BUDGET

AGENCY RESOURCING

BUDGET PAPER NO. 4

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CIRCULATED BY

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ON THE OCCASION OF THE BUDGET 2008-09

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INTRODUCTION

The purpose of Budget Paper No. 4 is to consolidate information on the resourcing expected to be available to entities by source of appropriation[1]. Underpinning this Budget Paper are the appropriation bills which provide more specific detail on the annual appropriations. The bills are published separately and can also be obtained from the budget website.

A number of changes have been made in Budget Paper No. 4 and the supporting Portfolio Budget Statements (PB Statements) of departments and agencies for the 2008-09 Budget. These changes are the result of Operation Sunlight, the policy platform through which the Government seeks to enhance the quality, transparency and consistency of Budget reporting, and promote good governance.

Initiatives being implemented in this Budget Paper in 2008-09 include a new table showing estimated expenses for each special appropriation Act for each agency and a register of special accounts. The Agency Resourcing table also now includes comparator figures for the previous financial year.

The Portfolio Budget Statements (PB Statements) are declared in the appropriation Acts to be relevant documents for the purposes of interpreting the Appropriations. The PB Statements for 2008-09 have been redesigned to provide a more streamlined and strategic focus, with an emphasis on improving the presentation and readability. They include, for the first time, a Resource Statement which provides in a single presentation information on all amounts of resources available to each entity.

APPROPRIATIONS

The Constitution, through section 81, provides for one Consolidated Revenue Fund (CRF), formed from all revenues or moneys raised or received by the Executive Government of the Commonwealth. The CRF is 'self-executing'. That is, all moneys paid to the Commonwealth, or any person or organisation acting on behalf of the Commonwealth, automatically form part of the CRF. Whether or not the Commonwealth has credited those moneys to a fund or an account, the moneys form part of the CRF upon receipt by, or on behalf of, the Commonwealth. This covers taxes, charges, levies, borrowings, loan repayments and moneys held in trust. Section 81 does not deal with the manner in which money that forms the CRF shall be kept, nor does it deal with the keeping and auditing of the public accounts.

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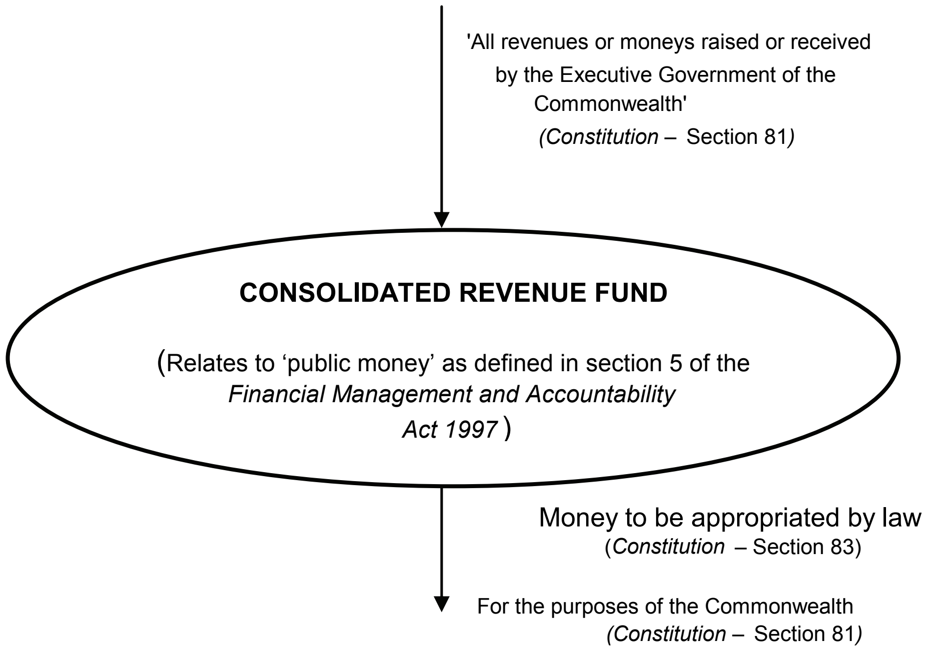
1 References to 'entity' in Budget Paper 4 are references to agencies under the *Financial Management and Accountability Act 1997*, bodies under the *Commonwealth Authorities and Companies Act 1997* and the High Court of Australia.

