Australian Government

OPERATION SUNLIGHT – OVERHAULING BUDGETARY TRANSPARENCY

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COMMONWEALTH GOVERNMENT RESPONSE

Chapter 1 *Operation Sunlight – Overhauling Budgetary Transparency*

Murray Review Recommendation 1:
That the Government publicly release its response to this review as early as practicable in the second half of 2008. Its response should include details of the initiatives to be pursued as a result of this report and how they are to be incorporated into *Operation Sunlight*. It should also present details of the timeframes for the implementation of the enhanced *Operation Sunlight* including key performance indicators and targets, where applicable, in order that the effectiveness and progress of *Operation Sunlight* can be evaluated.

Government Response
Agreed - The Government is releasing Senator Murray's report in December 2008, together with this response and a revised presentation of Operation Sunlight which incorporates the recommendations from Senator Murray's report that have been accepted by Government.

Murray Review Recommendation 2:
That the Government publicly release the findings of a comprehensive evaluation of the enhanced *Operation Sunlight* initiatives at least six months prior to the next election.

Government Response
Noted - The Government will provide progress reports on the range of initiatives under Operation Sunlight, the initiatives that have been implemented and the effect of these changes. The Government has already:

- recognised the Goods and Services Tax (GST) as a Commonwealth tax commencing with the 2006-07 Consolidated Financial Statements;

- produced a single set of financial statements under Australian Accounting Standard AAS1049 and included the statements in the Budget Papers for 2008-09, replacing three financial statements prepared on different bases in previous years;

- improved and redesigned the Portfolio Budget Statements presented to Parliament;

- committed to improving the targets and key performance indicators for Outcomes which were provided for the first time in agencies' Portfolio Budget Statements;

- included agencies' information on Special Appropriations and Special Accounts in Budget Paper 4; and

- simplified arrangements for the Advance to the Finance Minister's (AFM) as well as developing a new and more comprehensive report to the Parliament on the use of AFM to be introduced after the completion of the 2008-09 financial year.

Murray Review Recommendation 3:
That the Government assess and report on the cost of those initiatives to be implemented under *Operation Sunlight* and those recommendations to be implemented from this Review, and provide adequate funding to support their implementation.

Government Response
Agreed - The Government has incorporated the agreed recommendations from this Review into Operation Sunlight.

Chapter 2 *The Constitutional Imperative*

Murray Review Recommendation 4:
That the Senate continue to seek clarification from the Government as to which items the Government believes should be included in the different appropriation bills. The Senate should then form a view as to the appropriateness of the split. When any differences are resolved to the satisfaction of the Senate, the Department of Finance and Deregulation should be required to monitor and enforce the split.

Government Response
Noted.

Murray Review Recommendation 5:
That both the Government and the Senate Staffing and Appropriations Committee consider mechanisms for the Department of Finance and Deregulation to raise doubtful cases regarding the allocation of expenditure between the Appropriations Bills with the Senate Appropriations and Staffing Committee before the bills are introduced.

Government Response
Not agreed – The Government is considering proposals to be put to the Senate to clarify the allocation of items between the appropriation bills. It is expected that the clarification of the Compact of 1965 will address the concerns underpinning this recommendation.

Chapter 3: *The Parliamentary Imperative – Improving Government Practices*

Murray Review Recommendation 6:
That the Government expedite the examination of the merits of harmonised AASB 1049 standard at agency-reporting level, and if implementation is warranted, that it be done so no later than the 2010–11 financial year.

Government Response
Agreed in part - Harmonised accounting standards for the whole of Government and general government sectors were introduced for 2008-09 Budget and have resulted in a significant simplification of the information provided to Parliament in Budget Paper 1. The Government is working with the Australian Accounting Standards Board (AASB) to set out an approach to harmonising accounting standards at entity level.

However, the timetable for the AASB to consult with jurisdictions and other stakeholders and produce a standard on harmonisation at entity level is February 2010. Reviewing and applying this standard, assuming that it is released at that time, will require extensive work by agencies to meet the new standard and to make necessary changes to their financial systems. Implementation of any new standard will be done in accordance with the timeframes set out in the proposed standard, with the most likely implementation date for the changes being the 2011-12 financial year.

