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This guide contains material that has been prepared to assist Commonwealth entities and companies to apply the principles and requirements of the Public Governance, Performance and Accountability Act 2013 and associated rules, and any applicable policies. In this guide the: mandatory principles or requirements are set out as things entities and officials ‘must’ do; and actions, or practices, that entities and officials are expected to take into account to give effect to those principles and/or requirements are set out as things entities and officials ‘should consider’ doing.
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Introduction

Audience

The Commonwealth Resource Management Framework Companion (the Companion) provides an overview of the Commonwealth Resource Management Framework including the Budget process. The Companion is aimed at officials of Commonwealth entities who are responsible for:

- establishing and maintaining internal controls in their entity relating to the management of public resource or
- the preparation and delivery of resource management training.

More broadly the Companion may be of interest to officials who are seeking a greater understanding of the Commonwealth Resource Management Framework. While the Companion is primarily concerned with the application of the framework to Commonwealth entities, Part 6 outlines the requirements in the PGPA Act that apply to Commonwealth companies.

This Companion is available on the Department of Finance website at finance.gov.au/resource-management/introduction/.

Key points

The Companion covers the key components of the Commonwealth Resource Management Framework, including the overarching principles and rules that govern the management and use of public resources by officials of Commonwealth entities.

In providing an overview of the framework, the Companion does not attempt to provide authoritative guidance on specific aspects of the framework. Rather the Companion aims to provide a summary of the different elements of the framework, and direct readers (via the references and hyperlinks) to more specific guidance on the Finance website. Users seeking guidance on particular aspects of the framework should consult the relevant guidance on that particular subject.

The Companion also supports the Resource Management and Budget (RMB) training program. The RMB training program covers the material discussed in Parts 1 to 5, by showing how the components and processes in the Commonwealth Resource Management Framework work together to support decision-making in Government and ensure the proper use and management of public resources.

For further information on the Companion or the RMB training program, readers can contact the Training Team at training.team@finance.gov.au.

Summary of the Companion


- the purpose of the framework and what constitutes public resources
- the Australian system of government, including the three tiers of government, the Australian Constitution, the separation of Commonwealth powers and the structure of Commonwealth public sector
- governance arrangements in the Commonwealth public sector and the types of Commonwealth bodies, including non-corporate Commonwealth entities, corporate Commonwealth entities and Commonwealth companies
appropriations and the flow of relevant money
the purpose of the PGPA Act, who it applies to and its key elements
legislative instruments, such as rules, made under the PGPA Act
policies and guidance that influence the use of public resources
other legislation that relates to the management of public resources.

**Part 2 – Internal controls and accountability** builds on the framework foundations set out in Part 1, focusing on the governance requirements for individual Commonwealth entities. Part 2 covers:

- duties and responsibilities of officials and accountable authorities under the PGPA Act
- internal controls, risk management and the Commonwealth Risk Management Policy
- accountability, and performance management within the Commonwealth Resource Management Framework, including corporate plans, Portfolio Budget Statements, annual reports and annual performance statements
- the requirement to work with others.

**Part 3 – Use of public resources** focuses on the fundamental requirement to ensure the proper use of public resources, in particular:

- considerations for spending relevant money
- the use and management of relevant property.

**Part 4 – Budgeting** outlines the Commonwealth’s annual Budget process in the context of the resource management cycle — from planning and budgeting, to implementing and monitoring and finally to reporting and evaluating. This part reinforces the framework foundations in Parts 1 and 2 and the practical steps to using public resources considered in Part 3 by examining how they apply to a typical Budget cycle. Part 4 covers:

- relevant legislation and policy that applies to the Budget
- the roles and responsibilities of participants involved in the Budget process
- tools used to manage the Budget process, such as CBMS (BEAM, BPCD) and INPACT
- the five year Budget cycle and how it fits with the resource management cycle
- the steps involved in developing and costing a new policy proposal (NPP) during the planning and budgeting stages
- how costings and portfolio budget submissions are prepared
- documents required with the Budget, e.g. Budget Papers, PB Statements and appropriation bills
- implementing and monitoring of the budget
- preparing mid-year estimates for the MYEFO report and Additional Estimates appropriation bills.

**Part 5 – Reporting** considers the accountability mechanisms in the Commonwealth Resource Management Framework including:

- reporting requirements for Commonwealth entities and the Commonwealth as a whole
- requirement for entities to report on financial and non-financial performance
- basic accounting concepts used in the Commonwealth public sector
- the role of compliance reporting.
Part 6 – Commonwealth companies sets out how the framework to Commonwealth companies.

Part 7 – Index of guidance and further information sets out related useful guidance and information. This part compiles all the links to other guidance material that are referred to throughout the Companion.
1. The Commonwealth Resource Management Framework

1.1. Purpose of this part

1. The purpose of this part is to provide an insight to:

- the purpose of the Commonwealth Resource Management Framework
- what constitutes public resources
- the Australian Constitution and the Australian system of government
- the roles and powers of the three tiers of government in Australia and the separation of Commonwealth powers between the executive government, Parliament and the judiciary
- the structure of the Commonwealth public sector and the types of Commonwealth bodies, including non-corporate Commonwealth entities, corporate Commonwealth entities and Commonwealth companies
- the flow of relevant money from revenue and receipts to carrying out Commonwealth purposes
- types of appropriations: annual and special appropriations
- the purpose of the PGPA Act, who it applies to and its key elements
- legislative instruments made under the PGPA Act, including the PGPA Rule, instruments relating to Commonwealth procurement and grants, and determinations
- accountable authority instructions
- policies and guidance that apply to or assist Commonwealth entities
- other legislation that relates to the management of public resources.

1.2. Commonwealth Resource Management Framework

2. This section provides an overview of the foundations of the Commonwealth Resource Management Framework, including the principles, legislation and policies that support decision-making and resource management.

Purpose of the framework

3. The Commonwealth Resource Management Framework is an important part of the Commonwealth’s public sector governance. Public sector governance is the set of responsibilities and practices, policies and procedures, exercised by an entity’s accountable authority, to provide strategic direction, ensure objectives are achieved, risks managed and resources are used responsibly and with accountability.

4. Public sector governance encompasses the important role of leadership and also covers the wider responsibility of all officials working in Commonwealth entities to apply governance practices and procedures in their day-to-day work.

5. Good governance compromises both:

- performance — how the Commonwealth public sector manages its overall performance and the delivery of goods, services or programmes
• compliance — how the Commonwealth public sector ensures it meets the requirements of the law, regulations, published standards and community expectations of probity, accountability and openness.

6. Public sector governance applies not only to the decisions that are made by individuals on a daily basis, but also to the arrangements that are put in place at the whole-of-government or entity level to support government entities to:

- implement government policies
- deliver services
- meet their organisational goals
- achieve outcomes.

7. The Commonwealth Resource Management Framework supports good public sector governance by seeking to support and improve public sector:

- planning – while all organisations need to plan for the short and long-term, the Government needs a framework to help it to plan having regard to the public interest. That is, the public sector needs to balance competing priorities and make decisions for the benefit of the whole nation
- resource management and decision making – the Government has a responsibility to ensure resources are allocated in an efficient and effective way because it is handling taxpayers’ money
- risk mitigation – risks differ between the public sector and private sector. In addition to protecting itself from risks, the Government also needs to protect citizens, who ultimately bear the cost and share in the benefits of government decisions
- accountability – in relation to the use of taxpayers’ money. Given the payment of tax is a legal obligation and not a choice, government decisions need to have a higher level of accountability and are subject to parliamentary scrutiny as well as media and public scrutiny.

Role and components of the framework

8. The Commonwealth Resource Management Framework:

- governs the allocation of public resources
- supports devolved responsibilities for the management of public resources
- establishes the rules for Commonwealth entities to use and manage those resources
- ensures accountability and transparency around the use and management of those resources.

9. The accountable authority for each Commonwealth entity is responsible for the day-to-day management of public resources that they are allocated.

10. Public resources includes (section 8 of the PGPA Act):

- relevant money:
  - money standing to the credit of any bank account of the Commonwealth or a corporate Commonwealth entity or
  - money that is held by the Commonwealth or a corporate Commonwealth entity.
- relevant property:
  - property (other than relevant money) that is owned or held by the Commonwealth or a corporate Commonwealth entity or
any other thing prescribed by a rule made under the PGPA Act (see Section 1.7 below).

- appropriations (see Section 1.5 below).

11. Relevant money is an important concept because every year Commonwealth entities collect and spend billions of dollars. Relevant money is broadly defined to clarify that all money held by Commonwealth entities is subject to the same obligations under the PGPA Act, no matter who holds it or how it is held.

12. Relevant property is also all-encompassing. It includes real property, personal or movable property (e.g. vehicle and equipment), and intellectual property (e.g. the Australian coat of arms).

13. For context Figure A provides a high level conceptual view of the Commonwealth Resource Management Framework. It shows:
   - the legislative foundations of the framework: the Australian Constitution, appropriation acts, the PGPA Act and other related legislation
   - the supporting legislative instruments under the PGPA Act, PGPA policy and entity's internal controls
   - the resource management cycle from planning and budgeting, through to reporting and evaluation and
   - the wide arrange of topics covered by the framework.

**Figure A. The Commonwealth Resource Management Framework**

14. The rest of Part 1 explains the key components of the framework and the rules, policies, processes and conventions that support these components.

**A journey of improvement**

15. Since Federation, the Commonwealth Resource Management Framework has moved:
   - from process controls to principles
   - from highly centralised practices to decentralised responsibilities
through various conceptions about how the Commonwealth is constituted, how it should work and how it should meet its accountabilities to the Parliament and the people.

16. The changes to the framework have reflected changes in processes and technology, evolving expectations of governance, and maturity of the political system. Since the 1980s, through the transition from the **Audit Act 1901** to the **Financial Management and Accountability Act 1997 (FMA Act)** and **Commonwealth Authorities and Companies Act 1997 (CAC Act)**, and finally to the **PGPA Act**, the Commonwealth financial framework has become increasingly devolved. Responsibility for many major financial functions have been transferred from ministers and central departments to entities’ accountable authorities (and their delegates).

17. The most recent reforms have been guided by the **Public Management Reform Agenda (PMRA)**. The PMRA started in December 2010 as the **Commonwealth Financial Accountability Review (CFAR)**. The cornerstone of the PMRA was the commencement of the **PGPA Act** on 1 July 2014. The PMRA is continuing to modernise and improve the Commonwealth Resource Management Framework so that it will support high quality resource management and performance now, and into the future.

18. Reforms that affected the management of public resources prior to 2010 included:

- 1996, the National Commission of Audit report which recommended the adoption of accrual principles as the basis for budgeting, resource management and financial reporting.
- 1997, FMA Act, CAC Act and **Auditor-General Act 1997** were introduced to replace the **Audit Act 1901**. These reforms led to a focus on principles-based financial management, rather than prescriptive rules.
- 1998, the **Charter of Budget Honesty Act 1998** was enacted to set out requirements for government’s financial disclosure and fiscal management of the Australian economy and federal Budget (See **Section 4.3** below).
- 1999, accrual budgeting was introduced. This provided an integrated budgeting, resource management and financial reporting framework, and aimed to improve decision-making by identifying the full costs of government activities.
- 2002, the **Budget Estimates and Framework Review** conducted by Finance and the Department of the Treasury assessed the system’s accuracy, responsiveness and effectiveness in meeting the needs of government.
- 2006, the then Government’s **Operation Sunlight** included measures aimed to enhance budget transparency and accountability.
- 2008, former Senator Andrew Murray reviewed budget transparency issues (the Murray Report), which resulted in revisions to the presentation of information in the **Portfolio Budget Statements from 2009-10** (See **Portfolio Budget Statements in Section 4.10** below).

1.3. **Australian system of government**

19. This section describes the key features of the Australian system of government and the legal basis for the Commonwealth Resource Management Framework. In particular, it identifies the powers and functions of the Commonwealth, and looks at how the Commonwealth Government interacts with state and territory governments.
The Constitution

20. The Australian Constitution establishes the basic rules for governing Australia. The Constitution is the fundamental law of Australia binding everybody including the Commonwealth Parliament and the parliament of each state and territory.

21. The Constitution divides the powers to govern Australia between two of Australia’s three levels of government. The Constitution divides powers between the federal or central government (the Commonwealth) and the regional governments (the 6 existing state governments and two territories [referred to collectively in this guide as ‘the states’]). The third level of government in Australia, local government, is established by state laws.

22. Key features of the Constitution:
   • creates the Commonwealth of Australia
   • recognises Australia is a constitutional monarchy: our head of state being the Queen, who appoints the Governor-General as her representative in Australia
   • establishes the federal system of government by dividing powers between the Commonwealth and states
   • separates the powers of the Commonwealth between three different bodies: the Parliament, executive government and the judiciary.

23. The Constitution also forms the cornerstone of the Commonwealth Resource Management Framework, establishing powers and requirements regarding the management of public resources. These include:
   • the power for the Commonwealth to collect taxation revenue (section 51(ii) of the Constitution)
   • the legislative powers of the Commonwealth (section 51)
   • how the revenue is collected and how the executive government can access and spend that money (sections 81 and 83).

24. The Parliament consists of the Queen (represented by the Governor-General), the Senate and the House of Representatives (section 1 of the Constitution).

25. The Constitution separates Commonwealth powers between three bodies: the Parliament, executive government and the judiciary. The principle of the separation of powers is that, in order to prevent oppressive government, the powers of government should be held by separate bodies that can act as checks and balances on each other, this is illustrated in Figure B.
26. For more on the Australian Constitution see the National Archives of Australia website.

**Legislative power**

27. Chapter I of the Constitution establishes the two houses of Parliament:

- the House of Representatives has single member representation, designed to support efficient government by enabling the party or coalition with the majority of support to form the Government
- the Senate has multi-member representation designed to protect the interests of the states by having 12 elected senators for each state and two each for the Australian Capital Territory and the Northern Territory.

28. The powers of the Parliament are mostly set out by sections 51 and 52 of the Constitution. For example section 51 lists 40 areas over which the Commonwealth Parliament has the power to make laws, these include:

<table>
<thead>
<tr>
<th>Commonwealth powers</th>
<th>State powers</th>
</tr>
</thead>
<tbody>
<tr>
<td>trade and commerce</td>
<td>lighthouses, lightships, beacons and buoys</td>
</tr>
<tr>
<td>taxation</td>
<td>fisheries</td>
</tr>
<tr>
<td>postal and telecommunications services</td>
<td>currency</td>
</tr>
<tr>
<td>foreign policy taxation census and statistics</td>
<td>copyright</td>
</tr>
<tr>
<td>weights and measures</td>
<td>marriage</td>
</tr>
<tr>
<td>bankruptcy and insolvency</td>
<td>immigration</td>
</tr>
<tr>
<td>quarantine</td>
<td>defence</td>
</tr>
</tbody>
</table>

29. Generally speaking, if a topic is not in the Constitution, it is an area of state responsibility.
30. A proposed law (known as a bill) has to be agreed to by both houses of Parliament and assented to by the Governor-General before it can become an Act of Parliament with legal effect. A proposed law can be introduced in either house, with the exception of laws relating to revenue and taxation, which must be introduced in the House of Representatives.

31. For the purposes of the Commonwealth Resource Management Framework, it is important to note that the Constitution provides that the Senate:

- cannot introduce proposed laws to appropriate money or impose taxation
- cannot amend proposed laws that impose taxation or authorise expenditure for the ordinary annual services of the government (what constitutes the “ordinary annual services of the government” has been a point of discussion between the Senate and the Executive since Federation)
- cannot amend a bill so as to increase any proposed charge or burden on the people
- can request that the House of Representatives make amendments to financial legislation
- can refuse to pass any bill (including financial legislation) until further negotiations have taken place.

32. If the Senate twice fails to pass a bill from the House of Representatives, under specified conditions, the Prime Minister may ask the Governor-General to simultaneously dissolve both houses, in which case elections are held for all seats in both houses. This is known as a double dissolution of the Parliament.

Executive power

33. The Constitution vests executive power in the Queen to be exercised by the Governor-General. The Constitution enables the Governor-General to appoint ministers of state to administer such departments as the Governor-General establishes. The Constitution requires that these ministers must be members of Parliament or become members of Parliament within 3 months of appointment. The ministers then advise the Governor-General on the exercise of the laws.

34. While not stated in the Constitution, the Governor-General appoints the Prime Minister being the parliamentary leader of the party, or coalition of parties, which has a majority of seats in the House of Representatives. This majority party or coalition becomes the Government.

35. In practice, executive power is exercised by the Prime Minister and Cabinet (senior ministers). Their power derive:

- constitutionally from their membership of the Federal Executive Council and status as ‘advisers’ to the Governor-General
- politically from the Australian people at elections for the House of Representatives and
- by convention (custom and tradition).

36. In the context of the Commonwealth Resource Management Framework, the Governor-General’s influence is most often seen when granting royal assent to appropriation bills.

37. The Cabinet is the apex of the executive government and meets regularly to take the most important decisions. It comprises senior ministers and its decisions are given legal effect by their formal ratification by the Federal Executive Council.

38. The Cabinet is a product of convention and practice — its establishment and procedures are not contained in legislation. The government of the day, in particular, the Prime Minister, determines the shape and structure of the Cabinet and how it operates.

39. Some of the Cabinet’s work is carried out by its committees, which are established to deal with highly sensitive issues (e.g. revenue or security), relatively routine matters (e.g. a government’s weekly parliamentary program) and business that is labour intensive or
Judicial power

40. The Constitution provides for the establishment of the High Court of Australia and such other federal courts as the Parliament may create. The High Court is the final court of appeal and its judges are appointed by the Governor-General (acting on advice of the Federal Executive Council).

41. The functions of the High Court are to:
   • interpret and apply the laws of Australia
   • decide cases of special federal significance, including challenges to the constitutional validity of laws and
   • hear appeals, by special leave, from federal and state courts.

42. The other federal courts include:
   • Federal Court of Australia
   • Family Court and Federal Circuit Court.

Commonwealth-state relations

43. The Constitution defines the boundaries of law-making powers between the Commonwealth and the states.

44. The federal system of government requires cooperation between the Australian Parliament, state parliaments and local government.

45. Established in 1992, the Council of Australian Governments (COAG) is the peak intergovernmental forum in Australia, comprising the Prime Minister, state premiers, territory chief ministers and the president of the Australian Local Government Association.

46. The COAG’s role is to initiate, develop and monitor the implementation of policy reforms that are of national significance and require cooperative action by the different levels of government. COAG covers issues arising from:
   • COAG council and forum deliberations
   • international treaties that affect the states and
   • major initiatives of one government that have impact on other governments or require the cooperation of other governments (e.g. policy initiatives in relation to health, education or natural disaster arrangements).

47. The COAG Intergovernmental Agreement on Federal Financial Relations (FFR) commenced on 1 January 2009 to provide the overarching framework for all policy and financial relations between the Commonwealth and the states. The key objective of the FFR is to improve accountability to the public by ensuring that the appropriate government is accountable to its community — not just for its expenditure in delivering services, but more importantly for the quality and efficiency of the services it delivers and the outcomes it achieves.

48. The Federal Financial Relations Act 2009 (FFR Act) sets a standard form and design principles for Commonwealth–state agreements, and established centralised payment arrangements made directly from the Treasury to each state treasury. Under the framework the Commonwealth provides 3 forms of financial support for the states’ service delivery efforts (shown in Figure C):
Figure C. Payments to the states and territories

Federal Financial Relations Framework

- General Revenue Assistance: payments to states that can be used for any purpose, e.g., GST collected by the Commonwealth and distributed to the states.
- National Specific Purpose Payments (SPPs): annual and ongoing payments for states for use in key service delivery sectors such as:
  - health
  - education
  - skills and training
  - disability services
- National Partnership Payments: payments to states for specific purposes, to:
  - support projects
  - facilitate major reforms
  - reward jurisdictions that deliver on nationally significant reforms

• General Revenue Assistance includes the distribution of GST collected by the Commonwealth, can be used by the states for any purpose.
• National Specific Purpose Payments (national SPPs) can be used by the states in the key service delivery sectors and
• National Partnership Payments can be used by the states to support the delivery of specified outputs or projects, to facilitate reforms or to reward those jurisdictions that deliver on nationally significant reforms.

49. Commonwealth payments through the states for non-government schools and other bodies, including local government, are governed by separate legislation. Payments for non-government schools are passed through the treasuries, whereas other payments are made by the relevant Commonwealth entity.

50. For more information, see RMG-419: Classification of payments to other levels of government for specific purposes and Commonwealth own-purpose expenses.

1.4. Commonwealth public sector governance arrangements

51. This section provides an overview of the portfolio and institutional structures in the Commonwealth public sector. Financial and corporate governance arrangements effectively determine how power and authority are provided, apportioned and exercised by different Commonwealth bodies. These arrangements have implications for how performance information, both financial and non-financial, is reported.

52. The Commonwealth public sector is one of the largest operational entities in the southern hemisphere, and encompasses over 180 different entities and companies and over 700 other governance relationships as listed on the Australian Government Organisations Register. The Commonwealth public sector operates through a number of different organisational structures including departments of state, office holders, statutory authorities (including statutory corporations), companies and trusts.

53. The overarching and individual governance arrangements for Commonwealth entities and Commonwealth companies, sometimes referred to as corporate governance, are defining factors in the successful operation of government.

Portfolio structures in the Commonwealth public sector

54. Portfolios in the Commonwealth public sector are established through the Administrative Arrangements Order (AAO). Acting on advice from the Prime Minister, the Governor-General
appoints Ministers, establishes departments of state (also referred to as ‘portfolio departments’) and formally allocates executive responsibility through the AAO.

55. The AAO specifies the matters dealt with by each department of state and the legislation administered by each minister. In accordance with the AAO, most of the general executive powers of the Commonwealth are exercised by ministers or their departments.

56. Since 1 October 2013, following the federal election, the Commonwealth public sector has consisted of 18 departments of state in 16 portfolios:

- Agriculture
- Attorney-Generals
- Communications
- Defence
- Education and Training
- Employment
- Environment
- Finance
- Foreign Affairs and Trade
- Health
- Human Services (Social Services portfolio)
- Immigration and Border Protection
- Industry
- Infrastructure and Regional Development
- Prime Minister and Cabinet
- Social Services
- Treasury
- Veterans’ Affairs (Defence portfolio)

57. Some portfolios have only one minister. In other cases, however, to enhance ministerial control over complex and diverse functions, more than one minister may administer a portfolio. In those cases, the Prime Minister will decide who will have ultimate responsibility for the portfolio (known as the portfolio minister).

Types of Commonwealth entities and companies

58. Within the 16 portfolios, there are three high-level groupings of entities:

- non-corporate Commonwealth entities
- corporate Commonwealth entities and
- Commonwealth companies.

59. All Commonwealth entities and companies are established under power that comes from the Constitution, usually through legislation and the exercise of executive power. The PGPA Act further clarifies the financial and corporate governance arrangements of Commonwealth entities.

60. As all Commonwealth entities and companies form part of the executive government, all these public sector entities are accountable to the Parliament.

61. The Flipchart of Commonwealth entities and companies identifies the different entities and companies in each portfolio and lists some of the characteristics of these the entities and companies.