The Constitution and the Consolidated Revenue Fund



Section 83 of the Constitution provides that no money shall be drawn from the Treasury of the Commonwealth except under an appropriation made by law. Section 81 provides that all appropriations from the CRF must be for the purposes of the Commonwealth. The 'Treasury' of the Commonwealth, noted in section 83, equates to the CRF referred to in section 81. Together, sections 81 and 83 provide that there must be an appropriation, made by law, for the purposes of the Commonwealth, before money may be drawn from the CRF. This is a key element of the provisions which safeguard Parliament's control over Government spending.

Appropriations can be classified as either special appropriations or annual appropriations. The latter are contained in the annual appropriation Acts.

Section 53 of the Constitution provides that the Senate may not amend proposed laws appropriating money for the ordinary annual services of the Government. Under section 54 of the Constitution, a proposed law appropriating money for the ordinary annual services of the Government can only deal with such appropriations. Accordingly, the annual appropriations are split into those that provide for the ordinary annual services of the Government (Appropriation Bill (No. 1) 2008-2009) and those that do not (Appropriation Bill (No. 2) 2008-2009) [2].

In dealing with what constitutes the ordinary annual services of the Government and those which do not, the Senate and the Government came to an agreement, which is generally referred to as the 'Compact of 1965'. The Compact determines the allocation of items between the annual appropriation bills. It was most recently altered in 1999 for the introduction of accrual budgeting.

The services of the three parliamentary departments are not considered to be ordinary annual services of the Government. Accordingly, there is a third budget annual appropriation bill, the Appropriation (Parliamentary Departments) Bill (No. 1) 2008-2009, which proposes appropriations for the parliamentary departments.

A second set of three annual appropriation bills is usually introduced during the financial year. Called the Additional Estimates (or just Additional) appropriation bills, those three bills correspond to the three budget appropriation bills and continue the numbering sequence: Appropriation Bill No. 3 (i.e. ordinary annual services), Appropriation Bill No. 4 (i.e. other than ordinary annual services) and Appropriation (Parliamentary Departments) Bill No. 2. Further annual appropriation bills are introduced during the year if required.

The annual appropriation bills are the source of funding for approximately a quarter of all Government expenditure each year. The remaining three quarters is funded by special appropriation provisions in other legislation. Special appropriations provide money for particular purposes, for example, to finance a particular project or a programme such as social security payments. Some special appropriations state an amount that is appropriated for the particular purpose. They can be referred to as being 'limited by amount'. Others do not state an amount but the appropriation is instead determined by legislative criteria or conditions. They can be referred to as being 'unlimited by amount' or 'standing' appropriations.

A proportion of expenditure from special appropriations is expenditure from special accounts. Special accounts are established for specific purposes by reference to sections 20 or 21 of the *Financial Management and Accountability Act 1997* (FMA Act). Special accounts are a method of delivering programmes that are funded by indirect taxes or other compulsory imposts, contributions by other Governments, amounts appropriated by the Parliament for crediting to a special account or contributions by members of the community.

2 Although the Senate may not amend a bill proposing appropriations for ordinary annual services, it may send a message to the House of Representatives asking the House to amend such a bill.

Where special accounts are credited with amounts, such as from an indirect tax, a special appropriation or an annual appropriation (as is provided for under section 18 of Appropriation Bill (No. 1) 2008-2009), the FMA Act provides an appropriation for the purposes of the special account up to the balance of the account.

The annual appropriation bills are supported by PB Statements prepared by portfolio Ministers. The PB Statements contain details of the estimated payments under each of the annual appropriation bills and other legislation providing appropriations. They also contain details of estimated receipts from other sources, including taxation, customs, excise and receipts from fees and charges collected by entities. Individual PB Statements therefore contain more detail and are intended to further explain the purposes and planned performance of government agencies and their contributions towards the achievement of outcomes.

The PB Statements are made available to the Senate Standing Committees to assist with their examination of the Government's budget. The statements are published as Budget Related Papers and tabled in the Parliament at budget time.

More information on appropriations is provided on the Department of Finance and Deregulation web site at: www.finance.gov.au/budgetgroup/appropriation_bills.html

STRUCTURE OF APPROPRIATIONS

The annual appropriation bills propose specified amounts of appropriation for expenditure by agencies in achieving the Government's outcomes[3]. Those amounts must be expended on the purposes for which the appropriations are provided and that expenditure must be consistent with Government policy. The Finance Minister is responsible on behalf of the Government for arrangements to ensure that agencies adhere to those requirements. The key means for implementing that role is the regime of drawing rights established under the FMA Act. Agencies do not have an automatic right to those appropriations.

