Occasional Paper

10

Recent Developments in Budgeting

R L Mathews (ed.)

Centre for Research on Federal Financial Relations
The Australian National University

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The Centre for Research on Federal Financial Relations

The Centre was established by the Australian National University in 1972, with financial support from the Australian Government, for the purpose of undertaking studies in the field of federal financial relations. The role of the Centre is to generate ideas in relation to problems of federal finance and to extend the reliability and range of information and analysis. In particular, the work of the Centre has regard to expenditure responsibilities, financial powers (with respect to both taxation and loan finance), grants arrangements and the scope for intergovernmental co-operation.

The Centre's research program is being directed to four major fields of study:

(a) financial and economic analysis of the Australian and other federal systems;

(b) criteria and machinery for determining the allocation of financial resources among governments;

(c) intergovernmental aspects of urban and regional development; and

(d) the impact of the federal financial system on the effectiveness of expenditure in major areas such as education.

The Director of the Centre (Professor R.L. Mathews) is advised by a Research Advisory Committee, the membership of which reflects the interests of the Australian, State and local governments and includes members of other universities. Emeritus Professor Sir John Crawford is Chairman of the Committee. Although the Centre's work is concerned especially with intergovernmental financial relationships, the approach is interdisciplinary and involves scholars from the fields of constitutional law, political science and administrative studies as well as economics. The Centre has only a small permanent staff and much of the research program is being carried out by visiting fellows, scholars in other institutions assisted by research grants from the Centre, and postgraduate scholars.

The results of research are being published in books, research monographs, occasional papers and a reprint series (see end pages). Views expressed in the Centre's publications are those of individual authors and no endorsement by the Centre or by the University is implied.

RECENT DEVELOPMENTS IN BUDGETING

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PREFACE

The papers in this Occasional Paper were originally presented to a seminar at the Australian National University on 3 May 1978. Participants in the seminar included, in addition to the speakers, members of the Research Advisory Committee of the Centre for Research on Federal Financial Relations, staff and visiting fellows of the Centre, and other academics, Commonwealth and State public servants and members of the Canadian High Commission. The proposal for the seminar was originally made by Mr N.W.F. Fisher.

The Centre is very grateful to the contributors for agreeing to present papers on recent developments in government budgeting in Australia and Canada, and for the trouble they have gone to in preparing the papers for publication.

The Centre also records its thanks to Mrs A.M. Wilkinson for her editorial assistance, ANU Graphic Design for designing the cover of this paper, Mrs K.M.Kendall for typing the manuscript and Mrs V.J. Murray for making the necessary arrangements for publication.

May 1979 R.L. Mathews
Director

RECENT DEVELOPMENTS AFFECTING THE OUTLAY SIDE OF THE COMMONWEALTH'S BUDGET*

B.W. Fraser

Looking back over the past few years I cannot point to any really dramatic new developments in the Commonwealth's budgetary system as such. In my experience, budgetary developments tend to be evolutionary in character and in recent years there have been some evolutionary developments. These have been based in large measure on elements of planning-programming-budgeting systems (PPBS). Those elements, which were adopted in Australia with some enthusiasm in the late 1960s and early 1970s, are:

(a) functional classification of outlays;

(b) forward estimates of outlays;

(c) program effectiveness reviews.

As always, however, such developments as have occurred have been influenced heavily by the economic and political environment of the time. For example, it has been necessary in recent years to allow for the effects of rapid inflation on the budget estimates. Again, the present Government's concern with holding down the rate of growth in budget outlays has given rise to certain changes in procedures, both for determining the budget estimates and for controlling and monitoring the estimates after they have been determined by ministers.

Several of the changes which have occurred bear certain similarities to budget techniques which have appeared overseas, such as zero based budgeting, cash limits, and program analysis and review, though they do not carry those brand names. Perhaps more important, the elements of the techniques which have been developed in Australia have much greater regard to the realities and constraints of budgetary decision-making processes than do the text books and manuals on these techniques, which say how things should be done.

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* The views expressed in this paper are personal and do not necessarily reflect the views of the Department of Finance.

AIDS TO DECISION MAKING

Functional Classification

Since 1973-74, a functional classification of budget outlays has been presented in the statements attached to the Budget Speech. This classification brings together all expenditures which serve the same broad function (e.g. education, health, welfare, assistance to industry) irrespective of which department is responsible for the actual expenditure. The classification is intended to facilitate decision making by providing expenditure data in a form which enables ministers to get a feel for whether or not outlays in different areas are keeping in step with broad government priorities.

On the whole, the classification has proved useful for this purpose, although on occasions there is considerable interest in knowing how much each department or minister is proposing to spend, as well as how much is proposed to be spent on different functions.

At this stage the functional classification is still fairly aggregative; it is based largely on a reclassification of appropriation data, supplemented by a limited amount of additional detailed information. Further development of a more detailed, output-oriented presentation within the major functional blocks is dependent largely on greater availability of the necessary data, and on the relative costs and benefits of obtaining such data.

Both the functional classification and the appropriation or input classification are useful in their own way. The maintenance of these two classifications of budget outlays is, however, a source of possible confusion: departments submit their estimates in appropriation format but most of the data submitted to ministers are in functional format. There is a degree of correspondence between the two in some areas but not in others. For the most part, however, the reconciliation is complex. I mention in this connection that work has been going on for some time within the Department of Finance on the possibility of changing over to a functional form of appropriation which would show the purposes for which moneys are spent, rather than the inputs (e.g. salaries, travelling expenses, plant, etc.) on which moneys are spent. There are many important issues involved here, including the definition of programs, the appropriate degree of aggregation of items and the flexibility permitted for switching funds between programs. Two further very important issues are the need to balance the requirement for central control with the desirability of more devolution of responsibility to spending departments; and the implications of the possible changes for Parliament, which at present exercises very detailed control over budgetary allocations. These issues will require a good deal more thought before any firm proposals can be worked out.

Forward Estimates of Expenditure

One of the more significant budgetary developments in recent years has been the use made of the so-called 'forward estimates' of expenditure. These estimates have not been used in quite the way that was intended in the textbooks but they have been used to good effect nonetheless. Three-year forward estimates have been collected formally since the early 1970s. They have been improved and refined a good deal over this period, though they remain subject to many serious shortcomings, some of which are inherent in the exercise itself.

The main purpose of the forward estimates is to provide a framework in which ministers can take decisions affecting the level and composition of budget outlays. The cycle starts in spending departments about October each year and departments submit their estimates for three years ahead to the Department of Finance in the following January. These forward estimates include the costs of proposed new initiatives, as well as the costs of on-going activities. The estimates are required to be endorsed by the responsible minister before being submitted and to be supported by detailed explanations including, where appropriate, information specifying the objectives of the proposed expenditures and indicatting the relative priorities which individual ministers attach to programs within their portfolios.

In recent years, the estimates have been processed and brought together in a report which has gone to ministers. In early March, the estimates have also been brought together with preliminary revenue estimates for the following year. It will come as no surprise that the aggregate of the forward estimates submitted by departments consistently exceeds the level of total expenditures judged to be appropriate on economic and budgetary grounds. The problem then is to pare total outlays down to an acceptable level - a process which occupies, for officials and for ministers, much of the three months or so preceding the normal Budget Cabinet meetings in July.

In effect, then, the first year's data of these forward estimates have become advance 'bids' for funds in the year immediately ahead. As such, they permit the broad magnitude of the budgetary problem in the year ahead to be perceived several months earlier than would otherwise be the case, and thereby afford additional time to consider options for reducing the total of projected expenditures in a way which best accords with the Government's priorities. These arrangements have, in my view, facilitated more orderly decision making by ministers than would have occurred if the process of determining the level and composition of government spending had been confined largely to the normal Budget Cabinet meetings in July.

At the same time, it is apparent that the present arrangements focus very largely upon the estimates for the first of the three years. One reason for this is that the process of determining the level and composition of government spending is usually carried out in the annual Budget context. Another reason for the greater interest in the year 1 estimates is that, to this time at least, Governments have shown no inclination to frame three-year budgets. Even if Governments were that way inclined, the present second-year and third-year estimates would not provide a sufficiently firm basis on which to take decisions entailing comprehensive long-term commitments. This in turn partly reflects the inherent problems involved in forecasting up to three years ahead. Partly, also, it reflects the fact that the second- and third-year estimates tend to be based on - or to be projections of - the first-year estimates. If those base estimates are significantly altered during the course of ministerial consideration, as many of them tend to be, the estimates for the second and third years will not represent a suitable basis for decision making.

However, use is made of the second- and third-year estimates in particular instances. Where new programs - or major extensions of existing programs - are proposed, the projected levels of costs in later years will be very relevant to whether or not the proposals are taken up in year 1. Moreover, while the nature of their functions oblige several departments (e.g. Defence) to take a long-term view as a matter of course, some others probably would not do so but for the forward estimates exercise.

It is also worth noting that successive annual and detailed reviews of expenditure programs which have arisen out of the forward estimates and related processes in recent years have much in common, particularly as to purpose, with the notion of zero based budgeting (ZBB) which has achieved some prominence in the U.S.A. in recent times. ZBB is a complex process - many would say it is over-complex - but in essence it amounts to an attempt to evaluate and justify the entire appropriation that is sought and not just the increment (i.e. to assume a zero base rather than last year's base). The reports I have seen suggest that in the U.S.A. the results of ZBB have so far been disappointing in terms of the savings achieved. The most obvious result appears to have been a doubling of the amount of paper work involved in evaluating programs.

ALLOWANCE FOR INFLATION

I mentioned earlier that arrangements have been made in recent years to allow for the effects of rapid inflation on the budget estimates of outlays. When inflation was running at rates of 3 or 4 per cent annually it was not really necessary to make explicit allowances for the effects of inflation; those effects could be counted upon to be roughly offset by shortfalls in the expenditure provisions actually included in the budget estimates. This ceased to be the case with rates of inflation of 10-15 per cent. In such circumstances, it is necessary to allow for cost increases if the budget estimates are to be a realistic measure of likely cash requirements. To deal with this situation, it has become necessary in recent years to make specific provision for prospective increases in prices and costs during the year ahead for most major programs.

Two large bulk allowances are now made explicitly in the budget estimates. The first is in respect of prospective increases in the wages and salaries bill for public servants and the defence forces - an allowance of $90 million was included in the 1977-78 estimates. The second is an allowance for cost escalation of grants for tertiary education institutions and schools which are determined in real terms; the 1977-78 budget estimates included $75 million by way of cost supplementation of these grants. The bulk allowances for these two items are included in the budget estimates of total outlays but are not formally appropriated under departmental headings. On the other hand the amounts appropriated for, say, pensions and benefits have adjustments in line with forecast movements in prices (in this case consumer prices as measured by the Consumer Price Index) built into them.

In recent years approximately 90 per cent of the budget estimates of total outlays has been at 'outturn' prices. That is, the estimates either include explicit price allowances for prospective increases in wages and prices (about 45 per cent, including pensions and benefits, wages and salaries, medibank) or are already at outturn prices and are not therefore adjusted for movements in wages and prices (about 45 per cent, including family allowances, State tax sharing entitlements, interest payments). The 10 per cent of the estimates still at 'present' prices (i.e. the price levels at the time the estimates are prepared) covers a large number of small items, mostly non-wage and non-salary administrative expenses. These estimates may be supplemented for cost increases at the time Additional Estimates are presented but this has not been automatic in recent years. In respect of these and other estimates, the Government has required departments to demonstrate that cost increases have been absorbed and offset to the maximum extent possible before agreeing to provide additional funds.