Murray Review Recommendation 7:
That the Government advise whether it intends to move towards integrating the Consolidated Financial Statements and Final Budget Outcome into one report, prepared in accordance with AASB 1049, in what timeframe, and if not, provide reasons for not proceeding down this path.

Government Response

Agreed – The Government has considered whether it intends to move towards integrating the Consolidated Financial Statements and the Final Budget Outcome.

The *Charter of Budget Honesty Act 1998* requires that the FBO be released by the end of September, whereas the CFS is not generally released until December after final audit clearance. The AASB 1049 requirement that the General Government Sector FBO be released with the whole of Government CFS may lead to concerns of a reduction in the timeliness of Government financial reporting (as the FBO would no longer be available in September).

The Government does not consider it is feasible to integrate the CFS and the FBO given the practical difficulties involved including the need for timely release of the FBO.

Murray Review Recommendation 8:
That the Government include in future Intergenerational Reports, information that helps to assess the merits of Government spending and tax levels, including information on the distribution of welfare, health and education benefits between income groups, and the taxes paid by such groups.

Government Response
Noted - The purpose of the IGR is to assess the long term sustainability of current Government policies from a whole of Government perspective. There would be considerable difficulty and uncertainty about the reliability of long term disaggregated distributional projections and the modelling capacity to produce such estimates is yet to be developed. Distributional analysis at a point in time could be more feasible and useful, but necessarily is not suitable for inclusion in a long term intergenerational report. The Australian Bureau of Statistics already publishes a report that analyses these issues.

Murray Review Recommendation 9:
That the Government introduce reporting of expenditure at program level by no later than the 2009–10 financial year. The Government should consider the Senate Finance and Public Administration Committee's model when consulting with Parliamentary committees and relevant stakeholders such as the Australian National Audit Office on the proposed method and form of reporting.

Government Response
Agreed – Portfolio Budget Statements are to include financial and non-financial information on agency programs with effect from the 2009-10 Budget. The Senate Finance and Public Administration Committee's model has been considered and different options for the presentation of agency level program information will be discussed with relevant Parliamentary Committees before a final format is determined.

Murray Review Recommendation 10:
That the Department of Finance and Deregulation review the administered/departmental distinction to improve transparency and ensure consistency in budgeting and accounting. In doing so it should consult with the Australian National Audit Office and other stakeholders. In particular, the Department of Finance and Deregulation should consider options to prevent departmental administration costs being improperly charged to administered items or other unauthorised expense items.

Government Response
Agreed – The Department of Finance and Deregulation has been examining these issues and consulting with the ANAO. The Department will issue revised guidance on the classification of appropriations in late 2008. This clarification will complement improvements in the disclosure of appropriations that have been included in agency Portfolio Budget Statements.

Murray Review Recommendation 11:
That the Government include sunset clauses in all future Standing Appropriations.

Government Response
Not agreed - While the idea of regular review and, if appropriate, abolition of ongoing appropriations is warranted, the inclusion of sunset clauses in legislation as a general approach is not supported. The Government considers, for example, that sunset

clauses in welfare legislation could introduce significant levels of uncertainty for the community and beneficiaries. Recommendation 12, which calls for an ongoing and regular review of the need for specific special appropriations, is a more practical approach to this issue.

Murray Review Recommendation 12:
That Special / Standing Appropriations and their continued operation be given greater attention whereby:

(a) the Government conduct a housekeeping exercise and repeal standing appropriations that are redundant;
(b) at least annually Finance undertake reviews of these appropriations and report to Parliament as to whether there is a continuing need for the appropriations and/or the legislation within which those appropriation clauses reside; and
(c) Parliament, through the appropriate and relevant Committees, is to undertake periodic reviews of Special / Standing Appropriations.

Government Response
Noted – The Government agrees that Standing Appropriations should be regularly reviewed. To support this process, the Government will consider including formal review clauses in special appropriation legislation, requiring governments to review and report to Parliament on a periodic basis on the continuing need for the legislation and whether the existing focus of the legislation remains valid. The annual review of Standing Appropriations is not supported due to the high resource costs involved.