Commonwealth entities

62. A Commonwealth entity is:

- a department of state
- a parliamentary department
- an entity listed in the Public Governance, Performance and Accountability Rule 2014 (PGPA Rule) or other legislation
- a body corporate established by a law of the Commonwealth and prescribed in an Act or the rules to be a Commonwealth entity.
Non-corporate Commonwealth entities

63. Non-corporate Commonwealth entities are legally and financially part of the Commonwealth. Examples include departments of state, parliamentary departments or listed entities.

64. The Constitution recognises that core aspects of government operations are conducted by departments of state. A department of state has the flexibility to accommodate policy and functional activities in various ways. For example, functions in departments can be separately branded, giving them a distinct identity, and legislation may be used to establish positions or entities, with specific roles and responsibilities, which are administratively supported by a department.

65. A ‘listed entity’ is a body, person, group of persons or organisation (or any combination of these) that is prescribed by rules made under the PGPA Act, but does not include a body corporate. A listed entity might be something that, if it were not listed, would form part of another non-corporate Commonwealth entity. For example, the Australian Office of Financial Management would be part of the Department of the Treasury if it were not a listed entity for the purpose of the PGPA Act.

Corporate Commonwealth entities

66. A corporate Commonwealth entity is a body corporate that has a separate legal personality from the Commonwealth and can act in its own right exercising certain legal rights such as entering into contracts and owning property.

67. Some provisions of the PGPA Act apply to corporate Commonwealth entities differently to non-corporate Commonwealth entities because of their different legal status, for example the provisions relating to appropriations, banking, investments and the use of indemnities.

68. Examples of corporate Commonwealth entities include: Commonwealth Superannuation Corporation, Airservices Australia and the Reserve Bank of Australia.

Sector classification of Commonwealth entities and companies

69. To provide financial information on the performance of Commonwealth entities and companies the Commonwealth public sector is classified by institutional sector, as defined and required by Australian equivalents of international standards — known as Government Finance Statistics. The Government Finance Statistics system provides statistics, based on accounting information, which enables policy makers and the public to:

- assess the impact of policy decisions on the economy
- make international comparisons of performance information
- analyse the financial operations and financial position of the public sector at either the whole-of-government, institutional sector or transactional level.

70. Commonwealth public sector has three main sector classifications, illustrated in Figure D:

- **general government sector** — comprises all government units and non-profit institutions controlled and mainly financed by government
- **public financial corporations sector** — comprises government-controlled corporations and quasi-corporations mainly engaged in financial intermediation or provision of auxiliary financial services (e.g. Reserve Bank of Australia)
- **public non-financial corporations sector** — comprises government-controlled corporations and quasi-corporations mainly engaged in the production of market goods and/or non-financial services (e.g. Australian Postal Corporation, Airservices Australia and NBN Co Limited).
The characteristics of a Commonwealth entity or company will depend on how it is established. For entities or companies established by legislation the enabling legislation will influence the management structure of an entity and whether the entity holds money on behalf of the Commonwealth or in their own right. Figure E summarises some of the key differences between entities and companies based on their:

- **legal status** — whether an entity is legally part of the Commonwealth of Australia or a separate legal entity (i.e. body corporate)
- **employment framework** — how staff are employed, which generally set out the Parliament’s expectations in relation to the performance and accountability of staff in general, and accountable authorities and company directors in particular
- **sector classification** — international standards require Commonwealth entities and companies to be classified according to institutional sectors. These categorisations are based on the market that an entity or company operates, the nature of the goods and services provided and whether the entity or company receives funding primarily through taxes or other sources.
Figure E. Characteristics of Commonwealth entities and companies

<table>
<thead>
<tr>
<th>Types of entities or companies</th>
<th>Legal status</th>
<th>Employment framework</th>
<th>Sector classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>non-corporate Commonwealth entity</td>
<td>Departments of state, Departments of the Parliament listed entities</td>
<td>part of the Commonwealth of Australia</td>
<td>Public Service Act enabling legislation</td>
</tr>
<tr>
<td>corporate Commonwealth entity</td>
<td>body corporates</td>
<td>body corporate with separate legal status</td>
<td>Public Service Act enabling legislation</td>
</tr>
<tr>
<td>Commonwealth company</td>
<td>body corporates</td>
<td>body corporate with separate legal status</td>
<td>State or territory framework where the company is registered</td>
</tr>
</tbody>
</table>

Machinery of government changes

72. Machinery of government changes (or changes to administrative arrangements) is the term that is used to describe organisational or functional changes affecting the Commonwealth public sector.

73. Some common examples that result in machinery of government changes are:

- changes to the AAO following a decision by the Prime Minister to abolish or create a department or entity, or to move functions or responsibilities between departments or entities (these often occur after a federal election but can also happen at other times)
- the creation of a new entity, or the abolition of an entity
- other movements of functions between entities or into or out of the public sector
- Further guidance on machinery of government changes is available on the Finance website.

1.5. Appropriations

The flow of money

74. This section examines how the Constitution requires the Commonwealth to obtain appropriation authority from the Parliament to access and spend money.

75. The Constitution establishes the fundamental responsibilities and requirements regarding the management of public resources:

- the Parliament can make laws relating to the imposition and collection of taxation (sections 51(ii) and 55)
- all revenue raised and received by the executive government must go into one Consolidated Revenue Fund (CRF) (section 81) and
- the executive government can only spend this money for the purposes of the Commonwealth (section 81) with the authority of an appropriation made by law of the Parliament (section 83).
76. Section 81 of the Constitution provides that all revenue or money raised or received by the executive government forms one Consolidated Revenue Fund (CRF). The CRF is made up of different types of revenue, including:
   - general taxation
   - fines and penalties
   - commercial charges
   - cost-recovery charges, which might involve fees or levies.

77. Section 83 of the Constitution provides that the executive government can only withdraw money from “the Treasury” (considered the same thing as the CRF) if authorised by an appropriation made by law. Before seeking authority from the Parliament, the executive government decides how it intends to spend money through the Budget process. The Budget process is considered in more detail in Part 4 below.

78. Once the executive government has decided priorities for the coming Budget year, it submits its proposed budget to the Parliament for consideration in the form of annual appropriation bills and, where necessary, bills to establish or adjust special appropriations.

79. The Parliament considers the proposed appropriation bills during June each year. If the bills are passed by the Parliament, and the Governor General provides royal assent, then the bills become acts — providing legal authority to access money in the CRF. Money is then able to be spent in accordance with the purpose set out in the appropriation acts and any applicable supporting legislation.

80. The Parliament provides appropriation authority in two ways:
   - annual appropriations — these receive parliamentary approval through the annual Budget process
   - special appropriations — these receive parliamentary approval through separate enabling legislation (existing special appropriations do not require parliamentary approval through the annual Budget process).

81. Which type of appropriation is most suitable will depend on the program design and characteristics that the money will be spent on. As a general rule, a special appropriation is only used where an annual appropriation is not suitable.

**Annual appropriations**

82. Annual appropriations are contained in annual appropriation Acts. Every year these appropriations provide funding for approximately 20 per cent of government expenditure.

83. Although the budget estimates show a forecast of up to four financial years, annual appropriation Acts generally provide funding to meet estimated expenses of only the financial year that the Act relates to. The budget estimates for the three forward years are simply a forecast and do not create a legal appropriation beyond the actual year.

84. Figure F illustrates the different types of annual appropriations which provide funding for government and parliamentary services to:
   - run Commonwealth entities
   - deliver government activities, such as program and service delivery
   - invest in assets and reducing liabilities.
85. On Budget Night in May each year the Government generally presents three annual appropriation bills to the Parliament:
   - *Appropriation Bill (No. 1)* for the ordinary annual services of the government
   - *Appropriation Bill (No. 2)* for other purposes
   - *Appropriation (Parliamentary Departments) Bill (No. 1)*

86. The annual appropriations for government services are split between *Appropriation Bill (No. 1)* and *Appropriation Bill (No. 2)*. Section 53 of the Constitution provides that the Senate may not amend a bill which would appropriate money for the ordinary annual services of the government (*Appropriation Bill No. 1*).

87. If additional money is required for government programs during the Budget year, then additional appropriation bills will be presented to the Parliament.

**Appropriation Bill (No. 1)**

88. *Appropriation Bill (No. 1)* provides money for the ordinary annual services of government. It includes separate tables for each entity that may contain:
   - a single departmental appropriation
   - separate administered appropriations for each outcome.

**Single departmental appropriation**

89. Departmental appropriations are appropriated as a single amount for each entity.

90. Departmental appropriations or items are funding for matters that entities control and that are associated with their day-to-day operations and program support activities. This is sometimes described as the operating or running costs of a Commonwealth entity. Expenditure typically covered by departmental appropriations include:
   - employee expenses
   - supplier expenses
   - other operational expenses (e.g. interest and finance expenses)
   - non operating costs (e.g. replacement and capitalised maintenance of existing departmental assets valued at $10 million or less).
91. Departmental items are not expressed in terms of a particular financial year and do not automatically lapse at the end of the year. Because the cash to meet expenses can be required at times other than when the expenses are incurred, the departmental appropriations remain available until spent, or the Act through which the amounts were appropriated is repealed or sunsets.

*Separate administered appropriations for each outcome*

92. Administered amounts are appropriated separately for outcomes (i.e. the split across outcomes is not notional), specifying how much can be expended on each entity outcome.

93. Administered appropriation items provide funding for programs or services that entities administer or manage on behalf of government. These payments are amounts required to meet the total estimated expenses for administered activities that are expected to be incurred in relevant financial year. They are normally related to activities governed by eligibility rules and conditions established by the Government or the Parliament such as grants programs, subsidies and benefit payments. Entities therefore have less discretion over how administered operating costs are incurred.

**Appropriation Bill (No. 2)**

94. *Appropriation Bill (No. 2)* provides money for purposes other than the ordinary annual services of government, including:
   - new administered outcomes
   - non-operating (capital) costs and
   - some financial assistance to state, territory and local governments.

95. Section 53 of the Constitution permits the Senate to amend these appropriations providing the Senate does not increase the amount of an appropriation (i.e. the Senate can only amend an appropriation bill for other purposes to reduce an appropriation).

*New administered outcomes*

96. A new administered outcome appropriation is money proposed for a new administered outcome that has not been included in any previous appropriation Act.

*Non-operating costs*

97. Non-operating costs comprise:
   - equity injections — provided to entities to enable investment in assets to facilitate departmental activities
   - administered assets and liabilities appropriations — used to acquire new administered assets, enhance existing administered assets or discharge administered liabilities.

*Payments to the states, territories and local government*

98. Since 2009 the majority of payments to the states have been made through the special appropriation in the FFR Act (See Section 1.3 below). However, some grants of financial assistance to the states are still made through the appropriation bills for other purposes.

**Appropriation (Parliamentary Departments) Bill (No. 1)**

99. Since the mid-1980s the parliamentary departments have had a separate appropriation bill to recognise that the Parliament is not part of the executive government. This bill provides money for the four parliamentary departments: the Department of the Senate, the Department of the House of Representatives, the Department of Parliamentary Services and the Parliamentary Budget Office.
Additional estimates appropriations

100. A second set of annual appropriation bills is usually introduced in the second half of each financial year, known as the Additional Estimates Appropriation Bills. These Bills correspond to the three budget appropriation Bills and continue the numbering sequence:

- *Appropriation Bill (No. 3)* for the ordinary annual services of government
- *Appropriation Bill (No. 4)* for certain expenditure, and for related purposes
- if required, *Appropriation (Parliamentary Departments) Bill (No. 2).*

101. If required, the Government may introduce further annual appropriation bills during the year to meet urgent expenditure requirements. If made, these bills are known as Supplementary Additional Estimates Appropriation Bills.

Outcomes and programmes

102. All Commonwealth entities in the general government sector are allocated appropriations and are required to report their appropriations in accordance with the Commonwealth outcomes and programmes framework. This framework provides information to address three key questions:

- What does the government want to achieve? outcomes
- What activities does government undertake to achieve this? programmes
- How does government monitor its progress towards achieving this? performance reporting

103. The framework provides a structure for monitoring and reporting on the allocation and use of public resources, including financial and non-financial performance information:

- non-corporate Commonwealth entities:
  - are funded by appropriations that are attributed to specific outcomes (described in entities' outcome statements)
  - use the appropriations to achieve the outcomes by undertaking programmes
  - report on both financial and non-financial performance.
- corporate Commonwealth entities in the general government sector are subject to the same outcome and programme reporting requirements as non-corporate Commonwealth entities.

104. The key elements of the framework, which are currently set out Portfolio Budget Statements (PB Statements), include:

- **strategic direction statement** of an entity, which includes its key priorities
- **outcome statements**, which identify the key purpose or objectives of the entity
- **programmes**, which identify the specific activities to be undertaken by the entity in the achievement of an outcome
- **programme objectives**, which describe the purpose of the programme in terms of the target group, the level of known need and the scope of the problem
- **programme deliverables**, which cover the tangible services, products or interventions that will be undertaken to achieve the objectives, particularly in terms of the impact that the programme will have at a community level
- **performance information**, which shows what has been achieved for each outcome, including both financial and non-financial information
• **key performance indicators (KPIs)**, which provide information on the effectiveness of the programme in achieving its objectives.

105. Figure G illustrates the relationship between appropriations and different elements of the outcomes and programmes framework.

**Figure G. Commonwealth outcomes and programmes framework**

![Diagram](attachment:image.png)

*Source: Adapted from Department of Finance, Outcome Statements Policy and Approval Process, March 2011*

106. From 2015-16, Commonwealth entities will be required to set out performance planning and reporting information in their corporate plans and annual performance statements (see Section 2.4 below).

**Outcome statements**

107. Outcome statements set the objectives of an entity and help to:

- explain the purpose for which annual appropriations are approved by parliament for use by entities
- provide a basis for budgeting and reporting against the use of appropriated funds.

108. Outcome statements form part of a broader reporting framework that aims to help people who have an interest in government performance, including ministers, parliamentarians, external accountability bodies (e.g. the Auditor-General) and the public. Outcome statements help those people and bodies access information on how government activities are being measured and what results are being achieved.

109. The Finance Minister must approve all new and revised outcome statements. An outcome statement should be specific, focused, easily interpreted and:

- identify the intended results, ensuring that the level of achievement can be measured
- specify the target group with appropriate focus and precision
- specify the activities undertaken by the entity that contribute to the achievement of the intended results.

110. Outcome statements can be established or changed when:

- a new entity is established
- an entity takes on new functions or is transferred functions that are not captured in its existing outcome statements
• the policy objectives or strategies of an entity change.

Programmes

111. While entities are funded on the basis of their outcomes, it is through their programmes that outcomes are achieved. Programmes involve the delivery of activities, benefits, services or payments to individuals, communities, industry or business, and the not-for-profit sector.

112. Commonwealth programmes are activities that are usually ongoing in nature and reported on centrally in PB Statements and annual reports.

113. Circumstances that lead to the creation or refinement of Commonwealth programmes include:
• the creation of a new entity, new outcome statement or new significant ongoing entity activity
• when an entity undertakes new functions that are not within existing outcomes or programmes.

114. Finance must approve proposals to create or change Commonwealth programmes to ensure that:
• the correct level of information is disclosed about material and significant areas of government spending
• the usefulness and consistency of programme reporting information is maintained.

115. Programme support is the departmental activities and resources attributed to policy development, delivery and costs of administering a Commonwealth programme. It covers the costs of the area of the entity responsible for the programme’s administration, and the relevant portion of the costs of the corporate areas that support the operation of the entity (i.e. overheads).

Deliverables

116. Deliverables are the end-products (tangible and intangible) of programmes, and can include both activities (e.g. transfer payments and services to the community) and the support activities related to delivering and managing a programme.

Public reporting

117. Entities are required to report against their programmes in the PB Statements, Portfolio Additional Estimates Statements and annual reports.

118. Information on the performance of government services, policies and programmes is usually obtained through a mix of monitoring and evaluation activities. Monitoring and evaluation are core components of an effective delivery system, and:
• support government decision-making in planning and allocating resources across competing priorities
• contribute to whole-of-government programme and service delivery improvements
• improve the effectiveness and efficiency of government programmes
• promote accountability and transparency about the use and management of public resources
• provide early warning about emerging problems.

119. The performance of Commonwealth entities is measured in a number of ways, including:
• compliance reviews by audit and regulatory bodies
• programme evaluations
• assurance reviews
• capability interventions
• performance data, both financial and non-financial, collected and published in various forms at a programme, entity and whole-of-government level.

120. In addition to resources and appropriation information, entities are required to provide details of non-financial performance, including performance against the purposes and activities of the entity. For more information on accountability and performance, see Section 2.4 below.

Mechanisms for managing annual appropriations

121. There is no administrative scope for entities to transfer amounts between appropriation items. However, there are legislative mechanisms approved by Parliament for managing changes to annual appropriations in certain circumstances. Some common examples are discussed below.

Transferring functions between non-corporate entities — section 75 arrangements

122. If the Government decides to transfer functions between non-corporate Commonwealth entities (e.g. a new Administrative Arrangements Order that abolishes an entity or re-allocates the functions of an entity to another entity), the Finance Minister, or his or her delegate, may issue a determination under section 75 of the PGPA Act that allows the balance of the unspent appropriation provided for the function to be transferred from the entity ‘losing’ the function to the entity ‘gaining’ the function.

123. More information on machinery of government changes.

Reduction of departmental and non-operating appropriations

124. Departmental and non-operating appropriations that are unspent at the end of the financial year will remain available until the appropriation is spent or the act that provides the authority is repealed or sunsets. Section 51 of the PGPA Act also enables the Finance Minister, or his or her delegate, to withhold access to appropriated amounts that are surplus to an entity’s requirements.

Retained receipts — section 74 arrangements

125. Section 74 of the PGPA Act authorises non-corporate Commonwealth entities to retain certain receipts as increases to one of their appropriations. These amounts must be of a kind prescribed in section 27 of the PGPA Rule. For example:

• receipts to offset the cost of delivering core government services
• receipts from the provision of departmental goods and services
• gifts or contributions of money to a non-corporate Commonwealth entity
• amounts that are managed in trust or similar arrangements
• receipts from the sale of minor departmental assets, such as old computers, are disposed of at the end of their useful life
• receipts of an amount returned to the entity, such as when a supplier is overpaid and the supplier repays the overpayment to the non-corporate Commonwealth entity

126. For more information see RMG-108: Receipts collected by non-corporate Commonwealth entities.

Repayments by the Commonwealth

127. Section 77 of the PGPA Act contains a special appropriation that enables the Commonwealth to repay amounts that have been received, where no other appropriation supports the repayment.
Advance to the Finance Minister

128. The advance to the Finance Minister is a provision authorised by the parliament through an annual appropriation Act that enables the Finance Minister to provide additional urgently needed appropriation to entities for expenditure in the current year.

129. The circumstances under which an advance can be made are limited by the legislative criteria set out in the annual appropriation Acts. An advance can only be made if the Finance Minister is satisfied the need is urgent and was either unforeseen or arose because of erroneous omission or understatement of estimates at the last available time for appropriation of funds.

Special appropriations

130. A special appropriation is an authority provided in an Act (other than the annual appropriation Acts) to spend money from the CRF. The legislation containing the special appropriation will:
   • provide the authority to draw money from the CRF
   • set out the purposes for which the drawn amounts can be spent.

131. Government activities and programmes that are delivered using a special appropriation usually involve expenditure that is expected to be ongoing or for a long period of time.

132. Most special appropriations provide an unlimited amount of funding and an unlimited timeframe in which that funding may be spent (being as long as the establishing legislation remains unamended). An example of unlimited special appropriation is social security and welfare payments made under the *Social Security (Administration) Act 1999*.

133. For a few special appropriations, the establishing legislation sets limits on the amount of funding and the time period for funding. An example is section 66 of the *Australian Renewable Energy Agency Act 2011*.

134. A special account is an appropriation mechanism that provides a type of special appropriation. For a special account, the authority to draw money from the CRF is provided in section 78 or 80 of the PGPA Act. A special account identifies amounts in the CRF for expenditure on the purposes of a special account. The expenditure purposes for a special account are provided in the legislation or determination that establishes the account. The authority to draw from the CRF is limited by the balance of the special account. There is a chart of special accounts on the Finance website. The chart lists the special accounts that are managed by each Commonwealth entity.

1.6. PGPA Act

Objectives of the PGPA Act

135. The [PGPA Act](#) is the primary piece of Commonwealth resource management legislation. The Act establishes a coherent system of governance and accountability for public resources, with an emphasis on planning, performance and reporting. The PGPA Act contains all key operational provisions that a central law on the financial management of a government should contain – accessing appropriations, entering into arrangements and committing money, banking arrangements, investment powers and so on. But it also has some key organising principles that define its design. The objects of the PGPA Act (section 5) are to:
   • establish a coherent system of governance and accountability across Commonwealth entities
   • establish a performance framework across Commonwealth entities
   • require the Commonwealth and Commonwealth entities to:
     • meet high standards of governance, performance and accountability
provide meaningful information to the Parliament and the public
use and manage public resources properly and
work cooperatively with others to achieve common objectives, where practicable and

• have Commonwealth companies meet high standards of governance, performance and accountability (the requirements imposed on Commonwealth companies are considered in Part 6 below).

136. The PGPA Act is administered by the Finance Minister. The Act enables the Finance Minister to make a range of legislative instruments and to delegate his or her powers in the Act. These additional legislative instruments are discussed below.

Bringing clarity to the Commonwealth as a whole

137. The PGPA Act clarifies what is common between Commonwealth entities. The PGPA Act establishes whole of system concepts, standards and requirements that apply to all entities in the Commonwealth:

• a common definition for public resources (consisting of relevant money, relevant property and appropriations) (section 8)
• a common standard for proper use (efficient, effective, economical and ethical) that applies to the use or management of all public resources, no matter whose hands they are in
• uniform duties for all accountable authorities to govern and manage the affairs of their entity to a set of common standards (sections 15-19)
• uniform duties for all officials, no matter where or indeed how they are employed in the Commonwealth, and no matter what their job (sections 25-29)
• other common provisions for all Commonwealth entities about the provision of budget estimates, the production of corporate plans and annual performance statements, the use of relevant accounting standards, the role of audit committee, and role of the Auditor General

138. A member of the Australian Defence Force, an ABC cameraman, a Centrelink counter staff member, a CSIRO scientist, and the secretary of a department of state are all subject to these common duties and responsibilities. The duties and responsibilities of officials are discussed in more detail in Part 2 below.

Cooperation and partnering

139. The PGPA Act requires Commonwealth entities, and the accountable authorities of Commonwealth entities, to think beyond the immediate boundaries of their operations about the broader impact of their activities. Government works on a big canvas, and entities are part of government.

140. Accountable authorities have to take into account the effect of any decision that they make on public resources generally (section 15), they have a positive duty to encourage their officials to cooperate with others to achieve common objectives where practicable (section 17). Where Commonwealth entities join up with:

• others, or give instructions to the officials of another entity about the use of public resources for which they are responsible, accountable authorities need to consider the requirements that they impose in relation to the use and management of public resources from a risk management and red tape perspective (section 18)
another jurisdiction, entities must be prepared to share relevant information with that jurisdiction, and allow the other jurisdiction to audit any monies that are involved in the joined up activities (sections 82 and 83).

