

The Parliament of the Commonwealth of Australia

Parliament and Public Expenditure

Report from the House of Representatives
Standing Committee on Expenditure

February 1979

AUSTRALIAN GOVERNMENT PUBLISHING SERVICE
CANBERRA 1979

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ISBN 0 642 04020 6

Printed by Authority by the Commonwealth Government Printer

MEMBERSHIP OF THE COMMITTEE

<i>Chairman:</i>	The Hon. K. M. Cairns, M.P.
<i>Deputy Chairman:</i>	The Hon. F. E. Stewart, M.P.
<i>Members:</i>	Mr K. J. Aldred, M.P. Mr R. A. Braithwaite, M.P. ¹ Mr J. J. Brown, M.P. Mr D. M. Connolly, M.P.* Dr H. R. Edwards, M.P. Mr K. L. Fry, M.P. ² Dr R. E. Klugman, M.P. Mr S. A. Lusher, M.P. Mr R. M. McLean, M.P. Mr P. F. Morris, M.P.
<i>Clerk to the Committee:</i>	Mr M. E. Aldons
<i>Advisers to the Committee:</i>	Mr C. Walsh Mr M. Ives

1. Replaced Mr B. Lloyd, M.P. (resigned) on 10 October 1978.

2. Replaced Mr J. S. Dawkins, M.P. (resigned) on 24 May 1978.

* Chairman of the Joint Committee of Public Accounts, who, in accordance with Clause (2) of the Resolution of Appointment, is a member of the Expenditure Committee.

MEMBERSHIP OF THE COMMITTEE IN THE 30th PARLIAMENT

<i>Chairman:</i>	The Hon. K. M. Cairns, M.P.
<i>Deputy Chairman:</i>	The Hon. F. E. Stewart, M.P.
<i>Members:</i>	Mr K. J. Aldred, M.P. ¹ Mr M. H. Bungey, M.P. ² Mr D. M. Connolly, M.P.* The Hon. F. Crean, M.P. Dr H. R. Edwards, M.P. ³ Mr C. J. Hurford, M.P. Dr H. A. Jenkins, M.P. Mr S. A. Lusher, M.P. Mr J. W. Sullivan, M.P. Mr R. Willis, M.P. ⁴
<i>Clerk to the Committee:</i>	Mr M. E. Aldons
<i>Adviser to the Committee:</i>	Mr C. Walsh

1. Replaced the Hon. R. V. Garland, M.P. (resigned) on 13 September 1977.

2. Replaced the Hon. I. M. Macphee, M.P. (resigned) on 17 November 1976.

3. Replaced the Hon. W. C. Fife (resigned) on 18 August 1977.

4. Replaced Mr R. Jacobi, M.P. (resigned) on 25 May 1976.

* Chairman of the Joint Committee of Public Accounts, who, in accordance with Clause (2) of the Resolution of Appointment, is a member of the Expenditure Committee.

TERMS OF REFERENCE

The House of Representatives Standing Committee on Expenditure was appointed to:

- (a) consider any papers on public expenditure presented to this House and such of the estimates as it sees fit to examine;
- (b) consider how, if at all, policies implied in the figures of expenditure and in the estimates may be carried out more economically;
- (c) examine the relationship between the costs and benefits of implementing government programs; and
- (d) inquire into and report on any question in connection with public expenditure which is referred to it by this House.

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RECOMMENDATIONS

This report advocates an enhanced role for the Parliament in the public expenditure process. The report therefore deals with the interrelated questions of *procedures* and *information needs*.

The Committee has concluded that parliamentary scrutiny and influence is limited because of:

- (a) the lack of specific procedures to influence Executive thinking prior to the formulation of the Budget;
- (b) the absence of appropriate information for Parliament to:
 - increase its contribution to the formulation of public expenditure policy; and
 - improve its reviews of efficiency and effectiveness of public expenditure.

In view of these shortcomings the Committee recommends that:

1. Its Report, **Parliament and Public Expenditure**, be debated in the House during the 1979 Autumn sittings.
(paragraph 4)
2. In the debate referred to in Recommendation 1, the Parliament should give special consideration to the need for further development of the forward estimates system to enable a shift to occur from annual budgets to integrated expenditure plans and projections as the main framework for expenditure decision making.
(paragraph 43)
3. The Government make an early statement setting out:
 - (a) its decisions on the Royal Commission on Australian Government Administration recommendations concerning forward estimates; and
 - (b) the role of the forward estimates as now seen by the Government and plans for their development.
(paragraph 44)
4. Time be set aside early in the Autumn sittings of the House for a debate on expenditure patterns and priorities.
(paragraph 48)
5. In the absence of fully developed and published forward estimates of expenditure the Government table, prior to the proposed debates on expenditure patterns and priorities, the following:
 - (a) the most recent estimates (on a detailed functional basis) of expected expenditure out-turn for the current year;
 - (b) projections, based on existing policies and commitments, of these expenditures for two future years; and
 - (c) the major assumptions on which the projections are made.
(paragraph 50)

6. Specific measures which enable the House to influence the estimates of its own expenditure be considered by the House in the debate of the Committee Report referred to in Recommendation 1.

(paragraph 51)

7. (a) The Government encourage the development of program statements by all departments;

(b) before preparing such statements departments consult with the Department of Finance, which should have a co-ordinating role;

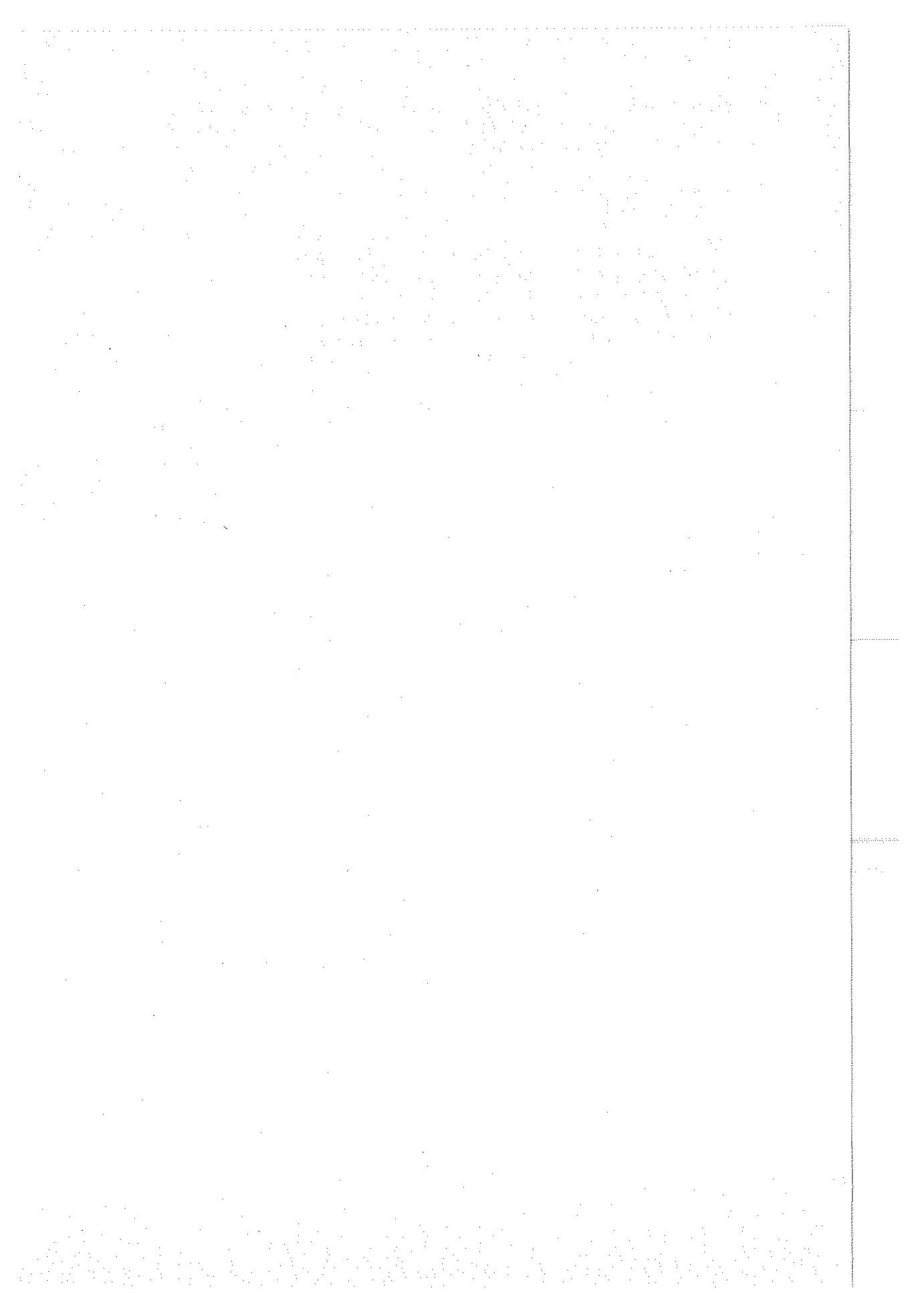
(c) the Department of Finance should confer with the House of Representatives Standing Committee on Expenditure; and

(d) the Government require departments which have prepared such statements (for all or some of the programs they administer) to publish these statements soon after the Budget is presented to the House.

(paragraph 77)

8. The Government provide Parliament with a paper that outlines the advantages and disadvantages of changing the annual Appropriation Bills from their present form to one which records the estimates in a program format.

(paragraph 81)



CHAPTER I

INTRODUCTION¹

1. The House of Representatives last revised its Standing Orders in connection with the Budget in 1962² and the Joint Committee on Public Accounts last reported on the form of the Budget documents twenty-five years ago.³ Meanwhile the size and scope of budgets has grown considerably while significant developments have taken place also in executive processes—for example, the implementation of a system of forward estimates, the more recent development of forward commitment control, and changes in the format and content of the Budget documents. At the parliamentary level there has been the establishment of the Senate Estimates Committees, the Senate Standing Committee on Finance and Government Operations and in 1976 the creation of the House of Representatives Standing Committee on Expenditure. Overseas, new methods of budgeting have been devised and sometimes implemented.

2. A report that examines the roles and relationship of the Parliament in general and the House in particular to the public expenditure process, is thus both necessary and timely.

3. It is necessary for at least three reasons. First it is vital for the Parliament to know the executive processes in the public expenditure cycle and to learn of significant developments in these processes so that consideration can be given to the need for the Parliament to adapt its procedures in order to influence Executive processes. It is of little use for the House to establish procedures for expenditure scrutiny which are not linked to the processes of the Executive because, *ipso facto*, the House's influence would be minimal. Second, even if there have been no significant changes to processes, the Parliament should review its role in the public expenditure cycle to ascertain whether it wishes to influence decisions at an earlier stage or in a different way. For example, is the House satisfied with its lack of influence in the most important formulative stages of the Budget? Finally, and connected with the first two points, there is the question of information: the need for the Parliament to assess whether the information which is provided to it is appropriate and adequate for its task of scrutiny of financial planning and administration, in the light of the changing nature and scope of governmental activity.

4. The report is also timely. There have been important changes in parliamentary procedures in recent years; for example the establishment of legislation committees in the House. There is now a proposal for the committee stages of the Budget

1. The title of the Report is different to that of the Inquiry which was an inquiry into the Budget Estimates.

2. Australia, Parliament, *Report from the Standing Orders Committee* [Mr Speaker (Sir John McLeay), Chairman], Parl. Paper H. of R. 1, Canberra, 1962.

3. Australia, Parliament, *The Form and Content of the Financial Documents Presented to the Parliament: 18th Report from the Joint Committee of Public Accounts*, Parl. Paper 37, Canberra, 1954.

to be conducted by two or more committees sitting concurrently.⁴ But the House has not debated either the Report of the Joint Committee on the Parliamentary Committee System⁵; or the Report of the Royal Commission on Australian Government Administration⁶ (RCAGA), which discussed, among other things, the relationship between the Parliament and the Executive. We believe that this report by the Expenditure Committee, because it contains the most comprehensive examination to date of the role and interests of the Parliament in the public expenditure process, now provides the best opportunity for such debate. While acknowledging that guidelines have been established by the Government for its responses to Committee reports within six months of tabling such reports, *the Committee recommends that:*

Its Report, Parliament and Public Expenditure, be debated in the House during the 1979 Autumn sittings.

