

LEGISLATIVE ASSEMBLY



WESTERN AUSTRALIA

1998

**PUBLIC ACCOUNTS AND EXPENDITURE  
REVIEW COMMITTEE**

**INTERIM REPORT ON THE STATE  
BUDGET ESTIMATES INFORMATION  
AND PROCESS IN THE LEGISLATIVE  
ASSEMBLY**

**Report No. 40**

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State Law Publisher  
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PERTH WA 6000

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Published by the Legislative Assembly, Perth, Western Australia 6000  
Printed by the Government Printer, State Law Publisher

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ASSEMBLY**

**Report No. 40**

Presented by:

**Mr M W Trenorden, MLA**

Laid on the Table of the Legislative Assembly  
on 3 December 1998

**ORDERED TO BE PRINTED**



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<b>Deputy Chairman</b>	Mr L. Graham, MLA
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## **Committee's Functions and Powers**

The Committee obtains its powers and functions from the Standing Orders of the Legislative Assembly. Standing Order 412(1) states that the functions of the Committee are -

... to inquire into, consider and report to the Parliament on any proposal, matter or thing connected with the receipt and expenditure of public moneys, including moneys allocated under the Annual Appropriation Bills and the Loan Fund.

Moreover the Committee is empowered by Standing order 412 (2) -

- (a) to examine the public accounts transmitted to the Assembly by the Auditor-General;
- (b) to examine the financial affairs and accounts of Government Agencies of the State whether or not such accounts have been audited by the Auditor-General;
- (c) to examine all reports of the Auditor-General, copies of which have been laid before the Assembly;
- (d) to inquire into, and report to the Assembly on any question which -
  - (i) it deems necessary to investigate;
  - (ii) is referred to it by a resolution of the Assembly;
  - (iii) is referred to it by a Minister of the Crown, or
  - (iv) is referred to it by the Auditor-General;
- (e) to report to the Assembly from time to time, any alteration which the Committee thinks desirable on any matter relating to the form of those accounts or in the method of keeping them or in the mode of receipt, control, issue or payment of public moneys;
- (f) to inquire into expenditure by a Minister of the Crown made without Parliamentary sanction or appropriation and report to the Assembly from time to time, upon any matter connected with that expenditure which the Committee considers ought to be brought to the notice of the Assembly;
- (g) to consider any papers on public expenditure presented to the Assembly and such of the expenditure as it sees fit to examine; and
- (h) to consider whether the objectives of public expenditure are being achieved or may be achieved more economically.





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## Abbreviations

<i>The Committee</i>	The Public Accounts and Expenditure Review Committee
<i>The Estimates</i>	The State Budget Estimates of Expenditure for the financial year.
<i>The Estimates Committees</i>	Committees established by Sessional Orders of the Legislative Assembly to consider each division of the Consolidated Fund Expenditure Estimates.
<i>Budget Statements</i>	Budget Paper No. 2 reporting the Consolidated Fund Expenditure Estimates and the Agency Information in support of the Estimates.
<i>OBM</i>	Output Based Management Reports on the outputs produced by Agencies to achieve desired outcomes.
<i>FTE</i>	Full Time Equivalent Employees
<i>GTE</i>	Government Trading Enterprise
<i>CF</i>	Consolidated Fund
<i>CSOs</i>	Community Service Obligations
<i>SCI</i>	Statement of Corporate Intent
<i>COG</i>	Commission on Government



## *Chairman's Preface*

Mr Speaker

I am pleased to present the Public Accounts and Expenditure Review Committee's Interim Report on the State Budget Estimates Information and Process in the Legislative Assembly.

The Committee took up this inquiry in response to the recommendation of the Standing Orders and Procedure Committee, which along with its predecessor, the Select Committee on Procedure, had a keen interest in enhancing the accountability of government to the House. The Public Accounts and Expenditure Review Committee, as the main accountability watchdog of the Legislative Assembly, has been pleased to produce this interim report and looks forward to an even more extensive review of the budget estimates information and review process in 1999.

The presentation of The Budget each year is the most important process of scrutiny for the Legislative Assembly. The Committee believes that it is also one of the most misunderstood and unsatisfactory processes in the House. The Committee's interim report has therefore undertaken four distinct functions. These are:

- (a) to provide information on why the Estimates information is presented and reviewed in the way that it is;
- (b) to propose improvements to the nature and extent of information that is provided by the Treasury in support of the Estimates;
- (c) to propose improvements to the Legislative Assembly's process of reviewing the Estimates; and
- (d) to indicate those issues which the Committee will examine in more detail in 1999, in order to improve the Estimates information and review process.

In summary the Committee believes that the information in support of the Estimates is not adequate in providing comparative data, reliable and meaningful performance measures and details of expenditure. In addition, the Committee believes that information regarding Government Trading Enterprises and some other agencies is not captured by an adequate review process.

The Committee's initial examination of the Estimates review process has led to the conclusion that the process is inadequate and rather than tinkering with the model, review of agencies' budgets should be carried out by an altogether new Committee system in the Legislative Assembly.