**Increased autonomy for entities for day-to-day financial operations with stronger high level accountabilities to the ministers and the Parliament**

141. The PGPA Act enables entities to establish and maintain their own unique systems relating to risk and control (section 16). Accountable authorities have the legislative authority to issue their own instructions on any matter relating to finance law (section 20A of the PGPA Act).

The PGPA Act also requires the accountable authority of an entity to:

- keep the responsible minister informed of the activities of the entity and any significant decision or issues relating to the entity (section 19)
- provide such information as requested by the minister or the Finance Minister in relation to such matters and any records relating to the performance of the entity (sections 19 and 37) and
- produce corporate plans (section 35)
- produce annual performance statements that are to be included in annual reports but that can be audited by the Auditor-General at the request of the responsible minister or Finance Minister, and which must be provided to the Parliament (section 39 and 46).

142. **Parts 2 and 3** below contain more information on how the PGPA Act applies to officials and governs the use of public resources. For an overview of the PGPA Act complete the online eLearning module – [Introduction to the PGPA Act](#).

### 1.7. Rules, policy and guidance

143. This section provides an overview of the rules and other legislative instruments established under the PGPA Act, as well as the policies and guidance that are intended to help officials understand and operate in the Commonwealth Resource Management Framework.

**Rules and legislative instruments**

144. The PGPA Act enables the Finance Minister to make rules and other legislative instruments to support the PGPA Act. These legislative instruments establish the requirements and procedures necessary to give effect to the governance, performance and accountability matters covered by the Act. These legislative instruments can be disallowed by the Parliament.

145. The Finance Minister has made the following legislative instruments:

- [Public Governance, Performance and Accountability Rule 2014](#)
- [Commonwealth Procurement Rules (CPRs)](#)
- [Commonwealth Grant Rules and Guidelines (CGRGs)](#)
- [Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (FRR)](#)

**Public Governance, Performance and Accountability Rule 2014 (PGPA Rule)**

146. The [PGPA Rule](#) supports the PGPA Act by establishing further accountability and control mechanisms including:

- setting minimum requirements for dealing with fraud (section 10 of the PGPA Rule), for more information, see [RMG-201 Preventing, detecting and dealing with fraud](#)
• requiring accountable authorities to pursue debts (section 11), for more information on recovery of amounts owing to the Commonwealth

• setting how officials should disclose interests (sections 12-16D), for more information see RMG-203 General duties of officials

• setting minimum requirements for audit committees (sections 17 and 28), for more information see RMG-202 Audit Committees

• requiring records of approvals to commit relevant money (section 18), for more information see RMG 400 Approving commitments of relevant money

• requiring money received to be banked promptly (sections 19-21), for more information see RMG-413 The banking of cash by Commonwealth entities and RMG-300 Banking of relevant money received by Ministers and officials

• setting amounts non-corporate Commonwealth entities can retain (section 27), for more information see RMG-108 Receipts collected by non-corporate Commonwealth entities

• setting restrictions on borrowing, investment and obtaining insurance (sections 21A-23), for more information see RMG-301: Investment by Commonwealth entities and RMG-205: Insurance

• setting the events ministers must inform Parliament about (section 26), for more see RMG 204 - Minister to inform Parliament of certain events.

147. The PGPA Rule also sets out:

• the Government Business Enterprises (GBEs) (section 5), for more information see the Commonwealth Government Business Enterprise Governance and Oversight Guidelines

• over 20 “listed” entities (and their accountable authorities) (section 6 and Schedule 1)

• law enforcement agencies (section 7)

• corporate Commonwealth entities subject to the CPRs (section 30).

Commonwealth Procurement Rules (CPRs)

148. The CPRs apply to officials of non-corporate Commonwealth entities and corporate Commonwealth entities prescribed in section 30 of the PGPA Rule, when performing duties related to procurement — the whole process of acquiring goods and services. Under the CPRs, procurement begins when a need has been identified and a decision has been made on the procurement requirement. It continues through the processes of risk assessment, seeking and evaluating alternative solutions, the awarding of a contract, the delivery of and payment for the goods and services and, where relevant, the ongoing management of the contract.

149. Procurement is covered in more detail in Part 3 below.

Commonwealth Grants Rules and Guidelines (CGRGs)

150. The CGRGs establish the overarching Commonwealth grants policy framework and articulate the expectations for all non-corporate Commonwealth entities in relation to grants administration. Under the framework, non-corporate Commonwealth entities develop their own specific grants administration practices based on mandatory requirements and principles of grants administration.

151. The CGRGs are divided into two parts. The first contains mandatory requirements. Part 3 below further explains how entities should apply the seven principles of grants administration.

152. The CGRGs apply to all forms of granting activity. A ‘grant’ is an arrangement for the provision of financial assistance by the Commonwealth or on behalf of the Commonwealth:

• under which relevant money (or other CRF money) is to be paid to a recipient other than the Commonwealth and
• which is intended to assist the recipient achieve its goals and
• which is intended to help address one or more Commonwealth policy objectives and
• under which the recipient may be required to act in accordance with specified terms or conditions.

153. Granting activities can take a variety of forms, including payments made: as a result of competitive or non-competitive selection processes; where particular criteria are satisfied; or on a one-off or ad hoc basis.

154. Grants are covered in more detail in Part 3 below.

Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (FRR)

155. The FRR sets out the minimum financial reporting requirements for all entities when recording financial information and preparing financial statements. The Rule assists entities in developing reports that are consistent and comparable across the Commonwealth public sector, and are intelligible to private sector observers.

156. The core of the FRR is the requirements of the Australian Accounting Standards (AAS), as interpreted in light of the particular economic and governance circumstances of public sector entities. For example, the FRR imposes additional disclosure requirements so that the Government can carry out its accountability and transparency commitments to the parliament and to the public. Financial reporting is covered in more detail in Part 5 below.

Other legislative instruments

157. The PGPA Act also gives the Finance Minister the power to:
• make determinations to adjust annual appropriations (section 75)
• make determinations to establish, vary or revoke a special account (section 78)
• make government policy orders to apply Australian Government policies to corporate Commonwealth entities (section 22)
• authorise borrowing by corporate Commonwealth entities (section 57)
• authorise investments by the Commonwealth (section 58)
• authorise investments by corporate Commonwealth entities (section 59).

158. These instruments, determinations, orders and authorisations are all legislative instruments. Each instrument must be tabled in Parliament, but only the determination to make, vary or revoke a special account (section 78) can be disallowed by either house of Parliament. A special account determination can only be disallowed in accordance with the process established by section 79 of the PGPA Act.

Other binding requirements

Policies

159. Section 21 of the PGPA Act requires non-corporate Commonwealth entities to act in a way that is not inconsistent with the policies of the Australian Government. Examples of such policies include:
• on-time payment policy for small business — entities are to agree to maximum payment terms not exceeding 30 days for procurement contracts with small business valued up to $1 million (for more information, see RMG-417: Supply pay on-time or pay interest policy).
• cloud computing policy — entities must adopt cloud computing services cloud where they are fit for purpose, provide adequate protection of data and deliver value for money (for
more information, see RMG-406: Australian Government cloud computing policy and the guidance available on the Cloud Computing page on the Finance website).

160. Corporate Commonwealth entities are required to take account of these policies if directed to do so by a government policy order made by the Finance Minister in accordance with section 22 of the PGPA Act.

161. The CPRs also require non-corporate Commonwealth entities and some corporate Commonwealth entities to comply with whole-of-government arrangements for the purchase of certain goods and services. For certain goods and services Finance has established a panel of service providers that entities must use. For example, for purchasing office equipment such as printers, photo-copiers, etc.

**Directions**

162. The Finance Secretary can give binding directions to Commonwealth entities (section 36) in relation to the form of Budget estimates.

**Delegations**

163. The Finance Minister has delegated many of his powers under the PGPA Act to accountable authorities of non-corporate Commonwealth entity, to be exercised in accordance with the Minister's directions (section 107). The PGPA Act also permits accountable authorities to sub-delegate many of these powers in accordance with the Finance Minister's directions (section 110).

**Resource management guidance and tools**

164. Finance provides targeted guidance and templates designed to explain the Commonwealth Resource Management Framework and assist officials to meet their duties and responsibilities. To better understand the framework in which an official is working officials should have regard to:

- the internal controls in their entity and
- the guidance documents and tools provided by Finance.

165. Finance also provides advice in relation to the budget, but this advice is more restricted in its publication. Budget information and advice are released in Estimates Memorandums. They provide information about particular process and requirements of entities in the budget process.

166. Other related guidance includes Australian National Audit Office (ANAO) Better Practice Guides, and guidance on Cabinet processes issued by the Department of the Prime Minister and Cabinet.

**1.8. Other related legislation**

167. This section sets out some other legislation that may also apply to the use and management of public resources.

**Legislative authority to enter arrangements and pay relevant money**

**Non-corporate Commonwealth entities**

168. In two recent High Court decisions, the Court curtailed the scope of executive power to enter into arrangements and spend relevant money (see discussion of executive power in Section 1.3 above). In the two school chaplains cases, Williams v The Commonwealth of Australia & Ors [2012] HCA 23 and Williams v Commonwealth of Australia [2014] HCA 23, the High Court held, among other things, that:
• the power of the Commonwealth to spend money is no broader than the heads of legislative power the Constitution gives to the Commonwealth and
• the executive requires legislative authority (in addition to an appropriation) to spend on a broad range of government programmes.

169. For non-corporate Commonwealth entities, legislative authority to enter into arrangements and spend relevant money comes from:
• PGPA Act or
• Financial Framework (Supplementary Powers) Act 1997

170. The process of entering arrangements and spending relevant money is covered in more detail in Part 3 below.

**PGPA Act**

171. The PGPA Act provides authority for non-corporate Commonwealth entities to enter into arrangements relating to the ordinary services and functions of Government (sometimes referred to as the ‘running costs’ of an entity). For example, section 23 of the PGPA Act supports the following arrangements and payments:
• payment of salaries and allowances
• procurement for the purposes of running an entity
• payments to contractors
• legal, accounting and other professional services
• payments for defective administration and act of grace payments.

**Financial Framework (Supplementary Powers) Act 1997 (FFSP Act)**

172. It became apparent following the first High Court *Williams* decisions, that the PGPA Act will not provide sufficient authority for other types of arrangements that non-corporate Commonwealth entities enter. Types of spending that will require some form of additional legislative authority include:
• payments of benefits or entitlements to a person (for example, refundable tax offsets and similar types of payments require an Act of Parliament. The payments of benefits or entitlements will generally be authorised by specific legislation, for example the *Social Security (Administration) Act 1999* provides for payments of various benefits and entitlements)
• grants (including gifts of public money and also potentially spending that is incidental to a grants program such as advertising and marketing)
• sponsorships and scholarships for parties external to the Commonwealth
• funding of stakeholder activities (for example, paying stakeholders costs of engaging with the Government)
• other kinds of expenditure that are not merely the running costs of an entity.

173. If specific legislation does not provide authority for these other types of spending, then the FFSP Act provides authority for the spending activities listed in the schedules of the *Financial Framework (Supplementary Powers) Regulations 1997* (FFSP Regulations).

174. It should be noted that ministers, accountable authorities of non-corporate Commonwealth entities, delegates and officials who rely on the authority in the FFSP Act to spend relevant money, are still required to comply with the requirements in the PGPA Act (these requirements are considered in more detail in Part 3 below).
Corporate Commonwealth entities

The enabling legislation of a Corporate Commonwealth entity generally provides the authority for the entity to enter into arrangements.

Budget and fiscal responsibility legislation

176. The Charter of Budget Honesty Act 1998 (the Charter) sets the framework for the conduct and reporting of the Commonwealth’s fiscal policy. The purpose of the Charter is to improve the conduct of fiscal policy by:

- requiring fiscal strategy to be based on certain principles of fiscal management
- facilitating public scrutiny of fiscal policy and performance.

Among other things, the Charter obliges the Government to present three reports annually: a Budget Economic and Fiscal Outlook (the annual Budget), a Mid-Year Economic and Fiscal Outlook (MYEFO), and a Final Budget Outcome.

The Charter is considered in more detail in Section 4.3 below.

Audit and accountability legislation

Role of the Auditor-General

179. The Auditor-General Act 1997 provides the legislative framework for the Office of the Auditor-General and the ANAO. The Act establishes the Auditor-General’s independence and unique relationship with the Parliament as the external auditor of Commonwealth entities. The Parliament looks to the Auditor-General and the ANAO for assurance in relation to:

- financial reporting
- the efficiency and effectiveness of program administration.

180. The Auditor-General’s functions include auditing the financial statements of:

- Commonwealth entities and companies
- the whole or part of the Australian public sector (not limited to only one entity, body or person).

181. The Auditor-General also has the power to conduct a performance audit of an entity at any time. However, performance audits of government business enterprises may only be undertaken at the request of the responsible minister, the Finance Minister or the Joint Committee of Public Accounts and Audit (JCPAA).

182. The Auditor-General has the power to:

- direct a person to provide any information required
- enter and remain on Commonwealth premises
- request full and free access to documents, and make copies or take extracts of those documents.

Role of the Joint Committee of Public Accounts and Audit (JCPAA)

183. The JCPAA is a joint committee in the Australian Parliament established by the Public Accounts and Audit Committee Act 1951. The committee is appointed at the beginning of each parliamentary period and comprises 16 members: 6 Senators and 10 members of the House of Representatives.

184. The JCPAA exists to hold Commonwealth entities to account for the lawfulness, efficiency and effectiveness with which they use public monies. It has broad powers in relation to examining
the use of public monies and has the capacity to determine its own work program and priorities.

185. The JCPAA can consider and report on any circumstances connected with reports of the Auditor-General or with the financial accounts and statements of Commonwealth entities. The JCPAA refers all of its reports to the Finance Minister once they are tabled in both houses of Parliament. Copies are also distributed to all ministers and Commonwealth entities with an interest in the report.

186. The JCPAA is also responsible for approving annual report guidelines for Commonwealth entities on behalf of the Parliament.

**Administrative review of government decisions to enter into arrangements and make payments of relevant money**

187. Some decisions to pay relevant money to individuals that are authorised by specific legislation (e.g. payment of pensions) can be subject to merits or judicial review. An individual can:

- seek merits review by the Administrative Appeals Tribunal or another body of decisions that affects them, where the legislation authorising the payment provides for another person or body to review the decision (see the *Administrative Appeals Tribunal Act 1975*).
- ask a court for judicial review of the lawfulness of a government decision under the *Administrative Decisions (Judicial Review) Act 1977* (ADJR Act) or section 39B of the *Judiciary Acts 1903*.

188. Government decisions to enter into arrangements are not subject to merits review or to judicial review under the ADJR Act. These decisions involve the allocation of finite resources. The Companion outlines the framework that governs government decisions relating to entering arrangements and spending relevant money. This framework includes:

- the PGPA Act that establishes the general principles that officials must balance
- more detailed requirements that set out in rules such as the *Commonwealth Procurement Rules* and *Commonwealth Grant Rules and Guidelines*.
- review and audit process undertaken by the Australian National Audit Office and
- reporting by entities and the ANAO to parliament.

189. Ultimately the executive is responsible to parliament for the ways it uses and manages public resources. The framework discussed in the Companion not only requires the proper use of public resources, but it establishes appropriate checks and balances to ensure transparency around decisions to enter into arrangements or spend public money.

190. For further information, see the 1999 publication, *What decisions should be subject to merits review* issued by the Administrative Review Council.

191. Where a person is adversely affected by a government decision to enter an arrangement or spend relevant money then there are various administrative mechanisms. These include:

- the *Scheme for Compensation for Detriment caused by Defective Administration* (the CDDA Scheme).
- recourse to the Ombudsman (see the *Ombudsman Act 1976*).
- judicial review may also be available in some situations under section 39B of the *Judiciary Act 1903* or section 75(v) of the *Australian Constitution*. 
Management of information legislation

192. A range of legislation requires officials to collect, store and properly use information. This includes:

- **PGPA Act** requires officials to keep performance records (section 37) and financial records (section 41)
- **Archives Act 1983** requires officials to preserve the archival resources of the Commonwealth
- **Privacy Act 1988** regulates the handling of personal information by Commonwealth entities. Various legislation also include secrecy laws that impose additional obligations of confidentiality on individuals handling government information
- **Freedom of Information Act 1982** (FOI Act) enables individuals to access Australian Government documents.

Employment legislation

193. For many employees of entities that are part of the Commonwealth (i.e. non corporate Commonwealth entities) the **Public Service Act 1999** (PS Act) and its associated regulations establish the ground rules (values and behaviours) for APS employees.

194. Some entities (e.g. many corporate Commonwealth entities) will have their own enabling legislation that, in addition to establishing the entity, may also set out requirements that affect their resource management.

Legislative penalties and sanctions

195. Depending of the severity of an official's breach of the duties or responsibilities, penalties can include employment and criminal sanctions.

196. The range of employment sanctions will depend on the employment legislation under which an official is engaged, but could include:

- reprimand
- deduction from salary (fine)
- reduction of salary
- reduction of classification
- termination of employment.

197. For more serious misuses of public resources, criminal sanctions can be imposed under the **Crimes Act 1914**. For example potential offences and penalties include:

- giving and withholding information (section 32AJ) – 20/30 penalty units (a penalty unit is now $170)
- failure to lodge return/report (section 36) – 50-60 penalty units
- making false statements in notices (sections 209, 216) – 12 months imprisonment or 60 penalty units
- breaching confidentiality (section 67) – 2 years imprisonment or 120 penalty units
- corruption and abuse of public office (section 142) – 5 years imprisonment or 300 penalty units.
2. Internal controls, performance and accountability

2.1. Purpose of this part

198. Public sector governance is the arrangements and practices which enable a Commonwealth entity to set its direction and manage its operations to achieve expected outcomes and discharge its accountability obligations.¹

199. Public sector governance encompasses leadership, direction, control and accountability, and assists an entity to achieve its outcomes in such a way as to enhance confidence in the entity, its decisions and its actions. Good public sector governance is about getting the right things done in the best possible way, and delivering this standard of performance on a sustainable basis.

200. The purpose of this part is to examine the governance requirements for Commonwealth including:

- the duties and responsibilities of officials and accountable authorities under the Act
- the duties and responsibilities of accountable authorities to establish internal controls to govern their entities, e.g. promote the proper use of public resources, achievement of purposes, and financial sustainability
- the importance of risk management, and how it is integral to an entity’s internal controls
- the role and principles of the Commonwealth Risk Management Policy
- the Commonwealth performance framework and its importance to effective and efficient resource management— the framework includes corporate plans, PB Statements, annual reports and annual performance statements
- the importance of effective collaboration
- earned autonomy.

2.2. Roles and responsibilities under the PGPA Act

Officials

201. The PGPA Act imposes duties and responsibilities on officials of Commonwealth entities. An official is a person who is in, or who forms part of, the entity (section 13). Officials make the decisions, carry out the operations and report to Parliament on behalf of the entity. Officials include:

- accountable authorities, directors, members (such as members of a commission or the governing board)
- officers, employees and statutory office holders.

202. Officials can be administrative personnel, uniformed service personnel, federal police, customs officers, park rangers, postal workers, camera operators or scientists. Some are chief executives, or members of boards; others are in administrative or support roles.

203. Officials do not include:

- Ministers or judges

¹ ANAO Better Practice Guide (June 2014) Public Sector Governance – Strengthening performance through good governance, part 2.1
• most consultants and independent contractors
• any other individuals (or class of individuals) excluded by the PGPA rules.

**Duties of officials under the PGPA Act**

204. The PGPA Act requires all officials to exhibit a minimum standard of behaviour in exercising their powers or performing their functions. The Act applies the following general duties to all officials proportionate to their role and the materiality of their personal interest:

- duty of care and diligence (section 25)
- duty to act honestly, in good faith and for proper purpose (section 26)
- duty in relation to use of position (section 27)
- duty in relation to use of information (section 28)
- duty to disclose material personal interests (section 29).

205. To meet the duties imposed by the PGPA Act, officials need to be aware of and comply with:

- the PGPA Act and its subordinate legislation, such as rules and delegations
- the internal controls of the Commonwealth entity.

206. How these duties will apply to an official will depend on:

- the official’s roles and responsibilities
- the internal controls in the official’s entity
- the amount of public resources the official has responsibility for and
- the official’s employment framework or employment contract.

**Duties of official under their employment framework**

207. Officials working in the Commonwealth public sector are employed under various employment frameworks. These employment frameworks will also impose duties on officials.

208. For example, a large number of officials are engaged under the **Public Service Act 1999 (PS Act)** so must also comply with the APS Values and Code of Conduct obligations. The Australian Public Service Commissioner has issued directions and associated guidance material about the responsibilities that apply to APS employees and office holders under the PS Act, particularly the APS Values and Code of Conduct.

209. The duties of officials in the PGPA Act relates to standards of governance, performance and accountability across all Commonwealth entities. The duties of officials in the Code of Conduct are broader than the duties in PGPA Act, for example the Code of Conduct requires officials to avoid real or apparent conflicts of interest. If an official meets the requirements of the PS Act, then the official will ordinarily also meet his or her duties under the PGPA Act.

**More information on duties and responsibilities of officials**

210. For further information on the duties of officials:

- see **RMG-203: General duties of officials**
- complete the online eLearning modules:
  - Duties of officials
  - Officials’ responsibilities to manage public resources
  - Spending relevant money
Accountable authorities

211. The PGPA Act establishes additional duties and responsibilities for the accountable authority of a Commonwealth entity. The accountable authority is generally the person or group of persons that has responsibility for, and control over, the entity's operations (section 12). An accountable authority may be a chief executive and the governing body of Commonwealth entities. A listed entity or body corporate can have either a single person or a group of persons as its accountable authority. The structure of the accountable authority and their relationship to executive government is usually set out in:

- the entity's enabling legislation or
- for a number of non-corporate Commonwealth entities, in some overarching legislative or administrative instrument.

212. The accountable authority:

- for a department of state or a parliamentary department, will be the secretary of the department
- for a listed entity, will be the person or group of persons prescribed in Schedule 1 of the PGPA Rule
- for a corporate Commonwealth entity, will generally be clarified by the entity's enabling legislation, however, in cases where it is unclear, can be prescribed in the PGPA Rule.

Duties of accountable authorities under the PGPA Act

213. The PGPA Act confers responsibilities and powers on accountable authorities:

- to promote high standards of accountability and performance
- for the financial management of the entity and
- to ensure compliance with reporting requirements.

214. While an accountable authority has some discretion in determining the operating style of the entity and how it is directed and controlled, the corporate governance practices of an entity are typically informed and tempered by:

- legal and accountability requirements
- stakeholder interests and
- lessons learned from a range of sources.

215. The PGPA Act imposes the following general duties on accountable authorities:

- to govern the entity in a way that promotes the:
  - proper use and management of public resources for which the authority is responsible
  - achievement of the purposes of the entity
  - financial sustainability of the entity (section 15)
- to establish and maintain an appropriate system of:
  - risk oversight and management for the entity and
  - internal control for the entity
  including by implementing measures directed at ensuring officials of the entity comply with the finance law (section 16)
- to encourage officials to cooperate with others to achieve common objectives, where practicable (section 17)
• when imposing requirements on others in relation to the use or management of public resources, to take into account:
  o the risks associated with that use or management and
  o the effects of imposing those requirements (section 18)
• keep the responsible minister or the Finance Minister informed of certain activities, significant decisions or significant issues (section 19).