As mentioned above, appropriations are provided for particular purposes. For all administered expenses appropriations, those purposes are the outcomes which are shown beside the appropriation amounts. Outcomes are the results or impacts on the community or the environment that the Government intends to achieve. They are specified by the responsible portfolio minister with the endorsement of the Finance Minister. The purpose of departmental outputs appropriations is to provide money for the annual operating costs of agencies.

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3 Agency refers to an agency within the meaning of the *Financial Management and Accountability Act 1997*, or the High Court of Australia.

Appropriation Bill (No. 1) and (No. 2) 2008-2009 have been revised to make clear the legal status of bodies subject to the *Commonwealth Authorities and Companies Act 1997* (CAC Act) in relation to annual appropriations. CAC Act bodies are legally separate from the Commonwealth and so do not debit appropriations or make payments from the CRF. The legislation text, accordingly, has been changed to state explicitly that relevant appropriations are made for payment by departments to CAC Act bodies rather than directly to CAC Act bodies. The layout of the Schedules to the Bills has also been changed to show that those appropriations are for payment by the relevant portfolio departments to the CAC Act bodies and to show CAC Act bodies immediately after the responsible portfolio departments in the portfolio summary and the agency detail tables.

The purpose and detailed operation of the clauses in the 2008-09 Budget appropriation Bills are outlined in an Explanatory Memorandum tabled in Parliament on Budget Night. The Appropriation Bills and Explanatory Memorandum are available at:

www.budget.gov.au and also at www.comlaw.gov.au.

Further information on outcomes and on the outcomes and outputs framework more generally is available at:

www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/the_outcomes___outputs_framewo.html.

Appropriation Bill (No. 1)

Appropriation Bill (No. 1) 2008-2009 proposes appropriations for activities that are considered to be the ordinary annual services of the Government and hence the Bill cannot be amended by the Senate under section 53 of the Constitution.

In Appropriation Bill (No. 1) 2008-2009, amounts are set out according to whether they are departmental outputs, administered expenses, or for payment to CAC Act bodies. Departmental outputs involve costs over which an agency has control[4]. They are the ordinary operating costs of Government agencies. Expenditure typically covered by Departmental outputs include:

- employee expenses;
- suppliers; and
- other operational expenses (e.g. replacement and maintenance of existing departmental assets).

4 This definition is in accordance with the Finance Minister's Orders (Financial Statements) and Australian Accounting Standard 29.

Departmental outputs are appropriated as a single amount for each agency. The single appropriation represents the cost of all the outputs that the agency plans to deliver. Appropriation Bill (No. 1) 2008-2009 shows a split of that amount across outcomes. The split is notional, providing an indication of the departmental resources that will be required to achieve agency outcomes.

Administered expenses are those administered by the agency on behalf of the Government. The appropriations represent the amounts required to meet the total estimated expenses for the administered outcomes that are expected to be incurred in 2008-09. They are normally related to activities governed by eligibility rules and conditions established by the Government or Parliament such as grants, subsidies and benefit payments. Agencies therefore have less discretion over how administered expenses are spent. Administered expenses are appropriated separately for outcomes (i.e. the split across outcomes is not notional), specifying precisely how much can be expended on each outcome.

An amount appropriated to a portfolio department for payment to a CAC Act body may only be applied for payment to the CAC Act body named and may not be paid out of the CRF for any other purpose. These amounts are treated by the portfolio departments as an administered appropriation. However, CAC Act bodies will normally account for those amounts as departmental funding when they receive the payments.

The detail on appropriations in Appropriation Bill (No. 1) 2008-2009 is set out in Schedule 1 to the Bill.

Appropriation Bill (No. 2)

As explained above, Appropriation Bill (No. 2) 2008-2009 provides appropriations for matters that are not proposed for the ordinary annual services of the Government. It covers both administered expenses (grants to the states, payments to the Australian Capital Territory, Northern Territory and local government and new administered expenses), and 'non-operating' costs (including payments to CAC Act bodies).