5. In a previous report entitled *A Year's Experience*⁷ the Committee discussed its role and functions. All of its reports presented to the Parliament to date have been related to the second and third functions identified in *A Year's Experience*—namely, examination of economy and efficiency in the use of funds and evaluation of program results and effectiveness. This report is associated with the fourth function—the examination and evaluation of processes used in the planning, management and control of public expenditure. The Committee sees its area of operation as encompassing Commonwealth Government expenditure defined in the broadest way possible.

6. The title and the diagram on the cover page reflects the main focus of the Report: a discussion of the role of Parliament in general in the public expenditure process. A secondary purpose is to commence the examination and evaluation of the expenditure process. Both aspects of the Report come together in the discussion on information needs and procedures for the House to influence the public expenditure process to a greater extent than the House does at present.

7. The remainder of this report is structured as follows. Chapter 2 provides a summary description of the public expenditure process. Appendix 1 contains a more detailed description of the Budget process than that provided in the chapter. Together with Diagram II the chapter serves to illustrate the limited participation of the Parliament in the process. Chapter 3 discusses ways for the Parliament to increase its participation and therefore its influence. This discussion includes the question of the House influencing its own estimates. The fourth chapter continues the examination of information needs commenced in the preceding one and argues the case for the Parliament to receive program statements—information which collates the objectives of programs, their costs and their outputs.

8. Details pertaining to the conduct of the inquiry, the witnesses and the evidence are at Appendix 2. The Committee places on record its appreciation of co-operation given by departments and in particular the Department of Finance

4. Australia, House of Representatives, *Debates*, 24 November 1978, p. 3461.

5. Australia, Parliament, *A New Parliamentary Committee System: Report of the Joint Committee on the Parliamentary Committee System*, Parl. Paper 128, Canberra, 1976.

6. Royal Commission on Australian Government Administration (RCAGA), *Report*, Parl. Paper 185, Canberra, 1976.

7. Australia, Parliament, *A Year's Experience: Report from the House of Representatives Standing Committee on Expenditure* (K. M. Cairns, Chairman), Parl. Paper 244, Canberra, 1977.

(Finance). We also acknowledge the contribution of staff—the Clerk to the Committee, Mr M. Aldons; the General Adviser, Mr C. Walsh, Senior Lecturer in Economics, Monash University; and Mr M. H. Ives, who was seconded to the Committee secretariat from the Department of Finance.

CHAPTER II

THE PUBLIC EXPENDITURE PROCESS

Introduction

9. In its widest sense the term 'public expenditure' includes all expenditures by departments, authorities and public organisations at Commonwealth, State and local government levels. This broad definition is necessary, for example, to calculate the size of the public sector in Australia and for proper consideration of those areas of expenditure where the Commonwealth and the States share responsibilities (e.g. health, education). The Committee is aware of a lack of information on the latter matter. Our immediate concern however is with Commonwealth Government expenditure: specifically expenditure recorded in the Budget.⁸

The Budget Stage

(a) Objectives

10. Expenditure recorded in the Budget is planned, managed and controlled in a series of stages which, taken together, constitute a public expenditure process. The first stage in this process is the formulation of the Budget and its presentation to and approval by the Parliament. Since the Budget is the expression of the policies and priorities of the government of the day the processes associated with the Budget are taken to represent a concerted effort to:

- (a) articulate the political, social and economic goals or objectives of the government of the day and the policies and priorities attached to them;
- (b) identify the resources likely to be available or which it is desirable to make available in the light of general economic and social conditions;
- (c) identify the trade-offs between the various policy objectives faced by the government; and
- (d) hence establish a pattern of expenditures and use of resources which best matches the underlying policies and priorities.

11. *Goals or objectives* are often expressed in very general terms—e.g. the defence of Australia. Governments therefore find it necessary to develop more specific *policies* to pursue those broader goals. For example, governments have decided that the defence of Australia should be pursued through a system of all volunteer manpower. The necessary process of attracting persons to and retaining them in the armed services can then be approached through the selection and development of a number of interrelated *programs*—for example setting of pay levels and working conditions, retirement benefits, or re-engagement bonuses, and the provision of (subsidised) accommodation. Important judgments are obviously required about the appropriate emphasis to be placed on each of these programs, an emphasis to be determined at

8. A discussion of overall Commonwealth Government expenditures is included, for example, in Budget Statement No. 6, 1978-79, pp. 194-5.

least in part in terms of their relative effectiveness in attracting and retaining servicemen. Moreover, within each of the programs further choices may be necessary. For example, the accommodation needs of servicemen, and the desire to provide concessional rents, could be met by the Commonwealth acquiring a housing stock and setting rents at less than market levels, *or* by giving servicemen a rent allowance and assisting them to find accommodation in the private rental market. Choice of a particular approach defines the relevant program(s) more explicitly. It also enables the establishment of a set of operational procedures to implement the chosen programs.

12. Somewhat interrelated with the process of establishing goals, defining policies and the development and selection of programs is the budgeting phase. The available resources have to be apportioned between the various programs and activities designed to meet the policies and priorities of the government. The public purse is not a bottomless well and decisions on the size and pattern of public expenditure are made against judgments of the resources available (taxation and borrowings), which shape and in turn are shaped by policies that deal with the management of the economy. Choices on the relative size of programs are made after social, economic and political factors are considered. After being finalised by the Executive the Budget is presented to, considered and finally approved by the Parliament.

13. The various components of the budget process described in paragraphs 10 to 12 are, of course, an abstraction. While some of them are present in the actual process, budget formulation is an intensely political activity where the participants are subject to constraints of time and availability of information. The process does not begin afresh every year and is called incremental budgeting—that is, the previous year's expenditure is taken as the base with additions and deletions being made with the base as the reference point. Large changes are thus the exception rather than the rule.

14. The Budget is neither the only time at which, nor the only means by which, policies and priorities are pursued. It is not the only time because identification of needs and requirements is an ongoing activity, and may give rise to specific legislation or new policy initiatives requiring expenditure additional to, and quite separate from, the Budget. It is not the only means because governments may choose to give effect to their objectives by non-budgetary means such as regulations, quotas or expenditure substitutes such as financial guarantees.

(b) The Annual Budget Cycle

15. While the Parliament is debating the current Budget, preparation for the next Budget commences with the collection of forward estimates of expenditure. The basic purpose of forward estimates is to make Ministers collectively aware of the costs of existing and proposed activities, and hence to provide a rational framework within which Ministers can make decisions affecting both the level and composition of government spending in the short and medium term. Since 1976-77, the timetable for forward estimates has been set so as to make them an integral part of the annual budget process.

16. The place of forward estimates in the budget timetable is illustrated in Diagram I at page 8. On the basis of broad guidelines established by Cabinet, departments are required to submit Ministerially endorsed forward estimates to Finance in

January. During March, a composite forward estimates report is submitted to Cabinet. Given the inevitable tendency for the total of those estimates to exceed what can be accepted, (economically and politically), Cabinet then establishes a procedure for reviewing and reducing the totals. In 1978-79 this procedure involved the joint preparation by the Departments of Finance, Prime Minister and Cabinet, Treasury and relevant spending departments of papers setting out options.

17. Since 1975 a system of forward estimates of manpower has been established by the Public Service Board somewhat in parallel with the forward estimates of expenditure. This process encompasses the operation of the interdepartmental committee on staff ceilings (comprising PM & C (Chairman), the Board, Finance and/or Treasury) which reports to the Prime Minister. That committee's report takes account of government decisions, and options identified for the forward expenditure estimates.

18. Decisions resulting from Ministerial consideration of options, and provisional staff ceilings based on them, are notified to departments, and must be incorporated by them in their formal expenditure bids for the Budget.

19. The process of submitting estimates (bids) for the ensuing financial year follows in April-May. The process has two components: initially, departments submit 'first bids' relating only to existing activities or those for which Cabinet approval has already been given; and, subsequently, new policies and programs are handled in a parallel process beginning in June.

20. Departmental first bids are examined by Finance and discussed with departments. A budget submission is prepared in June showing the cost in the next financial year of all existing activities excluding disagreed bids, i.e. bids about which the relevant Minister and the Minister for Finance do not agree. Finance also prepares a submission on the disagreed bids of each department. Towards the end of June, Ministers lodge Cabinet submissions on new or extended programs.

21. Budget Cabinet meets in early July. Expenditure and revenue decisions are finalised and the Treasury commences the preparation of the Budget documents. The Budget is presented to Parliament in mid August.

22. Appendix I contains a more detailed description of the Budget process.

Implementation and Review Stages

23. With the passage of the Budget through Parliament, **implementation**—the second stage of the public expenditure process—begins. In a legal sense, implementation is the spending of money authorised by Parliament. It is, however, also much more than that, for it represents the means by which governments, through the administration, *actually pursue their objectives*. The expenditures on inputs authorised in Appropriation Bills, or other legislation, are transformed into programs of action to seek the results, or award the benefits, specified in the Budget plans. Responsibility for implementation lies, primarily, with the administration. Implementation does raise a number of important issues for the Executive and the Parliament:

- is money being spent as authorised (compliance)?
- how efficiently are resources at departments' disposal managed (economy and efficiency)?

- how effective are the programs of action in obtaining the desired results (program effectiveness)?

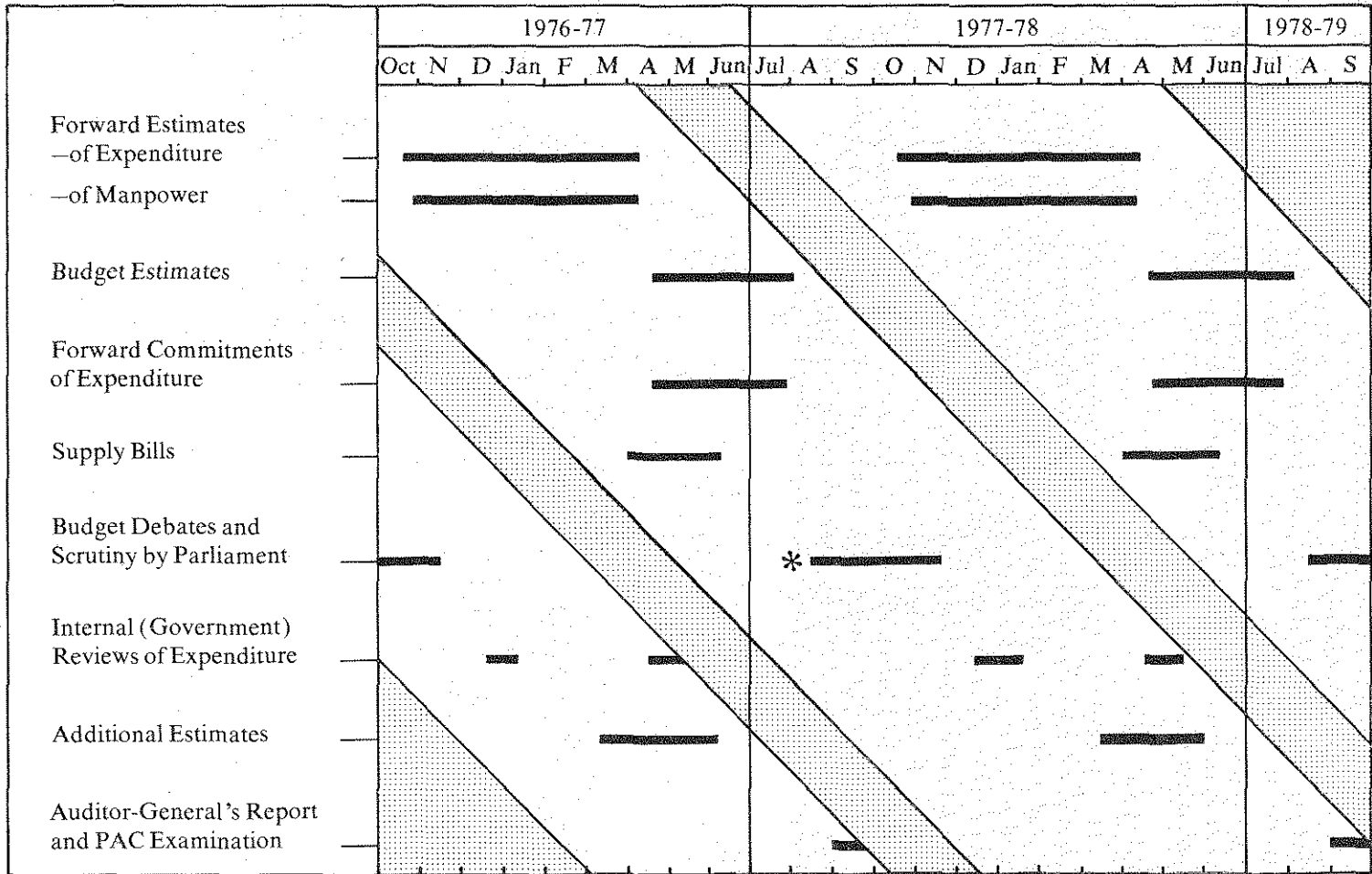
These questions define the essential elements of the third stage of the expenditure process—the review stage. This stage is in part concurrent with implementation. Moreover, the reviews could affect expenditure either in the current or subsequent years, when results of reviews are incorporated in the reconsideration of goals, policies and programs.