Murray Review Recommendation 13:
That a consolidated register of Special Accounts be produced, and final audited figures should be produced in the Consolidated Financial Statements.

Government Response
Agreed – Details of Special Account estimates for agencies have already been included in the Consolidated Financial Statements. The Special Accounts register will also be included in Budget Paper 4 (Agency Resourcing) with effect from the 2009-10 Budget, complementing the audited end-of-year information already included in the Consolidated Financial Statements.

Murray Review Recommendation 14:
That the Government ensure that transfers of amounts between different forms of appropriation are reported to the Parliament in agencies' financial statements. Reporting should be clear and as explicit as practicable.

Government Response
Agreed - The appropriation tables in the notes to the financial statements already require disclosure of movements of appropriation by outcome, and the introduction of the agency resource statements in Portfolio Budget Statements and Annual Reports for the 2008-09 reporting period will further enhance transparency of these movements. The Minister for Finance and Deregulation will issue revised guidance to enhance reporting in agencies' financial statements from the 2009-10 financial year.

Murray Review Recommendation 15:
That the Government seek advice from the Department of Finance and Deregulation and the Australian National Audit Office in relation to the treatment of depreciation over the next year, with a view to implementing a new model from 2009–10, addressing weaknesses in the current system.

Government Response
Agreed – The Government has decided to cease funding of depreciation and other non-cash items and introduce appropriation of General Government Sector agencies on the basis of net cash requirements from the 2009-10 Budget for collecting institutions and from 2010-11 for other General Government Sector agencies. This will provide agencies in the general government sector with the funding they require within a financial year rather than providing funding for items which will not occur until a future date, sometimes for years. It will be transparent that the appropriations provided to agencies are for their use within a financial year including any carryover between years.

The ANAO has been consulted on the proposed changes.

Murray Review Recommendation 16:
That the Government require agencies to report any accumulated unspent appropriations and with respect to large amounts the reasons for the underspend in their Portfolio Budget Statements and Annual Reports. Furthermore, that unspent appropriations should be extinguished in law unless the Finance Minister (or relevant Presiding Officer for the Parliamentary appropriations) determines that there is good cause for the funds to be retained.

Government Response
Agreed in part – Changes were made to agency Portfolio Budget Statements for 2008-09 with the inclusion of agency resource statements, setting out all of the resources available to an agency, and a table providing an estimate of departmental appropriations expected to be carried over into the following year to meet future obligations. Both of these features will be included in Annual Reports from 2008-09, allowing Parliament to view the estimated appropriations carried over from year to year. From the 2009-10 Budget agencies will be required to report on large underspends as part of their reporting on programs.

Administered appropriations will be formally extinguished as of the end of the financial year through new arrangements introduced with the 2008-09 Appropriation Acts. Administered appropriations for 2008-09 onwards over and above those expended by agencies will be formally extinguished upon the tabling of an agency's Annual Report (which includes financial statements cleared by the Auditor-General) in Parliament. This will become an ongoing feature of the Annual Report process. Administered appropriations provided by Acts in 2007-08 and previous years, over and above those determined by the Finance Minister under those Acts, were extinguished by a one-off provision in the 2008-09 Budget Appropriation Acts.

From 2009-10 in the case of collecting institutions and from 2010-11 for other General Government Sector agencies funding will no longer be provided for non-cash items such as depreciation. As such the level of departmental appropriations carried forward from one year to the next will be significantly less. Given the level of carryovers will be highly transparent the Government sees no value in lapsing departmental appropriations, particularly as this would likely require complex administrative arrangements and provide agencies with a perverse incentive to undertake end of financial years spends.

Murray Review Recommendation 17:
That the Government include in the Budget Papers a reconciliation table for the Contingency Reserve, containing as great a level of detail as is practical for each item of expenditure.

Government Response
Not Agreed - Disclosure of the contents of the Contingency Reserve would be inconsistent with the purpose of the Reserve.

Murray Review Recommendation 18:
That the Minister for Finance issue public advice on the nature and usage of AFMs and the Contingency Reserve. That in due course the ANAO review the efficacy of the AFM and the contingency reserve.

