



Australian Government

Department of Finance and Administration

# Australia's Experience with Program Budgeting

Maureen Allan

Team Leader

Department of Finance and Administration

Australia

# Opening Remarks

- **My name is Maureen Allan**
- **I am a Team Leader in the Budget Framework & Systems Division of the Department of Finance and Administration, Australia**

# Opening Remarks

- I am honoured to attend this important workshop
- I am also pleased to be included as a presenter with so many other distinguished presenters

# Opening Remarks

Today I will cover three topics to explain our experiences with program budgeting:

- Australia's approach to Program Budgeting
- The Australian Government Budgeting Process
- Australia's experience with "Program Budgeting"

# **Australia's Approach to Program Budgeting**

# Australia's Approach to Program Budgeting

- **Generally, we consider program budgeting in five parts**
  - The Government specifying the outcomes it wants to achieve
  - Allocating resources to achieve outcomes
  - Setting performance targets for the outcomes
  - Monitoring performance during implementation
  - Measuring actual results against targets
- **The Australian budget process follows this five stage process**

# Australia's Approach to Programme Budgeting

- **The Australian approach to Program Budgeting focuses on two areas of expenditure**
  - The costs and outputs of departments
  - The costs and results of Government programmes

# Australia's Approach to Program Budgeting

- Department *costs* include salaries, overheads, payments to suppliers and other minor costs
  - Often called the 'running costs' of a department
- Department *outputs* include advice to Government; research; budget reports; inspection services; processing payments to citizens; processing tax returns, etc.

# Australia's Approach to Program Budgeting

- Program *costs* include payments to pensioners; payments to unemployed people; payments to the State Governments for Health services, education services and so on
- Planned program *results* include healthier citizens; better educated children and adult Australians; a sustainable environment; etc.

# Australia's Approach to Program Budgeting

- Program budgeting helps to achieve the following important overarching goals for Australian government and public administration:
  - Accountability
  - Transparency
  - Efficient and effective allocation of resources
  - Delivering 'Value for Money'

# **The Australian Government's Budgeting Process**

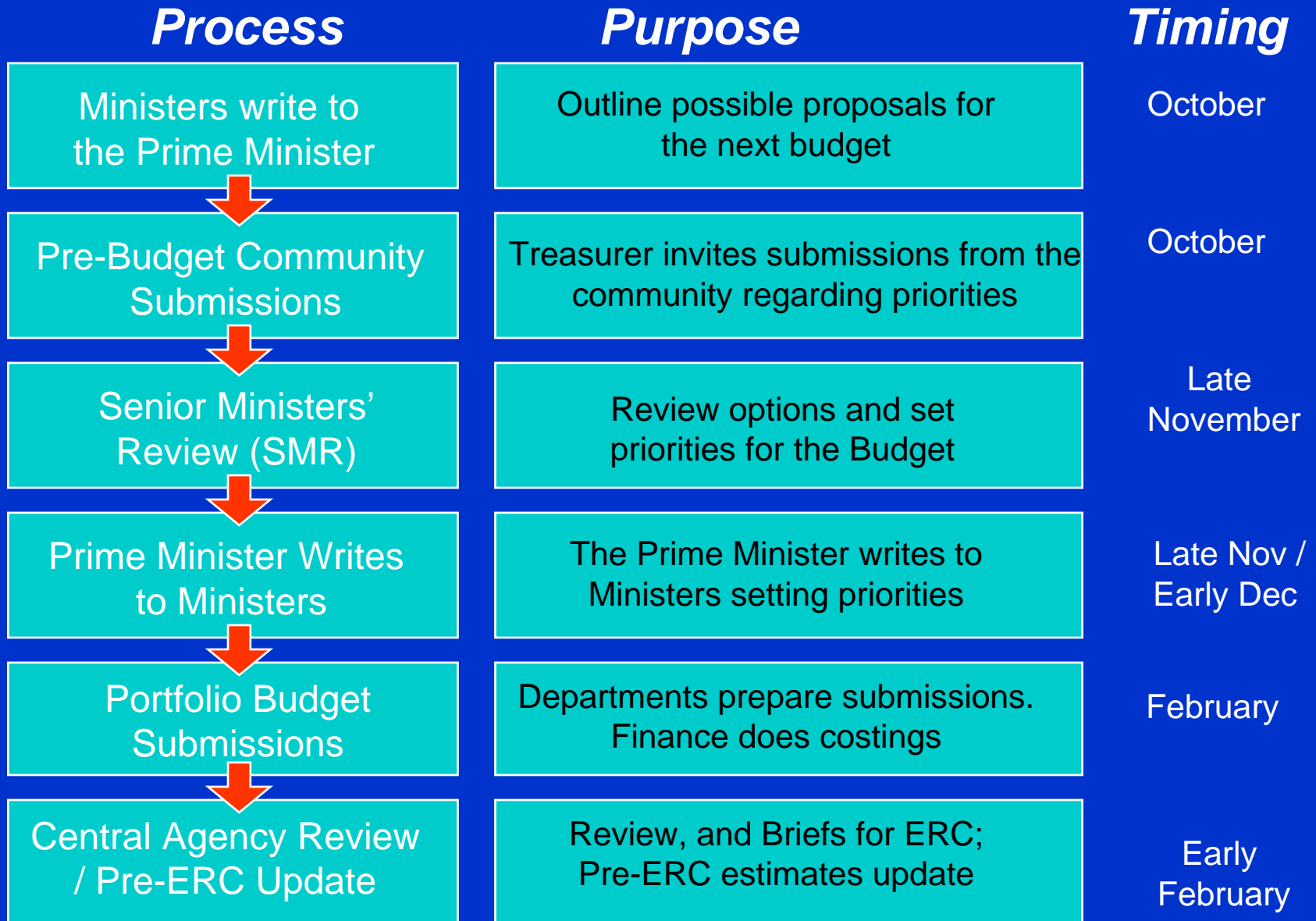
# **The Australian Government's Budgeting Process**