In these arrangements we have been, in effect, practising something akin to the system of 'cash limits' control which the United Kingdom introduced in respect of a large part of its 1976-77 budget. Cash limits mean, in essence, that if prices or wages increase by more than has been assumed and allowed for in the estimates, then departments must either use their allocations more productively or reduce their programs in real terms below their projected levels.

CONTROL AND MONITORING OF BUDGET ESTIMATES

Once the budget estimates have been determined and approved there is the year-round task of monitoring and controlling them. Some recent developments may be mentioned here.

Control of Forward Commitments

The first concerns the control of forward commitments. The great bulk of expenditure in any one year tends to be committed by decisions taken in earlier years. Some control over forward expenditure commitments is therefore necessary if a Government is to avoid being confronted, at the start of a new financial year, with existing commitments which portend an unacceptably high level of expenditure.

To help counter this possibility, new and formal procedures for the regulation of expenditure commitments were implemented in 1976-77. In brief, these procedures provide that at the same time as ministers approve cash allocations for the year ahead they also determine, for certain categories of expenditure in respect of following years, the levels of commitments which may be outstanding at the end of the budget year. Departments are required to contain within the approved limits commitments which will remain outstanding at the end of the year. The approval of Cabinet, or of the Minister for Finance, is required before any commitment is entered into which could result in an approved limit being exceeded.

These procedures do not have legal backing at this stage but are backed by Cabinet directives. The procedures have particular applicability to project-type expenditures and to situations where contractual agreements are entered into. They do not apply to those expenditures under Special Appropriations where future payments are effectively predetermined by the legislation itself (e.g. many grants to the States, pensions, etc.), or to some categories of administrative expenses where the degree of forward commitment is generally small.

Monitoring Budget Estimates

The Department of Finance of course monitors spending against the budget estimates throughout the year. Comprehensive reviews of the budget estimates are carried out in December-January and again in May. In these reviews all spending departments reassess their likely expenditures against the budget estimates and submit revised estimates to the Department of Finance. Between these major reviews the estimates are monitored on a monthly basis, with the aid of a computer program which compares actual expenditures with forecast monthly dissections of expenditures provided by departments.

These monitoring arrangements are more an information system than a control mechanism, but they can have control implications. In any month, for example, actual expenditures may diverge substantially from the forecast levels. These discrepancies need to be investigated to ascertain whether they represent a variation in the *pattern* of spending over the year, or whether they signify that the *level* of spending for the year is likely to be different from that estimated at the time of the Budget. If total outlays are seen to be heading seriously off course, the Government may decide to take corrective action.

However, the monthly reviews do not always enable a precise fix to be obtained on the way spending for the year as a whole is shaping up. To get this we need reliable profiles of estimated expenditure over the course of the year. But many departments are not geared to think in terms of monthly forecasts of their expenditures; their main concern is whether their annual estimates will be reached or exceeded. Moreover, some specific purpose payments to the States are paid at the request of the States, often on an irregular basis (e.g. payments relating to urban public transport projects and growth centres). Certain other expenditures, such as unemployment benefits and natural disaster payments, are notoriously difficult to estimate. For these reasons the interpretation of changes foreshadowed in the reviews is seldom straightforward.

Staff Ceilings

Mention should also be made of staff ceilings, which have been an important instrument of expenditure control in recent years. This year direct wage and salary payments from the Budget will be about $3,000 million or about 10 per cent of total budget outlays. Effective control of government spending requires effective control over staff numbers; the two really need to be controlled simultaneously. The introduction of staff ceilings about three years ago should be seen in the light of the Government's concerted efforts to reduce the rate of growth in budget outlays.

Importance of Government's Attitude

Perhaps the main point to be made about all mechanisms for the control of budget outlays is that, while useful tools can and are being developed, those tools are not sufficient in themselves. The key factor is the attitude of the Government of the day. Holding expenditures firmly within the budget estimates may or may not be an objective of Government. The present Government has had such an objective. In each of the past two years total actual outlays (but not, of course, all individual components) were held within the original budget estimates. Total outlays in 1975-76 were below the budget estimate (by $56 million) for the first time since 1968-69; and total outlays in 1976-77 were almost $200 million below the budget estimate.

REVIEWS OF EFFECTIVENESS, EFFICIENCY AND ECONOMY

There have been some other developments in recent years which have been directed to improving the effectiveness, efficiency and economy of government spending programs.

Priorities Review Staff

Mention can be made in this context of the Priorities Review Staff (PRS), which was set up by the Labor Government in 1973 to review, analyse and provide comments on government policies, objectives and priorities. This was to be done largely in the forward estimates context. In the event, the double dissolution of May 1974 intervened before much progress was made in that direction. Thereafter the PRS found itself preoccupied with handling requests for special reports of all kinds, e.g. on child care and housing, and on urgent matters of the day.

Priorities and Evaluation

The PRS was disbanded after the change of Government in December 1975. Some fragments of it were absorbed into the Priorities and Evaluation Division of the Department of the Prime Minister and Cabinet. In November 1976, the Prime Minister announced that the Department of the Prime Minister and Cabinet was to become much more active in the evaluation and review of existing expenditure programs. A start is now being made in this difficult area.

There are some similarities between what is envisaged here and the program analysis and review (PAR) procedures developed in the

United Kingdom. In both cases, the broad aim is to assess the effectiveness of particular programs in achieving government objectives, and the possibilities of achieving those objectives more efficiently and/or economically by different means. The objectives themselves may also come under scrutiny.

It is a difficult task, not least because it is not always possible to point to clear policy objectives for programs. Ministers tend to be somewhat reluctant to commit themselves too precisely to distant objectives. Again, where objectives are stated they may be in conflict. For example, governments as a rule wish to concentrate welfare assistance on the most needy; at the same time, however, they are likely to be disinclined to ask Parliament to take existing benefits away from recipients who may no longer be regarded as falling into the most needy category.

Another very real difficulty is that there is insufficient time in an already crammed budgetary cycle to carry out extended and formal reviews of more than a few programs each year. In Australia, as in other countries, a variety of standing/special/*ad hoc* committees and bodies conduct *in-depth* reviews and analyses of particular programs (e.g. interdepartmental committees, special official committees or outside bodies). These bodies can and do spend many months reviewing and analysing a single expenditure program.

House of Representatives Expenditure Committee

At the Parliamentary level the House of Representatives Standing Committee on Expenditure was established in April 1976. This Committee has a charter, *inter alia*, to examine the relationship between the costs and benefits of implementing government programs.

In 1977 the Committee presented reports on:

- Australia's overseas representation; and
- accommodation for married servicemen.

It is currently examining:

- the Defence Service Homes Scheme;
- budget estimates processes; and
- certain programs of the Department of Health.

Efficiency Audits

A short time ago it was announced that the Government had decided that the Auditor-General should undertake responsibility for auditing the efficiency of Commonwealth departments and statutory authorities. Details of the system to be implemented are now being worked out and it is expected that the first efficiency audits will get under way in the near future, after the necessary amendments to the Audit Act are passed by Parliament.

The Auditor-General will be focusing on the organisational and managerial aspects of the way departments and statutory authorities implement their programs. Although it will not always be easy to make the distinction, the Auditor-General will essentially be concerned with the efficiency with which programs and processes are carried out, rather than with the effectiveness of those programs in meeting particular policy objectives.

BUDGET DEVELOPMENTS IN NEW SOUTH WALES

N. Oakes

The Report on Activities of the Centre for Research on Federal Financial Relations for 1977 contains the very apt comment: 'in the last resort, the many-sided problems of federal financial relations demand political rather than academic solutions'. I think that is a comment we must all bear in mind in looking at budgets and their development.

Treasury practices in New South Wales are very much under the spotlight at the present time. The review being made of government administration by Professor P. Wilenski has given particular emphasis to budget procedures while the Select Committee appointed by the Legislative Council has also shown considerable interest, if not in the form of the budget then certainly in the way the budget is implemented. The press has warmly welcomed the critical analyses being made of State public finance - one cannot escape the feeling that there is a very strong hope abroad that the bureaucrats are at last going to be brought to heel.

It is not the purpose of this paper to traverse the pros and cons of the many recommendations that have been made and which, if implemented, will dramatically alter the shape, content and practices of New South Wales budgets, budget making, implementation and review. All I wish to say is that Treasuries are renowned the world over for their quest for value for money and their concern for the taxpayer. Any moves which will ensure that the taxpayer's dollar is better spent or - is it too much to contemplate? - only half spent will certainly be warmly welcomed, particularly within those Treasuries.

External Influences on Budget Development

Before I describe some of the recent developments which are under way in my State, I think we need to reach a common agreement on what budgets are all about. There are many definitions but the one I like best is that of Aaron Wildavsky: 'realistic budgets are an expression of practical politics'.

It follows from this that the content and form of the budget are very much influenced by the political environment in which it is developed.

It also follows, I feel, that the budget cannot, or at least should not, be geared to some theoretical model or structure which will provide a field day for the academics but achieve little in practical terms. The fate of zero based budgeting (ZBB) and planning-programming-budgeting systems (PPBS) highlights the dangers; again to quote Wildavsky on ZBB: 'some butterflies were caught ... no elephants stopped'.

I think it is also important to note the quite different role of a State budget as compared with a Federal budget. Considerable attention must of necessity be paid in the Federal budget to questions of money supply, interest rates, international factors and the level of the deficit or surplus and how that is to be financed or appropriated. The Federal budget and budget documents are increasingly being looked to, to give definite guidelines on where overall economic policy is leading us. These factors are important to the States and will very much affect State budgets, but the State budgets have only marginal significance in the areas referred to; inevitably they must react to rather than influence macro-economic policy.

It is when we consider State taxation and other revenue measures, and expenditure priorities within the field of micro-economic policy, that State budgets come into their own. It is on these policies that a State's performance can be judged, not necessarily in a quantitative sense but certainly in a qualitative way.

It has been necessary to say a little about the external influences bearing on budget development in New South Wales, as I feel sure these influences also operate in other States. I hope that it will not be true as Tofler has suggested that 'change is avalanching upon our heads and most people are grotesquely unprepared to cope with it'.

Treasury Organisation and the Budget

In the State Treasury we are very much 'people oriented'. Even before we were subject to the discipline of staff ceilings we aimed at attracting well qualified, practical people - striving for quality rather than quantity. By way of example, the Economist's Branch was established in 1969 with the objective of concentrating on Commonwealth-State financial relations, the analysis of developmental projects, taxation theory and practice, and the broader economic issues. The Branch had an initial staff of only eight and has been added to very gradually as we were able to attract suitable people. Its taken us nearly 10 years to reach our original target establishment of 20 or so. I believe the range of areas covered and the quality of the work produced by the Branch is remarkable for such a small unit. We plan to keep it that way, without building research empires in competition with the much larger establishments elsewhere.

The initial responsibility for the budget itself, including budget preparation and review, lies with the Budget Branch. We have experimented with various forms of establishment within that Branch, commencing with a very individualised structure, then branching out into a great number of specialised sections until at one stage we had eight sections, and finally opting for four sections, each under two quite senior people. We think this is the most appropriate form of organisation, at least for our current functional tasks.