Some of the Committee's report discussion and recommendations refer to an improved exchange and delivery of information from the Treasury to Members. The Committee would like to thank the Under Treasurer and those Officers who co-operated with the Committee's examination and participated in activities, such as the Committee's Members' Forum on budget estimates information, conducted in November. The Committee is pleased that the Treasury has expressed such a keen desire to improve the information it provides to Members.

I would like to thank Members from both the Legislative Assembly and Legislative Council, who

participated in the Committee's questionnaire and Members' Forum. It was disappointing that a small number of Members participated, given the extensive criticism by Members of recent estimates information and review processes. I would encourage Members to actively work for change and make submissions to the Committee, if they wish to reform the Estimates.

In conclusion, I would like to thank the Committee's staff, Senior Research Officer, Mr Andrew Young, Research Officers, Ms Amanda Millsom-May and Ms Kirsten Robinson, and Mrs Patricia Roach for her secretarial assistance in the production of this report.

MAX TRENORDEN, MLA  
CHAIRMAN

## Consolidated Findings and Recommendations

### Committee Findings -

*In recent years the on-going changes and shortage of compatible comparative data have devalued the base of information available to Members for the Estimates process.*

*There is a general lack of understanding among Members of the Budget process and the requirements imposed upon reporting agencies.*

*The operations and general expenditure of Government Trading Enterprises and some other agencies (ie: Western Power, Water Corporation, Alinta Gas, Westrail and Port Authorities) are not examinable in the Estimates process.*

*The overall level and quality of non-financial detail has diminished with the transition from program to output budget reporting.*

*Performance Measures are not sufficiently developed, with many lacking an objective measurement or the capacity to be independently verified.*

*Ministers' opinions are not valid performance measures in the Budget Estimates process.*

### Committee Recommendations (in order of priority) -

*Consideration should be given to replacing the Estimates Committees in the Legislative Assembly with portfolio-based Standing Committees. The Committee will further examine this issue in 1999. (See Recommendation 7, p.18)*

*The Budget Papers must allow for real comparison between each budget. (See Recommendation 2, p.9)*

*A process must be established, whereby Government Trading Enterprises and other agencies, which are not fully examinable by the Estimates process, can be fully examined by Parliament. (See Recommendation 5 (a), p.13)*

*Statements of Corporate Intent are required to be tabled early in the financial year. An examination process for each of these agencies, based on their*

*Statements, must be established in the first quarter of the relevant financial year. (See Recommendation 5 (b), p.13)*

*For the forthcoming State Budget, Treasury should have an expanded role in overseeing the selection of performance measures and in the verification of the results cited by agencies. The Committee will further examine this issue in 1999. (See Recommendation 3, p.11)*

*Outputs should be sufficiently differentiated so as to require discrete qualitative performance measures for each output. (See Recommendation 4, p.11)*

*Agencies should substantially reduce the amount of expenditure and receipts simply reported as 'other'. (See Recommendation 6(a), p.15)*

*Where 'other' is used to report expenditure, explanatory notes must be provided. (See Recommendation 6(b), p.15)*

*An information session should be conducted wherein Members can seek information and clarification of the Budget Papers from Treasury officials. The session should be held between the presentation of the budget and the Estimates week. (See Recommendation 8, p.19)*

*Members should be given the option of receiving the Budget Papers on CD-Rom, with a comprehensive search engine. (See Recommendation 9, p.19)*

*Improved Full Time Equivalent (FTE) Employee information should be provided in the 1999-2000 Budget Statements. Treasury should examine the feasibility of agencies reporting FTEs by output or at least in greater detail than a whole of agency figure. (See Recommendation 1, p.9)*

## MINISTERIAL RESPONSE

Standing Order 414(5) of the Standing Orders of the Legislative Assembly states that -

Where a report of the Committee recommends that a particular action be taken by the Government with respect to a matter, the appropriate responsible Minister of the Crown, shall, as soon as practicable, but within not more than three months, or at the earliest opportunity after that time if Parliament is in adjournment or recess, report to the House as to the action (if any) proposed to be taken by the Government with respect to the recommendation of the Committee.

Accordingly, the Committee will write to the Treasurer notifying him of the relevant Committee recommendations and the requirement for him to respond in the House.



## 1. Background to the 1998-99 Budget Papers

- 1.1 The State Budget for 1998-99 (second reading of the Bill - 'The Budget') was delivered on 30 April, 1998.<sup>1</sup> Consolidated Fund estimates were considered in the Estimates Committees in the Assembly between Tuesday, 26 and Friday, 29 May. The extent and nature of budget information provided in the Budget Papers, particularly Budget Paper No. 2, the Budget Statements, was criticised by many Members.
- 1.2 Shortly after the 1998 Estimates, the Standing Orders and Procedure Committee reported, in June 1998, on its review of the Commission on Government Recommendations. Recommendation 5 of the report was -

*That the PAERC examine the information available to the House on presentation of the State Budget and make recommendations on the level and type of information which should be made available to the House prior to consideration of the Estimates, and how that information should be provided.*<sup>2</sup>

- 1.3 In September 1998, the Committee informed the Speaker and Chairman of the Standing Orders and Procedure Committee, that it had commenced undertaking the examination.
- 1.4 This report is an interim report, which seeks to influence the limited changes that can be made in time for the 1999-2000 budget. The Committee intends to examine the issues in this report and other issues relevant to the Budget and Estimates process in more detail in 1999. The Committee has expanded the scope inquiry recommended by the Standing Orders and Procedure Committee, by examining the Estimates process in addition to the information that is provided in support of the Estimates.