Non-operating costs (sometimes called 'capital' costs) comprise:

- '*equity injections*', which are provided to agencies to, for example, enable investment in new capacity to produce departmental outputs;
- '*loans*', which are provided to agencies by Government when an investment is expected to result in a direct return such as an efficiency saving (these are generally not formal loans established in contracts);
- '*previous years' outputs*' appropriations, which provide funding to replenish appropriations used to deliver departmental outputs in a previous year. This can occur, for example, late in a financial year when a decision is made to implement a new activity after the date for inclusion in the additional appropriation bills. Such

activities are funded initially from existing appropriations which are then replenished by the *previous years' outputs* appropriation; and

- '*administered assets and liabilities*' appropriations, which provide funding for acquiring new administered assets, enhancing existing administered assets and discharging administered liabilities relating to activities administered by agencies on behalf of the Government.

'CAC Act body payment' appropriations in Appropriation Bill (No. 2) 2008-2009 are made available to the responsible portfolio department for payment to a CAC Act body to meet their non-operating costs. An amount appropriated for a 'CAC Act body payment item' may only be applied for payment to the CAC Act body named.

Schedule 1 to Appropriation Bill (No. 2) 2008-2009 confers on the ministers named, power to determine:

- conditions under which payments to the States, the ACT and NT and local government authorities may be made; and

- the amounts and timing of those payments.

The detail on appropriations in Appropriation Bill (No. 2) 2008-2009 is set out in Schedule 2 to the Bill.

Appropriation (Parliamentary Departments) Bill (No. 1)

The Appropriation (Parliamentary Departments) Bill (No. 1) 2008-2009 proposes appropriations for all the departmental outputs, administered expenses and non-operating costs of the three parliamentary departments.

Annual appropriations generally

The annual appropriations Acts are not expressed in terms of a particular financial year and do not automatically lapse. Generally, annual appropriations are available until they are spent. For example, departmental outputs appropriations provide funding for all the expected expenses required to carry out activities in the financial year. Those expenses include employee entitlements and depreciation. Because the cash to meet such expenses can be required at times other than when the expenses are incurred, the departmental outputs appropriations remain available until required.

As the timing of the cash requirements can be different from the time when commitments are made, non-operating costs appropriations also do not lapse and amounts that are unspent at the end of the financial year remain available to be spent in later years.

Amounts appropriated for departmental outputs and for non-operating costs can be subject to a reduction process, first introduced in the additional estimates appropriations Acts for 2003-2004. Under this process, on request in writing from a responsible minister, the Finance Minister may issue a determination to reduce the entity's departmental expense or non-operating costs appropriation. Requests for amounts to be reduced arise because the appropriation is no longer required.

From 2008-09, appropriations for administered expenses will be subject to an annual process by which amounts which are not required to fund activities in the year are extinguished. Agencies' financial statements, as published in their annual reports, will govern the amounts to be extinguished. This process ensures that amounts not required for the year are permanently extinguished. If Government then wishes to spend that amount in a later financial year, it must seek a further appropriation in a later appropriation bill.

There can be situations where entities require extra funding for urgent expenditure for which there is insufficient appropriation. In such cases, Appropriation Bill (No. 1) 2008-2009 and Appropriation Bill (No. 2) 2008-2009 each contain a clause entitled 'Advance to the Finance Minister' (AFM), which enables the Finance Minister to provide the urgent additional appropriation. The AFM provision in Appropriation Bill (No. 1) 2008-2009 is limited to a maximum of $295 million and in Appropriation Bill (No. 2) 2008-2009 is limited to $380 million. The limits have been increased from those for 2007-08. The increase was because the previous arrangement for 'recovering' AFM amounts from later appropriation Acts has been discontinued.

Reporting to Parliament about the use of the AFM has been improved by replacing the 'AFM as a Final Charge' document with an annual report to Parliament on use of the AFM provision. The advances annual report will cover all amounts issued. Details on each amount issued under the AFM are also provided to Parliament through the requirements of the *Legislative Instruments Act 2003.*

Appropriation (Parliamentary Departments) Bill (No. 1) 2008-2009 also contains a clause corresponding to the AFM provided in the other two bills. Called the Advance to the Presiding Officer (APO), the total that may be issued is limited according to the parliamentary department concerned. As with the AFM provision, the practice of recovering APO amounts from later appropriation Acts has been discontinued and usage of the APO will be reported in the advances annual report.