Government Response
Agreed – The Department of Finance and Deregulation will include revised guidance in the Budget Papers and on its website by the 2009-10 Budget to further clarify the purpose and operation of the Advance to the Finance Minister and the Contingency Reserve. It should be noted, however, that the review of the efficacy of the AFM and contingency reserve is a matter for the Auditor-General to consider.

Murray Review Recommendation 19:
That the Government report to Parliament on possible mechanisms to bring about enhanced Parliamentary scrutiny of expenditure in circumstances involving responses to domestic and international emergencies, in particular circumstances of war-like action.

Government Response
Noted – The Government considers that it currently brings forward these issues to the Parliament when they occur. This can take a number of different forms dependent on the nature of the emergency. For example, specific Appropriation Bills were introduced to seek urgent funding for drought assistance and the response to the Equine Influenza outbreak in February 2008. In other circumstances this may take the form of a statement to Parliament. The Government is committed to enhancing transparency of its operations but this must be done without reducing its capability to react in a timely manner to emergencies.

Murray Review Recommendation 20:
That the recommendations of the Australian National Audit Office (ANAO) May 2008 *Preparation of the Tax Expenditures Statement* Performance Audit be adopted and implemented by Government, then applied nationally.

Government Response
Agree with qualifications - It needs to be noted that the Commonwealth is not able to require states and territories to adopt this recommendation, and positions would need to be negotiated through the Council of Australian Governments (COAG) or similar forum. The Treasury has already indicated in its response to the ANAO report that it agrees with the bulk of the ANAO's recommendations, with some qualifications, and is proceeding with their implementation.

Murray Review Recommendation 21:
That in accordance with *Operation Sunlight*, material changes in revenue or expenses for the current (Budget) year should be published on the Finance and Treasury website as well as the consolidated and updated fiscal and cash balances three or four times a year. Given possible resource issues, this recommendation should be implemented over a twelve month period with review of the resource implications at the end of that time.

Government Response
Noted – Details of consolidated revenue and expense information is provided at Budget time, as part of the Mid Year Economic and Fiscal Outlook during the financial year, and through the (audited) Consolidated Financial Statements after the completion of the financial year. The Government considers this represents an appropriate level of disclosure and does not intend to alter current arrangements.

Murray Review Recommendation 22:
That the Government amend Section 14 of the Charter of Budget Honesty Act to require the inclusion of the June quarter data in the MYEFO and publication in November each year.

Government Response
Noted – The Government agrees to amend the Chart of Budget Honesty (CoBH) Act 1998, to require the inclusion of data reflecting the June quarter national accounts of the previous financial year. However the Government does not agree to amend the CoBH to require the release of MYEFO in November as a number of factors need to be taken into account including the timing of key data releases, the timing of major policy decisions, and the timing of finalisation of the Final Budget Outcome.

Murray Review Recommendation 23:
That monthly financial statements be released by a specific date with the statements of July and August subject to flexibility given the work involved in preparing the annual financial statements and the Final Budget Outcome Report. The deadline should be aligned to the release of the key economic indicators which inform the Budget balances. Monthly financial reports for the current financial year should compare actuals to a published profile of expected revenue and expenditure or actual revenue and expenditure in the previous year.

Government Response
Agreed – The Government will consider advice on the timing for release of monthly financial information prior to the 2009-10 financial year. Financial performance

information will include a comparison of estimated and actual results, based on the profile of how resources are expected to be used during the course of the year.

Murray Review Recommendation 24:
That the Government consolidate parts 1, 2 and 3 of the Final Budget Outcome report and provide one statement which includes GST and is prepared in accordance with AASB 1049.

Government Response
Agreed – The Government considers that presentation in accordance with AASB 1049 will provide a simplified but enhanced level of disclosure of Commonwealth resources, and has included this presentation in the Final Budget Outcome for 2007-08.

Murray Review Recommendation 25:
That the Government implement the changes to access for election costings proposed in *Operation Sunlight*, and investigate options to make provision for reasonable access to these services by minor parties.

Government Response
Noted.

Murray Review Recommendation 26:
That the Intergenerational Report be produced at least once each parliamentary term (i.e. every three years).

Government Response
Agreed - The frequency of the release of the IGR needs to balance the importance of ensuring up to date and relevant information is available to inform policy formulation against the risks of undermining the credibility of long term projections by trying to capture short term economic and budgetary developments.