### WHAT WAS NEW ABOUT THE 1998-99 BUDGET STATEMENTS?

- 1.5 Since 1993, the Western Australian State Budget has been prepared on the basis of a Consolidated Fund, using the Government cashbook accounting process. The new approach of accrual output budgeting is one that, according to the Treasury, '...allows the presentation of Budget information in a way that has regard for the different roles the State plays in relation to its departments and authorities ("agencies")'.<sup>3</sup> Output budgeting is part of the process of output based management (OBM).
- 1.6 These roles include the State being -
- a purchaser of agency "outputs" (services to the community);
  - the owner of agencies;
  - a banker for agencies; and

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<sup>1</sup> Tabled papers: Budget Speech - Budget Paper No.1; Budget Statements - Budget Paper No.2; Economic and Fiscal Overview - Budget Paper No.3.

<sup>2</sup> *Report of the Standing Orders and Procedure Committee on Commission on Government Recommendations*, 18 June 1998, Legislative Assembly, Western Australia, Recommendation 5, p.8

<sup>3</sup> Treasury Department, Western Australia, 'The New State Budget Presentation', April 1998, p.4

- the provider of transfer payments to some agencies which they administer.

1.7 One of the concerns expressed by Members of Parliament is the inconsistency, from year to year, in the structure and content of the Budget Papers, in particular the Budget Statements. The move to an accrual output budget structure has been achieved by moving from program budgeting in 1996-97, to a transitional mix of programs and outputs in 1997-98, to accrual output budgeting in 1998-99.

## WHAT IS ACCRUAL ACCOUNTING?

1.8 One basic explanation of the shift from cash accounting to accrual accounting is the treatment of debtors and creditors and liabilities and assets. Unlike cash accounting, accrual accounting records when the actual economic transaction takes place, independent of whether the related cash payment is made at the time. A cash surplus recorded under the cash accounting system may be recorded because a liability incurred in the financial year has not been paid by the end of that financial year and will be paid in the next year. Under the accrual accounting system, a more accurate financial position will be recorded by taking into account moneys owing to and from government. A more accurate register of assets and liabilities is therefore available.

1.9 In the context of budget estimates information, the WA Treasury explains that:

An accrual budget can be defined as one which records financial effects at the time economic value is created, transferred, exchanged, transformed or extinguished, to the extent that those financial effects can be recognised and measured, irrespective of whether cash has been received or paid.<sup>4</sup>

and

Accrual appropriations seek to control expenses rather than cash expenditure.<sup>5</sup>

1.10 Treasury's view is that the traditional perception of an appropriation as a form of legislative control over the public expenses of agencies, 'needs to be refined somewhat'.<sup>6</sup> The modern management environment has led to considerable devolution of financial control to agencies and Treasury's view is that Parliament's role should not be '....one of explicit control over the incurring of particular expenses, but of control over aggregate expenses'.<sup>7</sup>

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<sup>4</sup> *Issues in Accrual Output Budgeting*, Financial Reform Division, WA Treasury, November 1997, p.48

<sup>5</sup> *ibid*, p.61

<sup>6</sup> *ibid*

<sup>7</sup> *ibid*

## CONSTITUTIONAL REQUIREMENTS IN RELATION TO THE BUDGET

- 1.11 Section 46 of the *Constitution Acts Amendment Act 1899*, prescribes an important distinction between the roles of the Legislative Assembly and Legislative Council with regard to Appropriation Bills. The Act stipulates that such a Bill cannot originate in or be amended by the Legislative Council. The Legislative Council may request (but cannot insist on) modifications to a Bill, which the Legislative Assembly can accept or reject. This distinction is important because the Legislative Council has equal power with the Legislative Assembly in respect of all other Bills.
- 1.12 The distinction in power between the two Houses in relation to appropriations is important to the process of budget estimates review. While both the Council and Assembly conduct their own estimates review processes, there is a greater responsibility on the Assembly in relation to the Bill. The Committee will further examine the impact of this responsibility in 1999.

## STANDING ORDERS RELATING TO THE BUDGET ESTIMATES

- 1.13 Parliament's control over the "aggregate expenses" of agencies, is reflected in the Legislative Assembly's Standing Orders and the structure of the Budget Papers. Standing Order 304 stipulates the reporting structure of the Estimates, stating that:
- (3) The Estimates for the Consolidated Revenue Fund shall be arranged in the following manner and order —
    - (a) as one complete Part the Estimates dealing with Parliament;
    - (b) as another complete Part the Estimates of all departments administered by the Treasurer under portfolios held by him at the time;
    - (c) as separate complete Parts the Estimates of all departments administered by each individual Minister of the Crown under portfolios held by such Minister at such time;
    - (d) as separate Divisions within each Part the Estimates of each department, authority, or section of Government activity administered by each Minister of the Crown under portfolios held by each Minister at the time.
- 1.14 In response to this parliamentary requirement, Treasury reports the aggregate of Consolidated Fund Expenditure Estimates for each agency in Chapter Two of the Budget Statements.<sup>8</sup> The Committee notes that whilst the Estimates Committees in the Legislative Assembly typically consist of Members asking questions of Ministers based on the information in Chapter Three — 'The Agency Information in Support of the Estimates' — it is on the Divisions in Chapter Two that a vote is recommended by the Committee.
- 1.15 Standing Order 304 further provides for Members to speak to 'Items' within each Division. Previously 'Items' were relatively specific descriptions of expenditure.