Forward Estimates

The Budget Branch has always been concerned with forward commitments. For a number of years three- or five-year capital programs had been prepared for internal use. We have now formally established three-year programming in both the capital and recurrent areas; the estimates are prepared initially in the various departments or authorities. On the capital side, the procedure has been in force for two years but the longer-term recurrent budget forecasts are in their initial year.

The Government has provided indicative two-year allocations to departments and authorities on the capital side, thus giving them a three-year planning period with firm allocations for the current year and planning figures for the following two years. We have not adopted this procedure in the recurrent budget, except in specific areas such as a three-year program for the introduction of certain tax concessions. I personally have some doubts as to whether it is practicable to adopt a definite three- or even two-year rolling budget in the sense of giving indicative figures, at least for the budget as a whole (I stress the word *adopt*). I certainly support the need for forward estimates to be prepared and analysed. The data provide a useful input for current decision making where the decisions have forward budgetary implications. Forward estimates are also useful in planning and preparing for future financial policies and budget strategies.

It will be recognised, of course, that many decisions made in one year's budget commit budgets for many years to come. It is also very much the case that decisions on the capital side carry major budget implications for the future, the clearest cases being the construction of a new hospital, gaol, child welfare home, etc. An outstanding example is the Westmead Teaching Hospital Complex which is being built at an estimated completion cost of some $170 million; annual operating costs will exceed $70 million gross. In two and a half years, running costs will have exceeded the capital cost, a fact which certainly calls for the fullest possible justification of the need for such a facility before a decision to undertake the project is made. This was certainly done with Westmead - Interdepartmental Committees, Treasury and Cabinet all played their part. I am not sure, however, that if a similar review were made today the same conclusion would be reached.

Cash Management, Accounting Practices and Statistical Services

Cash management is a major task of the Accounts Branch. The annual gross value of transactions passing through the Treasury books is over $11,000 million. Accounting and investment practices are under detailed review at the moment to see if we can improve our information flows, update procedures and obtain more effective management tools. We are grateful for the assistance our Commonwealth and State colleagues are giving us in this very comprehensive study. The Chief Accountant is anxious to overhaul our public service accounting practices and we have appointed systems officers to consult with departments and come up with proposals.

Some three years ago we appointed a State Statistical Co-ordinator whose job it is to consult with departments and authorities in reviewing State statistical requirements. We hoped this would provide a much sounder base for approaches to the Australian Statistician for new or improved statistical services. It has been a very successful move indeed.

Conclusion

If I could make a general observation by way of summation, it is that we have always been very conscious of detail in the Treasury. We have striven to gain an intimate knowledge of the working of departments and authorities and our reviews are extremely intensive in many areas. With the ever-increasing complexity and variety of government, however, we are going through a great deal of soul-searching to see if we should continue with this approach. In short, can we produce better results by adopting more of a broad-brush approach? Having been brought up under our intensive system, I have some misgivings about a major change in this area. I am therefore hoping that our systems review will give us the tools with which we can retain the advantages of that method, but with a reduced work load on staff resources.

RECENT VICTORIAN DEVELOPMENTS WHICH AFFECT FORWARD WORKS PLANNING

R.G. Webster

State Co-ordination Council

The State Co-ordination Council was established by statute in 1976. Its 38 members include the heads of all government departments and major instrumentalities or their deputies, but exclude those with limited geographical responsibilities such as the Harbor Trusts and the Tramways Board.

As part of the Council's overall structure there are:

(a) an executive of seven members;

(b) three other permanent functional groups, each composed of a section of the total membership with similar interests;

(c) five co-ordinating groups, which include representatives of municipalities and community bodies and which are mainly concerned with individual major projects such as Albury-Wodonga;

(d) 33 committees and task groups;

(e) 18 full-time staff, about half of whom are seconded from agencies for periods of up to two years.

The Council and its groups, committees, etc. are advisory bodies. In the first place, they exist to advise the Premier on any matters referred by him. There are also statutory provisions for the Council to be consulted on certain land planning matters, such as Statements of Planning Policy which are prepared by the Town and Country Planning Board and apply to particular regions.

So far, the Premier has referred 39 matters to the Council for comment. These include:

(a) major works matters such as the proposed Transport Plan, which will describe the Government's policy on all transport matters and list the projects to be commenced in the next five years and beyond;

(b) social planning matters such as the future of the Australian Assistance Plan; and

(c) co-ordination of on-going activities such as the acquisition of flood-prone areas by various authorities.

The Council is generally concerned only with matters which affect more than one Ministry. Dealings in many matters have been completed and the Council's recommendations have been passed on and in some cases acted upon.

There have been substantial benefits from agency representatives meeting regularly to discuss various problems. As well as receiving comments on their own ideas, officers have been able to appreciate the strength of competing programs. A very large number of senior and middle-level officers from all agencies have gained from these meetings, although there have been complaints about the amount of time involved in attending meetings and reading the meeting papers. Most members would expect to attend, each year, four meetings of the full Council, four meetings of their functional group and possibly some committee meetings.

Treasury is represented on almost every group and committee and this has brought two types of benefit:

(a) There is some Treasury input to proposals at the formative stage. Often this is in the form of ensuring that proposals are fully examined by all concerned authorities for all direct and indirect costs. Treasury officers are also often awareof the wider ramifications of various suggestions; arguments by Treasury officers have resulted in some proposals being abandoned at this stage.

(b) Treasury officers become conversant with the thinking and planning of agencies and are more likely to become aware of new proposals before they are formally submitted. They are therefore better able to evaluate agency proposals.

Apart from these factors, which have tended to make the Treasury task easier, there has been no impact on traditional Treasury activities such as annual works programming.

Treasury Procedures for Capital Works Programming

All matters involving capital expenditure of any kind are dealt with in the Works Branch, which has a current strength of nine professional officers. The two senior officers have experience and qualifications in engineering as well as in economics and management.

Although many matters are dealt with on an *ad hoc* basis, as required by the Treasurer, there is also a routine procedure for the preparation and monitoring of annual works programs and the forward planning of programs and commitments. This applies particularly to government departments, which are closely controlled, but the procedures also embrace semi-government authorities and to a lesser extent municipalities through their borrowing programs.

Routine Procedures

The routine procedures for government and semi-government programs are as follows:

December	Receive Forward Looks*. Check for new projects.
January	Prepare combined Forward Look for government and semi-government Works Programs for six years ahead.
March/April	Receive Annual Works Program requests.
April/May	Interviews with all major departments and authorities. Public Works Department officers present when appropriate.
July/August	Fix borrowing allocations and Works and Services allocations. Notify municipalities, departments and authorities.
September	Receive revised Works Programs based on actual allocations. Monitoring arrangements proceed during balance of financial year and include monthly meetings with Public Works Department officers. Variations in programs require Treasury approval.

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* Three years ahead for most agencies, six years ahead for agencies with long lead times, ten years for The State Electricity Commission.

Major Projects

New major projects come to notice through either: (a) the annual Forward Look estimate or (b) an agency request to Treasury or Ministerial request to the Treasurer.

All major projects are subject to some kind of control by Treasury but the degree of control varies according to the agency and the size of the project. For central departments (excepting Education), approval is given successively for 'schematic design', 'design development' and 'contract documents' before any allocation is made of funds for construction. (At each stage, Treasury has an opportunity to check costs, etc. and to suggest modifications.)

Capital works spending for the Education Department is controlled on a program basis, the total school building program being divided into 25 sub-programs. Treasury also fixes target levels for commitments and monitors expenditure on a weekly basis. Within the Education Department's own organisation many of these programs are further divided on a regional basis.

For roads, the Treasurer's approval is required for the composition of about 15 per cent of the total road program. This allows him to nominate particular projects, including the allocation for traffic signals which are installed by a separate authority.

For railways and country water supply, annual programs are divided into 20 to 30 items comprising major projects and sub-programs. New major projects and program amendments require the Treasurer's approval and monitoring is by monthly statements.

For major semi-government authorities such as the State Electricity Commission and the Melbourne and Metropolitan Board of Works, annual borrowing programs are fixed by the Treasurer, who also requires major contracts to be referred to him.

Contracts over $250,000, whether by departments or instrumentalities, generally require approval by the appropriate Minister, the precise requirements varying according to the relevant Act of Parliament. Under existing arrangements, Ministerial staff refer contracts to the Co-ordinator of Works before tenders are advertised and, if necessary, the Treasurer may be consulted before Ministerial approval is given.

By such means, Treasury is alerted to all future financial commitments.

The last few years have seen increasing competition for funds and, with greater Treasury interest in agency proposals, the standard of submissions by agencies has improved considerably. An agency submitting a proposal for major additions to, say, a psychiatric institution, will thus provide details of: the overall need for this type of service and the service at present being provided so as to justify the need for the additions; a description of the proposed building and the number of persons it will cater for; and the number, type and cost of additional staff.

The information available in Treasury and to the Treasurer is continually improving through the measures outlined above.

agency submitting a proposal for major additions to a psychiatric institution, will thus provide details of: the overall need (for this type of service) and the scope of the project being provided so as to justify the need for the additions; a description of the proposed building, and the number of patients it will cater for; and the number, type and cost of additional staff.

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Capital works spending for the Education Department is controlled on a program basis, the total school building program being divided into 25 sub-programs. Treasury also fixes target levels for commitments and anticipated expenditure on a weekly basis. Within the Education Department's own organisation some of these programs are further divided on a regional basis.

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Contracts over $250,000, whether by departments or semi-government authorities, generally require approval by the appropriate Minister, the precise requirements varying according to the relevant Act of Parliament. Under existing arrangements, Ministers must refer such contracts to the Co-ordinator of Works before seeking the approval, and, if necessary, the Treasurer may be consulted before Ministerial approval is given.

By such means, Treasury is alerted to all large financial commitments.

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A BROAD OUTLINE OF QUEENSLAND'S BUDGETARY SYSTEM AND THE FINANCIAL ADMINISTRATION AND AUDIT ACT 1977

L.A. Hielscher

Introduction

This paper will deal first with the characteristics of the Queensland budget system and will then discuss the major recent development in Queensland, the *Financial Administration and Audit Act 1977*. This Act will, without doubt, have a major impact on budgeting and accountability in the government area in Queensland in future years.

THE BUDGETARY SYSTEM

Formulation of Budget

The formulation of the Budget involves departmental expenditure estimates on the one hand and revenue estimates on the other.

Departmental Expenditure Budgets

Departmental expenditure budgets comprise:

(a) *Base allocations* for normal operational costs involved in providing departmental services at the level obtaining at the close of the preceding financial year. Whereas this is a 100 per cent base, it is a very carefully pruned down figure which has had removed from it all special programs, provisions for special equipment purchases and other items which vary in cost at rates different from normal cost variations. (These special items are then reconsidered from a *zero* base.) Departments have complete autonomy in the disbursement of this base allocation among their votes and the different areas of responsibility.

(b) *Provisions for special continuing programs*, which may vary in cost from year to year as a consequence of factors other than general cost increases. These include such items as aid to non-State Schools, Commonwealth-State funded programs (such as Community Health), public debt charges, and superannuation subsidies. These allocations must be applied to the purposes for which they are provided and no other.

