

## JCPAA Accrual budget documentation review

### DETYA Follow-up questions

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?**

Response:

The DETYA Outcome/Output Framework has been stable for the first three years of the recent reforms. Performance measures have been reviewed to improve the information available. However, the majority have remained stable.

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?

Yes. DETYA has ongoing dialogue with both the ANAO and Department of Finance in relation to accounting policies, particularly for the more complex and material financial arrangements within the Portfolio.

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?**

The focus of the PBS is to explain the annual Appropriation Bills before the parliament and to provide a performance framework for the coming financial year against which actual performance can be reported in the Annual Report. The

inclusion of forward financial information is provided to support the comprehensive information in the Budget Papers.

4. **Your PBS 2001–2002 identifies large dollar value administered appropriations under two of its outcomes. Under Outcome 2, Output Group 2.1 Infrastructure funding for the post compulsory education system is priced at \$5 227 million. It is disaggregated into 3 components however, two of the components, Higher Education and Vocational Education and Training are priced at approximately \$4 075 million and \$1 073 million respectively. (DETYA PBS 2001–2002, p. 64)**

- **Would you discuss whether you think the Output Group is sufficiently disaggregated to support transparency and accountability for its performance to stakeholders?**

The Department also provides additional information in the PBS and these amounts are further disaggregated in the 2001-02 PBS at page 148. The funding in question relates to two special appropriations, the Higher Education Funding Act and the Vocational Education and Training Funding Act. Funding for these items is appropriated through legislation separate from the Annual Appropriations passed through the budget process. Transparency and accountability for these items is provided through the scrutiny of the individual Bills in the Parliament. In the case of Higher Education funding the Minister provides a separate report annually, the most recent report is titled "Higher Education, Report for the 2001 to 2003 Triennium". For Vocational Education the "National Report of the Australian Vocational Education and Training System", produced by the Australian National Training Authority is tabled in Parliament annually.

5. **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?**

In the 2001-02 PBS actual data where it was available was included for the 2000 calendar year and projections for the coming financial year. This enabled a comparison between two periods. For some items the lags in the collection of data meant that a meaningful estimate for an actual performance outcome for the relevant financial year could not be made.

6. **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.**<sup>1</sup>
- **Would you comment on the use of intermediate outcomes to measure progress towards achieving your longer-term outcomes?**

The 2001-02 DETYA PBS provides a comprehensive range of performance information against strategic priorities (pages 38-44, 58-63, 78-80). The range of information provides for both longer term objectives and some short term objectives or intermediate outcomes. The inclusion of trend data where applicable will provide an 'intermediate' view of performance over time.

**7. 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?**

There is substantial guidance provided by the Department of Finance on a number of these issues. It may have been useful for DOFA to have encouraged a service wide consistency in the definition of outputs to enable interagency comparisons, however, it is recognised that in the devolved and diverse environment of the Commonwealth public sector there is not going to be a "one size fits all answer" whilst still maintaining a satisfactory level of accountability.

The Department has an established Outcome and Output framework with a clear identification of the terminology used. Measurement methodologies are being developed to measure the delivery of outputs on an ongoing basis.

DETYA will undertake a Price Review this financial year in conjunction with the Department of Finance. The Pricing Review will enable the Department to assess the

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<sup>1</sup> *ATO Performance Reporting under the Outcomes and Outputs Framework: Australian Taxation Office, Audit Report No.46, 2000-01, p.47.*

application of the outcomes and outputs framework, explore measurement methodologies and counting rules and identify any deficiencies in processes available to monitor the delivery of outputs.

**8. 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?**

The CUC by itself is not useful in encouraging individual agencies to maximise appropriate asset utilisation strategies as it is fully funded by Government. However, it is a very important element of price when comparisons between agencies or with other organisations are called for. The move to a full price of output including depreciation and CUC has been a driver in encouraging the agency to consider the wider ramifications of asset ownership and good asset management.

**9. 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?**

The Finance Minister's Orders 2001-02 relating to financial reporting will require the major revenue and expense items and the output level to be disclosed in the notes of agencies' financial reports.

The conflict that arises with reporting at this level of detail is the fact that appropriations are in reality provided to agencies at the entity level rather than output. Whilst reporting costs of outputs provides a transparent means of accountability the day to day management, particularly of assets, is more usually focussed at the entity level. Surpluses reported at the output level will to some degree be an artificial abstraction.