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<sup>8</sup> Budget Paper No.2

However, in recent years, 'Items' have been generalised to the point of being no more than two aggregated line items for each agency:

- 'Amount provided to fund outputs'; and
- 'Amount provided for Capital Services'.

1.16 Legislative Assembly Sessional Orders establish Estimates Committees to consider the Estimates. Estimates Committee A and B sit for one sitting week in the Legislative Assembly. The Committees can only recommend the vote on each Division of the Budget Statements. The reports of the Estimates Committees are then presented to the House for adoption.

## STRUCTURE OF THE 1998-99 BUDGET PAPERS

1.17 The papers that were tabled when the 1998-99 State Budget was presented, were:

- the Budget Speech - Budget Paper No.1;
- the Budget Statements - Budget Paper No.2; and
- the Economic and Fiscal Overview - Budget Paper No.3.

1.18 The Budget Statements is the document that is central to the review of the Budget and has typically provided the information that Members have called upon during Estimates Committees.

1.19 The Budget Statements were constructed in the following way in 1998-99:

### *Chapter 1*

The first chapter contained consolidated Government of Western Australia information including -

- A consolidated operating statement (*Government of Western Australia's profit and loss [revenue and expenses] statement*).
- A consolidated statement of financial position (*Government of Western Australia's balance sheet of assets and liabilities*).
- A consolidated statement of cash flows.
- A consolidated fund forward estimate of expenditure to the year 2001-02 on an agency by agency basis.
- Consolidated fund revenue estimates.
- Capital works program summaries.

### *Chapter 2*

Chapter 2 reported consolidated fund expenditure estimates on an agency by agency basis for the 1998-99 financial year in accordance with the Legislative Assembly's Standing Order 304. Each agency is reported as a Division made up of Items, reported at a highly aggregated level.

### Chapter 3

Chapter 3 contained the individual agency information in support of the Estimates, being made up of -

- A table summary of *recurrent and capital forward estimates* to 2001-02.
- Text describing the *Mission, Significant Issues and Trends, Major Initiatives for 1998-99*.
- A table summary of major *Outputs and Appropriations*.
- *Outcomes, Outputs and Performance Information*, where the outcome is a broad level description of what the agency hopes to achieve, made up of outputs costed by the agency and measured in terms of quantity, quality, timeliness and cost to determine performance.
- Financial Statements including an *Operating Statement, Statement of Financial Position* (balance sheet of assets and liabilities), *Statement of Cashflows*, and an *Operating Statement of expenses and revenues*.
- Capital Budget Statement.
- Revenue accounts.
- Trust Account Details.

- 1.20 A summary of Legislative Assembly Standing Orders and Sessional Orders relevant to the Budget Estimates is included in this Report as an Appendix.



## 2. The Extent and Nature of Budget Statements Information

### COMMITTEE SURVEY ON BUDGET STATEMENTS INFORMATION, OCTOBER / NOVEMBER 1998

- 2.1 In October 1998, the Committee mailed a questionnaire to every Member of the Legislative Assembly seeking opinions on the information presented in the Budget Statements. This was followed by a Members' forum on 10 November at Parliament House, in which Members of both the Assembly and Legislative Council were invited. The Forum sought further and more detailed opinions in conjunction with the questionnaire.
- 2.2 The Committee's questionnaire asked Members to rate and comment on the extent, nature and understandability of the information in the Budget Statements. An important further question put to the Members' Forum was "what information do Members most refer to and wish to see in the Papers?".

### CONSOLIDATED GOVERNMENT REPORTING AND CONSOLIDATED FUND EXPENDITURE ESTIMATES IN THE BUDGET STATEMENTS

*(Chapter 1 included items such as the revenue and expenses statement for Western Australia, the assets and liabilities statement and cash flow statement. Chapter 2 was the consolidated fund expenditure estimates for budget agencies.)*

#### *Comments -*

*It is difficult to relate to previous year expenditure and not as easy to follow as a few years ago.*

*There are no notes attached to the annual statements explaining the figures as there usually are with company annual reports.*

*There is a lack of meaningful comparative data for previous years.*

*The level of aggregation and the inability to easily reconcile the consolidated accounts with other accounts in the Budget Papers make it difficult to analyse.*

*It is difficult for anyone without an accounting degree to understand the accounts.*

- 2.3 Whilst individual Members may generally have more interest in Chapter Three of the Budget Statements (agency information in support of the Estimates), time spent improving the understandability and context of the consolidated accounts is justified. The Leader of the Opposition, Dr Gallop, MLA, wrote to the Committee with a summary of the Opposition's concerns, which included the above comments.<sup>9</sup> Clearly, Members at the

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<sup>9</sup> Letter to the Committee, 3 November 1998, Dr G. Gallop, MLA, Leader of the Opposition

party level are interested in the consolidated accounts information as it should provide an understandable picture of the State's financial position.