(c) *Special 'one-time' allocations* to meet special needs that cannot be serviced from the normal basic allocations and which involve no continuing commitment. These include such items as new accounting machines, a short-term research program, special publications and the cost of a general election. These allocations are also available only for the purpose for which they are provided. The degree to which allocations of this nature can be made depends very largely on the availability of funds after all continuing commitments under (a) and (b) have been serviced.

(d) *Provisions for new and expanded services* in accordance with Government policy. These are also determined in the light of availability of funds.

(e) *Provision for staff salaries*, including costs of existing staff at existing salary rates and the amounts estimated to be necessary to meet the cost of such further appointments as may be approved to either existing vacancies or additional positions. (In recent years there has been no increase in administrative staff establishments, new positions being financed from funds released by a continuing program of staff priority evaluation by the Department of the Public Service Board.) No provision is made in departmental budgets for award increases during the year, this being provided in bulk in Treasury estimates and allocated later to departments in accordance with their actual cost.

In formulating the budget for each department, these five components are assessed separately and in detail. Recommendations take account of all factors, including the known priorities and policies of the Government, the established needs of departments, the recommendations of the Public Service Board in staffing matters and, of course, the desired budget result. Departments are required to present very detailed and well documented submissions to the Treasury in a standard format, which has been developed over the years to accord with the Treasury's budget formulation procedures.

Revenue Estimates

Revenue estimates are prepared by the Treasury with the assistance of estimates provided by departments in relation to taxes, charges, etc. which they collect. It is a general policy that all taxes, charges, fees, etc. that are not levied on an *ad valorem* basis are regularly reviewed to ensure that their real value is maintained. The degree to which this can be achieved is, of course, subject always to Government policy and, in some cases, to economic to economic conditions generally or specifically in respect of the particular sections of the community affected. The review also takes into account the needs of the expenditure budget and the relative priorities of the expenditure programs proposed.

Budget Control

There are seven fundamental tenets of effective budget control as applied in Queensland:

(a) Departments have complete autonomy in relation to deployment within their categories of general purpose funds, i.e. those that are not earmarked for a specific purpose.

(b) There is complete adherence to the principle that allocations provided for specified purposes are not available for any other purpose.

(c) There is complete adherence to staff establishment ceilings as approved and capable of being funded from the allocations provided for the purpose.

(d) The Treasury insists on absolute adherence to the principle that aggregate departmental expenditure must be contained within the overall allocation as approved, having regard always to the constraints in relation to special allocations and the rule that funds provided for salaries and for other costs are not mutually transferable.

(e) Each department initially submits a month by month forecast of expenditure from the total appropriation. After Treasury examination, this becomes the monthly and progressive 'norm' for the year. A departure of actual expenditure from this norm during the year brings immediate Treasury reaction. It requires departmental explanation and, if necessary, the submission of an amended expenditure program showing that the department will conform to its total appropriation by the end of the year.

(f) Persistent follow-up action is undertaken by Treasury to ensure that departments respond to Treasury directives.

(g) There is constant surveillance by Treasury of revenue trends, and a quick reaction to variations which could adversely (or in some cases favourably) affect the budget result.

In practice, once the Budget has been formulated, approved by Cabinet and debated and passed by Parliament, the departments are advised of the guidelines that are to apply for the financial year concerned. They are also provided with details of the format under which monthly budget reports are to be made to the Treasury. On the basis of these departmental reports and Treasury's assessment of them and of the overall revenue position, a consolidated review of the budget position is prepared monthly. This report forms the basis of a report to the Treasurer and, if necessary, to State Cabinet.

The returns from departments are quite detailed in nature and are designed not only to provide information to Treasury but also to make departmental officers sit down and think about their budget performance. Very broadly, they are intended to provide: (a) statements of actual expenditure to date by comparison with programmed expenditure to date under the numerous line item headings in the printed Estimates; (b) explanations of significant variations either way in this regard; (c) estimates of expenditure for the remainder of the financial year; and (d) explanations of any variations from the budget provisions in the estimated expenditure for the full year. These figures take account of the cost of salary and wage increases which, as mentioned previously, are allowable and met from a bulk provision in the Treasury. Such increases must be properly documented by the departments.

In spite of Treasury advice that budget allocations are not to be exceeded, departments do tend to use these reports as a means of advising the Treasury of anticipated excess expenditures. While an excess in one area is acceptable if it can be funded by savings in another (not 'special') area, indications of an overall excess bring an immediate response from the Treasury.

The budget reports from departments are not accepted by Treasury until the officers of the Budget Section are completely satisfied as to their authenticity and the accuracy of the figures. There are numerous occasions where departments indicate that they will live within their budgets but progressive performance in Treasury's view indicates otherwise. Questions raised by Treasury officers in such cases frequently lead to the department reassessing its position and finding that it needs to curb expenditures to accord with budget policy. Only as a last resort, after all avenues for correction have been exhausted and a department has established beyond all doubt that it cannot live within its allocation, is Treasury prepared to support an application by the department to Cabinet for the allocation of further funds.

General

The basic philosophy behind the formulation and control of the Budget is to provide departments with adequate and equitable shares of the funds that are available in a manner which ensures that they have a full understanding of the purposes for which funds have been provided and of the constraints under which they are to be used.

Departmental administrators are aware that they are required to give an account of their stewardship not only by way of normal audit and accounting procedures but also through regular reports on budget performance which are subjected to close scrutiny by the Treasury.

The benefits of sustaining the Treasury role of a strict but fair disciplinarian in budget matters have been seen in the successful budget results that have been a feature in Queensland for a number of years.

FINANCIAL ADMINISTRATION AND AUDIT ACT 1977

Queensland's new Financial Administration and Audit Act received Royal Assent on 14 April 1977 and replaces a law passed by Parliament in 1874. Some provisions of the Act came into operation on 14 April 1977 for the purpose of enabling certain preliminary measures to be taken before the machinery of the Act comes fully into operation. Those measures were the making of Regulations, the preparation of Treasurer's Instructions and departmental accounting manuals, and examinations of the nature and extent of internal audit organisations required to be established in departments. It is expected that the machinery of the Act will be proclaimed to come into operation on 1 July 1978.[1]

The Act was developed following a searching review of the laws and practices relating to financial administration and audit, especially in countries and States with parliamentary, executive and administrative systems based on the Westminster pattern. The review encompassed laws and practices in the United Kingdom, Canada, the United States of America, New Zealand, the Commonwealth of Australia and each of the States of the Commonwealth. The financial systems employed in most of these countries and States are implants of the British system; but, since implantation, each system has grown independently and has been nourished by its own political climate. It is believed that the principles incorporated in the Act will provide practices and procedures adequate for the needs of Queensland. Moreover, the Act has been drafted in such a way that it will be flexible and capable of meeting changing needs.

The implementation of the measure will provide a challenge to those engaged in public administration in Queensland. It will

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[1] Editor's note: The Act was proclaimed on 1 July 1978.

require basic rethinking and quite new approaches to many aspects of financial administration.

The Act is based on five basic principles:

(a) the administration is accountable to Parliament;

(b) Parliament should be assured by a fully independent Auditor-General that the administration adequately accounts for its stewardship;

(c) cash accounting rather than accrual accounting is suitable for the purposes of the public accounts;

(d) flexibility is necessary in prescribing the detailed financial control and accounting requirements; and

(e) there is a need for strong internal control (including internal audit) to aid and guide top administration and to ensure that value for money is obtained.

The principles of parliamentary control and accountability of the administration to Parliament are fundamental in the Westminster system.

Accountable Officer

Adoption of the term 'accountable officer' and the appointment (with certain exceptions) of the permanent head to be the accountable officer of his department concentrates financial and administrative responsibility in one and the same person. It is clear that permanent heads are the persons best fitted to undertake the duties to be imposed on accountable officers because of their senior and responsible positions, their knowledge of the business of their respective departments and the continuity in their tenure of office. They are responsible for the general conduct and for the discipline of their departments; their functions are logically incomplete if they are not held responsible for the due discharge of financial as well as other business transacted in the departments.

The functions and duties of an accountable officer are set out in the Act. Among other things, he has to manage appropriations for the services of his department efficiently and economically, avoiding waste and extravagance; he must cause proper accounts to be kept; he has to ensure that proper procedures are instituted to control expenditure and to ensure that expenditure is for lawful purposes; as far as possible, having regard to the limits of his powers and control, he is required to see that reasonable value is obtained for moneys expended; and he has to ensure that procedures in his department and the internal check afford adequate safeguards as to payments made, the assessment and collection of public moneys, the proper care of public and other property and the prevention of fraud or mistakes.

Each accountable officer is required to account to Parliament for the financial administration of the appropriations for the services under the control of his department. He is required to submit annual departmental appropriation accounts giving an accounting to Parliament of his stewardship. These accounts will be certified by the Auditor-General, who is responsible for seeing that the reports have been properly drawn up so as to present a true and fair view - that they represent complete financial reporting. Perhaps it should be explained that most of these provisions are not new in governmental financial administration, for they are based on well established practices and procedures in the United Kingdom.

It should be emphasised that technical knowledge of accounts is not necessary to enable the accountable officer to discharge the responsibility which his signature to the accounts implies. An officer entrusted with this duty occupies sufficient legal and other standing to enable him not only to exercise supervision and control over the persons responsible for executing the detailed business of accounts and bookkeeping, but also to influence the working of his department in all respects relating to finance.

To help the accountable officer to properly undertake the heavy duties and responsibilities placed upon him by the Act, he will, in most cases, require an internal audit organisation in his department which regularly monitors performance and reports to him.

The Auditor-General's Audit

The Act makes no attempt to lay down audit procedures and techniques, but gives the Auditor-General power to make his audit in such manner as he thinks fit, having regard to the character and effectiveness of the internal check and internal audit and to recognised professional standards and practices.

Very careful consideration was given to what should be the functions of the Auditor-General. The widest scope of duties would include three patterns of audit:

(a) financial and compliance auditing;

(b) operational auditing; and

(c) program auditing.

It is clear that the Act requires a financial and compliance audit, which is basically the type of audit already carried out by the Auditor-General.

In the matter of operational auditing, there is a world-wide trend for closer attention to be directed to the need for fuller evaluation of the administration of the functions of government. This evaluation is especially directed towards ensuring economy and efficiency, the providing for the effective management of resources and obtaining the best value for money expended. Parliament obviously needs assurance that management is, in fact, continually and effectively monitoring performance in all these areas. The only real issue seems to be to decide who is best fitted to carry out such evaluation and to report to Parliament thereon.

The Act requires that a proper internal audit organisation should be set up in each major department to monitor regularly the departmental performance in all these fields. Insofar as the issues involved are predominantly matters of finance, the Act recognises that the Auditor-General is a suitable authority to examine the work of departments in this field and to report to Parliament on its effectiveness. However, there still remain issues which, whilst they have significant financial implications, may not be predominantly matters of finance (e.g. management of space and personnel). In this case, the Public Service Board has adequate powers under the Public Service Act and has the vehicle of its annual report to Parliament in which to draw parliamentary attention to matters to which attention should be drawn.

One can summarise the position in this way. The accountable officer, aided by his internal audit organisation, will have the prime responsibility for operational efficiency. His work will be subject to operational audit by the Auditor-General in matters primarily of financial concern, and by the Public Service Board in other matters not primarily of financial concern.