- **Australia has a federal system with three tiers of Governments – the Australian Government, State Governments and Local Governments**
- **The Australian Government raises the vast majority of taxes in the Country**
- **The Australian Government Budget is divided into three types of payments**
  - » **Payments for Federal Government activities**
  - » **Payments to Australian citizens for social benefits**
  - » **Payments to the States**

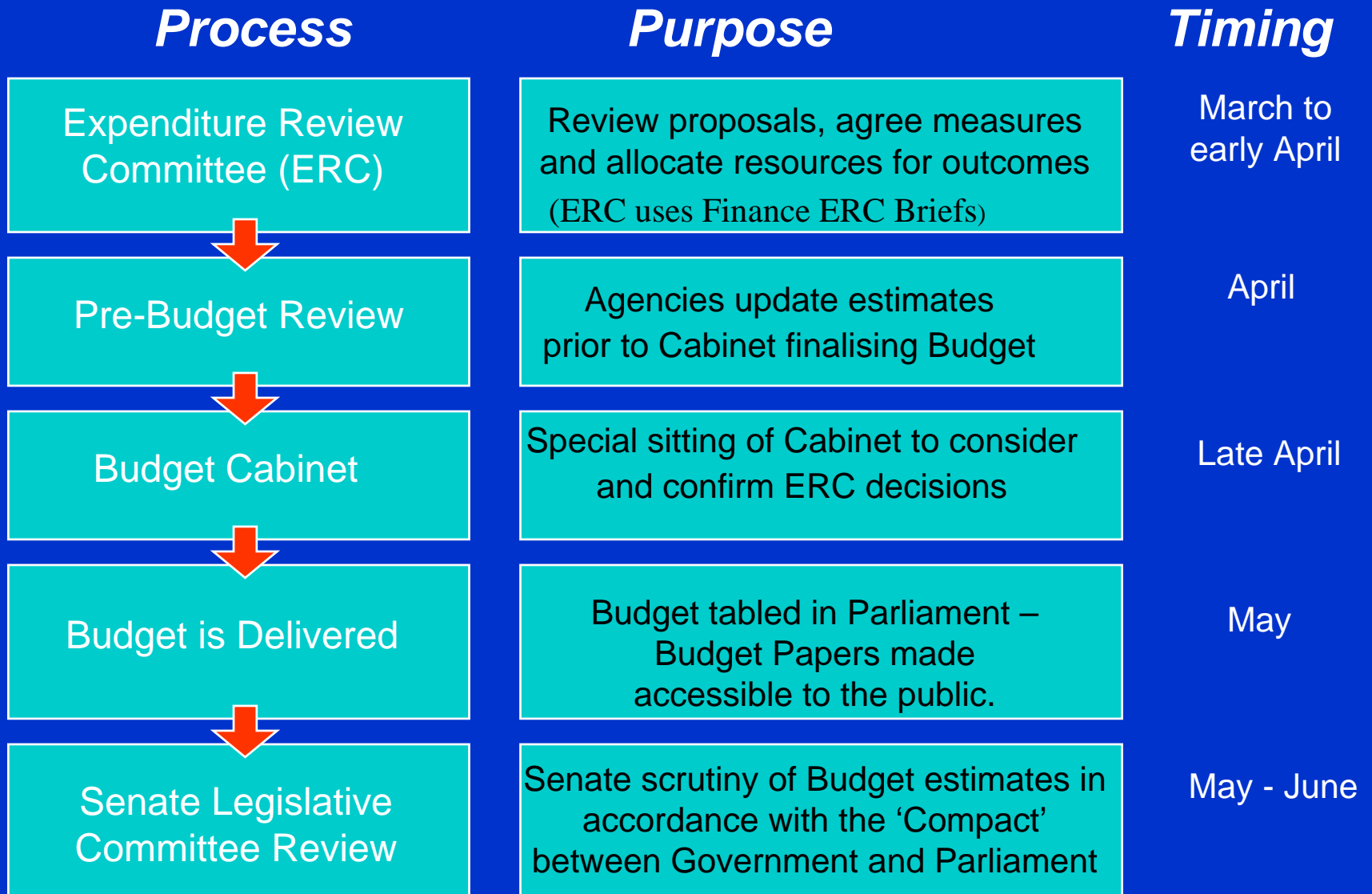
# **The Australian Government's Budgeting Process**