- 2.4 The criticism that it is not easy to reconcile the consolidated accounts with other accounts in the Budget Papers could be rectified by more use of 'notes' to the accounts and cross referencing.
- 2.5 The more general comment that it is difficult to understand the consolidated accounts could be rectified by an information session provided for Members, in which Treasury officials would be available to explain Budget information. This idea is discussed further in Chapter Three of this report, *The Budget Estimates Process in the Legislative Assembly*.

## **AGENCY REPORTING SUPPORTING THE ESTIMATES IN THE BUDGET STATEMENTS**

*(Chapter 3 included the output descriptions, performance measurements and significant issues information for each agency.)*

### **Output Information**

*Comments on output descriptions -*

*Output information is too general and requires more detail, along with headings and sub-headings.*

*Output Based Management does not provide an accurate reflection of the activities and programs undertaken by departments.*

*There is little doubt that program reporting and budgeting more clearly describes the role and activities undertaken by agencies and departments.*

*FTEs are not allocated per output, but should be.*

- 2.6 The former program budgets structured each agency into Programs and Sub-Programs, with an appropriation and Full Time Equivalent (FTE) employees figure for each program. One of the benefits of this structure was that it afforded Members an idea of the structure and activities of the Agency, which is not so apparent in the current Budget Statements. The corresponding FTE figure gave Members an indication of the resources dedicated to each program. Whilst other resources contribute to the function of a program or output, the FTE figure is one that Members have been most interested in as an indicator of the Agency's priorities and policies.



2.7 In evidence to the Committee, Mr Andrew Chuk, Acting Under Treasurer stated that -

We recognise that across the sector, wages make up 70 per cent of total expenditure; it is a vast proportion. It may be a useful thing to report FTEs by output next time.<sup>10</sup>

2.8 The Committee believes that improved FTE information should be provided in the 1999-2000 Budget Statements. Treasury should examine the feasibility of agencies reporting FTEs by output or at least in greater detail than a whole of agency figure.

### **Recommendation 1**

**Improved Full Time Equivalent (FTE) Employee information should be provided in the 1999-2000 Budget Statements. Treasury should examine the feasibility of agencies reporting FTEs by output or at least in greater detail than a whole of agency figure.**

*Comment on output information -*

*Output information cannot be compared to previous years*

2.9 Output information is new and whilst there is some overlap with previous years' program descriptions, this is not consistently the case. The amount and type of financial information is also different under accrual output budgeting. Treasury's intention is that comparisons will be possible as the current format is settled. The key will be for output descriptions and performance measures to remain consistent over time, to allow this comparison.

### **Recommendation 2**

**The Budget Papers must allow for real comparison between each budget.**

## **Performance Measures of Outputs**

*Comments on performance measures -*

*Some performance measures are meaningless.*

*Some performance measures are totally subjective, including some which are at the discretion of the Minister.*

*Some performance measures are outside the control of the Department.*

2.10 In the 1998-99 Budget Statements, every output listed and costed by an agency was required to be measured for performance. The performance of each output was expressed in terms of *quantity, quality, timeliness and cost*. An effectiveness indicator is included in

<sup>10</sup>

Evidence, 18/11/98, p.8

addition to the performance measures. The effectiveness indicator is designed to be tied to the stated outcome of the agency.

2.11 Treasury explained that, ‘...in the resource allocation decision making process, well defined performance measures assist government to -

- identify the full cost of providing an output;
- compare the performance of agencies against other providers;
- select the level and mix of outputs for which agencies should be funded; and
- assess whether outputs have been delivered.’<sup>11</sup>

2.12 Performance measures have received as much, if not more, criticism than any other feature of the Budget Statements.

2.13 *Quality* - a number of agencies use customer surveys to report a customer satisfaction level as the key indicator of quality of performance. The Auditor General recently completed a report to Parliament on the use of customer surveys by agencies.<sup>12</sup> The Auditor General reported shortcomings in agencies’ use of customer surveys. Such concerns are magnified for many Members who doubt the rigour of such indicators. The Committee has a keen interest in this issue and may examine it further.

2.14 Related to this concern is the reliance placed on Ministers’ opinions as a performance measure. For example, the Department of Productivity and Labour Relations (DOPLAR) reported seven outputs under the stated agency outcome, *Promotion of productive, competitive and fair workplaces*. Three of the outputs had a quality measure based on the Minister’s opinion of the agency’s performance.