In the matter of program auditing, there is a wide division of opinion in various countries and States as to the advisability of the Auditor-General having responsibility in this field.

The range of program audits conducted in the United States is extremely varied and elusive of definition. It is obvious that such audits cannot revolve around the particular skill of accountancy, but tend to involve the use of a variety of professional skills. Multi-disciplinary audit teams may, in addition to accountants, comprise lawyers, actuaries, engineers, medical doctors, psychologists, statisticians, computer specialists, economists, social scientists, persons with academic and practical experience in business and public administration and so on. Where the training of the professional staff of the General Accounting Office is inadequate, outside experts are employed temporarily to meet the particular need.

Sufficient to say that, in the drafting of the Queensland Act, it was concluded that the function of program auditing was not properly the function of the Auditor-General under the State's constitutional framework. At this stage, it would appear preferable for departments to concentrate upon developing skills in the new field of internal evaluation and control of expenditure, with the Auditor-General taking an active role in operational auditing in those aspects where direct financial considerations are involved. At a later stage, it may well prove desirable for Parliament to give special consideration to the best means of ensuring that the work of program evaluation can be effectively undertaken. However, at this stage it might be better that we do not bite off more than can be comfortably chewed.

Perhaps one can draw the whole matter together by saying that the Act confers on the Auditor-General wide powers to report to Parliament on financial matters generally. If, as an example, departments fail to install proper measures to evaluate systems to prevent waste and extravagance, fail to install proper measures to evaluate and control expenditure, or fail to ensure 'value for money', these matters would be a cause for appropriate comment by the Auditor-General in his report to Parliament.

Internal Audit

A heavy responsibility is placed on accountable officers by the Act. It is clear that, in major departments, the accountable officer cannot be expected to attend personally to the details of all these matters and must be assisted by an independent appraisal activity, i.e. an internal audit organisation, within his department. This is essential if he is to monitor effectively the work of his officers in the various fields of departmental activity.

The responsibility thrown upon an accountable officer without the assistance of such an organisation might well be intolerable. Recognition of this position is fundamental in any large organisation. Indeed statutory recognition of the need for a complete system of internal audit has been drawn in the Act. It is not sufficient that internal audit should be directed largely towards routine checking of individual transactions to verify their correctness and propriety. Indeed, the meticulous checking of every item and the pursuit of total accuracy can be expensive and needs itself to be examined for cost effectiveness.

The role of the internal auditor in both the public and private sectors has changed in recent years. His main task now is to provide for management a continuous review of systems and controls to ensure that they are appropriate in changing circumstances and that they are adequate to ensure the efficient conduct of the business. This emphasis on the study and appraisal of systems - although a degree of routine checking is still necessary to demonstrate that the systems are operating as intended - means that fewer staff may be required; but they need to be of high calibre and well trained.

It is envisaged that a comprehensive internal audit organisation should be fully developed in major departments to cover work in this field. It is appreciated that financial restraints and the need to build up a body of expert staff will require progressive implementation of the proposal. Hence the Act requires each accountable officer to submit to the Public Service Board his plans for the establishment and maintenance of an adequate internal audit organisation in his department. The Board will, from time to time, take the necessary action to establish and maintain that organisation. It is expected that this will be a gradual process.

Not the least important of the functions one could hope to see implemented by internal audit organisations in departments would be the development of systems to prevent waste and extravagance, properly to evaluate potential expenditure and to measure value for money expended. This will require the development of new approaches and techniques. The provision of suitable yardsticks to measure performance in governmental activity is no simple matter and will be a challenge to public administrators generally.

Relation of Internal and External Audit

Responsibility for financial control and accounting in a department is the responsibility of the accountable officer; whereas it is the basic responsibility of the Auditor-General to ascertain whether or not the functions and duties of the accountable officer are adequately and properly performed or discharged with a view to expressing an opinion thereon.

The internal auditor is an officer of the department concerned and reports directly to top management in that department. Nevertheless there must be close liaison between the external and internal auditor. The Auditor-General has no legal responsibility for the internal auditor and his work. Nevertheless the Auditor-General is entitled by section 57 of the Act to rely on the work of the internal auditor provided the Auditor-General is satisfied as to the adequacy of the internal audit program and the efficiency with which it has been carried out. The question of adequacy of the internal audit program is a matter of professional judgment by the Auditor-General; the question of efficacy of the work of the internal auditor can only be judged by the external auditor testing some of the internal audit work.

The Treasurer and Administration of the Act

Administration of the financial provisions of the *Financial Administration and Audit Act* 1977 is the responsibility of the Treasurer who, under the Act, has specific powers, authorities, functions and duties conferred or imposed upon him with respect to the public accounts and the departmental accounts.

The Treasurer is charged with the full duty of regulating the financial administration of the public service. In this regard his activities include:

(a) preparation, issue and regular review of Treasurer's Instructions to accountable officers regarding the principles, practices and procedures involved in government accounting and financial practices and their application to departments;

(b) provision of broad guidelines to accountable officers in the preparation and regular review of departmental accounting manuals setting out principles, practices and precedents on which action in each department is based, and containing information on matters connected with the financial operation of each department;

(c) direction of the preparation of departmental appropriation accounts and other annual financial statements of departments relating to the receipts and expenditure of public moneys or other moneys and to the operations of any manufacturing, trading, commercial, or like activities conducted by departments;

(d) provision of assistance and advice to accountable officers upon all technical points connected with bookkeeping and accounts;

(e) ensuring that, so far as is practicable, reasonable uniformity of accounts is established and preserved throughout the departments and that the general principles governing the vote accounting system are maintained; and

(f) determining general questions of financial propriety.

The Under Treasurer as permanent head of the Treasury Department has accountable officer responsibility for that department. The Treasurer also has responsibility for general oversight and broad direction with respect to the departmental accounts. However, whilst the Treasurer, the Under Treasurer and other officers of the

Treasury must necessarily work in concert with the accountable officers and other officers of departments, they do not interfere in any way with the responsibility of accountable officers for the financial administration of their departments or the accuracy of the departmental accounts.

RECENT DEVELOPMENTS IN BUDGETING IN SOUTH AUSTRALIA

R.D. Barnes

Traditional Budget Processes

In a discussion of recent developments in the budget area in South Australia, it is desirable to interpret the word 'recent' fairly broadly and to make some brief comment going back about seven years. The reason for this is that seven years ago there were only three main processes bearing on the budget. They were:

(a) The receipt by Treasury in early July of information from departments about their actual receipts and payments on Revenue Account in the year just ended, and their estimates of receipts and bids for allocations of funds for the year just commenced, for the purposes of Cabinet consideration of the Consolidated Revenue Budget.

(b) The receipt by Treasury in April of information from departments about their capital requirements in the year ahead, so that a submission could be made to the Co-ordinator-General of Works and the Chairman, Australian Loan Council, followed by updated information early in July for the purposes of Cabinet consideration of the Loan Budget for the year just commenced.

(c) Examination by a Parliamentary Committee - the Parliamentary Standing Committee on Public Works - of major proposed capital works and a recommendation as to whether or not those works were desirable and should proceed.

In 1971, work done in calculating the aggregate commitment which would flow from all of the public works recommended by the Parliamentary Committee indicated that problems could be in prospect on the Loan (or Capital) Account and that the aggregate of recommended works could absorb all of the funds likely to be available for some years ahead. Treasury then took the first steps in developing and bringing into regular use a formal system of forward planning on Loan Account. This system has been refined over the years and has been extended to Revenue Account, though with limited success to date in that area.

Developments in Systems and Procedures

In dealing with the main developments in systems and procedures in which Treasury has had a part in the last seven years, it may be useful to talk about them in three broad groups:

(a) Those concerned primarily with improving forecasting with the objective of facilitating planning and getting better use of resources. These involve systems in which Treasury has taken the initiative in respect of both the loan and revenue budgets.

(b) Broader reviews of government activity bearing on the budget process. These have been introduced in more recent times and involve the participation of departments other than Treasury - those of the Public Service Board, the Auditor-General and the Premier, in particular the Board.

(c) Those dealing with the review of appropriation and accounting processes, of budget papers and presentation of material to Parliament and of financial legislation.

The Loan Guidelines Document

As to the first group, the Loan Guidelines document is clearly Treasury's most successful effort to date. This is simply the local name given to the papers which bring together the material relevant in forecasting capital programs. It is still being refined after seven years in operation.

Essentially, the Loan Guidelines procedure is a rolling program which each year sets out Treasury's estimates of the capital funds likely to be available to the Government in future years (either through loan programs approved by Loan Council or from recoveries of moneys spent previously), which has regard to the probable movements on Revenue Account (that is to say whether Revenue Account may support Loan Account or require support from it), which assesses and comments on the departmental requirements as advised, and which sets out proposed allocations for departments within the constraints of the overall funds likely to be available.

The sequence in time of the several steps is normally as follows:

In November, Treasury asks departments for forecasts of their requirements for up to five years ahead (in the case of the Electricity Trust for up to ten years ahead).

In December and January, Treasury confers with departments, as necessary, to get a fuller understanding of their requirements, and puts together a suggested overall program for three years beyond the current year. Because of major uncertainties, it is not practicable to use, in a formal way information for four and five years ahead.

At the end of January or thereabouts, Cabinet considers the Loan Guidelines document and, after making such variations as it thinks desirable, approves it for purposes of future planning.

In April, a preliminary program for the year ahead is prepared for the Co-ordinator-General of Works and for the Australian Loan Council, the Loan Guidelines document being the basis for that preliminary program.

In July, following the Premiers' Conference and Loan Council meeting when the funds available for the new year are known, Cabinet approves a firm loan works program to be submitted to Parliament. This also is based on the Loan Guidelines document.

In August the Loan Estimates and the Treasurer's explanation thereof (the Loan Budget Speech) are introduced to Parliament.

In November the procedure starts all over again.

Accordingly, there is a rolling program subject to continual review and updating, each step picking up and building onthe previous step.

Treasury believes that this process, in making clearerthe options, has been useful to Cabinet in its determination of relative priorities for expenditure. From the comments of departmental officers, it seems clear that the process has been very useful to departments in giving them a basis for their forward planning. Further, the distribution of the actual document to heads of departments has been useful to them because, as well as knowingthe allocations proposed for their own departments, theyhavethe opportunity to read the Treasury comments and assumptions and tosee what is proposed for other departments and why. This helpsthem to see the whole picture and to have a better understanding of where their specific areas of responsibility fit into that picture.

An incidental advantage which has flowed from the Loan Guidelines document is the development of a process of carryingforward excesses or savings in expenditure from one year to the next and so reducing the 'end of year' syndrome. In giving information forthe Loan Guidelines document, departments have the opportunity to point out the effect of changed timing in supply of equipment, variations in progress of major contracts, etc. and to make a case for those effects to be taken into account in the following year. This reduces any tendency to look for ways to spend against unused appropriations.

One problem which arises from the process is that some people expect more from it than it is capable of delivering. Occasionally Treasury finds that somebody has taken the document, not as a best estimate for planning purposes in the light of current knowledge, but as virtually a promise of allocations for up to three years ahead. Overcoming this problem is, of course, one of communication.

Forward Estimates on Revenue Account

Three years ago Treasury took the first steps in developing a system of forward estimating on Revenue Account. In this we were guided by our experience in forward planning on Loan Account.