The Participants

24. There are four major participants in the three stages of the public expenditure process. They are the Executive, departments (administration), Parliament and the Auditor-General. Others participate at various stages. The State Premiers do so through the Premiers' Conference and Loan Council and governments obtain advice from a variety of sources such as *ad hoc* inquiry bodies or formally constituted channels such as the Economic Consultative Group.

25. The different stages of the public expenditure process and the involvement of the major participants are depicted in Diagram II at page 9. As stated in paragraph 13, the stages in the process, now illustrated in the diagram, are an abstraction. It should be recognised that the processes overlap, particularly the review stage. Nevertheless, the diagram puts the roles of the participants into perspective.

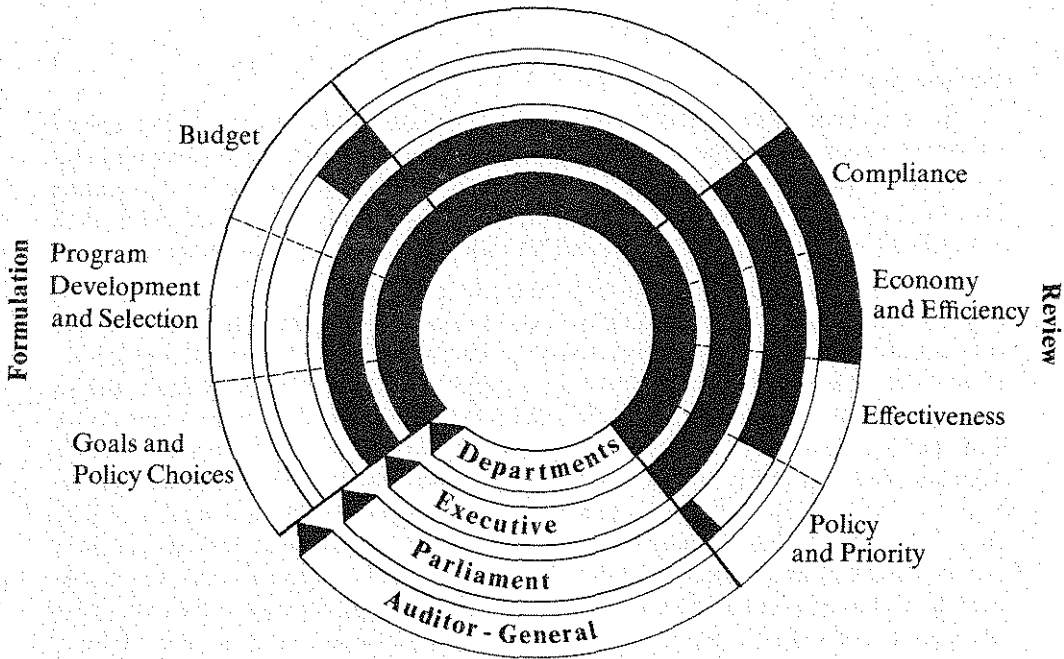
DIAGRAM 1
A OUTLINE TIMETABLE OF THE EXPENDITURE CYCLE





*BUDGET SPEECH

**DIAGRAM II
THE PUBLIC EXPENDITURE PROCESS**

Implementation



-  Indicates Participation in Process
-  Indicates Partial Participation in Process

CHAPTER III

THE ROLE OF PARLIAMENT:

(i) INFLUENCING BUDGET FORMULATION

Introduction

26. Diagram II illustrates clearly the limited participation by the Parliament in the public expenditure process. Should the level of this participation be increased and if so how? What are the information needs for more effective parliamentary scrutiny and are they currently met? These are fundamental questions which need to be asked periodically by the Parliament. This and the following chapter provide some answers.

27. Discussion on the level and extent of parliamentary participation in the expenditure process soon leads, in the Committee's opinion, to the question of how to make the Executive more accountable to the Parliament. One important aspect concerns Ministerial responsibility. This is a subject the RCAGA Report dealt with in some detail.⁹ It is a matter the United Kingdom House of Commons Expenditure Committee examined in its report on the Civil Service.¹⁰ It raises the question that if Ministerial responsibility means answerability in most cases and if public servants remain anonymous, just who is responsible in an actual rather than a formal sense for the mistakes that occur? Unless one assumes there is no relationship between accountability and efficient administration this is a question that has to be canvassed in discussing parliamentary scrutiny of the administration. A clearer view of this area may be gained when the Parliament reviews the efficiency audit work of the Auditor-General (see paragraph 56).

28. The Committee has used, quite deliberately, the word 'scrutiny' rather than 'control' to describe the work, existing or proposed, of the Parliament. It is true that section 83 of the Constitution requires that no money shall be drawn from the Commonwealth Treasury except under appropriation made by law. This should not be taken to mean that Parliament controls expenditure. The word 'control'¹¹ means power of directing or command and in the context of expenditure it should be used in the sense of the ability to determine the size and composition of public expenditure. This the Parliament does not do. It is restrained by the fact that the Parliament has not formulated an approach to control or how to exercise it. The governing party is in a majority which has a vested interest in supporting the proposals of the Executive. It is thus difficult to see how the House can control a situation when its own majority has to support the Executive. 'As in the fable of the Emperor's new clothes, parliamentary control of expenditure is a myth that all concerned have every reason to foster.'¹²

9. RCAGA Report pp. 11-13, 59-67.

10. *The Civil Service, Eleventh Report from the Expenditure Committee, Session 1976-77*, (Vol. 1—Report) United Kingdom House of Commons, July 1977.

11. *The Concise Oxford Dictionary*, sixth edition, Clarendon Press, Oxford.

12. Sir Henry d'Avigdor-Goldsmid (former Chairman of the Expenditure Committee, Westminster); *The House of Commons Expenditure Committee*, *The Parliamentarian*, Vol. LIV No. 4, October 1973.

29. Financial scrutiny of the administration is undertaken by each Chamber acting as a whole or by committees of the House, the Senate, or by joint committees. The broad objectives of financial scrutiny are to safeguard expenditure of taxpayers money, to promote and encourage efficiency in administration and to influence priorities and policies. The end purpose of this work of scrutiny is 'influence, not direct power; advice, not command; criticism, not obstruction . . . and publicity, not secrecy'.¹³ For the level of parliamentary participation in the expenditure process to be increased it needs to influence the heart of the process—budget formulation.

Influencing the Formulation of the Budget

(a) General

30. In Australia, the annual Budget remains the main vehicle through which expenditure plans and decisions are made, and the Budget speech the primary means through which those plans and decisions are announced. Formulation of the Budget is, effectively, the preserve of the Executive, aided by its administration. Parliament's formal role, as Diagram II illustrates, begins only when the Budget is presented, and this formal aspect of its role is reflected in the Budget debates, the passage of the Appropriation Bills, the Senate Estimates Committees, and, at a later stage, review by the Joint Committee of Public Accounts of the Auditor-General's Report. These parliamentary procedures may exert influence on budget formulation in at least two distinct ways. Firstly, due to its debates and its analysis of expenditure decisions, the Parliament's activities may impose a greater discipline on budget formulation than would otherwise exist. Secondly, arguments developed in the course of Parliament's deliberations may prove influential in shaping future expenditure decisions.

31. While less formally related to the Budget, other elements of Parliament's activities nonetheless also represent means by which it may attempt to exert influence on budget formulation. The everyday activities of questions and general debate, the debates on the Supply Bills, and the growing range of review work, undertaken particularly through committees, together represent means through which the Parliament can attempt to influence the Executive's plans in relation to the size and pattern of public expenditure.

32. Despite the existence of numerous opportunities for the Parliament to play its part, both Parliamentarians and outside observers have claimed that the role and influence of the Parliament has significantly diminished. The Committee believes that there are at least two issues to which the Parliament must give careful consideration:

- parliamentary procedures
- information needs of the Parliament

33. While current procedures allow members frequent opportunities to raise budget-related matters, the two major debates which are explicitly directed at Budget strategy and composition may not serve Parliament's interests in the best possible way. The debates in the Budget session are in a sense both too late and too early: too late to exert influence on the current Budget, and too early in the next year's budget

13. Bernard Crick, *The Reform of Parliament*, 2nd edn, Weidenfeld, London, 1968.

cycle to have an immediate impact on the government's thinking at the critical moment when decisions are made. The debate on the Supply Bills, which superficially appears better timed, may also occur too late in the budget formulation process, after most of the major options have been decided. Moreover at least in recent years the debates have placed relatively little emphasis on the pattern of expenditure priorities, compared to the emphasis given to overall economic strategy, or to the details of particular expenditure votes. **The Committee believes that a debate focused specifically on the pattern of public expenditure, and the relative priorities implied by it, appropriately timed in terms of the budget decision-making process, is an essential prerequisite for the Parliament to reinforce its role in the budget process.**

34. Changes in procedures or emphasis will not, however, overcome the second problem the Committee has identified—namely that the information which Parliament currently has available is not adequate for the task of exerting influence. The information needs of Parliament in relation to its review role are the subject of the following chapter. Here concern is about information on the overall pattern of public expenditure, and the time-frame within which that information is provided. In discussing this matter it will be necessary to consider procedures and information requirements internal to the Executive and administration, as well as the needs of Parliament.

(b) Annual Budgets and Future Expenditure Plans

35. It is now widely acknowledged that annual budgeting is no longer adequate for the efficient management and planning of public expenditure priorities. The annual Budget is still important both for short-term management of the economy and for proper Parliamentary 'scrutiny' of all government activities. However, governments have not only accepted primary responsibility for economic stability, but also through their spending programs now shape society's priorities in areas such as health, education, welfare, transport and communications. In all of these areas, government spending programs have created commitments, legal and moral, which severely constrain budget flexibility. Substantial modifications to old programs, or the introduction of new ones, require advance planning, and gradual implementation, if waste and dislocation is to be avoided. The U.K. Government, in its White Papers on Public Expenditure, has indicated that it may take at least two years before today's plans can be expected to have a significant impact on the Budget. In areas such as defence the planning horizon may need to be much longer. What can be changed most easily in the Budget (e.g. deferment of capital expenditures), whether to facilitate economic management objectives or changes in priorities, may bear little relationship, or even run counter to, the longer term priorities that governments would want to establish.

36. In this connection, Finance told the Committee that perhaps 98–99 per cent of the annual Budget is currently accounted for by on-going expenditures (evidence, p. 89). Given commitments of the size implied by this figure the use of annual budgets as the main framework for expenditure decision making can be a potent source of frustration and inefficiency in the public expenditure process. New program proposals are virtually constrained to compete only with one another for the thin margin of free resources left after the needs of on-going programs are met.