- **The Australian Government operates on a 12 month fiscal year running from 1 July to 30 June**
- **The Budget Process involves three broad stages:**
  - **Priority Setting**
  - **Decision Making**
  - **Budget Monitoring and Reporting**

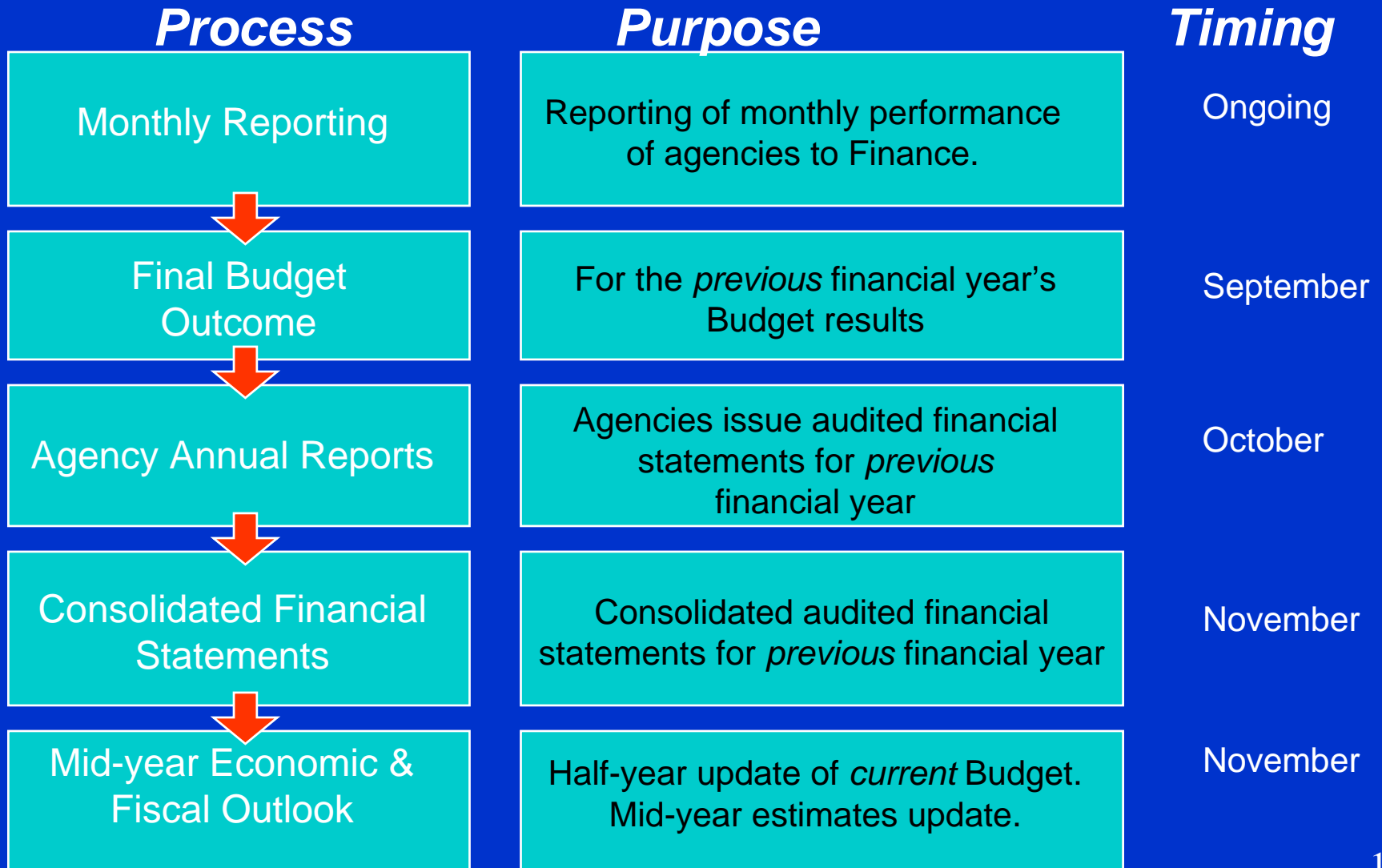
# Budget Process – Priority Setting



# Budget Process – Decision Making



# Ongoing Budget Management and Reporting



# **Australia's Experience with Program Budgeting**

# Australia's Experience with Program Budgeting

- Our experience has been an evolving process of improvements and developments to program budgeting that has been occurring since the late 1970s
- Before that time Australia had a “spending” approach to budgeting with a limited focus on performance
- Until the 1970s there was a very centralised and detailed approach to budgeting and financial management

# Australia's Experience with Program Budgeting

- **1901-1970s: Summary of reforms**
- **Until the 1970s there was a very centralised approach to budgeting and financial management**
  - Departments would account to Department of Finance for all expenditure in great detail
  - Publication of only one year of Budget estimates
  - Central budget preparation by Department of Finance
  - Appropriations to departments at a very detailed level
  - The Audit Act (1901) mandated prescriptive rules for the management and control of expenditure

# Australia's Experience with Program Budgeting

- **1980s-1990s: Summary of reforms**