216. A central theme of these general duties of accountable authorities is to support the efficient, effective, economical and ethical use of public resources within the entity and across the Commonwealth generally.

217. The accountable authority of a non-corporate Commonwealth entity must also:
• comply with the general duties of officials (sections 25-29)
• govern the entity in a way that is not inconsistent with Australian Government policies (section 21)
• comply with the requirements of the Commonwealth Procurement Rules and Commonwealth Grant Rules and Guidelines
• take all reasonable measures to prevent, detect and deal with fraud relating to the entity (section 10 of the PGPA Rule)
• pursue the recovery of debt for which the accountable authority is responsible (section 11 of the PGPA Rule)

218. The accountable authority of a corporate Commonwealth entity must also:
• comply with the general duties of officials (sections 25-29)
• comply with any Australian Government policies that are applied to that entity by a government policy order made by the Finance Minister (section 22)
• comply with requirements the Commonwealth Procurement Rules, if their entity is listed in section 30 of the PGPA Rule.

Reporting responsibilities of accountable authorities

219. In addition to the requirement in section 19 to keep the responsible minister or Finance Minister informed, the PGPA Act imposes other transparency requirements on an accountable authority to:
• produce corporate plans (section 35)
• prepare budget estimates (section 36)
• ensure proper records are kept about financial and non-financial performance (sections 37 and 41)
• measure and assess performance (section 38)
• prepare annual performance statements (section 39) and annual financial statements (section 42) that must be included in the entity's annual reports which is provided to Parliament.

More information on duties and responsibilities of accountable authorities

220. For more information on:
• the general duties of accountable authorities, see RMG-200: General duties of accountable authorities
• internal controls and risk management see Section 2.3 below
• accountable authority instructions (AAIs), see RMG-206: Accountable authority instructions – Non-corporate Commonwealth entities

• risk management practices and the Commonwealth Risk Management Policy, see Comcover risk management

• fraud control, see the Attorney-General’s Departments fraud control framework

• audit committees, see RMG-202: Audit committees

• cooperating with others, see guidance on working with others

• government policy orders that apply to corporate Commonwealth entities, see RMG-207: Government policy orders

• the kind of information that responsible ministers are required to provide to the Parliament, see RMG-204: Minister to inform Parliament of certain events

• the requirements to keep non-financial records, see RMG-209: Guidance for Commonwealth entities on the requirements to keep non-financial records.

2.3. Internal controls and risk management

221. The PGPA Act requires accountable authorities to establish systems of risk management and internal control for their entity (section 16). Robust internal controls will set the culture and framework to direct and guide officials to meet the objectives set out in the PGPA Act. The fundamental elements that underpin the achievement of good public sector governance include:

• developing strong leadership at all levels of the entity, with a focus on ethical behaviour and continuous improvement
• maintaining governance systems and processes that are fit for purpose
• optimising performance through planning, engaging with risk, innovation, and performance monitoring, evaluation and review
• focusing on openness, transparency and integrity, engaging constructively with stakeholders and promoting accountability through clear reporting on performance and operations
• where appropriate, participating in collaborative partnerships to more effectively deliver programs and services, including partnerships outside government.

222. Accountable authorities should establish internal controls in their entity that reflect the size, maturity, risk profile, legislative background and business of the entity. Accountable authorities should also be able to test and adapt their internal controls to meet changing circumstances. Internal controls of an entity should include:

• clear internal governance structures (including an independent audit committee)
• instructions or operational guidelines for officials
• delegations or authorisation of the powers to manage programmes and use and manage public resources
• supporting procedures.

223. This framework of internal controls will help officials to:

• know their role and functions
• comply with the finance law and

• ensure the proper use and management of public resources within the entity and more broadly across the Commonwealth, without stifling innovation.

**Internal governance structures**

224. The accountable authority must establish the internal governance structures and arrangements for an entity that will:

• create a positive and ethical culture
• facilitate effective strategic planning
• establish a framework for risk management that supports innovation
• facilitate performance monitoring, including of financial performance
• respond to evaluation and review.

225. To support the evaluation and review of the governance structures and arrangements, the PGPA Act requires the accountable authority of a Commonwealth entity to have an independent audit committee (section 45). Audit committees provide independent advice and assurance to the accountable authority of an entity on the appropriateness of the entity’s accountability and control framework, including independently verifying and assuring the integrity of an entity’s financial and performance reporting.

**More information on good governance**

226. For more information on good public sector governance:

• ANAO (June 2014) Better Practice Guide *Public Sector Governance – Strengthening performance through good governance*

**Accountable authority instructions or operational guidelines**

227. The internal controls established by an accountable authority should include instructions or directions for officials relating to the proper use and management of public resources. An accountable authority can issue accountable authority instructions (in accordance with section 20A of the PGPA Act) or operational guidelines.

228. These instructions ensure officials comply with the legal requirements in the Commonwealth Resource Management Framework and follow any best practice guidance. For example, the instructions or operational guidelines issued by an accountable authority can address such things as:

• managing risk
• collecting and banking relevant money
• making payments of relevant money
• custody and use of relevant property.

229. *Model Accountable Authority Instructions (AAIs)* have been developed to assist non-corporate Commonwealth entities consider the different resource management topics that officials in those entities can encounter. The model AAIs seek to improve consistency across entities and help entities to design their own AAIs, internal controls and tools to help their officials to understand and comply with the key requirements of the Commonwealth Resource Management Framework.

230. The instructions and procedural guidance for officials will generally be available on an entity’s intranet or from the entity’s finance area.
231. For more information on developing AAI, see RMG-206: Accountable authority instructions – non-corporate Commonwealth entities.

**Risk management framework**

**What is risk?**

232. The Commonwealth Risk Management Policy defines risk as ‘the effect of uncertainty on objectives’. An effect is a deviation from the expected either positive or negative. Risk is often expressed in terms of a combination of the consequences of an event (including changes in circumstances or knowledge) and the associated likelihood of occurrence.

233. Risk is inherent in every human activity. John F. Kennedy once commented: “There are risk and costs to a programme of action, but they are far less than the long range risks and costs of comfortable inaction”. Ignoring or not dealing with risk is not an appropriate path of action.

**What is risk management?**

234. Risk management comprises the activities and actions taken to ensure that an organisation is conscious of the risks it faces, makes informed decisions in managing those risks, and identifies and harnesses potential opportunities. Managing risk well requires considering how best to minimise loss, maximise opportunity and prepare for uncertainty. The government's priority is to ensure that risks are identified, understood and appropriately managed by all Commonwealth entities.

235. The delivery of government programmes and services involves identifying and engaging with risk, whether it is financial, reputational or legal. The cost to the Commonwealth and citizens of not managing risk is high. This is evident when there are policy and programme failures, which sometimes result in legal claims against the Commonwealth, frustration of policy objectives and, more broadly, damage to the reputation of the government and government entities. Poor risk management practices, such as excessive risk aversion, can also stifle innovation and lead to inefficiency and increased costs.

236. All officials must actively manage risks that are part of their day-to-day work. Specific responsibilities can apply to:

- the accountable authorities and senior executives
- members of the executive board
- members of the audit committee
- officials in the Office of the Chief Audit Executive.

**Benefits of effective risk management**

237. The benefits of adopting a structured approach to engaging with risk can include:

- improved accountability
- improved stakeholder relationships and confidence
- the development of a learning culture
- improved financial management and performance
- better resource allocation
- improved compliance outcomes
- reduction in the potential for litigation.

238. Risk management can help provide a strategic approach to decision-making, which can assist entities to improve performance and deliver outcomes more effectively.
Commonwealth Risk Management Policy

239. The Finance Minister has established the Commonwealth Risk Management Policy to guide Commonwealth entities on appropriate risk management processes and controls:

- non-corporate Commonwealth entities must comply with the policy in order to demonstrate compliance with section 16 of the PGPA Act
- corporate Commonwealth entities are encouraged to align risk management processes and systems with the policy as a matter of good practice.

240. The goal of the Commonwealth Risk Management Policy is to embed risk management as part of the culture of Commonwealth entities. The Policy sets out nine elements to guide Commonwealth entities to establish appropriate systems of risk oversight and management.

241. The nine elements are:

- establishing a risk management policy
- establishing a risk management framework
- defining responsibility for managing risk
- embedding systematic risk management into business process
- developing a positive risk culture
- communicating and consulting about risk
- understanding and managing shared risk
- maintaining risk management capability and
- reviewing and continuously improving the management of risk.

242. The Commonwealth Risk Management Policy enables entities to tailor existing risk management systems and practices to a level that is commensurate with the scale and nature of their risk profile.

More information on risk management

243. For more information on:

- risk management practices and the Commonwealth Risk Management Policy, see Comcover risk management
- fraud control, see the Attorney-General's Departments fraud control framework

Internal delegations and authorisations

244. To make the workings of government more manageable the PGPA Act enables:

- the Finance Minister to delegate many of his or her powers to accountable authorities of non-corporate Commonwealth entities
- accountable authorities of non-corporate Commonwealth entities to delegate or sub-delegate most of their powers to officials or to authorise officials to exercise their powers

245. Accountable authorities of corporate Commonwealth entities generally authorise officials to exercise the powers to use or manage public resources.
246. Delegations or authorisations enable officials to exercise powers on behalf of their accountable authority (or the Finance Minister) to manage public resources such as committing relevant money or granting indemnities containing contingent liabilities:

- the delegation of a power is a statutory arrangement through which a person who is given powers under legislation (the delegator) entrusts their statutory power to another person (the delegate). A delegate:
  - personally holds and possesses the powers and responsibilities that he or she is given
  - is personally accountable for his or her decisions and actions in the exercise or performance of the powers and responsibilities given

- an authorisation is a means of devolving authority. There are two types of authorisation:
  - express authorisation (provided in legislation) provides authority to an official to exercise an express statutory power, and to act on that power in their own right
  - implied authorisation (not provided in legislation) devolves authority without exercising an express statutory power of delegation (i.e. the statutory power remains with the authorising official)

247. The PGPA Act (section 110) and PGPA Rule enable accountable authorities of non-corporate Commonwealth entities to issue directions in relation to the powers they delegate to officials. If they sub-delegate to officials a power delegated by the Finance Minister, any accompanying directions must be consistent with any directions from the Finance Minister.

248. Accountable authorities of non-corporate Commonwealth entities generally delegate responsibilities for the day-to-day operations of their entity to other officials who are dealing with relevant money (banking, spending etc) and/or relevant property.

249. Some typical examples of delegated functions and powers include:

- entering into arrangements with banks regarding the receipt and transmission of relevant money
- granting indemnities, guarantees and warranties on behalf of the Commonwealth
- modifying the terms of debts owed to the Commonwealth
- issuing credit cards
- making gifts of relevant property (in limited circumstances only).

250. The delegation of powers in an entity will generally be available on an entity's intranet or from the entity's finance area.

2.4. Performance and accountability

Allocation and management of public resources

251. The Australian Government, like all governments, faces ongoing challenges to allocate finite public resources to meet its priorities, and ensure that those resources are used effectively and efficiently in achieving its purposes. The optimal allocation of resources relies on government
policy being informed by whole-of-government priorities and an evidence-based assessment of how current or proposed activities impact on desired purposes.

252. Officials are required to implement policies and make decisions on the use and management of public resources on a daily basis. The PGPA Act provides the framework to ensure good public sector governance by emphasising, among other things:

- the importance of leadership
- the responsibility of all officials working in a Commonwealth entity to apply governance practices and procedures in their day-to-day work and
- the importance of performance — how an entity manages its overall performance in the delivery of goods, services or activities in order to carry out its purposes.

253. Performance management is about the arrangements organisations employ to ensure resources are used effectively and efficiently. In a typical organisation, performance management tends to have three broad stages:

- planning — agreeing on the performance required (setting standards)
- performing — managing activities to deliver on the agreed performance standards
- reviewing — comparing actual performance against the agreed performance standards.

**Enhanced Commonwealth performance framework**

254. The PGPA Act requires Commonwealth entities to provide adequate and relevant financial and non-financial information to parliament, ministers and the public. Figure H illustrates how the PGPA Act does this by establishing components for planning, measuring, evaluating and reporting results around the resource management cycle.

**Figure H. Components of the Commonwealth performance framework**

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**Line of sight** - planning, implementing and reporting information

255. [RMG-130 Overview of the enhanced Commonwealth performance framework](#) provides further information to Commonwealth entities on the enhanced Commonwealth performance framework.
Performance information

256. The PGPA Act requires the accountable authority of a Commonwealth entity to:
   - record and explain the entity’s performance in achieving its purposes (section 37) and
   - measure and assess the performance of the entity in achieving its purposes (section 38).

257. Performance information is the foundation of the accountability and transparency of Commonwealth entities. The ultimate objective of preparing quality performance information is to inform decision-makers, parliament and the public about the extent to which public resources are being used efficiently and effectively. Good performance information:
   - clearly sets out the purposes of an entity and the activities the entity will pursue to achieve those purposes
   - provides a clear line of sight between the allocation and use of public resources and the results achieved
   - should be appropriate for both internal and external needs and external reporting requirements (by accounting for the use of public resources and demonstrating how resources were used to make a difference)
   - is not about the volume of data, but rather quality data that can support better decision-making and better assessment of performance
   - is cost-effective.

258. Given the diversity of government activities and spending, the enhanced Commonwealth performance framework recognises that a one-size-fits-all approach to the design and use of performance information leads to poorly defined and focused performance reporting. The PGPA Act enables entities, who know the most about their own activities, to determine the level of information that should be collected, evaluated and published.

Corporate plans

260. From 1 July 2015, the PGPA Act requires all Commonwealth entities to publish a corporate plan on an annual basis (section 35). An entity’s corporate plan must set out clearly what an entity aims to achieve in a given period. Corporate plans help ensure transparency about entities’ current and planned activities, provide an insight into the range of operational activities undertaken by government, and include details on corporate management and organisational capability. Section 16E of the PGPA Rule requires the corporate plan to cover at least four reporting periods and must include the following matters:
   - an introduction
   - the purposes of the entity
   - the broader environment within which the entity works
   - the planned performance of the entity (and any subsidiaries that contribute to achieving its purposes), including details of the methodology, data and information that it will use to measure and assess its performance
   - the capability of the entity, including the plans and strategies it will implement to achieve its purposes
   - the entity’s risk oversight and management systems.

261. Many Commonwealth entities (particularly corporate Commonwealth entities) already undertake some form of corporate planning and therefore this is not a new, or additional, requirement for them.

262. For more information, see RMG-132 Developing corporate plans for Commonwealth entities.
Performance measurement and evaluation

263. Performance measurement and evaluation is a structured process of analysing activities to assess their relevance, value and/or performance. Evaluation typically involves:

- examining the government's original expectations for the activities
- unpacking and reviewing the logic (i.e. the rationale explaining how current activities are expected to achieve the desired objectives)
- identifying and assessing alternative strategies and delivery mechanisms
- examining evidence of actual impacts (intended and unintended).

264. Under the enhanced Commonwealth performance framework KPIs continue to be an important way to evaluate non-financial performance information and assess the efficiency and effectiveness of an activity. However, the framework recognises that KPIs alone may not give a full performance picture, for example where:

- the effectiveness of activities is hard to measure quantitatively (e.g. policy advice)
- activities are more complex (e.g. because they address persistent or complex policy problems)
- when outcomes are best observed over the medium to long term or
- when activities require collaboration across diverse entities, including other jurisdictions.

265. In these cases other quantitative and qualitative measures may be better suited to assessing the link between public resources used and results delivered including:

- benchmarking (against relevant best practice)
- stakeholder surveys (to provide firsthand data on the results of activities on the intended recipients)
- peer review (to provide assessments against the experience of those with proven records of delivering similar activities)
- comprehensive evaluations (to provide a better understanding of the overall impact of an activity).

266. Finance is developing guidance to assist entities to consider more flexible approaches to measuring and reporting on the results of activities.

Annual performance statements

267. From 1 July 2015 the PGPA Act requires all Commonwealth entities to prepare annual performance statements that will acquit performance against the measurements and describe the significant factors that influenced the achievement of intended results (section 39). The annual performance statements must be published in an entity's annual reports and must include the matters set out in section 16F of the PGPA Rule.

268. For more information on performance reporting, see Section 5.3 below and RMG-134 Annual performance statements for Commonwealth entities.

Transition to the enhanced Commonwealth performance framework


Accountability

270. The PGPA Act strengthens and simplifies accountability across Commonwealth entities. In addition to a greater emphasis on performance monitoring and evaluation, the Act also
provides greater clarification in relation to annual reporting. For more information on the reporting requirements in the PGPA Act, see Part 5 below.

### 2.5. Working with others

271. The **PGPA Act** requires the accountable authority of a Commonwealth entity to encourage officials to cooperate with others to achieve common objectives, where practicable (sections 17 and 18). ‘Others’ includes other Commonwealth entities, other levels of government, and other public and private bodies and organisations including in the not-for-profit sector.

272. Effective collaboration can often more effectively facilitate outcomes than by working alone. Commonwealth entities can enhance the design and delivery of programmes and services by collaborating:

- between two or more entities in a whole-of-government or cross-entity response
- across jurisdictional boundaries, by establishing partnerships with state and territory entities
- with organisations and bodies outside government.

273. Cross-entity arrangements can be informal or formal, taking the shape of written agreements, panels or committees, shared protocols or simply verbal agreements. Common drivers for formalising cross-entity arrangements include the need or desire to:

- promote a collaborative relationship between parties and demonstrate a commitment to joint work
- establish a degree of control or assurance in relation to the activities and responsibility of another party
- enhance accountability, transparency and efficiency
- improve knowledge
- provide better services (for example, consolidated or seamless services to the public or other clients).

274. For more information on working with others see:

- [General duties of accountable authorities](#) – further guidance on meeting the obligations under section 17 of the PGPA Act
- the [National Collaboration Framework](#) for processes, tools and a suite of template agreements to assist Commonwealth entities, state/territory and local jurisdictions to work collaboratively to achieve government objectives
- [cooperation with other jurisdictions](#) for guidance on working with states, territories and local government, including guidance for classifying payments
- ANAO (June 2014) Better Practice Guide *[Public Sector Governance – Strengthening performance through good governance]*, in particular Part 5 on effective collaboration
- the [Government Collaborative Suite](#) for tools to support the sharing of knowledge, skills and resources in the pursuit of more effective, efficient and innovative solutions, including govdex, govshare, the [Australian Government Architecture](#), and the [National Standards Framework](#)
- the [National Public Private Partnerships Framework](#) for policy and guidance for partnering with the private sector for the provision of public infrastructure and related services
- [handling money persons outside the Commonwealth](#) – guidance on entering into and administering arrangements in relation to other CRF money.
3. Use of public resources

3.1. Purpose of this part

275. The purpose of this part is to examine key elements in the PGPA Act relating to:

- the commitment of relevant money
- aspects of proper use (efficient, effective, economical and ethical)
- matters officials should consider before committing relevant money
- considerations when managing a grants programme
- considerations when engaging in procurement such as value for money or whole-of-government arrangements
- the use and management of relevant property
- the role of compliance reporting.

3.2. Committing relevant money

276. Common ways that officials in Commonwealth entities use and manage public resources include:

- committing relevant money
- entering into arrangements and
- administering arrangements, including by making payments of relevant money.

277. The key terms are:

- 'relevant money' is money that an official or a Commonwealth entity holds as cash or in bank accounts
- 'committing' relevant money is when a Commonwealth entity undertakes an activity that results in an obligation to pay relevant money, such as entering an arrangement
- 'arrangement' includes a contract, agreement or deed or understanding.

Duties of officials committing relevant money

278. Officials who commit relevant money on behalf of the Commonwealth or their entity must comply with their general duties in the PGPA Act, to:

- exercise care and diligence, i.e. to take reasonable steps, given the nature, significance, value and context of the proposed commitment (section 25)
- act honestly, in good faith and for proper purpose when using relevant money, in a way that is:
  - consistent with finance law
  - consistent with the aims and operations of their entity (section 26)
- not use their position or information to gain an advantage or cause detriment (sections 27-28)

279. To meet these duties when committing relevant money, an official should be satisfied that:

- the use of relevant money will be efficient, effective, economical and ethical
- relevant money will be used by persons who are authorised to use those resources and
any losses due to waste, abuse, mismanagement, error, fraud, omissions and other irregularities are minimised.

280. An official preparing to commit relevant money should consider:
- the internal controls in their entity that will apply to the commitment of relevant money
- any other rules or policies that will apply to the proposed commitment
- the records that will need to be kept (section 18 PGPA Rule).

281. Each of these considerations is discussed below together with the fundamental consideration that any commitment of relevant money must be a proper use. For more information on committing relevant money, see RMG-400: Approving commitments of relevant money.

**Will the commitment of relevant money be efficient, effective, economical and ethical?**

282. In considering whether the proposed commitment of relevant money will be a proper use, officials must balance all of the following elements, whether the commitment would be:
- efficient
- effective
- economical
- ethical.

283. Officials cannot focus on just one of these four elements to the exclusion of others.

**Efficient**

284. Whether:
- the proposed commitment is the most suitable way to deliver the best results for a programme, an entity and the Commonwealth
- whether the opportunities for abuse, mismanagement, error, fraud, omissions and other irregularities are minimised.

285. For example, officials could consider:
- whole-of-life costs (financial and non-financial)
- other ways of achieving the particular purpose and objective
- whether there is sufficient money available to spend, i.e.
  - for non-corporate Commonwealth entities – are there sufficient unallocated appropriations
  - for corporate Commonwealth entities – is there sufficient available money.

**Effective**

286. Whether the proposed commitment is the most effective way to achieve the purpose or objectives of a programme, an entity and the Commonwealth:
- for entities established by legislation, the purpose and objectives of the entity usually corresponds to objectives and functions in the entity’s enabling legislation.
- for non-statutory entities (e.g. a department of state), the purpose and objectives can be set out in instruments such as the Administrative Arrangements Order.
- from 1 July 2015, section 35 of the PGPA Act requires all Commonwealth entities to have a corporate plan that is likely to include the objectives of the entity.
Commonwealth Resource Management Framework Companion

**Economical***

287. Whether the proposed commitment of relevant money:
   - avoids waste
   - is the best cost option to deliver the expected results

288. Officials can also consider whether the proposed commitment can be met from available appropriations or resources (noting that section 19 of the PGPA Act requires entities to keep their responsible minister and the Finance Minister informed of significant commitments).

**Ethical***

289. Whether the proposed commitment of relevant money is consistent with the core beliefs and values of society, i.e. would another official in a similar situation undertake a similar course of action?

290. The ethical use of money also involves complying with the general duties of officials set out in sections 25 to 29 of the PGPA Act.

**What internal controls apply to the commitment of relevant money?***

291. The internal controls of an entity should promote the proper use of relevant money by:
   - aligning the internal financial delegations and authorisations in the entity with clear instructions on the policies and rules that officials must consider
   - addressing the risks associated with the use of relevant money in the entity
   - clarifying any other requirements that apply to the proposed use of relevant money.

292. In any Commonwealth entity, the internal controls relating to the commitment of relevant will generally be found on an entity's intranet page in Accountable Authority Instructions (AAIs) or operational guidelines. These instructions or guidelines will often be supported by the administrative procedural requirements of the entity.