37. From all of this there clearly emerges the message that information which projects expenditure requirements forward over a number of years is now an essential element in efficiency in decision making. But, as the RCAGA Report recognised,¹⁴ the arguments really lead to a stronger conclusion: namely that **there is a need for the focal point in the expenditure process to be shifted from the annual Budget to a longer term public expenditure planning mechanism.**

38. Forward projections of expenditure requirements can occur at different levels of sophistication. The simplest projections would show, for several years ahead, the annual costs of continuing existing policies. Such projections would be of little use for influencing the current annual Budget, but would identify possible future problems and enable further review work to be commissioned that might lead to changes in plans in future years. At a slightly more sophisticated level, expenditure projections might show, in addition to the costs of existing policies, the future costs of new proposals. Again this information would do little to change the overall shape of the Budget, though it would assist in selecting from among the new proposals those which should be met from the margin of resources available in the current annual Budget. At the most sophisticated level would be not mere projections, but rolling plans for expenditure in future years. These plans would be based on projections of costs of existing and new proposals, shaped by assessments of resources potentially available in future years and the priorities (social, economic and political) that the Government wishes to see pursued. Annual Budgets would be derived from these expenditure plans, modifying the first projection year of the plan to take account of new perceptions and changed circumstances. After presentation of each annual Budget, the process would begin anew with another year added.

39. As the RCAGA observed, such an approach to public expenditure decision making would not only constitute a rational means for meeting the need for increased flexibility and awareness of future implications of current decisions, but it might also lead to a greater sense of Ministerial responsibility for the overall shape of expenditure, and would offer Ministers and departments a more stable environment in which to develop and implement their programs. It would, however, require a substantial redevelopment of the present forward estimates system.

(c) The Present Australian Forward Estimates System

40. Forward estimates of expenditure have been prepared in Australia since the mid 1960s, though the formal system, including Ministerial endorsement, began in 1971. This forward estimates system is akin to the second sort of expenditure projection mentioned earlier, involving collection of data, for three future years, on the expected cost of existing policies and of proposed new or extended activities. **It does not in any sense represent a rolling plan from which annual budgets are derived.** In fact, the opposite is true: the forward estimates have been integrated into the annual budget process, extending that process by providing an early perspective of the likely size of budget bids, together with limited information on the implications for two additional years (evidence, p. 95).

14. RCAGA Report, Section 3.3, pp. 36-42.

41. Finance said that the forward estimates help to overcome inflexibilities and emphasised that such estimates allow examination of expenditure for the coming year in greater detail. Finance also admitted that the data for years two and three had not been very satisfactory, and that little use was made of data collected on new or expanded programs that might only start in later years since these still had to go through Cabinet (evidence, p. 95 and pp. 626-9). The former Department of Environment, Housing and Community Development pointed out an important circularity in reasoning on this issue—since the data for years two and three are little used, so departments devoted less effort to their preparation, which in turn means these data are unsatisfactory (evidence, p. 467). The system has induced departments to put most of their requests into year one rather than spreading them over later years (evidence, p. 99). This first year 'bulge' is an inevitable, but undesirable, consequence of a less than fully fledged system of forward estimates.

42. Although the forward estimates system has been evolving over the years, the evidence collected by the Committee strongly suggests that, as a device for long-term planning of public expenditure, the estimates are in a state of arrested development. They have become a captive of the annual budget process, despite the strength of the argument that the opposite should be the case.

(d) Parliament's Interests

43. The Parliament's interest in all this is twofold. In the first place, insofar as Parliament is concerned to promote efficiency in the public sector, it must be concerned with the state of the present expenditure decision-making process. The Committee believes that if the shift towards a longer term expenditure planning mechanism is to be secured in the foreseeable future it may need Parliament to take a strong interest in the issue of the development of forward estimates. While recognising that moderation must be shown in pressing the Executive to go further or faster than it would otherwise choose, the Committee sees this as a crucial issue. The Parliament should be prepared to show a lead. *The Committee therefore recommends that:*

In the debate referred to in Recommendation 1, the Parliament should give special consideration to the need for further development of the forward estimates system to enable a shift to occur from annual budgets to integrated expenditure plans and projections as the main framework for expenditure decision making.

44. The Committee has already referred to the importance placed on development of the forward estimates by the RCAGA: indeed, its Report sees 'this development of Forward Estimates as the first and critical step in the achievement of greater efficiency'.¹⁵ In establishing the Department of Finance, the Prime Minister laid particular emphasis on 'improving capacity to service the Government's requirements for forward planning, priority setting and the strategic planning of Government initiatives', noting the role Finance would have in developing the forward estimates.¹⁶ When announcing the Government's initial decisions on a number of the RCAGA recommendations, the Prime Minister said that the Government had decided that action should be taken immediately to examine and

15. RCAGA Report, p. 41.

16. Press release, 18 November 1976.

report on the Royal Commission's proposals.¹⁷ Given the importance that it attaches to the development of forward estimates, *the Committee recommends that:*

The Government make an early statement setting out:

- (a) *its decisions on the Royal Commission on Australian Government Administration recommendations concerning forward estimates; and*
- (b) *the role of the forward estimates as now seen by the Government, and plans for their development.*

45. The second matter of interest to the Parliament is its information needs. It is true that the functional classification of outlays, first made available in 1973, has provided Parliament with a considerably better perspective to expenditure priorities than was previously available. The problem is that this information covers only current and previous spending patterns. Since those who must make public expenditure decisions require information which relates to future years, then those whose responsibilities are to scrutinise and influence those decisions must also have forward-looking information, though perhaps of a less detailed nature. The effectiveness of Parliament depends to a considerable extent on its having information which reflects the basis on which decisions are, or ought to be, made. One example may help to illustrate the point. Public expenditure priorities in Australia will be shaped in the future by its ageing population, its defence needs, and perhaps the need for society as a whole to accept responsibility for the costs of adjustment associated with technological and other structural change. Can these emerging needs be accommodated without significant changes in other expenditure areas, or while granting further tax cuts? The forward estimates system in Australia may enable the Executive to cope, albeit in an unduly limited way, with some of these issues. But at present Parliament does not have the information necessary to enable it to make such assessments or to effectively influence Executive thinking.

46. If the Executive were to redevelop the forward estimates into rolling expenditure plans, then the question immediately arises as to whether these plans should be published. The Committee makes two particular points in this connection: firstly, the question of publication is not crucial to the redevelopment of forward estimates, and should not be allowed to hold up any possible changes; but secondly, the Parliament should, nonetheless, be aware that the more fully developed forward estimates become, the more they shift the decision-making centre from the Budget into an expenditure planning mechanism. If such a change were to occur, Parliament's information needs would shift accordingly.

47. In contrast to the present Australian situation, the United Kingdom House of Commons has had available to it Public Expenditure White Papers which provide expenditure estimates for a five-year period, based on medium-term economic, demographic and other statistical projections. These White Papers are examined by the General subcommittee of the House of Commons Expenditure Committee, and since 1971 have also been debated by the Commons as a whole. It has been said that the debates were at first rather disappointing because few parliamentarians seemed interested in the expenditure priorities they were invited to consider. The 1976 debate was different. It contained references to the need to think carefully about public

¹⁷ Press release, 9 December 1976.

spending; it recognised that higher spending on one item may mean lower spending on another; and it accepted that the taxpayer's pocket is not bottomless.¹⁸

48. Clearly publication of public expenditure plans is possible (given time for technical problems to be overcome), and could be expected to add greatly to Parliament's potential for meaningful debate and scrutiny. Nothing short of development and publication of medium-term public expenditure plans would meet the ideal requirements of public sector efficiency and parliamentary scrutiny. However, there is an urgent need for Parliament to have better information than it now has, and for it to adopt procedures which will allow it to use what information it has as effectively as possible. The Committee believes that, during the Autumn sittings of the House, a specific amount of time should be set aside for debating the overall pattern of, and priorities implied by, public expenditure. The timing and nature of this debate is important, because its purpose would be to allow the House an opportunity to influence Executive thinking in the crucial pre-budget period. The debate would need to take place earlier in the Autumn sittings than the debate on the Supply Bills. It could, indeed, be seen as parallel to the way in which governments consult with business, trade unions, and other groups in the lead-up to the Budget. *The Committee therefore recommends that:*

Time be set aside early in the Autumn sittings of the House for a debate on expenditure patterns and priorities.

49. To facilitate such a debate, it would be necessary for the Government to make available appropriate information. The House would, at that stage, already have available the functional classification from the previous Budget, but it would have no information on the future trends of those expenditures. As the Committee's arguments have already established, such information would be the minimal basis from which planning and debate could proceed. Though the absence of this information should not prevent the debates previously recommended, the Committee believes that the information provided should show, on a detailed functional basis:

- (a) the most up-to-date estimates of expected expenditure out-turn for the current year; plus
- (b) projections for two future years, on the basis of existing policies and commitments.

It would, moreover, be appropriate for the Parliament to be informed of the major assumptions used to generate particular future expenditure estimates, whether based on macro-economic parameters, labour market conditions or age structure of the population.

50. Such information would reflect the framework within which expenditure decisions are now made, without demanding information which would either not be readily available or would be politically inopportune to give to the Parliament. A two-year projection is suggested because it represents a minimum time-frame within which current decisions could be expected to have a significant impact. Overall, the intention is to give the Parliament the most effective role in the expenditure decision-making process that it can have. *The Committee therefore recommends that:*

18. S. A. Walkland and M. Ryle (eds), *The Commons in the Seventies*, Martin Robertson, 1976, pp. 140-1.

In the absence of fully developed and published forward estimates of expenditure the Government table, prior to the proposed debates on expenditure patterns and priorities, the following:

- (a) the most recent estimates (on a detailed functional basis) of expected expenditure out-turn for the current year;*
- (b) projections, based on existing policies and commitments, of these expenditures for two future years; and*
- (c) the major assumptions on which the projections are made.*

51. It would be quite remiss of the Committee to ask for more information from the Government to enable Parliament to influence expenditure priorities without also referring to the inability of Members (not just Committee Members) to influence or scrutinise the expenditure estimates of the House of Representatives itself. There is at the moment discussion between the Presiding Officers and the Government about the procedures of the estimates of the Parliament (Exhibit 34). *The Committee urges the Government to respond quickly to the initiatives of the Presiding Officers and recommends that:*

Specific measures which enable the House to influence the estimates of its own expenditure be considered by the House in the debate of the Committee Report referred to in Recommendation 1.

CHAPTER IV

THE ROLE OF PARLIAMENT:

(ii) INFORMATION NEEDS FOR INCREASED SCRUTINY OF EXPENDITURE

Types of Reviews

52. As Diagram II illustrates it is at the review stage of the public expenditure process that parliamentary work is greatest. This work is of the after-the-event variety, though it should be realised that since the expenditure process is a continuous one, today's review may affect tomorrow's decisions. The diagram identifies different types of reviews. As one moves along the spectrum of scrutiny from compliance to efficiency, then to program effectiveness and finally to policy and priority review the work becomes more important, relatively speaking, and more political. This latter factor has a bearing on the kind of review work that can be undertaken by parliamentary committees. Policy making and policy review have been a traditional preserve of the Executive.

53. Review of compliance is concerned with checking that money has been spent as authorised by Parliament, and in accordance with rules which govern spending as laid down in the Constitution, the *Audit Act* 1901, and in regulations and directions made pursuant to the Audit Act by Finance. It is obvious that this form of review is crucial in the context of control of public spending. Historically it has been the central focus of parliament's financial scrutiny, and today this work is undertaken by the Joint Parliamentary Committee of Public Accounts (PAC). Much of the information provided to Parliament, particularly in the budget papers, is shaped by the traditional orientation towards compliance.

54. There has, however, been increasing awareness over recent years that parliamentary review work must extend well beyond the compliance level. Since waste can occur even where the rules relating to spending are observed, the need to conduct reviews of economy and efficiency (focusing on both the way particular programs are carried out and the way management systems influence implementation) has been widely recognised. But the development must also go beyond this, for there seems little point in having efficiently run programs which fail to effectively achieve the end results (outputs) that are desired: hence the need for reviews of program effectiveness.

55. Reviews of economy and efficiency are undertaken in one form or another by units within departments, by the Public Service Board, by special *ad hoc* internal or external review teams, and by an increasing number of parliamentary committees. More recently, the Audit Amendment Bill 1978 extends the role of the Auditor-General to cover efficiency audits.

56. Efficiency auditing is still in its infancy in Australia. The Committee proposes to examine the reports of the Auditor-General on this subject and believes that this new function should be reviewed by the Parliament in later years. It is a function which should be encouraged if for no other reason than that other reviews conducted

by the administration remain 'internal working documents' and so are not available to the Parliament.