Output Description	Quality Performance Measure
Output 1 - <i>Public sector labour relations reform policies and practices</i>	Minister’s perception of the extent to which DOPLAR has improved labour productivity in the public sectors.
Output 3 - <i>Competitive labour market analysis and advice</i>	Minister’s perception of the extent to which DOPLAR developed and facilitated a more efficient and competitive labour policy and legal framework.
Output 5 - <i>Representation of State interests in national labour relations developments</i>	Minister’s perception of the extent to which DOPLAR developed and facilitated a more efficient and competitive labour policy and legal framework. <sup>13</sup>

2.15 In the case of Output Three and Five, the only performance measure reported was the Minister’s perception. The measures of ‘quantity’, ‘timeliness’ and ‘cost’ were described

<sup>11</sup> *Issues in Accrual Output Budgeting*, op.cit., p.39

<sup>12</sup> *Listen and Learn - Using customer surveys to report performance in the Western Australian public sector*, Auditor General, Western Australia, Report No.5, June 1998

<sup>13</sup> Budget Statements 1998-99, Budget Paper No.2, Vol 2, pp.956-960

as ‘to be developed’. In addition, the performance measure is the same for output three and five, despite the fact that they are reported as two distinct outputs by the Department.

- 2.16 It is logical to suggest that if the qualitative performance measures for two outputs are exactly the same, the agency has not identified two distinct outputs and is not clearly describing to the Parliament the variety of activities and objectives aimed for. On the other hand, there is a case for the same quantitative performance criteria to be applied across different outputs, because the result will differ according to variable factors, such as the expenditure for the output. An example of this is the use of *cost per public sector FTE* as a cost measure by the Office of the Public Sector Standards Commissioner across different outputs.<sup>14</sup>
- 2.17 An important consideration and source of confusion in such cases is the question of who is the agency’s customer. The Committee believes that the Minister should not be seen as the customer for the purposes of budget estimates reporting. This is particularly so, given the Minister represents the agency in the Estimates Committee.
- 2.18 An important benefit of allowing the current structure to remain unchanged is comparability of performance on a meaningful basis. Treasury stated that -

....In addition to identifying the output performance measures in the budget papers, agencies will be required to report actual performance against the forecast (or target) performance. A brief explanation of the reason(s) for the variation between actual and target performance (if any) will also have to be disclosed in agency annual reports.<sup>15</sup>

### **Recommendation 3**

**For the forthcoming State Budget, Treasury should have an expanded role in overseeing the selection of performance measures and in the verification of the results cited by agencies. The Committee will further examine this issue in 1999.**

### **Recommendation 4**

**Outputs should be sufficiently differentiated so as to require discrete qualitative performance measures for each output.**

## **Significant Trends and Issues Information**

*Comments on significant issues and trends information —*

*Significant trends and issues were described as good and useful information.*

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<sup>14</sup>       ibid, p.971

<sup>15</sup>       Issues in Accrual Output Budgeting, op.cit., p.40

*Trends and issues are not reported according to outcomes and therefore the impact of these issues and trends on each outcome is unclear.*

- 2.19 The previous budget structure of program budgets described, for each agency, a number of programs and sub programs with significant issues and trends information provided with each program description. Many Members found this information to be the most useful form of background to the environment in which the agency was operating. The Under Treasurer agreed, that if properly structured, this section should identify factors that impact on agencies' activities, such as their strategic activities, costs and service delivery difficulties.<sup>16</sup>
- 2.20 The 1998-99 Budget Statements provide significant issues and trends information at the commencement of each Division, following the mission statement and prior to a description of the agency's outcome and outputs. There is no longer the attachment of significant issues information to each output as there was with each program description in prior years. In evidence to the Committee, Ms Rebecca Flint, Assistant Director, Financial Reform Division, Treasury, commented that for the next budget, Treasury was working to break down and examine issues that impact on outputs.<sup>17</sup>
- 2.21 Provision of significant issues and trends information following each output description would assist users. Environmental background information for each area of the agencies' activities would provide a useful context for the reporting of performance measures for each output.

## **INFORMATION REGARDING OFF-BUDGET AGENCIES AND OTHER AUTHORITIES**

### *Comments on Information Regarding Off-budget Agencies and Other Authorities -*

*Statements of Corporate Intent, which contain planned achievements and expenditure, should be tabled at the same time as the State Budget. This would allow Parliament to properly examine the planning and forecasts of the GTEs during the Estimates process.*

*Agencies such as Westrail and Water Corporation should all report to the same level as agencies.*

*The Ministry for Culture and Arts should show details of LISWA, the Museum and other such activities.*

*GTEs should be held accountable for their use of public money.*

*Information about GTEs is scattered throughout the Budget Papers and should be consolidated.*

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<sup>16</sup> Evidence, 18/11/98, p.9

<sup>17</sup> Evidence, 18/11/98, p.8

- 2.22 The Budget Estimates process, by definition, is separate from Parliamentary scrutiny of off-budget agencies. Whilst there are different budgeting and accountability responsibilities for Consolidated Fund (CF) agencies and non CF (off-budget) organisations, Members have expressed a desire for better information. The Budget Statements report CF expenditure that is appropriated for off-budget agencies. An example of this is the provision of community services obligations (CSOs) to Government Trading Enterprises (GTEs), such as Western Power and Water Corporation.
- 2.23 CSOs are reported in the Treasury division of the Budget Statements, but are not reported in the section of the receiver of the funds.<sup>18</sup>
- 2.24 GTEs are required to produce a statement of corporate intent (SCI) each year, but these are not examined during the Legislative Assembly Estimates week. The SCI contains much of the information that is of interest to Members in the Estimates process. The issue of off-budget agencies is of increasing importance because of the trend towards corporatisation and other moves to make government organisations more independent of government. These moves should not diminish the accountability of the organisations to Parliament.
- 2.25 The Committee will further examine this issue in 1999.