**Who has authority to commit relevant money?***

**Accountable authorities***

293. Accountable authorities have the power to use relevant money to carry out the functions of their entity.

**Officials***

294. Officials can be:
   - *delegated* the authority to commit relevant money (e.g. section 23 of the PGPA Act and section 32B of the FFSP Regulations provide accountable authorities of non-corporate Commonwealth entities with mechanisms to delegate to others the power to:
     - approve a commitment of relevant money and
     - enter into, vary and administer arrangements relating to the affairs of the entity, on behalf of the Commonwealth)
   - *authorised* to commit relevant money (e.g. the accountable authority of a corporate Commonwealth entity can authorise others to exercise their powers in accordance with the entity's enabling legislation).

295. Officials who are authorised or delegated the power to commit relevant money must comply with any directions or instructions from their accountable authority. These directions or instructions may require officials to complete specific tasks before exercising the power, to give the accountable authority assurance that the proper use of relevant money is achieved.
Officials who commit relevant money must also comply with section 18 of the PGPA Rule to record, either in writing or electronically, the commitment approval.

It is important to remember that delegates are personally responsible for exercising the powers that they have been given. Delegates:

- must exercise their own discretion
- are personally accountable under the law for their individual decisions and actions.

**What other rules or policies apply to the proposed commitment?**

**Types of arrangements to commit relevant money**

Other rules and controls that will apply to a particular decision to commitment relevant money will depend on the type of arrangement that will be used to commit the money. Officials can use the following arrangements to commit relevant money, make payments or set up financial structures to achieve the Commonwealth’s policy objectives:

- grants
- procurements
- compensation payments
- benefit and entitlement payments established by legislation
- tax concession or offset
- investments
- loans and
- act of grace payments.

More detail on each of these different types of arrangements is set out in Appendix 1 to the Companion. Officials will have to comply with the rules and requirements that apply to each different type of arrangement.

**Procurements versus grants**

Procurements and grants are two of the most common types of arrangements that officials use to commit relevant money. It can sometimes be difficult to distinguish between a grant and a procurement, particularly where the procurement is on behalf of a third party. Often what differentiates a grant from a procurement is that:

- a grantee is being assisted by the Commonwealth to achieve its own goals (in line with Commonwealth goals),
- a procurement obtains goods and/or services that will assist the Commonwealth in achieving Commonwealth objectives.

A range of rules and policies have been established to direct or guide officials in Commonwealth entities on the use of procurement or grants arrangements:

- for procurements:
  - non-corporate Commonwealth entities must commit relevant money in a way that is not inconsistent with any procurement related policies of the Australian Government and
• for grants, non-corporate Commonwealth entities must comply with the Commonwealth Grants Rules and Guidelines (CGRGs).

Commonwealth Grants Rules and Guidelines

302. The CGRGs establish the overarching Commonwealth grants policy framework and articulate the expectations for all non-corporate Commonwealth entities in relation to grants administration. The CGRGs are issued by the Finance Minister under section 105C of the PGPA Act.

303. The CGRGs enable non-corporate Commonwealth entities to develop their own specific grants administration practices based on the mandatory requirements and principles of grants administration in the CGRGs. The CGRGs contain a small number of requirements that apply to ministers. These include grants-specific decision-making and reporting requirements, in addition to the legislative requirements that apply where a minister approves proposed expenditure.

304. The CGRGs are divided into two parts:

Part 1 – mandatory requirements

Part 2 – how entities should apply the seven principles of grants administration.

305. The combination of mandatory requirements and better practice guidance in the CGRGs provides accountable authorities and officials with the flexibility to design and administer granting activities (including grants programmes) to meet a range of government outcomes and to work together with stakeholders, such as industry, small business and the not-for-profit sector, to achieve government policy objectives.

306. The objective of grants administration is to promote proper use and management of public resources through collaboration with the non-government sector to achieve government policy outcomes.

Definition of a 'grant'

307. A 'grant' is defined in the CGRGs as an arrangement for the provision of financial assistance by the Commonwealth or on behalf of the Commonwealth:

• under which relevant money or other CRF money is to be paid to a recipient other than the Commonwealth and

• which is intended to assist the recipient achieve its goals and

• which is intended to help address one or more of the Australian Government’s policy objectives and

• under which the recipient may be required to act in accordance with specified terms or conditions.

308. The CGRGs apply to all forms of granting activity, including payments made:

• as a result of competitive or non-competitive selection processes

• where particular criteria are satisfied or

• on a one-off or ad hoc basis.

309. For the purposes of the CGRGs the following financial arrangements are taken not to be grants:

• the procurement of property or services by an entity, including the procurement of the delivery of a service by a third party on behalf of an entity, these arrangements are covered by the CPRs

• an act of grace payment approved under section 65 of the PGPA Act
• a payment of compensation made under:
  o an arrangement relating to defective administration
  o an arrangement relating to employment conditions
  o an arrangement established by legislation
• a payment to a person of a benefit or an entitlement established by legislation
• a tax concession or offset
• an investment or loan
• financial assistance provided to a state in accordance with section 96 of the Constitution
• a payment to a state or a territory that is made for the purposes of the FFR Act
• a payment made for the purposes of the *Local Government (Financial Assistance) Act 1995*
• a payment made for the purposes of the *Schools Assistance Act 2008*
• a payment made for the purposes of the *Higher Education Support Act 2003*
• official development assistance, a payment for the purposes of Australia’s international development assistance programme.

310. Additional guidance on these other financial arrangements is in Appendix 1 to the Companion.

311. For more information on grants, see *RMG-411: Grants, procurements and other arrangements* and *RMG-412: Australian Government Grants – briefing and reporting*.

**Key principles for grants administration**

312. Grants administration encompasses all processes in granting activities, and includes:

• planning and design
• selection and decision-making
• the making of a grant
• the management of grant agreements
• the ongoing relationship with grant recipients
• reporting
• review and evaluation.

313. The Commonwealth has seven key principles for grants administration that apply to all forms of granting activity and all processes and phases of grants administration:

• robust planning and design
• collaboration and partnership
• proportionality
• an outcomes orientation
• achieving value with relevant money
• governance and accountability
• probity and transparency.

314. Accountable authorities and officials must put in place practices and procedures to ensure that grants administration is conducted in a manner that is consistent with these seven key principles. Ensuring that the requirements of the CGRGs are well understood and effectively incorporated into the design and administration of any granting activity is important to ensure
that the potential grant recipients best suited to undertake grant funded activities apply for and receive a grant.

315. Officials should work together with key stakeholders, both within government and outside of government, through all phases of grants administration, such as the design and development of grant guidelines and application processes. Officials should build productive relationships with grant applicants and recipients to collaboratively achieve government policy outcomes.

**Requirements for accountable authorities and officials**

316. Officials must establish and document whether a proposed activity is a grant prior to applying the CGRGs. Accountable authorities and officials involved in grants administration must comply with government policies and legislation relevant to grants administration.

317. Officials must:
  - develop grant guidelines for all new granting activities (including grant programmes), and revised guidelines where significant changes have been made to the current granting activity
  - have regard to the seven key principles for grants administration
  - ensure that grant guidelines and related internal guidance are consistent with the CGRGs and
  - advise the relevant minister on the relevant requirements of the PGPA Act and rules and the CGRGs, where a minister is considering a proposed expenditure of relevant money for a grant.

318. Where an accountable authority or official approves the proposed commitment of relevant money in relation to a grant, the accountable authority or official must record, in writing, the basis for the approval relative to the grant guidelines and key considerations of value with relevant money.

319. Officials must also provide written advice to ministers, where a minister will exercise the role of an approver. This advice must, at a minimum:
  - explicitly state that the spending proposal being considered for approval is a grant
  - provide information on the applicable requirements of the PGPA Act and rules and the CGRGs (particularly any ministerial reporting obligations), including the legal authority for the grant
  - outline the application and selection process, including the selection criteria, that were used to select potential grant recipients and
  - include the merits of the proposed grant or grants relative to the grant guidelines and the key consideration of achieving value with relevant money.

320. Ministers are required to report to the Finance Minister any grants awarded in their own electorates, and any grants they approve against the recommendation of the relevant entity.

321. Where a third party administers grants on behalf of the Commonwealth, the relevant accountable authority must ensure the arrangement is in writing and promotes the proper use and management of other CRF money. In addition, the accountable authority must ensure the arrangement requires the third party to comply with the CGRGs.

322. An overarching principle of the CGRGs is that accountable authorities and officials work together across government and with the non-government sector when undertaking grants administration. When determining what the acquittal or reporting requirements are, officials must have regard to information collected by regulators and available to officials.
Commonwealth Procurement Rules

323. Procurement encompasses the whole process of acquiring goods and services:
   • beginning when a need has been identified and a decision has been made on the procurement requirement and
   • continuing through the processes of risk assessment, seeking and evaluating alternative solutions, the awarding of a contract, the delivery of and payment for the goods and services and, where relevant, the ongoing management of the contract and consideration of disposal of goods.

324. The Commonwealth Procurement Rules (CPRs) incorporate relevant international obligations, government policy and good practice in procurement into a set of rules which apply to Commonwealth procurement. The CPRs are issued by the Finance Minister under section 105B of the PGPA Act:

   Division 1 of the CPRs contains rules applying to all procurements regardless of their value or whether an exemption (set out in Appendix A of the CPRs) applies

   Division 2 contains additional rules applying to procurements valued at or above the relevant procurement threshold.

325. Officials from non-corporate Commonwealth entities and prescribed corporate Commonwealth entities listed in section 30 of the PGPA Rule (collectively referred to as relevant entities through this section) must comply with the CPRs when performing duties related to procurement.

326. In addition to CPRs the procurement framework also includes:
   • web-based guidance to assist entities to implement the procurement framework
   • internal controls (such as Accountable Authority Instructions), which accountable authorities can use to set out entity-specific operational rules to ensure adherence with the procurement framework.

327. The CPRs include three procurement methods (section 9 of the CPRs):
   • open tender
   • prequalified tender
   • limited tender.

Procurement thresholds

328. Where the expected value of a procurement is at or above the relevant procurement threshold and an exemption in Appendix A of the CPRs does not apply, the rules in Division 2 must also be followed. The procurement thresholds (including GST) are:
   • for non-corporate Commonwealth entities, other than for procurements of construction services, the procurement threshold is $80,000
   • for prescribed corporate Commonwealth entities, other than for procurements of construction services, the procurement threshold is $400,000
   • for procurements of construction services by relevant entities, the procurement threshold is $7.5 million.

Value for money

329. Achieving value for money is the core rule of the CPRs. Value for money in procurement requires:
   • encouraging competition and non-discriminatory processes
• using Commonwealth resources in an efficient, effective, economical and ethical manner that is not inconsistent with the policies of the Commonwealth
• making decisions in an accountable and transparent manner
• considering the risks
• conducting a process commensurate with the scale and scope of the procurement.

Encouraging competition and non-discrimination

330. Competition is a key element of the Commonwealth’s procurement framework. Effective competition requires non-discrimination in procurement and the use of competitive procurement processes. All potential suppliers must be treated equitably.

331. Officials should apply procurement practices that do not unfairly discriminate against small and medium enterprises and provide appropriate opportunities for them to compete. The Commonwealth is committed to entities sourcing at least 10 per cent of procurement by value from small and medium enterprises. These are defined in the CPRs as an Australian or New Zealand firm with fewer than 200 full-time equivalent employees.

Procurement-connected policies

332. Sections 15 and 21 of the PGPA Act require procurement by non-corporate Commonwealth entities to be not inconsistent with the policies of the Australian Government. Corporate Commonwealth entities are only subject to the policies of the Australian Government if directed by a government policy order made by the Finance Minister in accordance with section 22 of the PGPA Act.

333. The Finance website lists the Australian Government policies that relate to procurement, known as procurement-connected policies. Officials are responsible for informing themselves of the procurement-connected policies that apply to specific procurements.

Coordinated procurement

334. The Australian Government may decide that, for certain goods or services, improved value for money can be achieved through whole-of-government arrangements for procuring goods and services. These arrangements are known as coordinated procurements and may include the establishment of whole-of-government panels that entities must use unless specifically exempted. The Finance website contains a list of coordinated procurements.

335. Exemptions from coordinated procurements can only be granted jointly by the requesting entity’s portfolio minister and the Finance Minister when a special need for an alternate arrangement can be demonstrated. Prescribed corporate Commonwealth entities may opt-in to coordinated procurements.

AusTender

336. AusTender, the Commonwealth’s procurement information system, is a centralised web-based facility that publishes a range of information, including planned procurements, open tenders and contracts awarded.

337. AusTender is the system used to enable entities to meet their publishing needs under the CPRs. It also enables entities to monitor and review their AusTender-based procurements, including approaches to market, publication of contracts and multi-use lists, and amendments to contracts and multi-use lists.

338. The current reporting thresholds (including GST) are:
• $10,000 for non-corporate Commonwealth entities and
• for prescribed corporate Commonwealth entities:
  o $400,000 for procurements other than procurement of construction services, or
$7.5 million for procurement of construction services.

More information on procurements

339. For more information on:
- procurements, see RMG-411: Grants, procurements and other arrangements
- procurement-connected policies
- coordinated procurements
- AusTender
- travel procurement policies, see RMG-404: Official domestic travel – use of the lowest practical fare, RMG-405: Official international travel – approval and use of the best fare of the day and RMG-418: Payment terms for Australian Government travel arrangements – card services
- advertising procurements generally, see RMG-407: Reduced press advertising for open approaches to market (ATMs) policy
- advertising for recruitment purposes, see RMG-408: Recruitment advertising policy.

What approvals must be recorded?

340. Section 18 of the PGPA Rule requires that an approval to commit relevant money is recorded in writing or electronically as soon as practicable after it is given. The form of the record will depend on the significance, value, level of risk and sensitivities associated with the proposed commitment.

341. A record of approval must indicate that the official is satisfied that the expenditure would be a proper use of relevant money. Approval to commit relevant money may be given:
- prior to entering an arrangement or
- when an official enters an arrangement.

342. Depending on the complexity of a particular approval, or the dollars involved, an accountable authority could establish processes that require officials to record the terms and/or basis of particular approvals. The internal controls should clarify the records officials are required to keep. For example, a written record could include:
- signed minutes, signed purchase orders or purchase order requests
- for low risk arrangements such as hiring a taxi to go to a meeting, the cab charge voucher and a receipt from the taxi driver could be sufficient to record the approval
- an electronic record of an approval such as email or a record in an information system that can be retrieved

Verbal approvals

343. Officials can provide verbal approval for a commitment, however, the PGPA Rule then requires a written record of that approval as soon as practicable after giving it.

Approvals by ministers

344. There will be some instances of significant or high value items of proposed expenditure, which will be approved by a minister. If a minister chooses to personally approve a proposed expenditure of relevant money, he or she must meet the requirements of section 71 of the PGPA Act. Section 71 imposes a duty on ministers not to approve a proposed expenditure of relevant money unless they are satisfied, after making reasonable inquiries, that it constitutes a proper use of the money. There are additional requirements for ministers when approving grants. For further information see the Commonwealth Grant Rules and Guidelines (CGRGs).
Officials who assist a minister to consider and approve a commitment must advise the minister on:

- the proposed arrangement (e.g., the grant(s) being considered for approval)
- the requirements of the PGPA Act and the CGRGs
- any selection process and, where relevant, the merits of the proposed grant(s).

This is so the minister:

- can satisfy himself or herself that the proposal constitutes a proper use of the money
- approve any grant(s) consistent with the requirements in the CGRGs.

Officials should also endeavour to get a written record of a minister’s approval.

**Entering into arrangements**

Certain officials of Commonwealth entities can enter into arrangements (which includes contracts) under which relevant money is, or may become, payable. The power to enter into, vary or administer an arrangement must be delegated or authorised to those officials.

Since corporate Commonwealth entities are legally separate from the Commonwealth, they can act on their own behalf in exercising certain legal rights, such as authorising persons to enter into contracts. The authority for these entities to enter into contracts is normally contained in their enabling legislation, or by virtue of their separate legal personality.

Non-corporate Commonwealth entities are part of the Commonwealth for legal purposes and their actions are regarded as actions of the Commonwealth. Section 23 of the PGPA Act enables the accountable authority of a non-corporate entity to enter into, vary and administer arrangements on behalf of the Commonwealth, to the extent that the arrangements relate to the affairs of the entity.

Section 23 of the PGPA Act defines an ‘arrangement’ to include a contract, agreement, deed or understanding. This definition covers any instruments between parties that create rights and obligations. Examples of the range of agreements captured by section 23 include:

- memoranda of understanding (either between Commonwealth entities or between governments)
- standing offers and grant agreements
- procurements for the purposes of running the entity (such as, stationery, furnishings, Information Technology (IT), electricity and other utilities, rent, travel, vehicles, subscriptions or attending conferences)
- engaging and paying contractors, provided they are engaged in the ordinary activities of the entity (such as, IT consultant and contractors engaged to perform research for the entity)
- legal, accounting and other professional services required by the entity.

A delegation of section 23(1) of the PGPA Act, is not required for the following which are not arrangements:

- statutory entitlement payments such as a social security benefit
- engaging employees under legalisation, such as the Public Service Act 1999
- appointing persons to a statutory office.

In some circumstances legislation, such as, section 32B of the FFSP Regulations, may expressly authorise the Commonwealth to enter into particular arrangements and engage in related expenditure for other purposes.
354. Some entities will be required, by their nature, to deal with contracts and payments on behalf of other entities. In these cases, arrangements might also be established to reimburse the entity bearing the initial costs of such contracts.

355. There will be some instances (for example, significant or high value items of proposed expenditure) which should be approved by a minister. If a minister chooses to personally approve a proposed expenditure of relevant money, he or she must meet the requirements of section 71. Section 71 imposes a duty on ministers not to approve a proposed expenditure of relevant money unless they are satisfied, after making reasonable inquiries, that it constitutes a proper use of the money. There are additional requirements for ministers when approving grants. For further information see the CGRGs.

356. The terms of section 71 make it clear that a minister can only approve a particular item of proposed expenditure, rather than a class or group of proposed expenditure.

357. The entity should take appropriate steps to advise their minister of the legal requirements of the PGPA Act and any other relevant information (such as, risks or impediments to achieving outcomes, or evidence to justify a recommendation) that may assist the minister to form a view about whether the proposed expenditure would involve a proper use of relevant money.

358. Further information on arrangements can be found in RMG-400: Approving commitments of relevant money, which is available on the Finance website.

Managing and administering an arrangement

359. Once a Commonwealth entity has entered into an arrangement, officials are responsible for managing and administering the arrangement to ensure it is achieving the objectives of the programme, the entity and the Commonwealth (e.g. a procurement must be managed to ensure value for money is achieved).

360. The internal controls of an entity may distinguish between:

- tasks that involve decision-making (e.g. variations to the arrangement) that require the exercise of a delegation or authorisation and
- purely administrative tasks such as processing payments of relevant money under the arrangement.

361. An official may only agree to vary an arrangement if:

- it is within the scope of their delegation or authorisation and
- if required, any new or additional commitment of relevant money is approved in accordance with the internal controls of the entity.

362. Officials are generally authorised or delegated to do tasks on behalf of the Commonwealth or their entity to administer arrangements.

3.3. Other requirements relating to the use and management of relevant money

363. This section summarises the other ways officials can use or manage relevant money and notes the requirements or restrictions imposed by the PGPA Act. For example all Commonwealth entities must:

- have arrangements for collecting and banking relevant money
- only borrow money in accordance with the PGPA Act
- only invest relevant money accordance with the PGPA Act.

364. For non-corporate Commonwealth entities the PGPA Act (and the Finance Minister’s delegations to accountable authorities) also limits the indemnities, guarantees and warranties that accountable authorities of non-corporate Commonwealth entities can grant.
This section also outlines the arrangements for dealing with other CRF money: money that is used or managed by person outside of the Commonwealth, on behalf of the Commonwealth, that is not otherwise subject to the requirements of the PGPA Act that apply to relevant money.

**Banking arrangements for relevant money**

The Finance Minister has delegated the power to enter into an arrangement with a bank to conduct banking business in section 53 of the PGPA Act to the accountable authority of each non-corporate Commonwealth entity. Specific accountable authorities have been delegated the power to establish banking arrangements outside Australia. A corporate Commonwealth entity is, on its own account, able to hold relevant money and enter into an arrangement with a bank.

Section 55 of the PGPA Act requires:

- a minister who receives relevant money, to give the money to an official of a non-corporate Commonwealth entity as soon as practicable
- an official who receives relevant money (including from a minister) that can be banked, to deposit the money in a bank as soon as practicable and/or deal with the money in accordance with requirements in the rules
- money that is not able to be banked, to be dealt with as specified in the rules.

Sections 19, 20 and 21 of the PGPA Rule set out when relevant money is required to be banked and when it is not required to be banked.

Section 19 of the PGPA Rule provides that bankable money must be banked promptly by an official who receives it. This will either be the next banking day or a banking day approved by the accountable authority. The discretion provided to the accountable authority allows them to take into account organisational or operational matters that may affect the prompt banking of money.

Section 20 of the PGPA Rule establishes an exception to the prompt banking requirement in section 19 where an official receives relevant money in order to carry out an activity of the entity. For example:

- where money is withdrawn from the entity's bank account to make payments in cash (such as paying salaries, purchasing goods and services, or making grants)
- when money is stored at an entity's shopfront to use as a cash float.

Section 21 of the PGPA Rule enables accountable authorities to establish instructions in relation to money that is unbankable. Unbankable money can be:

- money that will not be accepted for banking by any bank, e.g.:
  - foreign coinage which is not able to be banked in Australia and which cannot be used to make payments in Australia
  - money is damaged or contaminated or
- money which the relevant accountable authority considers would be uneconomical to bank, e.g. coins of small denomination that are collected in a place far from any location in which they could be deposited in a bank (in such cases, the accountable authority may decide to store the coins until a sufficient number are collected to have a value greater than the costs of transporting the coins to an appropriate bank).

Should circumstances change so that the money no longer falls into either of the above two categories, then the money becomes bankable and should be promptly banked in accordance with section 19 of the PGPA Rule.

For more information on banking relevant money, see [RMG-300: Banking of relevant money received by Ministers and officials](#) and [RMG-413: The banking of cash by Commonwealth entities](#).
Borrowing money

374. Section 56 of the PGPA Act enables the Finance Minister to enter into a limited range of borrowing agreements on behalf of the Commonwealth. This includes entering into arrangements for the issuance of credit cards or credit vouchers, provided that the arrangement requires the money borrowed to be repaid within 90 days. The Finance Minister has delegated this power to accountable authorities of all non-corporate Commonwealth entities.

375. Section 57 of the PGPA Act, prevents corporate Commonwealth entities from borrowing money (including obtaining credit cards or credit vouchers), unless expressly authorised by an Act, such as their enabling legislation, or the borrowing is authorised by the Finance Minister in writing, or under the PGPA Rule. Section 21A of the PGPA Rule authorises corporate Commonwealth entities to borrow for credit cards or credit vouchers, provided that the agreement requires the money borrowed to be repaid within 90 days.