Murray Review Recommendation 27:
That the Government consult with key stakeholders, including relevant Parliamentary committees, on the programs across Government that would warrant and could be easily adapted to publish forward estimates out to six years.

Government Response
Noted– Where programs have longer term financial implications beyond the forward estimates period, they are already reported in the Budget Papers.

Murray Review Recommendation 28:
That the Government require in all new policy proposals the inclusion of relevant demographic analysis.

Government Response
Noted – Demographic analysis is already undertaken on relevant proposals and all new policy proposals must advise Government where the long run costs of a proposal are expected to be significantly different to the forward estimates. For many

proposals, demographic analysis is not relevant. The Murray Report acknowledges that this recommendation would be ambitious and that such projections can be uncertain. Requiring a demographic analysis on all new proposals would be time-consuming and resource intensive.

Murray Review Recommendation 29:
That the Government assess the longer term financial data-analysis and modelling capabilities available through the Department of Finance and Deregulation with a view to either having them enhanced in-house or enhanced through outsourcing to an academic body, funded by Government.

Government Response
Agreed - The Government will consider options to enhance its data analysis and modelling capabilities with the aim of introducing improved capabilities in the 2009-10 Budget context. This needs to include historical and future expenditure modelling and analysis.

Murray Review Recommendation 30:
That the Government include key environmental and social impacts, such as climate change, in future intergenerational reports and investigate the utility of including a whole-of-Government triple-bottom line chapter.

Government Response
Noted - Australia is a world leader in examining intergenerational issues and the sustainability of Government policies going forward. The Government recognises the need to position Australia to meet emerging pressures, such as environmental and social change. The Government has already released modelling on climate change.

Murray Review Recommendation 31:
That the Joint Committee on Public Accounts and Audit consider whether they should review and report on ways in which the *Charter of Budget Honesty Act 1998* could be strengthened.

Government Response
Noted – The Government is reviewing the Charter of Budget Honesty Act 1998 in line with existing commitments under Operation Sunlight and will consult with the JCPAA as part of that process.

Chapter 4 *The Parliamentary Imperative – Improving Parliamentary Practises*

Murray Review Recommendation 32:
That the Joint Committee on Public Accounts and Audit and the Senate Finance and Public Administration Committee examine the merits of enhancing their secretariats' resources and responsibilities so that real-time briefs pertaining to areas of specific interest on relevant finance accountability measures can be produced for committee members.

Government Response
Noted.

Murray Review Recommendation 33:
That the Joint Committee of Public Accounts and Audit conduct a review of all public sector financial reporting requirements directed at identifying those that are unnecessarily burdensome, complex or redundant, or could be produced in a more effective, efficient manner, without diminishing accountability. This review activity should be supported as necessary by specialist expertise from agencies, including the Productivity Commission.

Government Response
Noted – This is consistent with the Government's aims of reducing unnecessary regulation while at the same time ensuring an appropriate level of transparency is maintained.

Murray Review Recommendation 34:
That the Government produce a report on the quality, transparency and readability of Budget documents and information at least every three years, and that it be examined and reported upon by the Joint Committee on Public Accounts and Audit to provide impetus to continuous improvement to Budget transparency and accountability.

Government Response
Noted – The Government will assist the JCPAA to examine, once each Parliamentary term, Budget documents and related reporting arrangements.

Murray Review Recommendation 35:
That the Senate Procedure Committee examine ways of enhancing cooperative arrangements whereby ministers from one House may appear before the committees of the other.

Government Response
Noted.

Murray Review Recommendation 36:
That the Government disclose ministerial remuneration and consider adopting the New Zealand approach to disclosure of ministerial remuneration, by including an aggregate of the total salaries and allowances provided in the Consolidated Financial Statements.

Government Response
Agreed in principle – The Department of Finance and Deregulation will investigate the feasibility of including ministerial remuneration in the Consolidated Financial Statements (or in another public report) and will provide further advice to Government on this issue.

