activity would encourage agencies to over-value assets or to sell them at less than book value to achieve gains from the CUC.

### **Question 8**

From time to time agencies can achieve a significant operating surplus separate from the Capital User Charge. There appears merit in requiring agencies to specifically identify the details of any surplus to output level with explanations in the agency Annual Report which can be matched to the audited financial statements.

- Would you discuss the merits and feasibility of this proposal?

### **Answer**

FaCS' current financial management system would not support the reconciliation of surpluses at the output level, and FaCS would not agree that identifying surpluses at the output level would assist users of the financial reports.

In most cases, surpluses generated by FaCS relate to specific budget measures that may have been delayed for reasons beyond the department's control or are the result of organisational improvement which may not necessarily be specific to an individual output. For example, many systems in FaCS support more than one output and any operational efficiencies from changes to these systems would need to be allocated to outputs on a semi-arbitrary basis.

In addition, the reporting of surpluses at the output level could potentially remove the primacy of the department as the reporting entity and would potentially cause a 'stove-pipe' effect by managers within each output. The approach of reporting surpluses at output level could also inhibit actions by departmental managers in allocating resources across the various outputs in the department. For example, managers may take a view that each output must generate a surplus and as a result a critical risk in another output may be left exposed as managers may not be prepared to transfer resources or run an operating deficit within individual outputs.

FaCS believes that an operating surplus is not the best measure of agency performance where that surplus is generated by slippage or delays in implementing budget measures. In these cases, the surplus is not a "real" surplus as it is the product of timing delays and accounting conventions applied under the accrual framework. FaCS would prefer that where specifically identified measures have not been delivered then agency's should report these and account for them as unearned income – effectively deferring revenue until that work is completed in the future year.