376. Generally, an accountable authority or their delegate or authorised official enters into a single overarching borrowing agreement for each form of credit card or credit voucher. Officials then act on the relevant borrowing agreement by using a card or voucher issued under that agreement – each credit card and credit voucher is not a separate borrowing agreement.

377. For more information on borrowing, see RMG-416: Facilitating supplier payment through payment card.

Investment of relevant money

378. An investment is an arrangement that involves the purchase of an asset by a Commonwealth entity for the primary purpose of earning income or a profitable return.

379. Investments are made under the authority of specific enabling legislation, such as the Future Fund Act 2006 or sections 58 or 59 of the PGPA Act. As a general principle, relevant money administered by non-corporate Commonwealth entities should not be invested by them, as cash and debt management is generally conducted at the whole-of-government level.

380. Section 58 of the PGPA Act authorises the Finance Minister or Treasurer to invest relevant money on behalf of the Commonwealth. By implication, no other person may invest on behalf of the Commonwealth, unless expressly authorised by legislation. For example authorised investments are limited to:

   • securities of, or securities guaranteed by the Commonwealth, a state or a territory
   • a deposit with a bank
   • other forms of investment prescribed by section 22 of the PGPA Rule including: a bill of exchange accepted or endorsed by a bank; a professionally-managed money market trust (with the approval of the Finance Minister or Treasurer); a dematerialised security.

381. The Finance Minister has delegated the power to make these authorised investments to the accountable authorities of some non-corporate Commonwealth entities in relation to money in particular in relation to money in particular special accounts. The limits on types of investments reflect the fact that the Commonwealth has a duty to look after the money entrusted to it by the people of Australia.

382. Section 59 of the PGPA Act gives corporate Commonwealth entities power to invest in similar investments as the Finance Minister and Treasurer under section 58, providing corporate Commonwealth entities only invest money that is not immediately required for the purposes of the entity.

383. For more information on investing, see RMG-301: Investment by Commonwealth entities.
Restrictions on granting indemnities, guarantees and warranties

384. Indemnities, guarantees and warranties can place significant obligations on the Commonwealth. Section 60 of the PGPA Act enables the Finance Minister to grant indemnities, guarantees and warranties involving contingent liabilities. This power has been delegated to accountable authorities of non-corporate Commonwealth entities to grant indemnities, guarantees and warranties involving contingent liabilities (subject to the limitations specified in the delegation instrument).

385. In accordance with the Finance Minister’s delegation, an accountable authority may grant an indemnity, guarantee and warranty involving contingent liabilities if satisfied that:

- the likelihood of the event occurring is remote (less than 5% chance)
- most probable expenditure, if the event occurred, would not be significant (less than $30m).

386. Accountable authorities may delegate this power to other officials in their entity or in other entities.

387. Accountable authorities may also grant an indemnity, guarantee or warranty, if it has been explicitly agreed in a decision of:

- Cabinet
- the National Security Committee of Cabinet (NSC) or its successor or
- the Prime Minister.

388. For other indemnities, guarantees and warranties outside the scope of the directions in the Finance Minister’s delegations it will be necessary to get the approval of the Finance Minister.

Payments of relevant money (other than procurements or grants)

Discretionary financial assistance

389. The Commonwealth has powers to provide discretionary financial assistance. In general, this assistance may be granted where it is considered that there is a moral responsibility to provide assistance, rather than a legal responsibility. Act of grace payments allow the Finance Minister or a delegate to authorise one-off and periodic payment(s) to individuals or other bodies (such as companies), if he or she considers it appropriate because of special circumstances (section 65 of the PGPA Act).

390. For more information on discretionary financial assistance, see RMG-401: Requests for discretionary financial assistance under the PGPA Act.

Compensation payments

391. Compensation payments include payments intended to compensate individuals or groups for financial loss or other adverse consequences caused by a decision, action or omission by the Commonwealth. Compensation payments include discretionary compensation where the Commonwealth is under no legal obligation to make a payment, for example payments made under:

- the Scheme for Compensation for Detriment caused by Defective Administration (the CDDA Scheme)
- section 73 of the Public Service Act 1999.

392. For more information, see RMG-409: Scheme for compensation for detriment caused by defective administration.
Payment of benefits or entitlements established by legislation

393. An entitlement is a right to apply for, or claim, a benefit established by specific legislation. The entitlement creates an obligation on the Commonwealth to provide the benefit if relevant criteria are satisfied and may or may not place obligations on recipients of entitlements. Examples of entitlements that operate through specific legislation include:

- pension payments made through the Social Security (Administration Act) 1999
- payments to veterans through the Veterans’ Entitlements Act 1986
- payments made under the Pharmaceutical Benefits Scheme and Repatriation Pharmaceutical Benefits Scheme.

Others uses of relevant money

394. Other uses of relevant money include:

- Tax concessions or offsets: the Australian Taxation Office (ATO) administers legislation governing taxation. Any entity implementing a financial arrangement that involves matters of taxation should consult with the ATO in the first instance.

- Loans: are arrangements under which the Commonwealth advances a sum of money to an external recipient with the recipient agreeing to repay that sum (with or without interest) on a future date or on demand.

Other CRF Money

395. Accountable authorities of non-corporate Commonwealth entities are responsible for ensuring that arrangements with persons outside the Commonwealth handling other CRF money promote the proper use and management of that money. Other CRF money is defined in section 105(2) of the PGPA Act as money that forms part of the CRF other than:

- relevant money or
- any other money of a kind prescribed by the rules.

396. Other CRF money arises in situations where a person other than the Commonwealth (not an official or minister) receives, has custody of or spends money for and on behalf of the Commonwealth — i.e., as the legal agent of the Commonwealth. The relationship between the Commonwealth (through the non-corporate Commonwealth entity) and the person is contractually based.

397. In these situations money held by a private person for and on behalf of the Commonwealth forms part of the CRF for the purposes of section 81 of the Constitution.

398. Other CRF money is not subject to the controls over relevant money in the PGPA Act. Other CRF money is primarily managed by contractual arrangements. Section 29 of the PGPA Rule sets out requirements which accountable authorities of non-corporate Commonwealth entities need to comply with when entering into arrangement relating to the use or management (including the receipt, custody or expenditure) of other CRF money.

399. For more information, see RMG-303: Other CRF money.

3.4. Managing relevant property

Types of relevant property

400. This section summarises the requirements and frameworks that govern the management of relevant property. As with relevant money, Commonwealth entities have a responsibility to ensure the proper use and management of relevant property.
401. Relevant property includes:
   • real property: land or buildings or objects fixed to that land
   • movable property: all other property, e.g. equipment, vehicles
   • intellectual property: rights to information or assets created by the mind, e.g. the coat of arms.

Commonwealth Property Management Framework

402. The Commonwealth Property Management Framework applies to property leased and owned within the Commonwealth’s property portfolio (i.e. managed by non-corporate Commonwealth entities). Where a project falls outside the scope of the framework (e.g. involving property of a corporate Commonwealth entity), the framework can still be applied as a matter of best practice in managing public resources.

403. The framework is comprised of a range of policies that apply to different components of the property management process supported by separate guidance material, e.g. the Finance Secretary Lease Endorsement process.

404. The framework uses a risk and principles based approach. When dealing with government property, relevant officials of non-corporate entities need to consider the following principles:
   • value for money
   • property management planning
   • efficient and effective design
   • appropriate accountability measures
   • cooperative Commonwealth property management measures.

405. Further information on the framework can be found in the following guidance, available on the Finance website:
   • RMG-500: Overview of the Commonwealth property management framework
   • RMG-501: Property management planning guidance
   • RMG-502: Guidance for the Two Stage capital works approval process for Australian Government construction projects
   • RMG-503: Whole-of-Life costing for Australian Government property management
   • RMG-504: Commonwealth property management framework lease endorsement process for non-corporate Commonwealth entities
   • RMG-505: Funding arrangements for Commonwealth property
   • Flexible and efficient workplace design guidance.

Gifts of relevant property

406. Relevant property can only be gifted to another party in accordance with section 66 of the PGPA Act. The Finance Minister has delegated this power to gift property to the accountable authorities of all non-corporate Commonwealth entities in the Public Governance, Performance and Accountability (Finance Minister to Accountable Authorities of Non-Corporate Commonwealth Entities) Delegation 2014. All gifts of relevant property must be consistent with the directions contained in Part 10 of the delegation.

407. When contemplating the disposal of property, a non-corporate Commonwealth entity must first consider the overarching principles that, if appropriate to do so, the relevant property should be transferred with or without payment to another government entity within Australia.
(including state or territory governments), or sold at market value, where it is economical to do so. The entity must also demonstrate that any gift of relevant property:

- is a ‘proper’ use of public resources
- is genuinely surplus to the entity’s requirements and
- there are compelling and defensible reasons to justify the gifting to its recipient in particular.

408. The entity must obtain a reasonable estimate of the market value of the relevant property proposed to be gifted prior to any decisions being made, if possible.
4. Budget process

4.1. Purpose of this part

409. The purpose of this part is to give readers an insight to:

- the roles and responsibilities of participants involved in the Budget process
- legislation and policy that applies to the Budget
- documents required with the Budget, e.g. Budget Papers, PB Statements and appropriation bills
- the various roles and responsibilities involved in the Budget process
- the tools used to manage the Budget, i.e. CBMS (BEAM, BPCD) and INPACT
- the five year Budget cycle and how this fits with the resource management cycle
- the steps involved in developing and costing a new policy proposal (NPP) during the planning and budgeting stages
- how Portfolio Budget Submissions (PB Subs) are prepared
- activities involved in implementing and monitoring the budget
- what is involved in mid-year estimates
- drivers and timing for additional annual appropriation bills.

4.2. Allocation of public resources

410. The Australian Government Budget provides a picture of Australia’s forecast financial performance and the Government’s fiscal policy for the forward years. The Budget includes estimates of government revenue and expenses for the Commonwealth over a specified period.

411. The Budget process is the decision-making process for allocating public resources to the Government’s policy priorities. It is through the Budget process that the Government gains the Parliament’s authority to spend relevant money through the passage of the annual appropriation acts and other legislation that establishes special appropriations. The Government then allocates this money to departments of state and other Commonwealth entities. The Commonwealth public sector must effectively manage the finite resources within its control.

412. The annual Australian Government Budget is presented in May and is a major economic and social document. The Budget contains information on the Government’s social and political priorities, how the Government intends to achieve those priorities, and the economic consequences of its decisions.

413. Effective parliamentary oversight of government expenditure depends on adequate information, robust processes in place to develop and scrutinise the Budget, and proper monitoring of the implementation of activities funded through the Budget.

414. Budget management and implementation are inherently linked to the Commonwealth Resource Management Framework, which supports the use and reporting of public resources allocated to Commonwealth entities. The Commonwealth Resource Management Framework emphasises the need to use public resources in an efficient, effective, ethical and economical manner.
415. Figure I below illustrates the major categories for which amounts are expended by the Commonwealth on an annual basis.

**Figure I. How taxpayers’ money is spent (2014-15)**

![Pie chart showing Commonwealth expenditure categories]

*Source: 2014-15 Budget Overview*

416. Figure J below illustrates the actual and estimated total receipts and payments of the Commonwealth (in nominal terms). As can be seen, the net effect is that expenditure is expected to exceed receipts for the foreseeable future. This could restrict the capacity of the Government to make future discretionary spending decisions, and so must be a factor for Commonwealth officials to consider throughout the Budget process.

**Figure J. General Government Sector receipts and payments ($billion)**

![Graph showing receipts and payments over time]

*Source: 2014-15 Budget Overview*

(e) refers to estimated receipts and payments over the forward years

(p) refers to projected receipts and payments that extend beyond the forward years (indicative only)
4.3. Relevant legislation and policy

Overview

417. The following legislation and policy documents govern the Budget process:

- Australian Constitution
- Appropriation legislation
- *Charter of Budget Honesty Act 1998*
- PGPA Act
- Cabinet decisions
- Cabinet Handbook
- Other relevant legislation.

**Australian Constitution**

418. As discussed in Part 1 above, the Australian Constitution requires all moneys ‘raised or received’ by the Commonwealth to form one Consolidated Revenue Fund (CRF). Any amounts held in the CRF (which may include ‘relevant money’, as described in the PGPA Act) may only be spent if there is a valid appropriation that authorises the expenditure, and describes the purposes for which amounts may be spent. The CRF is a legal concept not a bank account, so cash held in a float, a drawer, a safe or in the hand of a Commonwealth official could all be part of the CRF.

419. Figure K illustrates the constitutional requirements relating to inflows and outflows from the CRF:

**Figure K. Flow of money through the CRF**

<table>
<thead>
<tr>
<th>INFLOWS</th>
<th>OUTFLOWS</th>
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<tbody>
<tr>
<td>‘All revenues or moneys raised or received by the Executive Government of the Commonwealth’ Constitution s81</td>
<td>‘Money to be appropriated by law’ Constitution s83</td>
</tr>
<tr>
<td>‘For the purposes of the Commonwealth’ Constitution s81</td>
<td>‘For the purposes of the Commonwealth’ Constitution s81</td>
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**Appropriations legislation**

420. Part 1 above describes the types of appropriation laws in more details. For the purpose of preparing appropriations, the Commonwealth:

- considers the ongoing management of revenue and expenditure at a single point in time (i.e. in the context of the annual Budget)
• makes recommendations to the Parliament on how relevant money should be allocated to improve outcomes for the Australian community (detailed in the Budget documentation).

421. The Government’s recommendations are:
• set out in appropriations bills that are put to Parliament and
• reported on in accordance with legislation and convention, such as the Charter of Budget Honesty.

422. If the appropriations bills are agreed by the Parliament, the appropriations are provided on the basis of:
• outcomes which specify the Government’s policy objectives and
• programmes - the mechanisms that will be used to achieve the outcomes and deliver services to the Australian community.

Charter of Budget Honesty Act 1998

423. The Charter of Budget Honesty Act 1998 (the Charter) sets out principles and requirements that guide the Government’s management of fiscal policy, including making transparent the Government’s fiscal position.

424. The purpose of the Charter is to provide a legal basis for the way the Government conducts and reports fiscal policy at a whole-of-government level. The Charter requires the Government to:
• facilitate sound fiscal management of the Australian economy
• keep the Parliament and the public informed about public finances
• ensure transparency in fiscal policy.

425. The Charter sets out:
• principles and requirements that guide the Government’s fiscal strategy, which is a detailed plan of how it will use expenditure and taxation to influence the level of economic activity in Australia
• a methodology for prioritising and allocating resources to achieve the Government’s planned outcomes for the benefit of the Australian community
• protocols for the way the Government reports its fiscal activities.

426. The Charter requires the Government to:
• set out its medium-term fiscal strategy in each Budget, along with its shorter-term fiscal objectives and targets
• report on estimates for the General Government Sector according to an annual reporting cycle, including economic assumptions underlying Budget estimates
• produce a Budget and Mid-Year Economic and Fiscal Outlook (MYEFO) report for the forward estimates period (Budget and three forward years), a Final Budget Outcome report, and an intergenerational report at least once every five years
• report against specified external reporting standards
• comply with processes for fiscal reporting in the lead up to a federal election
• comply with processes for costing election commitments of political parties.

427. The requirement to regularly produce a range of publications drives many Budget-related activities and processes, such as:
• the Treasurer, jointly with the Finance Minister, producing regular fiscal strategy statements, which are published in the Budget Papers and in the MYEFO report
• the Treasurer publishing an Intergenerational Report, which provides a basis for considering the Australian Government’s fiscal outlook over the long term (40 years) and identifies emerging issues associated with demographic changes

• the Finance Minister publishing regular fiscal reports each year, which provide monthly financial results against the Budget

• the Secretary of the Treasury and the Secretary of the Department of Finance jointly publishing a Pre-election Economic and Fiscal Outlook report when a federal election is called. They also publish costings prepared by Treasury and Finance on election commitments that have been requested by political parties in the lead up to a federal election.

**PGPA Act**

428. As discussed in Parts 2 and 3 above, the PGPA Act provides the framework for resource management and reporting by Commonwealth entities, in addition to any requirements set out in a corporate Commonwealth entity’s own enabling legislation, and any other applicable legislation.

429. For the purposes of the Budget process, the PGPA Act requires accountable authorities to prepare Budget estimates in accordance with any directions issued by the Finance Secretary (s36).

**Cabinet Handbook**

430. The Expenditure Review Committee (ERC) considers portfolio ministers’ NPPs and expected major pressures, and establishes the Budget’s priorities. The Department of the Prime Minister and Cabinet (PM&C) issues the authoritative guidance for bringing proposals to Cabinet:

• **Cabinet Handbook** and the accompanying drafter’s guide and

• **Guide to Preparing Implementation Plans**.

431. The Handbook:

• sets out the principles, procedures and conventions by which the Cabinet system operates (discussed further below)

• reflects the discretion the Prime Minister has to organise the management of the Cabinet, and includes his or her general expectations for Cabinet business and meetings

• refers to templates that are available on the CABnet system.

432. Anyone developing a proposal for consideration in the Budget context, or for the Cabinet more broadly, should review the Handbook and Guide carefully to ensure that all quality, security and timeliness requirements are met.

433. All submissions coming before the Cabinet and Cabinet committees must have a sponsoring minister, usually the minister with portfolio responsibility. Ministers are expected to take full responsibility for the proposals they bring forward, even where detailed development or drafting may have been done on their behalf by officials. Non-Cabinet ministers can bring forward submissions in their areas of responsibility with the agreement of the senior portfolio minister.

434. Proposals may be sponsored by more than one minister, provided the ministers are from different portfolios. Major and sensitive proposals which have a significant service delivery component must be brought forward jointly with the minister or ministers responsible for the delivery of the proposal. Where many ministers have an interest, it is generally preferable for responsibility to be allocated to one or two key ministers and for the other ministers to be thoroughly consulted during the preparation of the submission.
Financial Framework (Supplementary Powers) Act 1997

435. As covered under Executive Power in Section 1.3 above, the FFSP Act serves as a mechanism to provide legislative authority for a type of spending in cases where specific legislation does not exist to provide authority for spending.

4.4. Roles and responsibilities in the Budget process

Overview

436. The key parties in the Budget process are:

- Prime Minister and Cabinet
  - Expenditure Review Committee (ERC)
  - Budget Cabinet
- Parliamentary Budget Office (PBO)
- Central departments
  - Prime Minister and Cabinet
  - Treasury
  - Finance
- Commonwealth entities
- Auditor-General

Prime Minister and Cabinet

437. The Cabinet is the apex of the executive government. Cabinet sets the broad directions of Government and takes the most important decisions facing the Government. The outcomes of some Cabinet deliberations require action by the Governor-General, the Parliament, ministers, or holders of statutory office, to be put into effect.

438. The Cabinet system is a product of convention and practice. Cabinet is not mentioned in the Constitution, and its establishment and procedures are not governed by legislation. However, since federation all Australian Governments have used a Cabinet system for decision-making and for managing Government business.

439. The Government of the day, in particular the Prime Minister, determines the shape and structure of the Cabinet system and how it will operate. The ministry, the Cabinet and Cabinet committees are all elements of the Cabinet system.

440. Some work of Cabinet is referred to its committees, which deal with:

- highly sensitive or technical issues (e.g. security)
- routine issues (e.g. the Government’s weekly Parliamentary programme)
- business that is labour intensive or requires detailed consideration by a smaller group of Ministers (e.g. expenditure review or oversight of one of the Government’s initiatives).

441. Generally, the procedures and processes of Cabinet committees (including the submission and consultation processes) mirror those of Cabinet. The main difference is that most Cabinet committee decisions are not final and must be endorsed or considered by the Cabinet before they become operative.

442. As Cabinet committees are a forum for considering and developing policy options for Cabinet consideration, or for considering specialised issues, officials and ministerial staff may attend
Cabinet committee meetings. Attendance is, however, generally limited to the most senior levels of the public service (secretaries and entity heads) and ministerial staff (chiefs of staff).

**Expenditure Review Committee (ERC)**

443. The ERC is the Government’s key expenditure decision-making body. The ERC is responsible for:

- examining expenditure, revenue and savings in light of the Government’s overall fiscal strategy
- advising Cabinet on Budget spending priorities
- initiating reviews of individual ongoing programme expenses.

444. The ERC typically comprises:

- Prime Minister
- Treasurer (Chair)
- Finance Minister (Deputy Chair)
- Assistant Treasurer
- other portfolio Ministers chosen by the Prime Minister.

445. Budget-specific ERC meetings are held between March and April. The ERC’s decisions are formally recorded and circulated in the form of Cabinet minutes. Note that an ERC decision for an item to proceed to Cabinet does not represent agreement to funding. Final authority for funding will only be granted by the Cabinet or the Prime Minister.

446. All Budget related proposals, referred to as NPPs which have a certain or potential financial impact must be considered by the ERC (or at a joint meeting of the ERC and the National Security Committee where necessary), before consideration by Cabinet, unless the Prime Minister agrees otherwise.

447. All NPPs involving taxation revenue (including tax expenditures and concessions) must have the Treasurer’s agreement that the proposal can be brought forward for consideration. The proposal must be brought forward by the Treasurer or jointly with the Treasurer, unless the Treasurer agrees otherwise.

448. All NPPs with financial implications must be agreed by Cabinet or the Prime Minister.

**Budget Cabinet**

449. Budget Cabinet is a full Cabinet meeting in the final stages of the annual Budget process (typically held in mid to late April), which considers and endorses decisions made by the ERC and any other outstanding issues. It serves as a final checking mechanism for the cumulative Budget decisions made by the ERC and the Prime Minister. The Budget Cabinet Minute provides the final authority for NPPs to become measures and be included in the published Budget Papers and PB Statements.

450. Measures are a description of the individual NPPs approved by Cabinet in a given Budget period, and their financial impacts on the Budget. Measures are published in Budget Paper No. 2 and in the MYEFO papers. Finance validates the measures data for all entities and uses it to prepare the whole-of-government financial statements, Budget documentation, appropriation Bills and other reports to Parliament.

**Parliamentary Budget Office (PBO)**

451. The role of the PBO is to provide the Parliament with independent and non-partisan analysis of the Budget cycle, fiscal policy and the financial implications of proposals. The PBO was
established in 2011 as the fourth Parliamentary department supporting the Australian Parliament. The Charter of Budget Honesty was amended to take account of the role of the PBO.

452. Under the *Parliamentary Service Act 1999*, the PBO performs the following functions:

- outside the caretaker period for a general election — prepare policy costings on request by senators or members of the House of Representatives
- during the caretaker period for a general election — prepare policy costings on request by authorised members of Parliamentary parties or independent members
- prepare responses (other than policy costings) to requests relating to the Budget by senators or members of the House of Representatives
- prepare submissions to inquiries of Parliamentary committees on their request
- conduct research on and analysis of the Budget and fiscal policy settings.