57. In contrast to the developments occurring in relation to economy and efficiency, the Expenditure Committee is the only parliamentary committee that evaluates the effectiveness of programs on a continuing basis. The evaluation work within the administration is undertaken by departments, (e.g. the priority and evaluation work of the Department of the Prime Minister and Cabinet) or by commissions of inquiry and task forces established by the Executive. While some, perhaps most, of the reports of external reviews are published, the internal reports are not and therefore cannot constitute the basis for parliamentary scrutiny of expenditure.

58. Examination of the review work undertaken by Parliament and its financial committees shows that effort is concentrated at the lower end of the scrutiny spectrum. Although there is some review of policy, the Parliament has not established any procedures to strengthen its activities in relation to effectiveness review, and to extend those activities to the review of policies and priorities.

59. Parliament must have a scrutiny role at the upper end of the review spectrum. There are, however, limitations to the extent to which bipartisan committees can undertake this work due to its essentially political nature and the fact that it is not possible to undertake such work except at the level below that of strategic priorities decided by Cabinet. Our system of government is parliamentary and not congressional where there is a separation of powers between the executive and the legislature.

Information Needs for Effectiveness Reviews

(a) Adequacy of Current information

60. An extension of the review work of the Parliament and its committees into program evaluation requires specific information. This information is not readily available to the Parliament notwithstanding the functional classification of expenditures in Statement No. 3 of Budget Paper No. 1. Most of the remainder of this chapter examines the case for the Parliament to receive 'program statements'. This is done by examining the available information, considering its relevance for the scrutiny of programs and finally assessing the need for additional information and its source and timing.

61. The budget papers are the principal published source of information on Commonwealth government expenditure. Currently there are eleven documents, totalling in excess of 1000 pages. Other documents are also presented by Ministers at budget time. The papers can be divided into three groups:

- (a) the Budget Speech and Statements—Statement 1 summarises the Budget in terms of aggregates (outlays, receipts, deficit); Statement 2 discusses the Budget in the context of the previous year's developments and the current year's outlook; Statement 3 provides a functional classification of outlays; Budget receipts are contained in Statement 4; the previous year's Budget outcome is analysed in Statement 5 and historical data on receipts and expenditure are given in Statement 6;

- (b) the Appropriation Bills (Nos 1 and 2) and Budget Paper No. 4 Estimates of Receipts and Summary of Estimated Expenditure—these provide most of the source information for the other budget documents;
- (c) other budget papers which provide detailed information on particular aspects of the Budget—for example Civil Works Program (Paper No. 5), Income Tax Statistics (Paper No. 11).

62. Many Members experience difficulty in coming to grips with the mass of material and understanding the underlying concepts. Following the presentation of the 1978–79 Budget the Committee organised a two-hour briefing session open to all Members. Officers from the Departments of the Treasury and Finance described the construction and content of the Budget papers and answered Members' questions. The session was appreciated by Members present and the Committee believes this session should be a regular occurrence.

63. In addition to the Budget papers the Senate receives explanatory notes on the two Appropriation Bills soon after the budget documents are tabled in the House. These notes, which are published, are used by the Senate Estimates Committees. Other sources of information include the Finance Statement and the Auditor-General's Report, publications of the Australian Bureau of Statistics and annual reports of departments and statutory authorities.

(b) The Case for Program Statements

64. Most of the information the Parliament receives is related to expenditure on inputs—i.e. salaries, overtime, office requisites. Such a presentation of expenditure was appropriate in an era when the Commonwealth operated administrative-type departments. It is less relevant today because of the increased scope of government expenditure which is directed at assisting individuals or organisations (e.g. health, education, social security and industry programs). There are perhaps in excess of 1000 separate public sector programs (evidence, p. 594) and in respect of such programs the Parliament should be informed of their objectives (purposes), total costs (how much is spent) and output/effectiveness (the results). It is true that many items in the Appropriation Bills and Budget Paper No. 4 identify particular programs but this identification is partial. There are similar limitations to the functional classification of Budget outlays in Statement No. 3.

65. The information needs identified in the preceding paragraph can be referred to as 'program statements'. The evidence indicates that there is no generally agreed definition of the term 'program' (evidence, pp. 582, 583). Finance said that the term can be defined in different ways and at different levels of aggregation but is usually interpreted as covering a group of activities designed to achieve specific government objectives (Exhibit 33, p. 286). The Committee suggests that a program statement has four basic features:

- it identifies specific policy objectives laid down by government;
- it specifies all the activities that contribute to the objectives;
- it identifies the resources and costs required to achieve the objectives; and
- it contains measurements or assessments of outputs.

66. The information required for a program statement can be illustrated from one of the inquiries the Committee has undertaken—Accommodation for Married Servicemen (see page 22).

67. To obtain program costs it may be necessary to draw together information from various appropriation items and trust accounts. Allocation of overheads (administrative costs) is an important component of cost though it may sometimes be difficult to obtain precise figures. Some degree of approximation would be acceptable. As program statements are developed it should become possible over time to identify the full costs of a program in order to facilitate a more complete evaluation of effectiveness. Referring to the example on page 22, since rents servicemen pay are below market levels, it would be necessary to indicate the implicit cost of this concession.

EXAMPLE OF A PROGRAM STATEMENT

(ACCOMMODATION FOR MARRIED SERVICEMEN)

1. *Program Objectives*

'Provision of adequate housing at the right place and right time to servicemen (because this is) quite fundamental in the retention of a volunteer service.'

Source: Australia, Parliament, *Accommodation for Married Servicemen*: Report from the House of Representatives Standing Committee on Expenditure (R. V. Garland, Chairman) Parl. Paper 99, Canberra 1977.

2. *Program Activities*

- Specification of physical standards for servicemen's housing.
- Provision of housing by:
 - loans to States to build houses for exclusive use by servicemen;
 - Commonwealth construction by Department of Housing and Construction;
 - purchase and hiring through Department of Administrative Services.
- Rental allowance for those who are not housed in Commonwealth owned or controlled dwellings.
- Setting of rents (Group Rent Scheme) to cover outlays and to meet equity objectives in relation to salary and housing quality.

3. *Program Costs (and Revenue)*

	Year	\$m
Costs		
1. Purchase		
2. Build		
—States		
—Department of H & C		
3. Repairs and Maintenance		
4. Rent		
—Hirings		
—Temporary Rental Allowance		
5. Administration Costs		
TOTAL COSTS		_____
Revenue		
6. Rents		_____

Explanatory notes: to be added as required

4. *Output/Effectiveness Measures*
(for example)

- Proportion of housing that meets the physical standards
 - over a number of years
- Proportion of housing unoccupied due to:
 - being unfit for occupation
 - inappropriate location

68. The ultimate purpose of program statements is to enable programs to be evaluated. Indicators of output or assessment of effectiveness are an essential ingredient. The development of indicators may take time. In the example given it should be easy to measure, over time, the percentage of housing which meets the physical standards specified. It is much more difficult to assess the effect of the lack of adequate housing on the attraction and retention of servicemen.

69. The Committee sees significant benefits from the development, preparation and publication of program statements. They would give both departments and governments a better information system with which to analyse on a continuous basis what has been achieved in the pursuit of policies, and to determine whether corrective action is necessary or how improved performance can be obtained. Program statements would assist the Parliament as well. They would provide an information base for the Parliament to discuss public expenditure and priorities in a more meaningful way, and permit systematic scrutiny of programs by committees, such as the Expenditure Committee. Other committees that investigate administrative efficiency might also be able to assess performance of departments, or units within them, in a way not possible at present. However, development of program statements is not a panacea for improving the effectiveness or efficiency of the use of resources in the public sector.

70. Several departments supported development of a program-type information system. The Secretary of the Department of Transport said his Department was working towards a program approach to forward estimates (evidence, p. 320). He saw several advantages of this approach and said it allows management 'to get a measure of output as opposed to input', to consider alternatives and to assist in the determination of priorities (evidence, pp. 330, 346). The Auditor-General said program information would 'assist any evaluation by my office of the level of economy and efficiency achieved by the organisation' (evidence, p. 559). The Under-Secretary of the Department of the Prime Minister and Cabinet said that if more resources were available and the question was where they could be best devoted then 'the general thrust of the Committee's approach towards greater provision (of information) on a program basis would be a high priority' (evidence, p. 630).

71. The Department of Finance gave qualified support for the Committee's idea for the development of a program information system. The Department said there were a 'sufficient number of qualifications to make it difficult . . . to give unqualified support' (evidence, p. 580). The major reason for qualified support was Finance's view that Statement No. 3 provided outlays classified according to functions (defence, education, health) and that the further developments of this Statement would satisfy the Committee's needs.

72. While the development of the functional classification has contributed to a better discussion of public expenditure, its limitations have been recognised. It is said that the functional information does not, as a rule, 'purport to represent detailed purpose-orientated sub-functions or programs; on the whole it is not possible, for example, to dissect administrative outlays of departments and to allocate them to particular sub-functions'.¹⁹ It is the spending departments which are responsible for the

19. Appendix to the *Budget Statements, Budget Paper No. 1, 1978-79*, p. 217.

implementation of programs designed to contribute to government objectives. Therefore, the scrutiny function of Parliament, and the review functions of the administration, requires information which, in the first instance, is identified according to departmental responsibilities. With some exceptions, it would seem that the development of a program orientation within departments is very limited. The initial effort required to obtain a significant movement towards program statement oriented information must come from departments rather than from Finance. Departments must be encouraged to develop the necessary orientation and they should do the preparatory work. But it is also necessary for Finance, because of its experience and co-ordinating role, to take an interest in the preparation of program statements, and particularly to assist in the development of comparability in the information provided. To date, while Finance is aware of efforts being made to introduce program information on a departmental basis, it has not been involved in such activities and has not evaluated success or progress (Exhibit 10, p. 153).

73. The Committee does not believe that further refinement of the functional classification by Finance would yield the highest return to effort at this stage. In saying this, we do not wish to discourage any changes which would improve the available information. It is recognised that resources available for such tasks are limited, and it is information from departments that is the crucial element in the first instance. Improvements in the functional classification will of necessity follow improvements in the underlying information base.

74. The Committee reiterates that what it is seeking is not just cost information but this information linked with objectives and output/effectiveness measures. Finance says that one difficulty with this approach is the lack of a uniform way of marrying together the organisational structures with the expenditure structures of programs (evidence, p. 584). This difficulty has not been put to us by the other departments which appeared before the Committee at public hearings or other departments which presented submissions. They were asked to comment on the value of program statements. The responses indicated that a number of departments were experimenting with such information, others were considering its development, while still others saw the need or advantages but also recognised particular problems. One or two others such as the Department of the Prime Minister and Cabinet and the Department of Primary Industry said that because they were 'policy advising' departments, the concept was inappropriate for them (Exhibits 13-30, pp. 161-263). The latter Department administers programs that cost over \$300m (see Budget Paper No. 4, pp. 37 and 38) and the Committee is not convinced that the Department of Primary Industry or any other department should be exempted from the preparation of program statements.

75. The former Department of Employment and Industrial Relations spoke of some difficulties of a program approach, but said that program information would be more useful to the Parliament. The department related program statements to structured information, without which it said departments and governments are forced to make decisions more arbitrarily than they would wish (Exhibit 35). The strongest support for the program approach came from the Secretary of the Department of Transport. After examining the transcripts of evidence he concluded that 'to suggest that all attempts at using functions, objectives, activities and programs as a basis for

improving resource allocation are ineffectual is, however, neither logical nor supported by overseas evidence'. He recognised that program presentation of expenditure would need to be an evolutionary process which requires the support of the co-ordinating authorities and the Parliament itself (Exhibit 33).