Chapter 5 *Good Governance*

Murray Review Recommendation 37:
That the Government establish a Public Sector Regulator on matters relating to financial administration and management, with strong and comprehensive enforcement powers that promote an efficient regulatory system for the public sector. Persuasion, education and encouraging compliance through negotiation, settlement and adverse publicity should be the primary enforcement mechanisms. Prosecution resulting in civil or criminal penalties should be a last resort.

Government Response
Not Agreed – The Government does not support the introduction of a Public Sector Regulator as there are considered to be more effective mechanisms. However, efforts to improve the compliance of agencies with the financial framework are strongly supported. This will be accomplished through enhancing the current compliance responsibilities and capacities of the Department of Finance and Deregulation to enable follow up of compliance issues and remediation of systemic deficiencies across agencies.

Murray Review Recommendation 38:
That the Department of Finance and Deregulation prepare an aggregate analysis of all chief executives' Annual Certificate of Compliance and advise agencies, the ministry and the Parliament on overall trends.

Government Response
Agreed – The Government agrees that there is benefit in the Department of Finance and Deregulation preparing an aggregate analysis, which would have the value of identifying the negative and positive aspects of agency compliance and overall trends. The report will be implemented for the 2008-09 reporting period and tabled in Parliament.

Murray Review Recommendation 39:
That the Government develop processes for chief executives informing the responsible minister and the Parliament of the results of investigations into material compliance failings.

Government Response
Agreed – Chief executive officers are already responsible for disclosing compliance failings to their Minister and to Finance, but the Government agrees that these responsibilities should be made more explicit in guidelines issued by Finance. Reporting to Parliament on these matters will take place in the manner outlined in the response to recommendation 38.

Chapter 6 *The Outcomes and Outputs Framework*

Murray Review Recommendation 40:
That the proposed newly devised, or revised, outcome statements for agencies be implemented no later than the 2009–10 Budget.

Government Response
Agreed – A review of agency Outcome Statements is under way in relation to General Government Sector entities to ensure that their outcome statements are sufficiently specific in relation to the activities being pursued, that these activities are capable of being measured, and that the target groups for whom the services are provided are capable of being identified. The outcome statements of agencies that warrant change will be amended and the revised statements will be included in the Appropriation Bills from the 2009-10 Budget.

Murray Review Recommendation 41:
That the Australian National Audit Office review the new outcome arrangements including Finance's guidance and new department outcomes, 12 months after the new arrangements are implemented.

Government Response
Noted - The Government will refer the recommendation to the ANAO for the Auditor-General to consider.

Murray Review Recommendation 42:
That in order to enhance the integration of the Outcomes and Outputs Framework into agency operations and work area business plans that individual SES performance agreements have regard to the achievement of relevant outcomes, outputs and KPIs.

Government Response
Agreed - The Government agrees that SES officers' performance agreements should have regard to the achievement of Government objectives and the outcomes against which Parliament appropriates funds for agencies and the Department of Finance and Deregulation will include this in advice to agencies on the outcomes framework.

Murray Review Recommendation 43:
That before 2010 the Government implement an exceptional performance report designed to highlight outstanding public sector performance (both positive and negative). Subject to practical considerations that might dictate otherwise, the report should preferably be presented to Parliament on a twelve month basis.

Government Response
Noted – The Government has asked that options, including costs and benefits, be brought forward by the Minister for Finance and Deregulation.

Murray Review Recommendation 44:
That the Government implement annual and periodic whole-of-Government reporting for major cross-portfolio policies.

Government Response
Noted – This recommendation is consistent with the Government's aims under Operation Sunlight to enhance the range of information available through the Budget Papers, Ministerial Statements and through periodic reports such as the Intergenerational Report. Further opportunities will be considered on a case-by-case basis.

Murray Review Recommendation 45:
That the Government agree with COAG a process for selected annual or periodic whole-of-Australia reporting for major national concerns.

Government Response
Noted - Whole of Government and whole of Governments reporting on issues of national importance is being implemented through the Council of Australian Government (COAG). Additionally, in July 2008 COAG agreed to a new performance reporting framework developed by the Ministerial Council for Commonwealth-State Financial Relations under the new Commonwealth-State funding arrangements, including an expanded role for the COAG Reform Council. Further reforms in this area can be expected to build on these developments to better inform the Australian community on the delivery and progress of major national programs.