453. The PBO may release reports on any of these matters at any point during or outside the Budget process.

**Roles of central departments**

454. The departments of the Prime Minister and Cabinet (PM&C), Treasury and Finance have specific roles to play throughout the Budget process. Some of the most important functions include:

- PM&C (via the Cabinet Secretariat) manages Cabinet meetings and approvals for NPPs. It also prepares advice for the Prime Minister on each NPP considered by the ERC, as well as on economic conditions generally
- Treasury is responsible for costing all tax revenue NPPs, providing advice for the Treasurer on each NPP considered by the ERC, and also for providing information on Australia’s broad economic condition, the Government’s macroeconomic policies and Federal Financial relations
- Finance is responsible for ensuring that the Budget estimates related to expenditure or capital that are presented to the Finance Minister and Cabinet are reliable, and meet the requirements of the Charter:
  - Finance ensures Budget estimates, processes and documentation are prepared and delivered in an accurate and timely manner. This requirement is one of Finance’s deliverables (set out in the Finance portfolio PB Statement)
  - Information about why adjustments to Budget estimates are necessary must be provided by the entity to Finance before Finance can validate them. This information is entered into CBMS by entity officials and reviewed by Finance officials. Matters that Finance officials consider when validating estimates adjustments include:
    - the appropriate authority justifying the entry of the adjustment
    - the correct classification of data to appropriation source, reason code, outcome, function and sub-function
    - the correct financial implications

**Commonwealth entities**

455. Every Commonwealth entity may propose NPPs to their responsible minister (through the relevant department of state that is responsible for the portfolio). If the minister approves the proposed NPP, he or she will write to the Prime Minister seeking permission for the NPP to be brought to ERC for consideration during the next Budget process. If the Prime Minister agrees, the NPP is included in the minister’s PB Sub.
All Commonwealth entities are required to keep their estimates and actuals reporting up-to-date in both their internal records system and CBMS (see Section 4.5 below for further information), to ensure that all public reporting is accurate and consistent.

Estimates adjustments are created by entity officials and sent to Finance (via CBMS) for validation. Validation is the formal process by which Finance comes to an agreement with the entity on the correct estimates for inclusion in the relevant Budget Papers.

Budget estimates often need to be amended in line with new Budget decisions made by Cabinet, changes in whole-of-government parameters (such as the Consumer Price Index or currency exchange rates variations), or changes to the Machinery of Government (MoG).

As covered in Section 1.8 above, Auditor-General’s functions include auditing financial statements and conducting performance audits that are included in Budget reports, such as the Commonwealth’s Consolidated Financial Statements.

### 4.5. Budget tools

**Central Budget Management System (CBMS)**

Commonwealth entities that receive appropriations are required to enter their financial data (including estimates and actuals) on a monthly and annual basis into the Commonwealth’s central accounting system, the Central Budget Management System (CBMS).

CBMS is the authoritative source of financial information for Government. CBMS facilitates:

- cash and appropriation management (via the Appropriations and Cash Management [ACM] module)
- the preparation of Budget measures for Budget Paper No. 2 and Attachment A of the Mid-Year Economic and Fiscal Outlook (via the Budget Policy and Coordination Database [BPCD] module)
- the preparation of Appropriation bills, Budget documentation for Budget Papers No. 1, No. 3 and No. 4, and financial reporting (via the Budget Estimates and Actuals [BEAM] module).

The modules of CBMS are used, more specifically, for purposes including:

- recording annual estimates, which are primarily used to prepare the Budget Papers and Appropriation Bills (BEAM)
- recording monthly estimates, which are primarily used to monitor the year-to-date position against the monthly actuals (BEAM)
- recording monthly actuals, which are primarily used to monitor the year-to-date position against the Budget, and produce the Commonwealth’s monthly financial statements (BEAM)
- recording annual actuals, which are primarily used to prepare the Final Budget Outcome report and the consolidated financial statements (BEAM)
- enabling entities to draw down cash based on available appropriations (ACM).

**Integrated New Policy and Costing Tracker (INPACT)**

INPACT is a system developed for use by Budget Group in Finance. The main function of INPACT is to provide a single dataset for Budget officials in Finance to input, track and report on a proposal as it progresses through the Budget process.
The functionality of INPACT allows officers in Finance to follow the item as it progresses through each stage: pressures, costings, NPPs, submissions/letters, decisions and measures. All of the previously mentioned stages form modules in INPACT that are connected by way of the ‘case file’, allowing officers to access an item and have the ability to draw accurate information efficiently and with confidence. It should be noted that INPACT does not replace or duplicate the function of CBMS.

4.6. Five year Budget cycle

The Budget follows a five year cycle that can be mapped according to the resource management cycle as shown in Figure L below. In these stages:

- **Planning objectives and strategies** involves setting the policy priorities of Government for revenue and expenditure
- **Budgeting and operational planning** involves the development of Budget, including Cabinet submissions, new policy proposals and costings, and its submission to Parliament for approval
- **Implementing and monitoring** is the data entry and performance tracking, also the rolling estimates process
- **Reporting and evaluation** is the ongoing accountability, the public reports that are published.

*Note: Pre-Budget year also includes estimates over the five years, but the following two forward years estimates (Years 5 and 6) will continue to be updated in subsequent Pre-Budget years.*

See also Appendix 2 – Budget events and tasks schedule
4.7. Planning and budgeting

Overview

466. This section describes the processes for developing an NPP for Government consideration. It details the information requirements and assurance mechanisms that are in place to support the Government to make informed decisions about whether to fund particular NPPs, based on an assessment of their deliverables, benefits, risks and timeframes.

467. NPPs are usually brought to the ERC as part of a Cabinet submission (referred to as a PB Sub) that includes:
   - clear recommendations to the ERC and the Cabinet
   - supporting analysis and background
   - financial implications as agreed with Finance
   - identified risks and sensitivities associated with the proposal, including mitigation or handling strategies
   - a proposed media strategy.

468. The ERC receives advice not only from the sponsoring minister and their department or entity, but also from other stakeholder entities and the three central departments. These views are expressed in coordination comments that appear in the final version of the submission.

469. Central departments have an additional opportunity to provide comment and advice through the Finance Green Brief. The brief is prepared and coordinated by Finance and summarises the proposals included in each submission and places them in the context of the Government’s broader fiscal and strategic priorities.

Pre-Budget year

470. The timeline for preparing the Budget can be summarised as follows:

<table>
<thead>
<tr>
<th>Process</th>
<th>Purpose</th>
<th>Indicative timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning objectives and strategies</td>
<td>Ministers outline and submit draft proposals for the coming Budget</td>
<td>September/October</td>
</tr>
<tr>
<td>Government sets operational timing</td>
<td>Estimates of spending and revenue are updated and policy decisions since the last Budget are reported. MYEFO must be released by the end of January, or six months after the last Budget, whichever is later.</td>
<td>October/November</td>
</tr>
<tr>
<td>Estimates updated at MYEFO</td>
<td>Ministers’ draft proposals are reviewed by ERC and Budget priorities are established</td>
<td>Late November</td>
</tr>
<tr>
<td>Budget priorities are set</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Budgeting and operational planning**

<table>
<thead>
<tr>
<th>PB Subs</th>
<th>Departments prepare submissions for Cabinet. Finance and Treasury agree on costings for all new policy proposals. All central departments provide feedback to Departments on the quality and content of submissions.</th>
<th>January</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central department review/pre-ERC estimates update</td>
<td>Central departments review submissions and Finance prepares briefs for ERC and pre-ERC estimates update</td>
<td>January/February</td>
</tr>
<tr>
<td>Expenditure Review Committee (ERC)</td>
<td>ERC reviews proposals and recommends which proposals should be included in the Budget (Finance Green Briefs inform this process)</td>
<td>March</td>
</tr>
<tr>
<td>Pre-Budget review</td>
<td>Entities update estimates to reflect ERC’s recommendations prior to finalising the Budget</td>
<td>April</td>
</tr>
<tr>
<td>Budget Cabinet</td>
<td>Special sitting of Cabinet is held to consider and confirm ERC decisions and agree on final Budget measures</td>
<td>Late April</td>
</tr>
<tr>
<td>Budget Night</td>
<td>Government’s decisions about Budget management are announced. Appropriation Bills tabled in the Parliament for consideration.</td>
<td>May</td>
</tr>
</tbody>
</table>

**Setting Budget priorities**

471. Portfolio ministers submit proposals for possible expenditure, revenue and savings for the coming Budget. Portfolio ministers provide initial cost estimates for the draft proposals. ERC then reviews the draft proposals and recommends which ones should be fully developed as NPPs for consideration in the Budget context.

472. Ministers are then informed by PM&C about which draft proposals can be fully developed for consideration at the Budget-specific ERC meetings. These proposals are rigorously costed when NPPs are fully developed as part of the PB Subs process.

**What is a New Policy Proposal (NPP)?**

473. An NPP is defined as any proposal that requires a Government decision and that:
   - has a certain or potential financial impact on existing estimates within the forward estimates period or beyond or
   - has changes in expenses offset by changes in other expenses or user charges (revenue) or
   - creates a legal, financial, contingent or other commitment for the Commonwealth or
   - changes the intent of a previous policy decision or position. This includes proposals that are fully offset or involve movements between or within outcomes.

474. Proposals can arise from a variety of sources, such as operational needs of an entity, election commitments made by ministers, directions given by Government, Parliament or statutory officials (such as reports made by the Auditor-General), or internal reports and audits.

475. Types of NPPs include:
   - expense and revenue proposals
   - capital expenditure proposals
   - movement of funds proposals
   - extensions of non-ongoing measures
   - savings proposals.
NPPs can also include guarantees, indemnities or other forms of assurance; or entering into treaties or agreements, on behalf of the Commonwealth, that are not within the powers normally exercised by an accountable authority, or not previously approved by Ministers or Cabinet.

For expense, capital and non-tax revenue related issues, Finance will form a judgment as to what constitutes an NPP. For taxation revenue and taxation expenditure related issues, Treasury will form a judgment as to what constitutes an NPP.

NPPs are produced in a format set out by Finance and PM&C, which is usually promulgated through an Estimates Memorandum and/or Cabinet submission templates.

**Considering proposals**

All NPPs that have potential financial implications must be considered in the Budget process unless the Prime Minister agrees otherwise.

If a minister proposes to have an NPP considered outside the Budget process, the minister must provide reasons, in writing, to satisfy the Prime Minister that the proposal is:

- unavoidable and
- genuinely urgent and cannot be considered in the Budget process.

The Prime Minister may agree that there is a compelling argument for a minister to bring forward a proposal with financial implications for urgent under-the-line consideration. If those costs are not agreed before Cabinet discussion and the proposal is agreed in principle by Cabinet, the minister must bring any unresolved issues back to Cabinet for further consideration or endorsement (‘under-the-line comebacks’).

NPPs will only be considered if the Cabinet’s requirements have been met.

In developing and assessing NPPs, it is important to consider the following:

- **Why** should government action be considered?
- **What** should the Government do?
- **How** will:
  - the policy be implemented?
  - the associated risks be mitigated?
  - the outcomes be evaluated?

Answering these questions is essential in order to provide the Government with an accurate assessment of costs and sound policy advice.

A NPP that contains financial implications must include a costing. The process from an NPP with a costing to an appropriation in an Act, can be reflected as follows:

**Risk assessment and assurance processes**

Government’s priorities often involve the approval of complex, cross-portfolio programmes and services, which require a sophisticated approach to identifying and managing risk throughout design, implementation and delivery.

The application of risk assessment and assurance activities to complex programmes is essential for robust evidence-based decision-making, and supports the Government’s
commitment to improve the delivery and implementation of policies, programmes and services.

488. Assurance processes that apply to NPPs are designed to provide additional assurance to the Government that risks have been considered for all proposals that are presented for its consideration. The Government will decide if a particular NPP will be subject to a centrally commissioned assurance review based on an assessment of risk.

489. In preparing information for Government, consideration also needs to be given to the impact that implementing an NPP could have on certain areas of the community (e.g. business, the not-for-profit sector, families or Indigenous people).

490. The primary purpose of identifying broader impacts is to improve government decision-making processes by ensuring that all relevant information is presented at the time a decision is being made or agreement is being sought.

491. Developing an understanding of the impacts entails consideration of:
   - the nature and intent of the proposal
   - whether the proposal is likely to have broader impacts on certain areas of the community, either directly or indirectly.

492. The impacts of the each proposal are identified whether positive or negative so that the Government can make a decision based on the most comprehensive information.

493. A regulatory impact statement (RIS) is mandatory for all decisions made by the Commonwealth and its entities that are likely to have a regulatory impact on business or the not-for-profit sector, unless the impact is of a minor nature and does not substantially alter existing arrangements.

494. For more information, see RMG-105: Assurance reviews process, RMG-106: Guidance on the assurance reviews process and RMG-107: Risk potential assessment tool (RPAT) guidance.

**Implementation planning**

495. Implementation planning is the framework of determining how a policy will be implemented in sufficient detail for Cabinet to make an informed judgment about whether to proceed in light of the risks involved. It requires:
   - establishing appropriate management controls
   - adopting suitable programme or project management methodologies
   - putting in place governance and accountability arrangements
   - adopting a structured approach to resource and risk management
   - engaging with stakeholders
   - reviewing, monitoring and evaluating progress.

496. Implementation planning is not about filling in a template. The final implementation plan document should simply be a record of the structured thinking and communication that has occurred between key project leaders, managers and stakeholders. It must be underpinned by consultation and research.

**Gateway review process**

497. The Commonwealth introduced Gateway reviews to strengthen the oversight and governance of major projects and programmes, and to assist entities to deliver agreed projects and programmes in accordance with the stated objectives.

498. Gateway involves short, intensive reviews at critical points in the project or programme lifecycle by a team of reviewers not associated with the project or programme. This provides
an arm’s length assessment of the project or programme against its specified objectives, and an early identification of areas requiring corrective action.

499. Gateway is not an audit process, nor does it replace an entity’s responsibility and accountability for implementing government decisions and programmes. Gateway is designed to provide independent assurance and guidance to entities through their nominated senior responsible officials, and indirectly to programme and project teams, on how best to ensure that their programmes and projects are successful.

500. Gateway applies to new projects and programmes undertaken by entities, which require government approval and which satisfy certain financial and risk thresholds:

- a project has a total estimated cost of $30 million or more for procurement or infrastructure; or a total estimated cost of $30 million or more including an ICT component of at least $10 million
- a programme has a material value over $50 million.

501. For NPPs where the level of risk is considered high, Gateway reviews can be commissioned by the ERC or by the Finance Minister.

502. Lessons learned from the Gateway review processes are shared across the Commonwealth public sector to assist other entities to identify opportunities to improve their own management of projects and programmes. In this way, Gateway has played a unique role in strengthening governance and assurance practices across the Commonwealth public sector.

**ICT two-pass review process**

503. The ICT two-pass review process supports the Cabinet’s decisions on major ICT-enabled proposals by providing staged consideration and information on the benefits, costs and risks and the entities’ delivery capability. The process recognises that for large or complex ICT-enabled projects not all information pertinent to making a final decision about the implementation and delivery of the project is available at the initial business planning and scoping stages. It assists entities to develop rigorous business cases for ICT-enabled proposals that address the business need and consider options and implementation issues.

504. The First Pass process enables Cabinet to consider and discuss the direction of a proposed major policy before committing resources to its further development. The First Pass:

- provides Cabinet with an overview of the proposal, any proposed options for consideration and seeks the Cabinet’s agreement for further development of the policy
- is not subject to the compliance requirements as a Cabinet submission, however, any initial regulatory impacts, proposed delivery arrangements and estimated costs (where relevant) must be outlined in the First Pass to give Cabinet some guidance on the implications and costs of different options
- requires short consultation across government with central departments and affected entities, comments are attached to the First Pass by the Cabinet Secretariat in PM&C
- must be circulated to ministers three working days before the relevant Cabinet meeting.

505. If Cabinet approves the First Pass, then the Second Pass requires a full Cabinet submission. Effective business case development is a key part of the project and programme management process. It helps ensure alignment between policy intent and entity activity and investment. The process will also better position entities for the Gateway review process, and is a cornerstone in the successful delivery of ICT-enabled proposals.

**Two-stage capital works approval process**

506. The two-stage capital works approval process is part of the Commonwealth property management framework. NPPs for capital works (involving property construction projects),
excluding fit-outs, that have an estimated whole-of-life capital cost of $30 million or more and are undertaken in Australia, its external territories or overseas, are subject to the two-stage capital works approval process. NPPs subject to the process must include a capital business case (submitted at the same time as the costing) that incorporates a whole-of-life cost–benefit analysis, undertaken with assistance from Finance.

507. The first stage approval provides in-principle agreement to the project and, in doing so, provides funds for a detailed project analysis, which informs (and provides the evidence for) second stage approval. First stage approval is based on an NPP and an initial business case with associated documentation including an initial whole-of-life cost estimate for the asset capability.

508. The second stage approval provides agreement to fund the project and the funding required to deliver the preferred option. Second stage approval requires a robust and thorough detailed business case, supported by comprehensive quantitative assessments. The assessments are often developed independently using subject matter experts, and project development and cost estimating professionals.

4.8. Costings

What is a costing?

509. A costing is an assessment of the likely financial impact of a New Policy Proposal (NPP) on the Budget. It allows Government to make effective policy and resource allocation decisions to deliver services to the community. Figure M below illustrates the costing process.

510. Costings underpin the preparation of formal Costing Agreements which set out the details of the proposal in question and the reasonable estimate of costs as agreed by Finance (for expense, capital and non-tax revenue) and Treasury (for tax revenue). Costing agreements are prepared in INPACT. Costings play an integral part in supporting informed financial decision making by Government by providing assurance that the estimated cost of a proposal is reasonable. In agreeing costs, Finance and Treasury accept that the financial impacts are a realistic and comprehensive estimate of the effect that a NPP would have on the Budget if implemented.

511. The importance of costing NPPs cannot be overstated. The integrity, robustness and reliability of Budget estimates rely heavily on the rigour and consistency applied in the costing process. Costings agreed by Finance and Treasury play a major role in the government decision-making process. The government relies on Finance and Treasury to provide an impartial and reliable assessment of financial implications so that Ministers can focus on the policy implications of proposals.

512. Costings are undertaken throughout the year as the Government makes decisions, although the timing of the Budget process means that the peak in costings workload is typically between January and March.

513. Prior to submitting NPPs for consideration by Government, entities are required to calculate the estimated cost of implementation and agree costs with Finance and Treasury. NPPs are proposals that require a government decision and that:

- have certain or potential financial impacts (including on the fiscal balance, underlying cash balance, operating balance, headline cash balance, net debt or net worth) on existing estimates within the forward estimates period or beyond
- create a legal, financial, contingent or other commitment for the Commonwealth or
- change the intent of a previous decision, regardless of whether it is fully offset, within or between outcomes.
Figure M. The costing process

Types of costings

514. **Budget costings:** The majority of costings undertaken by Finance and Treasury form part of the Budget process. The Budget process enables the Government to prioritise portfolio ministers’ bids for resources according to its fiscal and policy objectives. The first stage of the annual Budget decision-making process involves portfolio ministers proposing new spending in areas under their responsibility, which (if agreed) are then brought forward in stage two as NPPs in a PB Sub.

515. **Non-Budget costings:** Finance and Treasury are also regularly required to undertake costings associated with Cabinet submissions outside the Budget process. The requirements for these Costing Agreements are the same as for costings undertaken in the Budget process. From time to time the Finance Minister’s office may ask Finance to cost policy options not associated with a current Cabinet submission. These costings are generally circulated via BCB to the relevant Agency Advice Unit (AAU) along with additional guidance.

516. **Sensitive policy costings:** From time to time, the Government may request Finance to cost an NPP without the involvement of the implementing entity, requiring the Budget Officer to use their programme knowledge and experience with costing other proposals to provide an estimated cost of implementing the new policy. In these cases, costs may be subject to agreement with the policy entity after the decision, or they may be final costs for inclusion in the estimates. This distinction should be clearly established prior to undertaking the costing.

517. The decision over whether or not agreement must be reached with the policy entity may be influenced by the overriding deadlines for entering measures into the Central Budget Management System (CBMS). For instance, late decisions or tight timeframes for inclusion in Appropriation Bills may be reasons that consultation is not possible. In undertaking these costings, Budget Officers should be aware of any constraints when it comes to consultation to avoid any breaches of government-imposed confidentiality.

518. **Election costings:** During the caretaker period for a general election, the Government, Opposition and minor parties may choose to have Finance prepare election costings for
policies that affect expenditure and non-taxation revenues. Treasury may be asked to prepare costings for taxation revenue policies. The Parliamentary Budget Office (PBO) may also prepare expense, capital and revenue costings.

519. The responsibilities of Finance when undertaking election costings is articulated in the Charter, however Budget Coordination Branch (BCB), within Budget Policy and Coordination Division (BPCD), issues specific guidance on processes for these costings at the time of each election.

520. These costings are Finance costings – not Finance agreed costings. That is, costings are developed by Finance rather than the implementing entity. Finance staff may seek input from entities, but only within agreed protocols. Following the outcome of the election, proposals will generally be brought forward for implementation. Finance will then need to agree costs with entities for proposals consistent with the parameters of the election commitment.

**What is covered in costing a NPP?**

521. Together with entities, Finance is responsible for the accuracy of costings for all non-tax revenues and non-tax expenditures. Treasury is responsible for the costing of all tax revenues and tax expenditures.

522. Costing an NPP should include:
   - **all direct costs**, including the costs of delivering and administering the NPP. The costing is intended to assess the additional resources required to deliver a proposed initiative, and is therefore based on a marginal cost methodology
   - **direct flow-on effects** to other government programmes (for example, an NPP to expand access to medical services may also result in an increase in Medicare expenses). Direct flow-on effects are included when the effect:
     - flows directly from the implementation of the NPP
     - is reasonably quantifiable
     - is likely or will have material impact on the costing.

523. Costs that are ‘agreed with Finance’ means that Finance agrees with the proposing entity that:
   - the estimated cost of an NPP is a reasonable and robust estimate, taking into account the need for cost-efficiency
   - the costing is consistent with the stated policy objective
   - the potential for direct flow-on impacts to other areas of government expenditure has been adequately assessed.

524. Costings include an assessment of the impact of an NPP on:
   - resourcing — the funding available for an entity to use
   - underlying cash balance — a cash measure that shows whether the Government has to borrow from financial markets to cover its activities
   - fiscal balance — similar to the underlying cash balance, but calculated on an accrual rather than cash basis, which changes the timing at which some transactions are recognised (e.g. if goods are purchased on a 30-day payment term, the expense is recognised when the goods are received rather than when payment is made. Under the cash basis, the expense would not be recognised until the invoice had been paid).

525. When the Government approves an NPP (often as part of the ERC proceedings) it becomes a measure.

526. The costing may need to take account of behavioural assumptions; for example, the expected take-up rate for a government programme.
527. The costing will not include second-round effects. A second-round effect is one that does not flow directly from the implementation of the initiative but which may occur over time through broader social or economic changes. Second-round effects include:

- impacts on the broader economy (for example, effects on employment, unemployment, economic growth or other key economic aggregates)
- indirect changes in behaviour following the implementation of the initiative.

Understanding the policy

528. In order to gain a clear understanding of what is being costed, Finance requires entities to provide written policy descriptions before commencing a costing — preferably draft NPPs in the approved template. If policy descriptions lack detail or are ambiguous, entities must provide more detailed policy descriptions and supporting information to clarify the ambiguities.

529. The key focus of interpreting NPPs in terms of a costing is to identify the intent of the policy and all the components that need to be costed. It is essential to clearly identify:

- the policy context, objective, target group and outputs that are to deliver policy objectives to the target group
- all the components contributing to those outputs that require costing and their cost drivers.