76. Notwithstanding the qualifications of Finance, the Committee sees the development of program statements as necessary for more effective parliamentary scrutiny of public expenditure. Such statements should be prepared by all departments for all their activities and should be presented to the Parliament at budget time. Finance should have an advising and co-ordinating role. The Committee recognises that development of these statements may be slow. It has been said that 'there is a very poor perception throughout the public service of the nature of a program objective'.²⁰

77. Some departments raised the question of the costs of providing information (evidence, p. 548). The Committee's belief is that the benefits to governments and the Parliament in the development of program statements would outweigh the likely costs associated with them. Difficulties that may be experienced in preparing all expenditure in program statements should not be a reason for delaying the presentation of this information to the Parliament. Against this background *the Committee recommends that:*

- (a) *the Government encourage the development of program statements by all departments;*
- (b) *before preparing such statements departments consult with the Department of Finance which should have a co-ordinating role;*
- (c) *the Department of Finance should confer with the House of Representatives Standing Committee on Expenditure; and*
- (d) *the Government require departments which have prepared such statements (for all or some of the programs they administer) to publish these statements soon after the Budget is presented to the House.*

Other Developments

78. Finance is considering some changes in budget data (notably in respect of Budget Paper No. 4) so as to better assist readers to identify and track particular transactions through the different budget documents. The Committee was given a submission which sets out departmental thinking on a possible change in the format of Budget Paper No. 4. This submission is reproduced at Appendix 3 for the purpose of stimulating general discussion.

79. The RCAGA Report said that the Treasury—presumably now Finance—should take up with the appropriate parliamentary committee 'the possibility of revising the schedule to the annual Appropriation Bills (the Estimates) to allow presentation of proposed expenditure in a form that will more adequately reflect programs'.²¹ This subject has been examined by Treasury/Finance for some time but work pressures have restricted progress (evidence, p. 580). The Committee

20. N. V. Walker, 'Efficiency and Effectiveness: Problems of Assessment', *Australian Journal of Public Administration* XXIV, 4 December 1977, p. 350.

21. RCAGA, *Report*, p. 374.

believes this work should be brought to a conclusion and placed before the Parliament as soon as possible. Several departments said that changes in the format of the appropriations were necessary as a prerequisite for the development of program cost information or to improve the scope for more efficient financial management; or for both reasons.

80. Although a change of emphasis from inputs to programs and related outputs might have a number of advantages, it is therefore not one to be decided lightly. Appropriations form the basis of the scrutiny of compliance in the use of public funds—a scrutiny which is facilitated by the present clear relationship between appropriations and the transactions to which those appropriations are devoted. The Auditor-General, referring to Canadian experience where the broad descriptions of Appropriation Bills make it difficult to determine whether or not funds appropriated by the Parliament are used for the purposes the Parliament had intended, pointed to problems in a changeover to the more functionally oriented program-type appropriations (evidence, p. 564).

81. In view of the suggested importance of this idea, *the Committee recommends that:*

The Government provide Parliament with a paper that outlines the advantages and disadvantages of changing the annual Appropriation Bills from their present form to one which records the estimates in a program format.

KEVIN M. CAIRNS
Chairman

22 February 1979

APPENDIX 1. A DESCRIPTION OF THE BUDGET PROCESS

History

1. Although certain of the important elements underlying the process may be identified as far back as Federation (e.g. Constitutional provisions for appropriation of funds) most of the current process, which is essentially internal to the Executive and administration, represents the evolution of practices and conventions over the years. This Appendix does not attempt to trace their history.

2. The 1970s have seen several important developments in, or bearing on, the process. These include the implementation of a formal system of forward estimates of expenditure (1971); the adoption of the functional classification of outlays and other changes aimed at improving the presentation of information in the budget papers (1973); the implementation of a formal system to control forward commitments of expenditure (1976) and the decisions by the Government to (a) create from the Department of the Treasury a separate Department of Finance to review, examine and evaluate public expenditure and administer the Public Account, and to (b) place greater emphasis on priorities review and evaluation work in government (December 1976)¹. Any description and discussion of these processes is, inevitably, in some danger of being out of date before it is finished.

3. Diagram I outlines the expenditure processes and the months in which they take place. The dates shown are approximate and depend on particular circumstances at the time (e.g. election year)².

The Forward Estimates Process

4. From Parliament's point of view the Budget process commences with the presentation of the Budget (usually in August) and ends with the presentation of the Auditor-General's report (usually in September the next year) and its subsequent examination by the PAC. But the process of preparing for the next Budget now starts within weeks of the presentation of the current Budget to Parliament, with the calling up of the forward estimates of expenditure.

5. Finance described the basic purpose of the system of Forward Estimates of Expenditure as being to make Ministers collectively aware of the future costs of existing and proposed activities and thus to provide a rational framework within which Ministers can make decisions affecting both the level and composition of government

1. The Prime Minister's press statement, December 1976.

2. For the sake of completeness, the diagram also indicates processes subsequent to the presentation of the Budget to Parliament.

spending in the short and medium term. Implementation of a system of forward estimates of expenditure has been a common feature of the efforts by governments to improve the formulation and management of expenditure plans in a situation of growing scope, size and complexity of government involvement in the management of national affairs.

6. The Commonwealth Treasury began collecting forward estimates in the mid 1960s. At first collection was on an informal basis and the estimates related only to existing activities. Ministers did not participate in their preparation and the estimates were not scrutinised in any detail. The forward estimates were, in effect, an attempt to obtain a rough measure of the cost in future years of continuing existing activities.

7. The formal system of forward estimates was introduced in 1971. Four features of this system were:

- (a) estimates were required not only for existing activities, but also for all extensions to existing activities and new proposals which individual Ministers intended bringing forward;
- (b) Ministers participated in the preparation of the estimates and approved the estimates finally submitted by their departments;
- (c) Treasury (now Finance) exercised limited scrutiny of the bids submitted; and
- (d) the estimates related only to those items or activities which formed part of the Budget. (Statutory authorities and others not covered wholly by the Budget were required to provide estimates only in respect of those items which had direct impact on the Budget.)

8. At first, the collection and processing of the forward estimates was quite separate from the budget process. However, the necessity to collect only a truncated one-year round in January 1976 marked a major change, in that the forward estimates provided a first view of the Budget prospects for 1976-77 and facilitated the commissioning of further detailed work on spending options leading up to the 1976-77 Budget. Since then, the timetable has been arranged so that the forward estimates form an integral part of the budget formulation process. In October 1978 it was decided to restrict forward estimates to approved and on-going programs and activities. Separate arrangements were made to deal with new proposals, thus avoiding the overlap and duplication which is said to have occurred in the past when some new proposals were considered in the forward estimates context and again in Budget Cabinet proper.

9. The preparation of forward estimates commences in **October** when, on the basis of broad guidelines laid down by Cabinet, Finance circularises all departments and specified statutory authorities about the information required. In **January**, this information, endorsed by Ministers, is supplied to Finance, which in **February-March** processes the information by, for example, converting it to a functional format and reducing it to a common price base. This adjustment is needed to reveal more clearly the underlying trends in resource requirements. The report which Finance gives its Minister is essentially statistical.

10. In **mid March** the Treasurer and the Minister for Finance submit the report to Cabinet together with proposals for action. Since the forward estimates add up invariably to too much for the next financial year, Cabinet establishes a process by

which it can obtain advice on how to reduce the totals in the forward estimates. In 1977-78 Cabinet appointed an 'officials committee' comprising representatives from PM & C and Finance. The task of this committee was to look at every item of expenditure in which it seemed there were possibilities for the government to make savings. The committee was to make no recommendations but listed options for Ministers to look at (evidence, pp. 21 and 22) after discussions with departments. In 1978-79 the options for reducing the forward estimates were presented to Cabinet in a series of papers prepared jointly by PM & C, Finance, Treasury and the relevant spending departments.

11. Decisions resulting from Ministerial consideration of options are incorporated by departments in the 'first bids' for the Budget. Thus forward estimates, as they are used at present, are little more than early first bids.

12. The Committee took evidence from two spending departments (Transport and EHCD) on their participation in the forward estimates. In formulating the forward estimates, both departments co-ordinate the preparation of draft forward estimates, including options, through formal committee systems. These draft forward estimates are then discussed with the Minister and, as necessary, further options pursued or the estimates refined. In response to Committee questions on the formulation of options and priorities, both departments were clear that this is not amenable to mechanical rules, but rather was a subjective matter requiring consideration of outstanding commitments, operational needs, actual and potential effectiveness of activities and interpretation of government policies. More particularly, both departments believe that the process can be improved by a program presentation which focuses on particular output or end objectives, rather than through a simple aggregation of resource inputs under the present system. Both departments were critical of the previous officials committee process and saw the 1978 arrangements as a potential improvement because of their more direct involvement in the advice on options. The departments did, of course, have opportunity to brief their Ministers on options directly affecting them.

The Budget Estimates

13. Departments are required to submit their estimates for the ensuing financial year by end April or early May. The main rules covering preparation of these estimates are contained in Estimates Memoranda and Instructions issued periodically by Finance, supplemented by the Finance Directions (see Exhibit 3). The government may also give specific guidance—in the form of provisional staff ceilings or limits on real increases in specified categories of expenditure. These co-called 'first bids' relate to existing activities or items for which Cabinet approval already exists. New policies and programs are excluded at this stage and handled in a parallel process beginning at end June.

14. The main activities and timing of the budget estimates are:

March: Finance issues Estimates Memoranda calling for first bids and indicating the timetable of events leading up to the Budget.

End April (up to mid May): Departments prepare and submit Ministerially endorsed first bids. The information is submitted in appropriation item format and is supported by detailed explanations.

May-mid June: Bids are examined by Finance officers and discussed with departments. Where agreement cannot be reached between officers, the matter may be raised for consideration by the Permanent Heads or ultimately the Ministers. If disagreement persists, the item will become a 'disagreed bid'. Towards the end of June, Finance prepares a budget submission showing the cost in the next financial year of all existing activities (excluding disagreed bids). Finance also prepares a submission on the disagreed bids of each department. Premiers' Conference and Loan Council meetings are also held in this period as are pre-budget discussions between Ministers, industry representatives and others.

End June: Ministers lodge Cabinet submissions on new or extended programs. Finance prepares briefing notes for its Minister on all submissions.

July: Budget Cabinet meets over several days in the first half of July. Departments adjust bids to incorporate Cabinet decisions and salary/price variations agreed with Finance up to early July. Treasury prepares Budget documents.

Mid August: Budget presented to Parliament.

August-November: Budget Debate; Appropriation Bills considered by the House of Representatives and Senate.

15. Individual departments are responsible for preparing their budget bids for existing activities; discussing and reaching agreement with Finance on those bids; preparing Cabinet submissions for and advising the Minister on proposals for new or extended programs and revising their budget estimates in accordance with executive decisions. Departments prepare their 'first bids' generally on the basis of prices ruling at the time of preparation and in conformity with guidelines and decisions emanating from the Executive. A particularly important guideline in recent times is the provisional staff ceilings, for which the forward estimates of staff provide an input. The processes in Transport and EHCD are similar to their forward estimates of expenditure, but somewhat simpler because of the existence of decisions and guidance arising from the forward estimates process. The discussion of these bids with Finance generally takes place in two phases—preliminary discussion aimed at clarifying particular aspects of the bids followed by subsequent more concentrated face-to-face discussions. This latter phase may involve hard bargaining with the referral of some items to higher echelons and ultimately to Ministers. If agreement is not reached the item will become a 'disagreed bid' on which Finance makes a Cabinet submission. Departments do not participate in the preparation of that submission but, being aware of the items and nature of the disagreement, brief their Minister for the discussion in Budget Cabinet. Again Transport and EHCD both commented on the value of the program approach and the difficulties of properly considering needs and implications under the conventional approach based on consideration of departmental-wide, input-type appropriations.

16. Because of their roles as primary advisers for matters coming within their Minister's portfolios, departments are responsible for the drafting of Cabinet submissions for new or extended activities. All submissions are subject to overriding requirements for consultation with other departments affected (e.g. Finance, for submissions needing expenditure) and they have a right for their views to be incorporated in the submission.

17. **Finance** described its examination of the first bids as requiring, firstly, the identification of authority for the activities (items which do not have proper authority are excluded and must be agreed at ministerial level); secondly, conformity with the guidelines for preparation of the estimates; and thirdly, the testing of the 'realism' of the bids in relation to the assumptions made and tasks to be performed. The whole process has been characterised as 'pragmatic' (evidence, pp. 53-4). In the case of special appropriations, it is necessary to estimate how much might be spent—the amount that will be spent is determined by the relevant legislation. In other cases, the Executive may set overall limits on particular classes of expenditure, and these limits may be expressed in simple dollar terms or as 'real' dollar movements compared with the previous year (e.g. furniture and fittings, evidence, p. 53). In yet other cases judgments—Finance vis-a-vis the spending department—may differ. Here Finance recognises the better appreciation by departments of their own internal requirements but noted the need to take an overall view across all departments. There are attempts on both sides to keep disagreed bids to a minimum. In 1977-78 there were fifteen items totalling some \$8 million (out of a Budget of some \$25 thousand million), submitted to Cabinet (evidence, pp. 52-3). Despite the relatively small amounts, the device (referral to Cabinet) is seen by Finance to be important in promoting departmental co-operation in an area (estimating) where judgments differ (evidence, pp. 53-4).