The first step was to institute a series of quarterly reports on the activities of the current year. Then, in April, a report was sought which commented on the result for the first nine months of the year to the end of March, which re-estimated the results of the current year, and which gave an indication for the year ahead of both the department's estimates for revenue receipts and its first bid for allocations of recurrent funds. Two years ago, Treasury sought similar information in April and, in addition, attempted to get information for a further year ahead. We found that the latter was not very reliable. One year ago we repeated the exercise and, in April, sought information for the year ahead and one further year beyond that. Had our earlier hopes been realised, we would have been seeking information for three years ahead. While the exercise was more successful than in the previous year, it was still deficient in many respects and in need of further refinement. This year we have asked for the normal quarterly reports, for the re-estimate of results for the current year, for first estimates of receipts and bids for allocations for recurrent purposes for 1978-79, for an indication of requirements in 1979-80 and for such information as departments feel able to contribute for 1980-81.

With three years' experience now of forward estimating for the Revenue Budget, we have not made the progress we had hoped for when we started. This raises the question of why it is more difficult to plan ahead on Revenue Account than it is on Loan Account. One reason could be that the available funds for capital purposes can be estimated with more confidence. On Revenue Account, a State Government can influence the pool of funds by its own efforts in taxation, charges for services, etc. Perhaps departments, being aware of this and of the pressures on them to provide services, find it more difficult to constrain their lists of new or expanded services to be financed. Perhaps the main difficulty lies in the fact that the variety of activities to be financed through Revenue Account is greater. Our continued work in this area may throw some light on the reasons as well as improving the estimating.

Broader Reviews of Government Activity and Organisation

As to the second group of activities - those which are broader than budgetary processes but bear on them - the major developments stem from the report into the South Australian Public Service by the Corbett Committee. Three of the important results of the Corbett Report have been:

(a) The amalgamation of departments whereby many smaller departments have been absorbed into larger departments, with an associated ability in most departments to provide improved standards of financial administration.

(b) The adoption by Government of a philosophy of 'let the managers manage', with increased delegations to heads of departments from the Public Service Board, from Treasury, etc.

(c) The setting up of a Planning and Priorities Advisory Committee (PAPAC) somewhat on the lines of the Cabinet Priorities and Planning Committee which has operated in Canada for some years.

When first established, PAPAC comprised a Minister nominated by the Premier and the permanent heads of three departments - Premier's, Public Service Board and Treasury. It has since been extended to include the permanent heads of the Department of Economic Development and the Department of Housing and Urban and Regional Affairs. The Premier himself has assumed the Chairmanship. While the Committee put a great deal of effort in its early days into the implementation of the Corbett Report, it has now changed its emphasis to the review of government activities in an attempt to achieve more effective use of resources. In particular, in times of increasing financial constraints, it is concerned to see whether new proposals can be met by transfer of resources from existing areas of activity rather than by allocations of new funds.

In this review process, PAPAC is served by a small group of officers consisting of the Director-General of the Premier's Department, the Chairman of the Public Service Board, the Under Treasurer and the Auditor-General. The prime responsibility of this group is to co-operate with departments in reviews of their activities, the emphasis being on departments reviewing their own activities as far as possible and getting assistance from officers of the central departments as appropriate. Cabinet has been careful to make it quite clear that this group is not to assume a policeman role but is to co-operate with departments. Care is taken to see that the Auditor-General's special statutory responsibilities to Parliament are not compromised by his membership of the review group.

The activities of the review group over the past twelve months have given some promising results, but it is still too early to estimate, with confidence, its likely future effect. There is the potential for significant improvement in the use of resources.

Review of Information Processes

As to the third group of activities - those concerned with changes in the presentation of published material and associated changes in legislation - Treasury has done quite a lot of work in the preliminary review of Treasury accounts and statements and of budget documents. In this, we have drawn on the work of the O.E.C.D., of the United Nations, of the Commonwealth and of other States. The two most important elements of this work are that the published material will almost certainly give more emphasis in future to functions and programs than in the past, and that care will be taken to see that the new presentation is compatible with departmental financial management systems. This means that the accounting and appropriation systems need sufficient flexibility to ensure that very small items of information will be available to a department as necessary (for example, the Education Department may wish to know about expenditures in one small but relevant area of a school); and that small items can be combined in appropriate aggregates in order that Parliament may be informed in terms of functions and programs.

As to the associated legislation, Treasury has not got very far to date. We have looked closely at what some other States have done; in particular, the legislation in Victoria which has brought the record of recurrent and capital activities into the one Consolidated Account, and Queensland's work more recently in completely rewriting the Audit Act together with appropriate regulations and Treasurer's instructions. We expect to be guided by what those States have done.

Conclusion

May I summarise and conclude with a few general points.

This paper has referred to the work being done on Loan Account on the one hand and on Revenue Account on the other. This could give a wrong impression that the two accounts are considered separately. In fact, for some years now, the Government has looked at the overall accounts and its decisions about either Revenue or

Loan Account have been influenced very much by its decisions on the other Account. This comes out publicly in such places as the Treasurer's Budget Speech and in the monthly statement he makes about the progress of finances during the financial year. In these and in other statements, the Treasurer's references are normally to the overall situation of which Revenue Account and Loan Account are simply two parts.

Most of the comment has been about procedures and, while this paper has not covered such things as planning-programming-budgeting and zero based budgeting, it could well have touched on them because elements of each are included, in an informal way, in our thinking and in our procedures. But it is important, at this stage, to say that Treasury believes attitudes to be more important than procedures. The approach to which we are giving most emphasis is one of trying to get an understanding on the part of all departments of the fact that resources are limited and an understanding that if, by the review processes or otherwise, departments are able to use resources more effectively all will benefit.

The main difficulty in the way of what the central departments (Premier's, Public Service Board, Treasury, Auditor-General) are trying to do stems from the fact that we depend on information from departments and that means calling on their resources. We seem to be asking for more and more information. We must remember that the staff resources of departments are limited and that they have difficulties at times in providing the information we seek as well as carrying out their operational roles. In this situation, it is essential for us to co-operate with and not confront people, to give them an understanding of what we are trying to do and, in particular, to demonstrate to them that it is not just paper with which we are dealing. The paper is merely a means of moving information from the departments to Cabinet so that decisions may be made in the light of the best information available.

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[illegible]

[illegible] Commonwealth [illegible] Department of Finance [illegible] regulations [illegible] to be guided by what these [illegible] have done.

Conclusion

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CONSOLIDATED FINANCIAL STATEMENTS FOR PUBLIC AUTHORITIES IN AUSTRALIA

W.R.C. Jay

Australian parliaments, operating under the Westminster system, are asked each year to authorise the financial transactions embodied in the Consolidated Revenue Fund and the Loan Fund (or, in the case of Victoria, the Consolidated Fund which has absorbed both).

Because of the proliferation of subsidiary funds over the years, some covering very important fields of activity on which large sums of money are expended, the two major funds have long been inadequate as a means of presenting the financial transactions of government. Consolidated statements of all the financial transactions of government have been produced by the Australian Bureau of Statistics since 1945, originally for use in the national accounts but now also for the purpose of summarising the financial transactions of each level of government.

The original consolidation appeared in *National Income and Expenditure 1944-45*, published with the Federal Budget for 1945-46. This covered 'Commonwealth, State and local governments (including extra-budgetary, trust and loan fund transactions) and all semi-governmental authorities other than banks and housing authorities'.

This overall consolidation was sufficient for national accounting purposes, but a natural interest in the different levels of government led to the publication of separate consolidated statements for Federal authorities on the one hand and State, local and semi-governmental authorities combined on the other in *National Income and Expenditure 1952-53*.

No further subdivision of levels of government has been published in the national accounts, but in December 1965 the Commonwealth Treasury published data consolidating the receipts and outlay of all State authorities in Australia and the receipts and outlay of all local authorities. These tables have been continued and are now published annually by the Australian Bureau of Statistics in a document entitled *Public Authority Finance: Public Authority Estimates* (Catalogue No. 5501.0). We now have published data for the three levels of government, Federal, State and local, stretching back to 1958-59.

Consolidated statements of the financial transactions of State authorities State by State and of local authorities State by State were first published by the Australian Bureau of Statistics in

September 1972 in a document entitled *Public Authority Finance: State and Local Authorities* (Catalogue No. 5504.0). This document provides annual data back to 1962-63.

Consideration of whether any further subdivisions of the consolidated statements should be made throws up rival claimants for the time and effort required of the Bureau of Statistics. In the first place, we have the concept of public corporations, semi-independent authorities set up by Federal and State governments whose transactions it would be interesting to identify separately. Secondly, there is a distinction between budget and non-budget authorities. Thirdly, we have the distinction made in the national accounts between general government and public enterprises. Public corporations will be discussed first.

Public Corporations

Public corporations are defined by the Australian Bureau of Statistics as 'independent statutory authorities and other bodies corporate owned and/or controlled by government' (*Public Authority Finance: State and Local Authorities*, 1975-76, Catalogue No. 5504.0).

Both Federal and State authorities create public corporations. Examples are the Australian Telecommunications Commission, State Electricity Commissions and the Metropolitan Water, Sewerage and Drainage Board in Sydney. Most of them are public enterprises providing a single service. There would be value in having a consolidated statement of the financial transactions of public corporations created by the Federal Government and by each State in order to gauge the extent to which each has delegated authority in this way.

In New South Wales, groups of local authorities can set up a County Council to provide a given service, such as the supply of electricity or water, throughout their area. There are many of these County Councils and their transactions are always grouped with those of multi-purpose local authorities in Australian statistics. They could be regarded as the public corporations of local authorities and their transactions recorded in a sub-sector of their own.

Public corporations created by State governments to provide services in the metropolitan area or some other regional area are traditionally regarded as State authorities in Australian statistics. It is arguable that such authorities should also be grouped with local authorities and only those with State-wide functions grouped with State authorities.

The major problem about providing separate data for public corporations lies in determining whether or not a given organisation has a sufficient degree of independence of the parent government to be classed as a public corporation.

In some cases, an organisation has its own governing body and staff, determines its own charges if an enterprise, raises loans direct from the public to finance capital expenditure, and keeps its own accounts. Although created by State governments, with managing bodies appointed by the State governments, these organisations, of which the electricity authority in each State would be an example, normally enjoy a great deal of autonomy. Such organisations can be identified as public corporations with certainty.

In other cases, however, organisations whose accounts are kept separate from those of the parent government have little real independence and would be startled to find themselves grouped with public corporations. Yet others, whose transactions are recorded in a subsidiary fund which forms part of the Treasurer's Accounts, have a great deal of autonomy and rationally should be classed as public corporations.

These problems of interpretation make difficulties for those who have the task of classifying State organisations as either part of the State government or State public corporations. It is unlikely that the members of a classifying committee would agree on a classification of public corporations within a State and even less likely that classifiers working in different States would differentiate between the State government and State public corporations in a way that is mutually consistent.

These difficulties may perhaps be discounted, but even if perfection were achieved in matters of consistency great difficulties would remain in the area of comparability. Practices differ among the States as to whether a particular function is carried out by the State government itself or by a State public corporation. A given State may also arrange for a particular organisation to switch from being a State government agency to being a State public corporation or *vice versa* and this upsets comparability over time.