#### **Recommendation 5**

- (a) **A process must be established, whereby Government Trading Enterprises and other agencies, which are not fully examinable by the Estimates process, can be fully examined by Parliament.**
- (b) **Statements of Corporate Intent are required to be tabled early in the financial year. An examination process for each of these agencies, based on their Statements, must be established in the first quarter of the relevant financial year.**

#### **OVERALL LEVEL OF DETAIL IN AGENCY INFORMATION SUPPORTING THE ESTIMATES**

- 2.26 The overall level of non-financial detail has diminished with the progression from program to output budgeting. With the replacement of programs with outputs a level of broad reporting has been continued. However, the next level of detail, which was provided by sub-program details, is no longer evident.
- 2.27 By way of example, the Committee has studied the level of information provided for the Department of Commerce and Trade's Grants and Subsidies over recent budget statements.

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<sup>18</sup> For instance, both Water Corporation (Vol 2, p.1290) and Western Power (Vol 2, p.1304) report briefly in the 1998-99 Budget Statements, but only in terms of a Capital Budget Statement.

## Case Study

- 2.28 In the 1996-97 Budget Statements<sup>19</sup>, the expenditure item *Grants, Subsidies and Transfer Payments*, was further broken down into the distinct forms of assistance, such as *Industry Incentives*, *National Industry Extension Service* etc. Further detail was added in the form of amounts of incentive to individual proponents, total levels of investment and employment resulting from the investment.<sup>20</sup>
- 2.29 In the transition from program to output based management, the 1997-98 Budget Statements broke *Grants, Subsidies and Transfer Payments* down into the distinct forms of assistance, such as *Industry Incentives* and *National Industry Extension Service*.<sup>21</sup> Some, but a lesser amount of information on individual industry incentives was included.
- 2.30 In the 1998-99 Budget Statements, the Output No.3 *Industry Sector and Trade Development Services*, reports a total cost of the output, but contains no reference to grants and subsidies (it does state in the *Variations* column that the reason for a variation between 1997-98 and 1998-99 is lower expenditure on industry incentives, but does not provide these figures).
- 2.31 The *Cashflow Statement* lists *Grants, Subsidies and Transfer Payments* as an item under *Operating Activities*, however, this does not provide further details of its component grants.<sup>22</sup>
- 2.32 In evidence to the Committee, the Under Treasurer, Mr John Langoulant, confirmed that this change in the level of detail provided was the result of the move to the output budgeting format.<sup>23</sup>
- 2.33 Increased detail, such as that exemplified by the 1996-97 Program Statements, would assist the Estimates process by:
- providing a basis for more informed and specific questioning; and
  - reducing the requirement for some questions, because the detail has been provided in the Statements.
- 2.34 Information, such as that relating to grants and subsidies, should be described with more detail than that provided by the 1998-99 Budget Statements. The trail of such monies, which is passed onto private sector organisations and other non-government organisations, is a more likely area of interest for Members in the Estimates process.

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<sup>19</sup> Vol 1, p12-4

<sup>20</sup> Ibid, p.12-6

<sup>21</sup> Vol 1, p.148

<sup>22</sup> Vol 1, p.201

<sup>23</sup> Evidence, 18/11/98, p.11

## Unidentified Expenditure Expressed as ‘Other’

2.35 The diminished level of detail is also evident in financial terms, such as the use of ‘other payments’ as a significant expenditure item. In many cases, ‘other payments’ is 20 per cent to 40 per cent of the Statement of Cashflows.<sup>24</sup> As practices, such as contracting out increase, there is a risk that identified expenditure, such as salaries, will decrease relative to unidentified expenditure.

2.36 In evidence to the Committee, Ms Rebecca Flint, stated that -

We acknowledge that for some agencies the output was sizeable and we are aiming to rectify that in this year's budget papers. We are asking agencies to break down "other" where it is a sizeable component.<sup>25</sup>

2.37 The Committee believes that the amount of expenditure categorized as ‘other’ should be substantially reduced. Where expenditure is expressed as ‘other’, footnotes should accompany the figure and provide some indicative information as to what activities the figure relates to.

### **Recommendation 6**

- (a) **Agencies should substantially reduce the amount of expenditure and receipts simply reported as ‘other’.**
- (b) **Where ‘other’ is used to report expenditure, explanatory notes must be provided.**

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<sup>24</sup> In most cases the large ‘other payments’ figure is part of the Statement of Cashflows (Controlled) and tends to relate to operating activities of the agency.

<sup>25</sup> Evidence, 18/11/98, p.8





### 3. The Budget Estimates Process in the Legislative Assembly

- 3.1 The Committee will continue to examine the issue of how to improve budget information and review processes in the interests of the Members of the Legislative Assembly. The Committee has been limited to an interim report in 1998, due to the time restrictions that Treasury and agencies must work to in order to present a budget in April 1999.