18. Because of the requirement for Finance to be consulted on Cabinet submissions with an expenditure content the Department receives proposals for new activities or extensions of old ones. The amount of consultation is subject to time constraints (evidence, p. 77). The Minister for Finance is briefed on all such submissions.

19. In the overall policy sense **Treasury** retains a significant interest in the expenditure side of the Budget. In those cases where Treasury considers that some aspect of expenditure should receive ministerial attention, it advises the Treasurer accordingly (evidence, p. 181). Treasury's advice is related to, firstly, the need for expenditure restraint or expansion; secondly, the assessment of the economic implications of new or existing policies; and thirdly, the analysis of trends in the economy that may affect public expenditure—prices, employment and other general economic factors such as the demand for housing (evidence, pp. 144-9). Advice is given to Finance on such things as prices and employment to be used in the guidelines for the forward and budget estimates. In all this work, Treasury makes use of expenditure data provided by Finance and its own access to Cabinet submissions and decisions. Arrangements exist for co-ordination between Treasury and Finance—particularly in the budget process—as well as in joint advice to their respective Ministers, as for example through a system of jointly signed minutes.

20. The **Department of Prime Minister and Cabinet** said that since it advises the Prime Minister on all matters he seeks advice on, the Department would participate in the budget process at various points in time. The extent of departmental work depends on the nature of the budgetary problems faced by the government and the degree of consensus about how these might be resolved. As the strategy evolves so does the Prime Minister's interest increase, with a corresponding increase in the Department's work in this area (evidence, pp. 196 and 197). The Department has an Economic Division which co-ordinates advice on economic conditions and policy and until

recently a Priorities and Evaluation Division which advised on forward planning and strategy, evaluated programs and identified priority policy and programs.³

21. Direct participation by the **Public Service Board** in the budget process is limited to manpower aspects arising from the staff ceilings or other requests for advice by the Prime Minister or Cabinet. In the Board's view, manpower needs largely flow from decisions on policy rather than determine the policy. Much of the Board's work is in the organising of staff resources in response to those decisions (evidence, pp. 257, 258). In recent years the Board has had 'observer' status at Finance-departmental discussions of the budget bids, allowing the Board to become more aware of developments in and details of departmental activities.

Forward Estimates of Manpower

22. The system of forward estimates of manpower was established by the Board in 1975, with the aim of improving the planning for manpower needs both at a departmental and service-wide level. The process, which somewhat parallels that for the forward estimates of expenditure, starts in late October and ends in February-March when the Board reports to the Prime Minister.

23. The processes, subsequent to the Board's report, have varied but generally have encompassed the operation of an interdepartmental committee (the Staff Ceilings Committee) comprising PM&C (chairman), the Board, Finance and/or the Treasury, to *examine and report to the Prime Minister on what they saw as the staffing needs of departments in the next financial year*. That examination takes account of relevant government decisions and the implications of options. Following consideration of that report, provisional staff ceilings have been decided upon and advised to departments to form the basis of departmental 'first bids'. Those provisional staff ceilings have then been revised as a result of Budget Cabinet decisions and the relevant expenditure estimates adjusted in the closing stages of the budget process.

Control of Forward Commitments

24. In April 1976 the Government announced new arrangements for the control of commitments to expenditure.⁴ This action stemmed from the recognition that the critical stage in expenditure control was not the payment stage but rather at that point where the decision was made to commit the Government to expenditure. Commitments from prior years can largely predetermine the requirements for expenditure in any year with a consequent loss of flexibility for government action, particularly in times of financial restraint.

25. Despite the importance of controlling commitments there had, up to that time, been no comprehensive, on-going system and thus no clear picture of the extent to which prior commitments would limit financial options in future years. As a result, the Government decided that:

for budget planning purposes, and to assist it in the task of expenditure control, it should have available to it, when it is considering its budget options, comprehensive information

3. *Commonwealth Government Directory 1978*, Australian Government Publishing Service, Canberra, 1978, p. 223.

4. Press release by the Treasurer, 19 April 1976—Exhibit 3, pp. 41-3.

on both existing and proposed commitments and should be enabled to regulate, in a systematic way and consistently with its overall budget strategy, the extent to which commitments that would require future budget allocations might be made The central feature of the new procedures is the application across the broad range of budget expenditures of a forward programming system, similar in broad concept to systematic arrangements which have been built up over the years in respect of the Civil Works Program and certain other categories of expenditure (This system will apply) not only to commitments of expenditures financed by means of annual appropriations but also to commitments for expenditure from special appropriations, other than in cases where the amounts and timing are firmly predetermined by the relevant legislation.⁵

26. Certain categories of expenditure are excluded from the commitments system—salaries and allowances; overtime; travelling and subsistence; and postage, telegrams and telephone expenses—while special arrangements may apply to commitments to be funded wholly out of Supply or items in Appropriation Bills Nos 1 and 2. The timetable and process are broadly similar to that for the Budget estimates.

27. The process is, however, entirely internal to the government and the commitment levels approved in Budget Cabinet are not advised to Parliament. The question of whether Parliament should receive this information is relevant to any discussion of its role in budget formulation.

Supply

28. Because the Budget is not passed before the start of the financial year, it is necessary to seek authority of the Parliament for expenditure so that the on-going administration and activities may continue until the Budget is passed. Estimates of requirements in the Supply period (customarily five months) are sought from departments in March each year.

29. A conventional rule of thumb is to allow five-twelfths of the latest revised estimates for the current year. However adjustments are made to exclude extraordinary items affecting only the current year, while extraordinary items (not of a new policy nature) to be met in the Supply period are included. The Supply Bills are submitted to Parliament, after consideration by Cabinet, for passage before the Parliament rises in early June.

5. *ibid.*, pp. 45, 46.

APPENDIX 2. THE CONDUCT OF THE INQUIRY, WITNESSES AND EVIDENCE

Conduct of the Inquiry

1. The Committee resolved on 2 June 1977 to inquire into the Budget Estimates. The inquiry divided into a number of phases. It commenced by the Committee directing its attention to four aspects of the budget process¹, taking evidence in the last half of 1977 from the so-called central or co-ordinating authorities—the Departments of Finance (Finance), Treasury, Prime Minister and Cabinet (PM&C) and the Public Service Board (the PSB). In early 1978, after the Committee was reconstituted in the 31st Parliament, evidence was taken from two spending or operational departments—the Departments of Transport (Transport) and Environment, Housing and Community Development (EHCD).

2. After considering the evidence obtained the Committee decided to restrict its inquiry to those processes leading up to the presentation of the Budget to Parliament. It wrote to all Members and Senators inviting their views on the adequacy of the information provided to Parliament for its purposes of financial scrutiny. Letters were also written to several departments seeking material on the presentation of information by programs. During the third phase, in the second half of 1978, the Committee evolved certain propositions, and put them to Finance, the PSB, PM&C and the Auditor-General. These propositions were subsequently discussed with them at public hearings. The Committee also had private discussions with the Rt Hon. Sir William McMahon, M.P., the Hon. C. Cameron, M.P., the Hon. G. Bryant, M.P. and the Hon. F. Crean, who was a member of the Committee in the 30th Parliament.

3. In the final phase, the Committee deliberated on the report. Unlike previous reports, this one goes considerably beyond the evidence taken. This is reflected in the title of the report, which is considerably wider than the original inquiry title.

Witnesses

Birch, Mr G. A.	First Assistant Secretary Finance and Commercial Division Department of Transport
Carmody, Mr A. T. (later Sir Alan), C.B.E.	Secretary Department of the Prime Minister and Cabinet
Castles, Mr I.	Under-Secretary Department of the Prime Minister and Cabinet
Codd, Mr M. H.	First Assistant Secretary Priorities and Evaluation Division Department of the Prime Minister and Cabinet

1. These were: the processes by which the Estimates were formulated, including the roles of the Public Service and the Cabinet; the processes by which Finance controls actual spending during the financial year; the role of the forward estimates; and the nature of the information provided in the Budget documents (evidence, p. 3).

Cole, Mr R. W.	Secretary Department of Finance
Cushing, Mr W. J.	Assistant Secretary Evaluation Branch Department of Environment, Housing and Community Development
Daniel, Mr R., O.B.E.	Deputy Secretary (General) Department of the Treasury
Fisher, Mr N. W. F.	First Assistant Secretary Development Division Department of Environment, Housing and Community Development
Fraser, Mr B. W.	First Assistant Secretary General Expenditure Division Department of Finance
Gawan-Taylor, Mr M.	First Assistant Secretary Strategic Planning and Resource Allocation Division Department of Transport
Glenn, Mr G. G.	Deputy Commissioner Public Service Board
Guster, Mr A. F.	First Assistant Commissioner Development Division Public Service Board
Halton, Mr C. C.	Secretary Department of Transport
Higgins, Dr C. I.	Assistant Secretary Fiscal and Monetary Policy Branch Department of the Treasury
Hill, Mr D. J.	First Assistant Secretary Accounting and Supply Division Department of Finance
Hunter, Mr J.	Acting First Assistant Secretary Social Security Division Department of Finance
Lansdown, Mr R. B.	Secretary Department of Environment, Housing and Community Development
Sainsbury, D. L.	Assistant Secretary Expenditure Policy Branch General Expenditure Division Department of Finance
Shann, Mr K. C. O., C.B.E.	Chairman Public Service Board
Steele Craik, Mr D. R., O.B.E.	Auditor-General

Taylor, Mr J. C.	Commissioner Public Service Board
Thompson, Mr R. H. J.	First Assistant Secretary Management Services Division Department of Transport
Twigg, Mr G. E.	Director of Audit Auditor-General's Office
Wheeler, Sir Frederick, C.B.E.	Secretary Department of the Treasury
Woodward, Mr L. B.	First Assistant Commissioner Departmental Operations Division Public Service Board
Young, Mr R. J.	Commissioner Public Service Board

Evidence

4. Evidence was taken by the Committee appointed during the 30th Parliament at an *in camera* hearing with the Department of Finance on 19 August 1977 (the evidence taken at this *in camera* hearing was authorised for publication on 5 October 1977) and at public hearings with the Department of the Treasury on 16 September 1977, the Department of the Prime Minister and Cabinet and the Public Service Board on 7 October 1977. Evidence was taken by the Committee appointed during the 31st Parliament at public hearings with the Department of Transport on 7 April 1978, the Departments of Transport and Environment, Housing and Community Development on 19 April 1978, the Public Service Board and the Auditor-General's Office on 25 August 1978 and the Departments of Finance and Prime Minister and Cabinet on 31 August 1978.

5. Altogether the committees appointed during the 30th and 31st Parliaments held one *in camera* hearing (evidence subsequently published), seven public hearings and twenty-six private meetings.