It could be argued that it is useful and interesting to pinpoint changes of this nature within a State over a period or to detect differences in practice among the States at any given time. It is doubtful, however, whether a consolidated statement of financial transactions can disclose these differences. It is more likely to disguise them and lead to misinterpretations of the data.

Budget and Non-Budget Authorities

There is already in existence, however, a subdivision of Federal authorities and State authorities into 'budget' and 'non-budget' authorities. Budget authorities are those whose transactions are recorded in the Treasurer's Accounts while non-budget authorities are those whose accounts are separate from those of the Treasurer. It is tempting to equate non-budget authorities with public corporations and certainly there is a great deal of overlap between them. However, non-budget authorities are distinguished by means of an accounting criterion - whether or not their transactions are included in the Treasurer's Accounts - while the identification of public corporations depends on a judgment as to the degree of independence they enjoy from their parent government.

The budget and non-budget sub-sectors were originated by the Commonwealth Treasury in 1965 and those for Federal authorities still appear in a Budget Paper entitled *National Accounting Estimates of Receipts and Outlays of Commonwealth Government Authorities*. Data on State authorities appear in *Public Authority Finance: Public Authority Estimates* (Australian Bureau of Statistics, Canberra, annual, Catalogue No. 5501.0).

The original reason for the preparation of these estimates was to obtain data which facilitated the determination of fiscal policy and assisted in the explanation of fiscal policy. A forecast of financial transactions for the forthcoming year was an essential part of the process. Such a forecast was most readily obtainable in respect of the Federal Budget sub-sector and, when the data were first presented, in August 1964, they were confined to that sub-sector.

In the following year, data were provided for the Federal non-budget sector together with a consolidated statement for all Federal authorities. This seems to have been done mainly for the sake of completeness - the transactions in the budget sub-sector were always those which were used in explaining fiscal policy.

Data on the budget sub-sector of each State are also more readily obtainable than data for the non-budget sector. Data on the budget sub-sector were first published by the Commonwealth Treasury in November 1964 and included a forecast of transactions for 1964-65. In the following year the transactions of the non-budget sub-sector of the States were added, including a forecast for the year ahead. A consolidated statement for all State authorities was included. This has been the pattern for annual publication since then.

The task of collecting data for all State authorities is a very big one and publication of the data usually occurs six months or more after the Federal Budget has been presented. These data play no part in the formulation or explanation of the Federal budget.

Non-budget authorities have a considerable overlap with public corporations and also with public enterprises, but cannot be equated with either. In a sense they represent a stage in compilation of data on public authorities whereby all transactions included in the Treasurer's Accounts are classified first and the transactions of all other Federal or State agencies in subsequent steps. Non-budget authorities do not represent either public corporations or public enterprises.

General Government and Public Enterprises

The transactions of 'general government' relate to the provision of services free of charge or at charges far below cost, the provision of the associated infrastructure and the payment of cash benefits, subsidies and other grants of money. The finance for these expenditures comes mainly from taxation and, if necessary, borrowing.

The transactions of 'public enterprises', on the other hand, relate to the provision of goods and services on the basis of charges related to the cost of providing them. The associated capital expenditure is financed from any surplus achieved by the enterprise (including depreciation allowances) and borrowed funds.

The distinction between general government and public enterprises is a fundamental one in national accounting. Decisions on the scale of activity are made through a political process in the case of general government, whereas the decisions made by public enterprises are subject to market considerations.

In this paper it is argued that the usefulness of consolidated data produced by the Australian Bureau of Statistics on public authority transactions would be greatly enhanced by a subdivision on these lines. It is relevant to add that there is little room for disagreement among compilers as to what constitutes a public enterprise. Moreover, public enterprises are not subject to capricious changes in comparability among the States and over time arising out of the degree of control exercised by Parliament.

Table 1 provides a summary of the data available in the Australian National Accounts concerning the financial transactions of general government and those of public trading enterprises. The amounts given are those for the year 1975-76.

No data are provided for public financial enterprises because, in the Australian National Accounts, these enterprises are considered to be much more significant as financial enterprises than as public authorities. Their transactions are therefore consolidated with those of private financial enterprises in a financial enterprises sub-sector. The income and outlay of public financial enterprises are summarised in Table 30 of the source document, but these data have not been included in Table 1. Some data on capital formation and net borrowing and lending of public financial enterprises are included in Table 14 of the source document, but again have not been brought into Table 1 of this paper. The only transactions included are cash transfers of profits to general government and net advances from general government to public financial enterprises.

Data on public trading (or non-financial) enterprises have been brought into Table 1 to the extent that they are available in the source document. In the Australian National Accounts, the transactions of public trading enterprises are consolidated with those of private trading enterprises, in line with the recommendations of the United Nations document *A System of National Accounts* (New York:1968). The data for capital transactions of public trading enterprises have also been consolidated with those of general government in the Australian National Accounts (Table 43 of the source document) and this enables separate data on capital formation of public trading enterprises to be deduced to the extent shown in Table 1 of this paper.

Consolidated Financial Statistics

The most detailed statements of the consolidated transactions of public authorities so far available have been produced by the Australian Bureau of Statistics. They are *Public Authority Finance: Federal Authorities* (annual, Catalogue No. 5502.0) and *Public Authority Finance: State and Local Authorities* (annual, Catalogue No. 5504.0).

In these documents the Bureau has opted for consolidated statements of the transactions of all Federal authorities, all State authorities in each State and all local authorities in each State. No attempt is made to distinguish budget authorities from non-budget authorities, public corporations from parent governments or public enterprises from general government. Financial enterprises are brought in only to the extent described above for the national accounts.

The contention advanced in this paper is that the next major advance in the provision of data for the analysis of public authorities in Australia would be to distinguish public trading enterprises from general government in the documents just discussed. This, of course, involves a co-operative effort between State

Treasuries and statisticians. The major obstacle to such work must now be discussed.

Deficiencies in the Data Available for Public Trading Enterprises

Table 1 illustrates that it is not possible to construct fully detailed Income and Outlay Accounts or Financing Accounts for public trading enterprises from the data presently published in the Australian National Accounts.

The deficiencies arise from the fact that the transactions of some public trading enterprises are recorded on a cash basis in the Treasurer's Accounts. In such cases, the gross operating surplus of the enterprise (revenue less operating expenses) can usually be identified on a cash basis and is identical with the net operating surplus because there are no provisions for depreciation in a cash system.

The net operating surplus of an enterprise, supplemented by interest and dividends received, is used to meet interest payments and transfers to general government, any balance remaining being savings available to finance capital formation.

If, however, the accounts of the enterprise are part of the Treasurer's cash accounts, its net operating surplus is often treated simply as a contribution towards the total interest bill of the government concerned and interest paid in respect of the enterprise is not identified.

Similarly, loans raised for the enterprise may be submerged in the total loan raisings of the government concerned. The accounts of the railways operated by the various States are incomplete in some or all of these respects.

In the Australian National Accounts, the transactions of all public trading enterprises, whether recorded on a cash or accrual basis, are consolidated and included in the Corporate Trading Enterprises sector. However, the net operating surplus is not dissected but is simply transferred in full to the General Government sector.

In the General Government sector it is again not dissected but represents simply a contribution to the net interest payable by the government and to its savings.

It would add to the information available if the transfer to the General Government sector were restricted to the net operating surplus of those public trading enterprises whose transactions are

TABLE 1

FINANCIAL TRANSACTIONS OF PUBLIC AUTHORITIES 1975-76

	General govt. $m	Public trading enter-prises $m	Consol-idation $m
INCOME AND OUTLAY ACCOUNT			
Income			
Taxation (details available)	21,339		21,339
Interest, dividends, land rent and royalties	585		585
Net operating surplus of public trading enterprises		856	856
Income transferred from public trading enterprises	856	-856	
Income transferred from public financial enterprises	17		17
Total	22,797		22,797
Outlay			
Final consumption goods and services (details available)	11,316		11,316
Interest paid	1,462		1,462
Transfers to persons (details available)	6,449		6,449
Other transfers of income (details available)	961		961
Surplus of income over outlay	2,609		2,609
Total	22,797		22,797
CAPITAL FORMATION ACCOUNT			
Funds Available			
Surplus of income over outlay	2,609		2,609
Depreciation allowances		766	766
Net increase in indebtedness	1,027	2,378	3,405
Total	3,636	3,144	6,780

Table 1 (contd.)

	General govt.	Public trading enter-prises	Consol-idation
	$m	$m	$m
Capital Formation			
Gross expenditure on new fixed assets	3,478	3,096	6,574
Net purchases of existing assets	157	85	242
Net additions to stocks	1	-37	-36
Total	3,636	3,144	6,780
FINANCING ACCOUNT			
Net Borrowing			
Treasury bills			850
Treasury notes			-1,620
Other Commonwealth Government securities - Australia			3,777
- Overseas			126
Other general government securities			116
Local authority and public corporation securities			810
Other finance available			392
Total			4,451
Net Lending			
Advances to overseas			182
Advances to the private sector			295
Advances to public financial enterprises			61
Net investment in private securities			54
Net increase in cash and bank balances			454
Net increase in indebtedness			3,405
Total			4,451

Source:

Australian National Accounts: National Income and Expenditure 1976-77, Australian Bureau of Statistics, Canberra, Catalogue No. 5204.0.

General Government: Tables 12 and 16.
Consolidation : Table 43.
Public Trading Enterprises: Deduced as the balancing item.

recorded on a cash basis. The net interest payable by other public trading enterprises and their savings could then be disclosed in the Australian National Accounts.

Pending the adoption of full accrual accounting for all public trading enterprises, a remote prospect, not too much violence would be done to the facts if the net operating surplus of these enterprises was regarded as being wholly used as a contribution toward net interest paid on their behalf. Indeed, it is quite possible that these enterprises, collectively, have a net operating deficit.

Similar suggestions can be made about the borrowing and lending transactions of public trading enterprises. Details of these transactions for General Government and Public Trading Enterprises are published in consolidated form in the Australian National Accounts.

The borrowing and lending transactions of those public trading enterprises which maintain full accrual accounts could be disclosed separately. The borrowing and lending transactions of those whose transactions are recorded on a cash basis within the Treasurer's Accounts are not known but the net increase in indebtedness (borrowing less lending) is known and could be included in the Financing Account of General Government as 'net advances to public trading enterprises'.

RECENT DEVELOPMENTS IN CANADIAN BUDGETING

A.D. Bryce

Unlike the previous authors, I am not an active participant in the budget-making process and therefore can only give the view of a semi-detached observer of Canadian budgets. I will, however, draw on a recent interesting publication by Douglas Hartle, *The Expenditure Budget Process in the Government of Canada*,[1] to provide some critical perspectives of an ex-senior Treasury Board official. However, his views should not be mistaken for mine or for those of the Canadian Government.

The Canadian Budgetary Process

The Canadian budgetary process is now divided into two related but separate exercises: (a) an expenditure budget, in the form of Estimates, presented by the President of the Treasury Board; and (b) a revenue budget, called simply the Budget, presented by the Minister of Finance. Towards the end of this paper some mention will be made of recent developments in revenue budgeting, and particularly developments in the Federal-Provincial relations sector. There is an obvious risk in separating the decision-making processes on expenditures from those on revenue, but the recent separation of the Australian Treasury and the Department of Finance seems to indicate that Australians cannot have found the Canadian experience too frightening. The Canadian Department of Finance and the Treasury Board Secretariat have, ever since their separation (which was recommended by the Glassco Commission)[2] been located in the same building and have consulted closely together. On several occasions the President of the Treasury Board has announced expenditure program changes in tandem with fiscal policy changes announced by the Minister of Finance, whose seniority in matters of broad financial policy is unchallenged. The basis of the regular

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1 Hartle, Douglas G., *The Expenditure Budget Process in the Government of Canada*, Canadian Tax Foundation, Toronto, 1978.