Section 31 of the FMA Act provides that an agency's most recent departmental item is increased by the amount of receipts which are of a kind prescribed by regulations under the FMA Act. Therefore, departmental appropriation items in Appropriation Bill (No. 1) 2008-2009 may be increased during the year by amounts of a kind prescribed in the *Financial Management and Accountability Regulations 1997*. This mechanism provides the appropriation authority for amounts that would not otherwise be available for agencies to spend. Section 13 of Appropriation Bill (No.1) 2008-2009 provides for transitional arrangements where agencies' arrangements pre-date the amendment to the FMA Act in relation to agency receipts.

All three budget appropriation bills include for information purposes a figure for the previous financial year, labelled the 'Actual Available Appropriation'. That figure is printed in italics under each amount. It is calculated for each item by adding the amounts appropriated in the previous year's annual appropriation Acts, amounts changed under provisions of the FMA Act plus adjustments such as AFMs, reductions and limits applied administratively by the Department of Finance and Deregulation. The Actual Available Appropriation provides a comparison with the appropriation proposed for the budget year. It does not affect the amounts available at law. In some cases there are discrepancies between the sums of items and the totals of the Actual Available Appropriation. Those discrepancies are due to rounding.

THE AGENCY RESOURCING TABLE

The Agency Resourcing table in Budget Paper No. 4 shows, by portfolio and by entity, and for expenses by outcome, the estimated amounts of money that entities are expected to have available for their activities during the budget year. The amounts are broken down by the different sources of funding: the annual appropriation bills; special appropriations; and receipts from independent sources.

Receipts from independent sources include moneys received that:

- may be spent by agencies through agreements under section 31 of the FMA Act;
- are credited to special accounts that are not directly appropriated to the agency; and
- CAC Act bodies may spend in accordance with their enabling legislation or Ministerial agreement.

Although the annual appropriation amounts are specified exactly, the majority of the amounts entities expect to spend from special appropriations and receipts from independent sources are estimates based on models of client numbers etc.

For each of the different sources of funding the Agency Resourcing table also includes a figure for the previous financial year as a comparison, labelled the 'Estimated Actual'. It is printed in italics under each estimated amount for the Budget year. In relation to the appropriations Bills, the Estimated Actual is the same as the Actual Available Appropriation. For special appropriations and receipts from independent sources, the Estimated Actual amounts are the estimated actual amounts published in the PB Statements.

Note that, because some entities provide funding to others, the total amounts in the Agency Resourcing table cannot be used to calculate total resourcing at the whole of Government level. Similarly, transactions between entities while shown in financial statements of individual agencies, are eliminated in the Commonwealth's consolidated financial statements. This treatment is in accordance with section 5 of the annual appropriation bills, which states that notional transactions between agencies are treated as real transactions, even though the amounts do not leave the CRF. Also, while amounts appropriated for payment to CAC Act bodies are treated as administered by the relevant portfolio departments, they are shown in the Agency Resourcing table from the perspective of the CAC Act bodies that receive payments from those appropriations.

TABLE OF ESTIMATED EXPENSES AGAINST SPECIAL APPROPRIATIONS

Budget Paper No. 4 contains a new table showing estimates of expenses for each active special appropriation act for each agency. It is in two parts: the first is a summary table showing the total special appropriations by portfolio. The second shows the estimate for each special appropriation Act for each agency for the Budget year and an 'Estimated Actual' figure for the previous year.

REGISTER OF SPECIAL ACCOUNTS

As part of Operation Sunlight, Budget Paper No. 4 also includes a special accounts register which lists all special accounts authorised under the FMA Act. Special accounts are listed in the Register by portfolio, agency and name of special account.

THE GOODS AND SERVICES TAX

Australian Government entities generally pay and collect Goods and Services Tax (GST) on the same basis as other Australian entities. The amounts of appropriation shown in the three budget appropriation bills for 2008-2009 exclude recoverable GST. The appropriations shown therefore represent the net amount that Parliament is being asked to allocate to particular purposes. This aligns with the accounting treatment of expenses and assets and the presentation of budget estimates.

In section 30A of the FMA Act, Parliament has provided that appropriations be increased by the amount of recoverable GST on payments by FMA agencies from all appropriations limited by amount. As a result, there is sufficient appropriation for payments under all appropriations, provided that the amount of those payments, less the amount of recoverable GST, can be met from the initial appropriation.