6. The Committee also received submissions which were treated as Exhibits and has authorised publication of these, as follows:

INDEX OF PUBLISHED EXHIBITS

Exhibit Number		Page
1	Submission from Department of Finance dated 22 August 1977	1-3
2	Submission from Department of Finance dated 23 August 1977 and Budget Circulars Nos 1-9 inclusive'	4-6

Exhibit Number		Page
3	Submission from Department of Finance dated 26 August 1977, 'Estimates Memoranda' (1977) 1-17 inclusive, Treasurer press release No. 78 dated 19 April 1976, Treasury Circulars Nos 1976-8 and 1976-14 and Finance Circular No. 1977-7 and document entitled Finance Directions—Guidelines for the Preparation of Estimates	7-55
4	Submission from Department of Finance dated 29 August 1977, attachments and Organisation Chart from the Department of Finance ²	56-94
5	Submission from Department of Finance dated 1 September 1977 and paper entitled 'Financial Arrangements for Commonwealth Statutory Authorities'	95-99
6	Submission from Department of Finance dated 2 September 1977 and Tables I to V inclusive	100-128
7	Submission from Department of Finance dated 2 September 1977 and paper on Forward Estimates	129-145
8	Submission from Department of Finance dated 2 September 1977 on training courses/seminars on financial management	146-147
9	Submission from Department of Finance dated 5 September 1977 and paper on Procedures for Advice on Reductions in Expenditure Proposals ¹
10	Submission from Department of Finance dated 12 September 1977 and paper on Zero-Based Budgeting, Planning, Programming, Budgeting and Associated Matters and four journal articles on the above subject ³	148-154
11	Submission from Department of Finance dated 22 September 1977 and a journal article on the U.K. Public Expenditure Survey Committee (PESC) ³
12	Letter dated 14 July 1978 from Chairman of Committee to several departments	155-160
13	Submission dated 26 July 1978 from the Department of Primary Industry ⁴	161-179
14	Submission dated 28 July 1978 from the Department of Veterans' Affairs	180-201
15	Submission dated 28 July 1978 from the Department of the Capital Territory	202-206
16	Submission dated 1 August 1978 from the Department of Health	207-208
17	Submission dated 28 July 1978 from the Department of Trade and Resources	209
18	Submission dated 2 August 1978 from the Department of Construction	210-212

Exhibit Number		Page
19	Submission dated 21 July 1978 from the Attorney-General's Department	213
20	Submission dated 31 July 1978 from the Department of Industry and Commerce ⁴	214
21	Submission dated 4 August 1978 from the Department of Science	215-226
22	Submission dated 4 August 1978 from the Department of Defence	227-240
23	Submission dated 2 August 1978 from the Department of Business and Consumer Affairs	241
24	Submission dated 28 July 1978 from the Department of Aboriginal Affairs ⁵	242-243
25	Submission dated 3 August 1978 from the Department of Immigration and Ethnic Affairs	244-245
26	Submission dated 7 August 1978 from the Department of Social Security	246-247
27	Submission dated 28 July 1978 from the Department of Foreign Affairs	248-250
28	Submission dated 1 August 1978 from the Department of Education	251-255
29	Submission dated 1 August 1978 from the Department of National Development	256-259
30	Submission dated 2 August 1978 from the Department of Productivity	260-263
31	Submission dated 29 September 1978 from the Public Service Board	264-274
32	Submission dated 17 October 1978 from the Department of Finance	275-282
33	Submission dated 8 December 1978 from the Department of Transport	283-284
34	Submission dated 13 December 1978 from the Speaker of the House of Representatives	285-295
35	Submission dated 24 August 1978 from the Department of Employment and Industrial Relations	296-313
36	Submission dated 24 May 1978 from Professor G. S. Reid, Department of Politics, University of W.A.	314-315

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1. Confidential; not published.
 2. Organisation chart; not published.
 3. *Journal articles; not published.*
 4. Excluding publication covering the Department's 1977-78 Estimates.
 4. Excluding publication covering the Department's 1977-78 Estimates.
 5. Excluding attachments.

APPENDIX 3.

Submission dated 17 October 1978 by the Department of Finance on possible changes in the presentation of budget data, notably in respect of Budget Paper No. 4

Presentation of the Budget Estimates

1. In evidence to the House of Representatives Standing Committee on Expenditure on 31 August we undertook to outline some possible changes in the presentation of appropriation data in Budget Paper No. 4—Estimates of Receipts and Summary of Estimated Expenditure which were under consideration in the Department of Finance. This paper is in response to that undertaking.

Background

2. Over the years' efforts have been made to improve the availability of data on the Government's expenditure proposals. Adequate information is necessary to help Parliamentarians determine not only whether funds approved by the Parliament are spent for the purposes intended but also whether they are spent wisely.

3. Of particular importance in this connection is the emphasis on the functional or output approach, as distinct from the appropriation or input approach, in Statement No. 3 attached to the Budget Speech, which provides the most informative account of the Government's expenditure programs. Statement No. 3 is heavily orientated towards functional groupings and major blocks of expenditure serving a common purpose. Reflecting the additional information that has been added, this Statement has almost doubled in size since it was first presented in 1973-74. Detailed information on programs of assistance to States and local authorities is also provided in Budget Paper No. 7.

4. Feedback from the Standing Committee on Expenditure and from other quarters confirms that there is scope for further improvements in the presentation of expenditure data. In particular, we are very conscious of the difficulties which arise at present because a department's estimates are scattered throughout several budget papers in different (i.e. functional and appropriation) formats. It is with a view to overcoming these difficulties that we have been considering the possibility of changes to Budget Paper No. 4 designed to bring together, for each department, all special and annual appropriations cross classified according to the functional format in Statement No. 3.

5. By way of background also it should be noted that the general style of the present Budget papers is based largely on the 62nd Report of the Joint Committee of Public Accounts (JCPA) and subsequent discussions with that Committee. Two observations of the JCPA in its 62nd Report (August 1963) are particularly pertinent so far as reform of Budget Paper No. 4 is concerned:

81. . . . successive Committees have favoured the principle of financial documents being complementary to one another, rather than self-contained. The Treasury has now agreed with your Committee's point of view in this matter

and

83. Having in mind our earlier comments regarding the reasonable effort that must be made to examine and comprehend the somewhat complex, but nevertheless properly delineated, facets of Commonwealth finance, your Committee consider that the data relative to this matter should be presented fully but in basic or factual form. This accords with the principle we have noted in Chapter II concerning the desirability of persons reaching their own conclusions from a given set of facts. Indeed, it would be an impossible task for the Treasury or other departments to attempt to tabulate figures to meet the special requirements of each or every person interested in the public accounts or sections thereof.

6. The last-mentioned point is important. No manageable classification or tabulation of Budget figures will satisfy the requirements of everyone who is interested in them: different people are interested in different information, or at least the same information arranged in a different way. Moreover, as mentioned already, additional information is being added continually to the Budget Papers. There are real limits, however, to continuing to do this without both further perplexing the would-be user and creating insuperable practical problems for those whose task it is to prepare the documentation. In fact, it would appear that we are fast approaching these limits.

7. There is also a query here about the extent to which it is practical or desirable for a central co-ordinating department like Finance to attempt to set out all the details of departmental expenditures. Individual departments should probably be looked to to provide details of their 'programs', either in departmental annual reports or other publications, or in response to specific questions addressed to them by bodies such as the *Standing Committee on Expenditure*. ('Program' can be defined in different ways and at different levels of aggregation but is usually interpreted as covering a group of activities designed to achieve specific government objectives.)

Proposed changes

8. The changes we are contemplating would bring together in Budget Paper No. 4, for each department, all special and annual appropriations classified by broad functional categories, and provide a link between that data and the functionally classified data in Statement No. 3 attached to the Budget Speech. An illustrative example of the kind of presentation envisaged in respect of the Department of Health is attached; in the case of a couple of departments (e.g. Administrative Services and Construction) expenditures are spread across practically all functions.

9. At present the only departmental summary of appropriations of the Consolidated Revenue Fund is the highly aggregated summary shown at Table 6 of Budget Paper No. 4; Table 7 of that Paper provides details of all special appropriation items while annual appropriation items are detailed in Appropriation Bills 1 and 2. The proposed changes envisage:

- bringing together special and annual appropriations to produce a total CRF appropriation picture for each department;
- categorising—to the extent practicable—these appropriation data by broad functional headings and providing a cross reference to the sub-functional blocks within which the appropriation is recorded and described (in the case of the

more significant expenditures) in Statement No. 3—the major sub-functional blocks in that Statement will be labelled a, b, c etc.;

- adjusting the appropriation totals (where appropriate) for other items to equate to the outlay estimates reflected in Statement No. 3—these other items include certain receipts which are netted off expenditures, transactions of the Loan Fund and Trust Fund, and other transactions which are treated as financing items; and
- providing a functional summary of each department's contribution to total outlays.

10. These changes should ease significantly the problems which those interested in the budget estimates encounter at present in trying to track particular transactions through the different budget documents. They will not, however, eliminate these kinds of problems altogether; as mentioned above, no classification system can expect to anticipate or satisfy all needs—more detailed information on particular 'programs' will often have to be sought on a 'one-off' basis.

11. Subject to the views of the Minister for Finance, we believe it would be possible to issue a revamped Budget Paper No. 4 which included changes along these lines on the occasion of the 1979-80 Budget. The further development of these proposals would have due regard to, *inter alia*, the reactions of the Joint Committee of Public Accounts and the House of Representatives Standing Committee on Expenditure.

Department of Finance
17 October 1978

DEPARTMENT OF HEALTH

		Estimate 1978-79 \$'000	Expenditure 1977-78 \$'000
SPECIAL APPROPRIATIONS			
*3. HEALTH			
l	First Division Officer—(<i>Remuneration Tribunals Act 1973</i>)	56	47
l	Holders of Public Office—(<i>Remuneration Tribunals Act 1973</i>)	2	1
l	<i>Health Insurance Commission Act 1973</i>	12	1
	National Welfare Fund (Act 1943)		
a	Medical Benefits	100	180
b	Hospital benefits and payments	300	2 949
e	Nursing homes assistance	67 450	68 612
e	Nursing home benefits (including supplementary benefits)	209 400	185 558
e	Domiciliary care benefit	8 300	7 929
d	Pharmaceutical benefits	134 400	128 136
d	Pharmaceutical benefits for pensioners	147 600	127 912
g	Tuberculosis medical services and allowances	989	3 190
k	Aids and appliances	4 350	3 768
a	Pathology laboratories	8 700	8 668
e	Home nursing service	11 800	10 700
k	Isolated patients travel and accommodation assistance scheme	5 200	..
a, k	Miscellaneous	4 300	5 297
		<u>602 923</u>	<u>552 948</u>

* Cross-reference to Function and Sub-functional block in Statement No. 3 attached to Budget Speech.

		Estimate 1978-79 \$'000	Expenditure 1977-78 \$'000
4.	SOCIAL SECURITY AND WELFARE		
a	States Grants (Paramedical Services) Act 1969	104	104
	TOTAL SPECIAL APPROPRIATIONS	603 063	553 052
	ANNUAL APPROPRIATIONS		
2.	EDUCATION		
a	Division 325—Administrative (School of Tropical Medicine)	2 121	2 078
a	855—Capital Works and Services (School of Tropical Medicine)	180	196
		2 301	2 274
3.	HEALTH		
a, d, f, h, k, l	Division 325—Administrative	103 083	83 019
f, l	326—Hospitals and Health, Services Commission		906
a, b, c, l	327—Health Insurance	1 748 430	1 153 949
i	332—Capital Territory Health Commission	35 389	36 870
i	Division 334—Northern Territory Hospitals	14 787	27 613
i, j	335—Northern Territory Health Services	8 619	16 804
a, i, j, k, l	855—Capital Works and Services (excluding School of Tropical Medicine)	9 010	12 737
b, f, h, k	856—Payments to or for the States	85 525	145 742
		2 004 843	1 837 639
4.	SOCIAL SECURITY AND WELFARE		
e	Division 325/3/07—Family Planning	750	745
a	856/0/10—Paramedical Services	674	478
		1 424	1 223
8C.	INDUSTRY ASSISTANCE AND DEVELOPMENT		
g	Division 856/0/12—Warehouse Beetle Eradication	84	156
9C.	FOREIGN AFFAIRS AND OVERSEAS AID		
d	Division 325/3/01—World Health Organisation—Contribution	2 282	2 097
d	325/3/04—International Cancer Research Agency—Contribution	328	326
d	325/3/09—Bureau Hygiene and Tropical Diseases—Contribution	2	1
		2 612	2 423
	TOTAL ANNUAL APPROPRIATIONS	2 011 264	1 843 715
	TOTAL APPROPRIATIONS	2 614 327	2 396 767
	Less Receipts Offset against Outlays	16 337	23 066
	NET CONTRIBUTION TO OUTLAYS—DEPARTMENT OF HEALTH	2 597 990	2 373 701

Estimate Expenditure
1978-79 1977-78
\$'000 \$'000

SUMMARY OF NET CONTRIBUTIONS TO OUTLAYS BY FUNCTIONS

2.	Education	2 301	2 274
3.	Health	2 591 465	2 367 520
4.	Social Security and Welfare	1 528	1 327
8C.	Industry Assistance and Development	84	156
9C.	Foreign Affairs and Overseas Aid	2 612	2 423
	TOTAL	2 597 990	2 373 701