2 *The Report of the Royal Commission on Government Organisation*, J. Grant Glassco, Queen's Printer, Ottawa, 1962.

budgeting pattern is for the Main Estimates to be presented to the House of Commons around the end of February (shortly before the beginning of the fiscal year to which they apply, which in Canada runs from 1 April to 31 March), and for Budgets to be presented at a later date, depending on the Government's judgment of the economic situation.

The formulation of the Main Estimates begins originally from program forecasts prepared by departments, which are required to be submitted to the Treasury Board Secretariat in March of the year before the Main Estimates are tabled. Slightly before this, in January, the Department of Finance produces a forecast of revenues based on its expectations of population growth and expected tax policy, while the Treasury Board produces its own forecasts of the costs of maintaining existing programs (the 'A' budget) and adding new ones or enriching old ones (the 'B' budget). Recent years of austerity have also included an 'X' budget containing possible deletions from existing programs. In February and March, the Cabinet Committee on Priorities and Planning meets and, after considering these papers, approves a fiscal framework and set of expenditure guidelines to be followed by the Secretariat in reviewing departmental forecasts. In the period April to June there are negotiations between the Treasury Board Secretariat and departments, culminating in the Secretariat recommending to the Board a set of budget levels which reconciles departmental plans with Cabinet priorities. Ministers can then appear before the Board to argue about the Secretariat's recommendations, which are also subject to further review by the Cabinet Committee on Priorities and Planning and by the full Cabinet.

Early in September, departments are advised of their departmental budget levels. They then assemble their detailed Main Estimate proposals which are submitted to the Secretariat in late October. The Treasury Board reviews these and may go back to the Cabinet Priorities and Planning Committee for broad budget level variations if major changes have supervened. Full Cabinet approves the Main Estimates in December and they are printed and submitted to Parliament the following February. First Supplementary Estimates are submitted to Parliament in the autumn session in November, and Final Supplementary Estimates at the end of the fiscal year in March. Allowance for the magnitudes involved in Supplementary Estimates is built into the fiscal framework and Main Estimates, but they are inherently more difficult to provide for within a programmed type of planning.

Constraints on the Budget Process

I will now attempt to encapsulate something of the underlying rationale behind these processes and how they have responded to recent vicissitudes. The Glassco Commission was remembered for championing the slogan 'let the managers manage', and the changes which stemmed from its recommendations were designed to focus central control on programs rather than on categories of departmental expenditure such as travel expenses or office maintenance. A further development resulted from the introduction of civil service collective bargaining in the last days of Mr Pearson's Government. This removed one element of flexibility from the expenditure control process and made the control of man-year growth correspondingly more important. The system of Cabinet committees introduced by Mr Trudeau has had the effect, when combined with an increased rotation of senior civil servants, of involving ministers more closely in the budgetary process. To be more precise, it has involved ministers and senior officials in joint meetings to discuss other departments' proposals; there has probably never been a time when ministers were unconcerned with their own departments' budgets. In the 1970s indexation has had a massive effect on budgeting. Indexation of personal income tax brackets and deductions has thus reduced the inflation-induced growth in Federal income tax revenues, while commitments to index various transfer payments have limited the scope to pursue objectives through alternative expenditure programs. Finally, there has been a secular shift of spending power to the Provinces. Whereas in 1945 the Federal Government retained about 70 per cent of government revenues (after transfers) that percentage is now of the order of 40 per cent.

Financial Management and Control

When the 1974-75 recession broke upon Canada, the tools of budgetary planning may have been warped somewhat by a long period of expansion with few constraints. The need to achieve higher levels of effectiveness within existing programs acquired a new emphasis and urgency. Two measures, in particular, are worthy of mention in this connection. One is the establishment in early 1977 of a Royal Commission on Financial Management and Accountability, which is studying the question of financial management throughout the whole of the Canadian public service and Federal statutory authorities. Although the occasion for its convocation was a public controversy over large commission payments by crown corporations, it has reflected public unease about the apparent uncontrolled nature of the growth in general government spending. The other recent development is the appointment in 1978 of a Comptroller General of Canada, who will have the rank of a permanent head of a department and will direct what was previously the Administrative Policy Branch of the Treasury Board. He will also co-ordinate the activities of senior finance officers in major spending departments. The activities of these officials have yet to be spelled out by Cabinet, but it appears they will be responsible for ensuring both efficiency and propriety in current spending, as opposed to a more limited audit function. The appointment of a Comptroller General was recommended by a former Auditor General, and appears to be a reversal of the trend towards 'letting the managers manage'.

A dilemma, shared with Australia, arises from the current requirement to provide appropriate stimulus to a lagging economy, but in a situation where the government sector has been perceived as having already over-extended its claims upon the nation's productive capacity. These factors lie behind government decisions over the past three years to impose much stronger limits on the growth of government departments, abolish or combine certain programs, and even to revise certain of its indexation commitment - most notably that on public service pensions, which will now be subject to discretionary rather than automatic increases.

Hartle contends that expenditure budgeting in Canada has been somewhat less systematic than advertised. He says that such devices as PPBS, management by objective and benefit cost analysis have often not been effectively applied to every new expenditure program; and in particular not to those that have slipped through Cabinet committees into Supplementary Estimates. Nor have they been rigorously used to evaluate and prune established programs which have gained a secure footing in Departments' 'B' budgets. Recent changes in Cabinet procedure, which allow the Treasury Board Secretariat to evaluate new expenditure program proposals coming from all Cabinet committees before they go to full Cabinet, are seen by Hartle as going some way towards alleviating the former problem. But he sees the absence of a prior briefing of the Cabinet committees on the expenditure implications of new program proposals as a continuing weakness. Among the other weaknesses Hartle sees in the present system is the existence of a personnel system which still effectively rewards managers on the basis of the size of their programs, rather than for their ability to achieve results with fewer resources. He is not the first person to have commented on the anomaly of combining public service security of tenure with private business prerequisites and pay levels for the government's 'managers'. Indeed, others have made the observation that some substantial modifications may also be required in the collective bargaining system of the Canadian public service to accommodate the very real differences between government and business operations.

Intergovernmental Aspects

Some of the 'locked-in' constraints on Federal budgeting arise from the nature of Canadian federalism. A great many Federal departments now administer agreements of various kinds with the Provinces, many of the earlier agreements originating from shared-cost programs initiated by the Federal Government. Certain of these, in the medical care and post-secondary education field, were generating expenditure levels that were seriously in excess of expectations, partly owing to very generous Provincial pay settlements for teaching and hospital staff. This situation led the Federal Minister of Finance in 1975 to give notice of termination of the agreements in the health sector, and this led in turn to the Federal-Provincial agreement on tax sharing of 1977, which 'disentangled' Federal and Provincial responsibilities by ceding further tax points to the Provinces together with cash payments linked to projected growth in GNP, in return for the Provinces undertaking autonomous management and funding of 'established programs' in the health and post-secondary education fields. To a degree, this represented a confession that joint Federal-Provincial management of these programs had proved ineffective in containing costs.

However, in relinquishing detailed control of shared-cost program content and costs, the Federal Government in Canada remains committed to maintaining certain broad parameters of coverage and of equalising standards, and to seeking a genuine consultation between Federal and Provincial policy makers in the policy development process. Australians may find it surprising to learn that even in fields of strictly Federal jurisdiction, such as international trade negotiations, Provinces are being continuously informed and consulted on Federal activity. As an example of the process at work in a budgetary area, at an early stage in the framing of submissions for industrial incentive programs by the Department of Industry, Trade and Commerce, Federal trade officials now visit Provincial capitals and discuss these submissions with senior Provincial officials. Within the Federal Department of Finance there is a continuous interchange with Provincial Treasury colleagues, who are given access to a panoply of Federal economic projections and other information. The flow of information in the other direction (Provincial to Federal) is also generally very encouraging, although there are some well-known difficulties with Quebec at the political level and all Provinces are careful to guard certain Provincial prerogatives, such as their autonomy in debt management.

The Federal three-year anti-inflation program of wage and price controls, which was introduced in 1975 to stem an accelerating process of wage/price escalation, involved Federal controls in a number of areas of Provincial jurisdiction. These controls were implemented by means of separate Federal-Provincial agreements. Phasing out the controls in 1978 necessarily required a fair degree of fiscal co-ordination, if the 1975 situation was not to be repeated. At the Federal-Provincial First Ministers' Conference of February 1978 in Ottawa, a large measure of agreement was reached on broad economic objectives, as well as on particular development projects and priorities. One significant achievement was the agreement that public sector wage settlements should not lead those in the private sector.

In order to provide the type of fiscal stimulus which both Federal and Provincial leaders saw as necessary, in the weeks prior to his Budget of 10 April 1978, the Federal Minister of Finance (Mr Chretien) put proposals to all the Provinces for a temporary lowering of their Provincial sales tax levels in exchange for a Federal subsidy. The budget included provision for Federal funds to be used to offset the revenue forgone from a general reduction of two per cent in Provincial sales tax rates for six months, provided the Provincial governments themselves bore the burden of a further one per cent cut for that period, or of extending the two per cent cut for an additional three months. All the Provinces except Quebec accepted this proposal - even Alberta, which does not levy a sales tax. Quebec, after failing to respond when initially consulted, came out shortly after the Federal Budget with a public counter-proposal. It suggested that it should use the Federal subsidy to cover the cost of completely abolishing the tax on certain items (clothing, footwear, hotel rooms), while leaving its general level of sales tax unaltered. In due course this generated a Federal counter-proposal, whereby the Quebec removal of tax on these items would have been accepted as the equivalent Provincial action to the three-month extension or extra one per cent cut, provided Quebec instituted a general six-months two per cent reduction of sales tax on all items. So far Quebec has declined to do this, and has hence received only part of the Federal subsidy.

Conclusion

These recent events point to certain factors now underlying Federal budgeting in Canada. These may be summarised as follows:

(a) The large scale of Provincial budgets has made the active involvement of Provinces in fiscal policy highly desirable, if not essential.

(b) The bureaucratic machinery for this involvement is working quite well.

(c) Prolonged high-level political consultation can bring positive results, but not where (as with Quebec) the rivalry is extreme.

(d) 1978 conditions have called forth a form of budget-making tending possibly towards a more open, American-style process, with the Provinces playing a role analogous to Congress.

Returning, finally, to the question of expenditure budgeting, I would like to pose some recurring questions which, it seems to me, Canadian experience seems to present anew to each generation of reformers. These are: at what stage should spending plans be aggregated and compared to revenue forecasts? Who should do the pruning? At what stages should political (and Federal-Provincial) input occur, and in what form? How can results best be measured and related to plans? How can the processes of Parliament and public opinion be best brought to bear?

I would like to suggest that Canada now has some useful experience on each of these points, but no complete answers. We are therefore deeply interested in the Australian Federal and State processes which have been described in earlier papers.

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