- **Commencement of performance management-related reforms**
  - Introduction of the Expenditure Review Committee process by Government, where Cabinet reviews all expenditure proposals in detail
  - Commencement of Senate Committee processes for scrutiny of Budget estimates in Parliament; introduction of Portfolio Budget Statements
  - Publication of Forward Estimates (four years of budget estimates) for improved public disclosure
  - Introduction of a Financial Management Improvement Plan (FMIP) and commencement of Program Management and Budgeting (PMB)

# Australia's Experience with Program Budgeting

- *1980s-1990s reforms*
  - Expenditure Review Committee;
  - Senate Estimates Committees;
  - Portfolio Budget Statements;
  - Publication of Forward Estimates.

The above reforms improved transparency and accountability.

All of these are still operating today.

# Australia's Experience with Program Budgeting

- *1980s-1990s reforms*
- **Financial Management Improvement Plan (FMIP)**
  - A shift to performance-oriented management;
  - Clearer definitions of goals and objectives;
  - The development of performance indicators and reporting of ongoing performance against stated objectives;
  - Greater flexibility in agency resource deployment;
  - Upgrading of management information systems; and
  - Introduction of elements of Program Management and Budgeting;
  - Introduction of an Efficiency Dividend on departmental running costs.
- **Many of these aspects are represented in the new framework**