#### LEGISLATIVE ASSEMBLY STANDING ORDERS

- 3.2 As part of the Committee's ongoing examination of ways to improve budget information and review processes, it is the Committee's intention to more thoroughly review relevant Standing Orders and to make appropriate recommendations to the Parliament. The Committee is signalling its intention to provide a direction for change, rather than prescriptive changes, which it believes can be best formulated by the Standing Orders and Procedure Committee.
- 3.3 In particular, the Committee will further examine the efficacy of the Estimates Committees themselves in 1999. One of the recommendations of the Commission on Government (COG) was that the Legislative Assembly should establish up to four portfolio-related Standing Committees, which would consist of three government-party Members and two non-government party Members.<sup>26</sup>
- 3.4 In 1996 the Legislative Assembly Select Committee on Procedure recommended that the House appoint three portfolio-related Standing Committees (in addition to the Public Accounts and Expenditure Review Committee).<sup>27</sup> The Select Committee dedicated much of its report to the proposal for a new Committee system, in support of its objective to enhance oversight and accountability of government to the Legislative Assembly. The Legislative Assembly Standing Orders and Procedure Committee then reported on the Commission on Government's Recommendations in 1998 and supported COG and Select Committee on Procedure recommendation for a new system of portfolio-related committees.<sup>28</sup>
- 3.5 While COG, the Select Committee on Procedure and the Standing Orders and Procedure Committee envisaged these portfolio-related committees undertaking a range of functions including -
- scrutiny and review of the policy objectives and administration of departments;
  - examination of annual reports;
  - review of relevant legislation and regulations; and

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<sup>26</sup> Western Australian Commission on Government, Report No.2, Part 2, 1995, pp 176-177

<sup>27</sup> Recommendation 19, Select Committee on Procedure, Final Report, Legislative Assembly, 27 June 1996, p.45

<sup>28</sup> Recommendation 11, Report of the Standing Orders and Procedure Committee on Commission on Government Recommendations, 18 June 1998, p.19

- inquiries into matters referred by the House, such as Bills and petitions,<sup>29</sup>

the Committee will examine whether there should be an expanded role for these committees, in terms of undertaking the Budget Estimates review process.

#### **Recommendation 7**

**Consideration should be given to replacing the Estimates Committees in the Legislative Assembly with portfolio-based Standing Committees. The Committee will further examine this issue in 1999.**

### **THE 1999-2000 BUDGET CYCLE AND DELIVERY OF INFORMATION**

- 3.6 Treasury has largely completed developing the format for the 1999/2000 papers. The basic output reporting format used in the 1998/99 papers will continue and this should allow for better comparative information. Some changes in the nature and extent of information included within the established format can be made in response to this report and Members' feedback. The timetable that Treasury follows in order to present a Budget in April, consists of -

<i>December</i>	-	preparing the format in a computer / digital model that agencies can fill in;
<i>January</i>	-	System testing and training by Treasury;
<i>February</i>	-	System out to agencies;
<i>March</i>	-	Completion of data collection and written descriptions from agencies.

- 3.7 In 1999, Estimates Committees are provisionally scheduled to run from Tuesday, 25 May to Friday, 28 May.
- 3.8 In evidence to the Committee, the Under Treasurer stated that he would welcome the opportunity for Treasury to be involved in an information session for Members prior to the Estimates.<sup>30</sup> The session would give Members the opportunity to ask where to find certain information, how to interpret the information, but not to question the policy or use the session as a de facto Estimates Committee.

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<sup>29</sup> Ibid, p.221

<sup>30</sup> Evidence, 18/11/98, p.10

**Recommendation 8**

**An information session should be conducted wherein Members can seek information and clarification of the Budget Papers from Treasury officials. The session should be held between the presentation of the budget and the Estimates week.**

- 3.9 The Committee also believes that, given the size and complexity of the Budget Papers, some Members would welcome the Papers being made available on CD-Rom, with a good search engine. Whilst not all Members would make use of this information medium in the first year, an increasing number will do so with each new budget.

**Recommendation 9**

**Members should be given the option of receiving the Budget Papers on CD-Rom, with a comprehensive search engine.**



## **Appendix**

### **Parliamentary Requirements Impacting on Budget Information and Review**

<b>Parliamentary Requirement</b>	<b>Result</b>
Legislative Assembly Standing Order 304(3)	Budget Paper No.2, Budget Statements, Chapter Two - Consolidated Fund Expenditure Estimates by 'Divisions' under each Minister ('Part').
Legislative Assembly Standing Order 304(3) and (4)	The 'Parts' of Chapter Two arranged in the order of Parliament, Treasurer, other Ministers of the Crown
Legislative Assembly Standing Order 304(4)	<p>The Budget is considered 'In Committee', with Members debating each 'Division' as they are called. The relevant Minister will reply. A vote is taken on each 'Division'.</p> <p>Members are provided with the opportunity to speak to 'items' within each Division.</p>
Legislative Assembly Sessional Orders	The schedule for the operation of Estimates Committees A and B are arrived at by a consultative process, agreed to by the Estimates Management Committee and then reported to the House.