# Australia's Experience with Program Budgeting

- **1990-1998: Summary of reforms**
- **Introduction of accrual accounting and reporting for end of year financial statements for all Departments**
  - This gave departments much needed experience with accrual information that was necessary for the accrual reforms of the late 1990s
- **Introduction of Portfolio Evaluation Plans**
  - This was a highly-centralised and tightly controlled approach to incorporating the results of evaluations into Budget decision-making – the Evaluation Plans were published
  - The evaluation policy has since been devolved. Planned evaluations are included in Portfolio Budget Statements.
    - » 'Performance Management Principles' endorsed by Ministers

# Australia's Experience with Program Budgeting

- *1990-1998 reforms*
- **Wide-ranging legislative change to the way resources are recognised, reported and managed, at the whole-of-government and the agency level**
  - Introduction of new financial management laws
  - Introduction of new Budget laws
- **These changes introduced mainly principles-based legislation, and devolved financial management responsibility to agency Chief Executives**

# Australia's Experience with Program Budgeting

- *1990-1998 reforms*
- **The new financial management laws**
  - Financial Management and Accountability Act (1997)
  - Commonwealth Authorities and Companies Act (1997)
  - Auditor General Act (1997)

The above legislation dealt with financial management practice in a Budget sector context (ie. Budget sector and non-Budget sector)

Australia also reports against the General Government Sector

# Australia's Experience with Program Budgeting

- *1990-1998 reforms*
- **The new Budget law**
  - **The Charter of Budget Honesty (1998)**
    - » Requires a Mid-year Budget update each year;
    - » Requires an independent Pre-Election Budget Statement by the Department of Treasury and the Department of Finance;
    - » Requires a Final Budget Outcome report;
    - » Requires Government to publish its medium-term fiscal strategy, and to abide by the Principles of Sound Fiscal Management stated in the Act; and
    - » Specifies the use of relevant Australian Accounting Standards and the International Monetary Fund's Government Finance Statistics in public reporting.

# Australia's Experience with Program Budgeting

- **1999-2004: Summary of reforms**
- **Over this period we focused on 4 major areas of reform (and subsequent adaptations) to improve performance budgeting:**
  - **Outcomes Framework**
    - » Introduction of Appropriations for Outcomes
    - » Introduction of Outcome performance reporting
  - **Introduction of Accrual Budgeting**
  - **Increased devolution**
    - » Introduction of Agencies having their own bank accounts
    - » Introduction of devolved budget estimates where agencies enter their estimates into a central system
  - **Integrity of the Budget estimates**
    - » Introduction of detailed monthly reporting by agencies
    - » Introduction of estimates performance targets for agencies

# Australia's Experience with Program Budgeting

- *1999-2004 reforms*
- **Introduction of Outcome performance reporting**
  - Allows Government to clearly state the direction of policy as implemented by a Department
  - Agencies must include performance targets in budget estimates
  - Appropriating at the Outcome level preserves some of the Running Costs flexibilities for departmental costs
  - Introduced a requirement that Lapsing Budget Measures or Decisions (components of programs) must be reviewed in the year before their funding lapses

# Australia's Experience with Program Budgeting

- *1999-2004 reforms*
- **Devolution: Introduction of Agency banking**
  - Abolition of central payments system run by the Department of Finance
  - Agencies now operate their own bank accounts with approved Banks
  - Agencies make all payments themselves
  - Agencies must draw only enough cash to make payments 'as needed', and on a 'just in time' basis
  - Agencies cannot earn interest on their bank balances, unless otherwise approved
  - Agencies can only hold a 'working cash balance' float in their bank accounts, with all other cash held centrally until needed

# Australia's Experience with Program Budgeting

- *1999-2004 reforms*
- **Introduction of monthly reporting by agencies**
  - Changes were introduced to provide:
    - » greater accuracy and timeliness in the production of Budget estimates, and
    - » better and more detailed information on Government programs
    - » Agencies provide monthly reports to Finance

# Australia's Experience with Program Budgeting

- *1999-2004 reforms*
- **Introduction of estimates performance targets for agencies**
  - The introduction of timeliness indicators; accuracy indicators; and quality indicators for agency estimates production.
  - Finance works closely with agencies to achieve performance targets

# Australia's Experience with Program Budgeting

## Major lessons from our experience:

- It takes a considerable amount of time
- It requires a combination of factors
- There is a need to train and educate staff
- There is a need for major investment in technology systems
- There needs to be acceptance of experimentation and failure
- Devolved responsibility to agencies requires very good information from agencies
- Reform is an ongoing process

Questions?