Departmental and administered items

530. The Budget process makes a clear distinction between resources that entity accountable authorities administer on behalf of the Government (administered items) and those resources over which an entity has control (departmental items).

- **Administered**: items that entities do not have control over because the entities manage them on the Government’s behalf. Typical examples include subsidies and benefit payments.
- **Departmental**: items that entities control and that are associated with the entities’ day-to-day operations and programme support activities. Typical examples include employee salaries and other administrative expenses incurred in providing goods and services.

531. To ensure the most accurate result when costing items, entities should assess:

- the assumptions made in the costing
- the key cost drivers:
  - price
  - volume
- implementation and evaluation assumptions
- large model-based costing methodologies (where appropriate).

Costing capital, property and ICT expenditure

532. The Government needs to make resource allocation decisions on the acquisition and ongoing use of many different assets, including major items of equipment and facilities proposed by entities. In making these decisions, the Government relies on Finance-agreed costings of capital funding proposals. The costing of a capital funding proposal is generally based on a preferred option presented in a business case provided by the entity. A business case must be provided at the time NPPs and costings are submitted. Business cases should provide a cost–benefit analysis of the different options.
In assessing capital funding proposals, officers need to be aware that while the initial capital acquisition cost is usually clearly defined and is often a key factor influencing the choice between alternative assets, there are other future costs that should also be considered if the best outcome is to be achieved. Future costs associated with the use and ownership of an asset are often greater than the initial acquisition cost, and can vary significantly between alternative solutions to a given operational or service need.

Consideration must be given to the whole-of-life costs of the asset. It is also necessary to consider whether the entity already receives funding.

### Reaching an agreement between an entity and Finance

Finance’s costing role is authorised by the Cabinet Handbook, which requires Finance to agree on the costing of NPPs before they can be included in Cabinet submissions, such as PB Subs.

Finance’s costing roles include:

- **agreement of costs** for NPPs brought forward within or outside the Budget process
- **election costing** requested under the Charter before an election.

In agreeing costs, Finance agrees to an estimate of the financial impact of an NPP on the total resourcing, fiscal balance and underlying cash balance. While considering and agreeing costs, it is within Finance’s role to examine and discuss a range of matters with entities, including:

- the reasonableness of the assumptions used by the entity
- the cost-effectiveness of the individual components of the proposal
- the efficiency of the proposed delivery mechanisms
- the extent to which existing entity resources could be used to deliver the proposal
- the possible flow-on impacts to other programmes within the entity or in other entities.

The costings entities provide to Finance should include the assumptions and supporting information used by entities in developing them.

### Seeking additional information

While considering and agreeing costs, it is within Finance’s purview to examine a range of matters with entities, and where necessary, seek additional information to support a costing. Such information may include demonstrating the:

- reasonableness of assumptions
- cost effectiveness of the individual components of the proposal
- efficiency of the delivery mechanisms proposed
- extent to which existing entity activities could be used to deliver the proposal and
- possible flow-on impacts to other programmes within the entity or in other entities.

Information that is communicated verbally should be followed with written confirmation to ensure that both parties agree as to what was discussed and accurate records are maintained.

If any explanation is inconsistent with the NPP in the draft Cabinet submission or elsewhere, then the Finance Budget Officer must require that this be resolved or that clarification be included in the submission before agreeing costs. If these issues are not addressed, then the Costing Agreement is incompatible with the NPP and cannot be put forward to ministers as having had costs agreed.
Resolving disagreements

542. Costings are often subject to tight time constraints due to the timing of Cabinet considerations. It is therefore important that if Finance Budget Officers are having difficulty reaching an agreement with entities they seek the experience of those in the AAU or wider Budget Group who have worked on similar or relevant costings in the past. If it becomes clear that an impasse has been reached and costs are unable to be agreed at the officer level, the matter should be escalated to more senior levels with the Budget Officer having documented:

- the nature of the disagreement, and who has been involved
- steps taken in trying to resolve the disagreement
- any historical documents or any instances of precedence which support the AAU position
- a concise summary of the opposing position, and why this position is unacceptable to Finance
- the impact of adopting the entity position (for example, quantifying the increase or decrease in costs if alternative assumptions are employed)
- a suitable “fall-back” position for negotiation purposes and
- a timeframe by which resolution is required, and details of the timeframe rationale.

543. Once prepared, the documentation can be provided to more senior staff within the branch or division for appropriate action. If there is a risk that a costing will not be finalised before the relevant deadline, Budget Officers should engage with Budget Coordination Branch (BCB) at the earliest opportunity to advise them of the issue and identify possible indicative estimates.

544. In the course of developing and analysing new revenue, spending and savings NPPs, further information needs to be brought forward to assist the Government to decide how best to meet its social and economic policy objectives, within the resources available.

545. The Government considers and makes policy decisions throughout the year, with an intense period of decision-making occurring in the lead up to the May Budget. Effective and successful Budgeting therefore depends critically on the Government having timely, up-to-date and reliable data on baseline estimates as well as on the revenue and spending measures being proposed.

546. Production of this information is a collaborative effort between Finance, Treasury and the Commonwealth entities that manage and deliver government programmes. The Commonwealth Resource Management Framework influences how well this collaboration works, in terms of defining processes, standards, roles and responsibilities.

Cross portfolio proposals

547. Some NPPs involve costs for more than one entity. This may be due to flow-on effects or delivery of some part of the service by another entity, or a proposal may be a whole-of-government initiative with different components administered by different entities.

548. Entities seeking to bring forward NPPs with cross-portfolio impacts should:

- consult with all other affected entities as soon as possible in the policy development process, as the internal processes of the other entities may add to the time taken to agree the costing with Finance
- be aware that costings submitted to Finance for related costs in other portfolios or entities are still required to meet the deadlines in the Budget timetable
- note that the lead or proposing portfolio retains responsibility for the coordination and submission of all relevant costings to Finance.
Timeframes for agreeing costings

549. Entities should engage with Finance on costings as early as possible, before bringing forward NPPs for ministerial consideration. Early engagement will help facilitate agreement and ensure entities are able to finalise their Cabinet submissions, or other related documentation, in a timely manner.

550. All necessary costing information, including a detailed summary of the NPP itself and the proposed programme delivery methodology, should be submitted to Finance with the costing request at the earliest opportunity.

551. Outside the Budget period, Finance requires at least six business days to agree costs. The period is calculated from the date Finance receives all the information needed to complete a costing from all entities involved in the NPP. Entities must build this time into their schedule for lodging their Cabinet submissions or other instruments being used for the consideration of the NPP.

552. Costing information should be provided to Finance before exposure drafts of Cabinet submissions and memoranda are circulated. Generally, a good time to engage with Finance on the costing process is once the authority is received to bring forward an NPP for consideration.

553. Agreement on costs is to be reached in advance of seeking ministerial clearance of the draft submission to be circulated for coordination comments.

554. Similarly, for proposals being submitted to the Prime Minister for consideration, costing information should be provided to Finance as soon as possible, and in any event no less than six working days prior to the date on which agreement on costs is required.

555. In the case of complex costings, an earlier date for commencing costing negotiations should be agreed with Finance. Complex costings include, but are not limited to, those:
   - that use a new model or an amended model
   - that have a large number of assumptions that drive costs or have a material impact
   - where there is a significant level of uncertainty attached to the assumptions
   - where there are dependent relationships — particularly with cross-portfolio costings.

556. If Cabinet agrees to an earlier date for the provision of costing information for proposals agreed to come forward to the ERC, the earlier date applies.

557. Where costs cannot be agreed in a timely manner, the matter should quickly be escalated to senior levels to address any issues and achieve an agreement wherever possible.

Finance Budget Officers’ analysis of costings

558. When receiving a costing, Finance Budget Officers should identify areas of Finance that may have a stake in the costing and liaise with them to determine what input is required and how it will be managed to ensure a Costing Agreement can be finalised within the set deadline. Many costings have aspects that are relevant to other business groups, for example assurance reviews, legislative changes and cost recovery arrangements. (For more information on cost recovery, see RMG-304: Australian Government cost recovery guidelines.)

559. Budget Officers should also identify whether the costing has implications for other entities and if so, communicate that fact with the relevant AAUs. When in doubt as to what information should be shared, Budget Officers should seek guidance from their Director or Assistant Secretary.

560. NPPs are costed on a marginal basis so that an entity’s existing capabilities, equipment and staffing should be taken into account when considering the cost of implementation. For example, an expansion of 25 per cent in the number or size of grants in a grants programme would not necessarily mean that the number of staff administering the programme would need to increase by 25 per cent due to economies of scale.
A useful concept that can be applied to most costings is the unit cost methodology, \( \text{Cost} = \text{Quantity} \times \text{Price} \) principle. This concept allows the costing to be broken down into suitably sized components where a thorough price and quantity-based analysis can be undertaken. Breaking a costing down into components allows us to determine unit costs which can more readily be compared with existing benchmarks to give an idea of efficiency. It also avoids a situation where costs are averaged together in a way that means the total cost is not representative of actual circumstances.

The component-based approach will also save effort should an error in calculation be detected - should a given price or quantity require revision or removal, only a single component will require revaluation or deletion as opposed to reopening an entire costing process.

### Information Sources and Supporting Data

- Are assumptions based on fact or a best guess based on previous experience?
- Can sources be verified? Has the accuracy or validity of sources been questioned?
- Are sources being quoted selectively?
- If based on sampling, is the sample accurate and can it be reliably extrapolated?
- Is information now out of date? Has the policy environment changed?
- What might need to happen to bring the information up to date if more recent sources do not exist (e.g. indexation, adjustments for policy changes)?

### Consistency

- Are assumptions consistent with similar departmental and Parliamentary Budget Office costings or external sources (e.g. academic articles, reviews and your own expectations)? If not, can inconsistencies be explained?
- Are assumptions internally consistent? For example, a given population can claim benefit A or benefit B; the sum of the two populations cannot exceed 100 per cent of the population.
- Has this entity or another entity set a precedent with a similar proposal either past or present?

### Flow-ons

- Have flow-on costs (increases/decreases in other programmes resulting from this change in policy) been identified and taken into account in the NPP where appropriate?
- Note costings only include direct effects of the NPP. Second round effects are not included in costings, refer to "Second Round Effects" below for further information.

### Ongoing/Terminating

- It should be clearly indicated whether funding for new policy proposals is ongoing or terminating and, where relevant, state the date on which funding is due to terminate.
- Is the judgement about duration consistent with the nature of the proposal?

### Parameters

- Are the correct Wage Cost Index (WCI) and Efficiency Dividend (ED) rates used?
- If a model is being used to derive costs, are its parameters current and consistent with underlying Budget assumptions?
- Do the assumptions still hold?
Average Staffing Level
- Are the classifications of proposed additional staff appropriate for the type of work proposed?
- Does the bid for additional FTE take into account the capacity of existing staff to take on the additional work proposed?
- Is the bid for additional SES FTE consistent with the entity's SES cap that resulted from the Government's response to *Ahead of the Game: Blueprint for the Reform of Australian Government Administration*?

Practical considerations
- Do spending profiles appear reasonable and match the policy description?
- Do they make reasonable assumptions about potential delays in implantation, ‘ramp up’ effects, initially slow or fast take up rates?
- Has the entity made reasonable assumptions in relation to the behaviour of suppliers and/or consumers?

Presentation of numbers
- Have spreadsheet formulas been checked to ensure they are logical and flow through correctly?
- Have the correct signs (e.g. plus or minus) been used, particularly when referring to Fiscal Balance and Underlying Cash Balance impacts?
- Have the Fiscal Balance and Underlying Cash Balance figures been calculated correctly?

Administered, departmental and special appropriations
563. Costings will contain requests for a departmental appropriation, an administered appropriation or a special appropriation. Costings should be checked to ensure that proposals are classified appropriately.

Sensitivity analysis
564. Sensitivity analysis is the process of systematically changing independent variables to determine their effect on a dependent variable. In a costing context, sensitivity analysis can be used to model different scenarios to understand how a change in assumptions (for example, price and take-up rates) will affect the final cost of an NPP.

565. Sensitivity analysis is likely to be most applicable to more complex, model-based costings that rely on manipulation of a number of variables, allowing the Budget Officer to review possible outcomes that may arise should any of the underlying assumptions prove incorrect. By leaving all other independent variables fixed, and increasing or decreasing a single independent variable by an appropriate margin (for example, gradually increasing take up rates over time), the effect of this uncertainty can be evaluated.

566. Should the cost prove highly sensitive to a variation in a given variable, the Budget Officer may wish to undertake a risk assessment (using statistical data or guidance from subject-matter experts in a relevant Department, if required) to determine the likelihood of the variable changing significantly. As may be expected, a high risk of variation in an independent variable that has little impact on total cost is unlikely to affect costing or decision-making processes. However, a high risk of variation for a more “influential” variable will dramatically alter the total cost of a proposal, and its effect should be noted in the Costing Agreement and decision-making documentation (such as Green Briefs).
Second round effects

567. While costings will take into account some behavioural effects, they will generally only take into account the direct behaviour effects of a policy change, and not reflect so-called ‘second-round’ or indirect effects. Second-round effects are not included in costings for a range of reasons, including uncertainty in estimating the magnitude and timing of the effects and because second-round effects are likely to be small relative to the direct financial impact of a measure. Second-round effects are also likely to take longer to arise than the immediate costs of a new policy proposal, and often may not occur within the forward estimates’ timeline.

568. Direct effects include changes in demand for particular goods and services; investments or assets affected by a policy change; changes in prices or supply of goods and services affected by a policy change; and offsets involving switching resources between a particular activity affected by the policy change and other activities.

569. Second-round effects occur where a policy measure affecting one market has flow-on effects to broader markets, sometimes even to the macroeconomic level. This may include: potential changes in industry structure; a change in aggregate employment; changes in investment or saving or a change to tax collected.

4.9. Preparing Portfolio Budget Submissions

Portfolio Budget Submissions (PB Subs)

570. Entities prepare PB Subs for detailed consideration by the ERC. The PB Subs outline all expenditure, revenue and savings proposals for the portfolio. Entities cost the submissions and the final costings must be agreed with Finance (for expenditure and savings proposals) and Treasury (for revenue proposals). The submissions are then circulated for coordination comment and lodged with the Cabinet Secretariat, which distributes final submissions to all with a need to know.

571. Some submissions may include proposals that involve delivery of some part of the service by another entity, or a proposal may be a whole-of-government initiative with different components administered by different entities. These submissions are called cross-portfolio submissions. Entities seeking to bring forward cross-portfolio submissions should ensure that they have consulted with all other affected entities and that all costing information from all involved entities has been agreed by Finance prior to lodgement with the Cabinet Secretariat.

572. Drawing on the combined experience and expertise of multiple departments or entities can significantly improve performance across government. Early collaboration between policy, service delivery, and central departments (PM&C, Treasury and Finance) can:

- ensure all relevant issues are identified and considered
- stimulate debate and prompt the exploration of other ideas and perspectives
- help to avoid unintended consequences
- facilitate lateral thinking and innovative ideas.

573. Cross-portfolio coordination is a key function of central entities, but is also effectively led by line departments and entities drawing on their particular areas of expertise. Coordination can be enhanced at the working level through:

- formal mechanisms, such as inter-departmental committees
- less formal arrangements developed to deal with particular issues.
Developing a PB Sub

574. Mandatory consultation processes during the development of a Cabinet submission are set out in the Cabinet Handbook. The Cabinet Secretariat is authorised to reject any submission or matter without submission that is not accompanied by:

- expense and non-taxation revenue costings agreed by Finance
- taxation revenue or taxation expenditure implications agreed by Treasury.

Exposure drafts and Coordination comments

575. An exposure draft is essentially a working draft that invites comments on and suggested changes and additions to all aspects of the policy proposal. Exposure drafts must be circulated to central departments and any other departments or entities with relevant expertise or an interest in the topic.

576. Central departments receive copies of exposure drafts for all submissions. Circulating an exposure draft provides an opportunity for consulted departments to highlight any:

- errors of fact
- areas of concern or disagreement
- implementation challenges and risks
- sensitivities
- resourcing issues
- governance issues
- alternative options, where relevant.

577. Departments are encouraged to issue as many exposure drafts as necessary, particularly on complex matters where policy settings are still being finalised, or in cases of significant redrafting as a result of comments.

578. Exposure drafts must be provided at least 10 working days before circulating a draft for coordination comments. Authoring departments are encouraged to address as many of the concerns and comments raised at the exposure draft stage as possible to minimise the areas of contention raised in the next stage.

579. Interested departments and entities must be given the opportunity to provide formal comment on the submission after it has been approved by the sponsoring minister.

580. The coordination comments form part of the final submission to ensure that Cabinet receives the views of departments and entities on proposals. These comments highlight the existence and depth of disagreement between departments. This provides a mechanism for departments to bring issues to the attention of the Cabinet about the adequacy and quality of the policy proposals in the submission.

581. Coordination comment drafts need to be circulated with adequate time for departments to provide coordination comments, that is, at least 48 hours before the submission is to be released to Ministers.

Final submissions

582. The Cabinet Secretariat in PM&C manages the Cabinet’s forward programme schedule and associated lodgement deadlines. The Cabinet submission deadlines are determined by the need to provide time for both Ministers and departments to consider proposals.

583. Generally, final submissions are to be lodged with the Cabinet Secretariat in accordance with the ‘five day rule’, which requires five working days between lodgment and possible endorsement by the Cabinet.
All NPPs submitted to Cabinet for consideration that involve expenditure (including those that propose tax expenditures or regulations as alternatives to spending programmes) must include an evidence-based assessment of the proposal against the six **Expenditure Review Principles**: Appropriateness, Effectiveness, Efficiency, Integration, Performance Assessment, and Strategic policy alignment.

** Appropriateness **

Activity is directed to areas where there is a role for government to fill a gap left by the market:

- **social inclusion** — government activity should address social inequity by redistributing resources in ways that improve opportunity and support for individuals, families and communities, allowing them to participate in the economy and society consistent with the Government’s social inclusion agenda or

- **market failure** — government activity should address market failures by improving social and economic welfare through improved resource allocation, where the benefits of government intervention outweigh its cost (including in the provision of public goods, for example, in environmental sustainability, national security and defence).

Activity is undertaken by the most appropriate level of government — whether expenditure is better undertaken by the Commonwealth or another level of government (e.g. state).

** Effectiveness **

- Activities have clear and consistent objectives and are effective in achieving their objectives and represent value for money for the expenditure of taxpayer funds.

- Activity involving tax expenditures or financial instruments (e.g. guarantees, loans or investments) demonstrates why an outlay programme is likely to be less effective in achieving the activity’s objective.

** Efficiency **

- Government programmes are administered and delivered in the most efficient way achievable, taking into account both short- and long-term economic and fiscal consequences.

- Activity targeting market failure in one market does not unnecessarily reduce economic efficiency in other markets.

- Consideration is given to whether part or all of the cost of a government activity should be recouped directly from the beneficiaries of that activity.

** Integration **

Commonwealth entities are able to work together effectively to consistently deliver policy objectives within clearly defined lines of responsibility.

** Performance assessment **

Government activity is subject to robust performance assessment and tracking (e.g., whether appropriate Key Performance Indicators exist and are available).

** Strategic policy alignment **

Proposals address whether the activity is consistent with the Government’s strategic long-term policy priorities, in particular, to areas that help sustain economic growth through improved productivity and participation.
Budget Cabinet and measures

590. The ERC is responsible for recommending to Budget Cabinet which NPPs in the PB Subs should become government policy, and how much funding should be provided. The ERC also examines savings proposals and ongoing spending. In forming its recommendations, the ERC draws on the submissions, together with briefs that Finance and other entities prepare (e.g. Finance Green Briefs).

591. A meeting of the Budget Cabinet considers all the ERC’s decisions. The ERC’s recommendations are made formally to the Budget Cabinet, and the Cabinet’s final decisions determine which NPPs are included in the Budget.

592. Once Budget Cabinet has approved a particular NPP, the proposal becomes known as a measure. Measures are NPPs that have been formally adopted by the Government as policy, and their financial impacts must be included in the Appropriation bills.

CBMS updates

593. Entities need to update their estimates in the BEAM module of CBMS periodically throughout the Budget process.

594. The Pre-ERC Estimates Update is usually done in early February, to provide the Government with up-to-date estimates before the Budget deliberations of the ERC. The estimates update provides the baseline on which spending and revenue proposals are built.

595. The financial impact of the spending and revenue decisions taken by ERC and Budget Cabinet as part of the annual Budget deliberations are included in a Budget Estimates Update, usually done from April until the Budget is delivered in May. This estimates update also takes into account impacts on public finances due to changes in economic parameters (such as changes to inflation figures or unemployment levels), giving the Cabinet up-to-date information about the Budget balances.

596. Once each measure is decided by Budget Cabinet, entities must enter the relevant estimates in to BEAM. Their relevant AAU in Finance will draft a brief description of the measure and other relevant details in the BPCD module of CBMS. The information in BEAM and BPCD is used to produce Budget Paper No. 2 and the Appropriation bills.

4.10. Parliamentary consideration of the Budget

Budget Night

597. On Budget Night (the second Tuesday in May), the Government provides its annual financial report and policy statement to the Parliament and the nation, including:

- the annual Appropriation bills to authorise the spending of relevant money in the upcoming financial year
- other legislation to give effect to the financial proposals announced in the Budget Night speech
- the Budget Papers, which are presented to the Parliament and contain information on Government finances and related matters.

598. The Treasurer delivers the second reading speech of Appropriation Bill (No. 1) in the Parliament (commonly referred to as the Budget speech). In recent years, the Budget speech has been delivered at 7.30pm. For ordinary Bills, the second reading speech explains the purpose of the Bill and outlines its main contents. The Budget speech goes beyond the scope of Appropriation Bill (No. 1) to cover wider financial and policy matters.

599. In the Budget speech the Treasurer generally compares the estimates of the previous financial year with actual expenditure, reviews the economic condition of the nation, and states the
anticipated income and expenditure for the current financial year, including the taxation measures proposed to pay for the expenditure. A transcript of the Budget speech is produced as part of the Budget documentation.

600. The Treasurer may speak without a time limitation, although in recent years the speech has normally been about half an hour. At the conclusion of the speech debate is adjourned (deferred) on a motion moved by (or on behalf of) the Leader of the Opposition, who thus has the right to speak first when the debate is resumed. The Budget speech is televised, as is the Leader of the Opposition's speech in reply on a subsequent day.

601. After debate on Appropriation Bill (No. 1) has been adjourned, the Treasurer presents the Budget Papers. Appropriation Bill (No. 2) and the Appropriation (Parliamentary Departments) Bill are then introduced. Other business may include the introduction of Budget-related bills, the presentation of various Budget-associated documents, ministerial statements by the responsible minister explaining Budget decisions in detail, and the moving of customs and excise tariff proposals connected with the Budget.

**Ministerial press releases and ministerial statements**

602. Ministerial press releases and statements are released on Budget Night.

603. The Treasurer writes to portfolio Ministers setting out the requirements for the clearance of Budget material, particularly ministerial statements, press releases and fact sheets in advance of Budget Night.

**Budget papers**

604. Budget documentation fulfils the Government's reporting obligations under the Charter and is consistent with historical conventions. Preparation of these documents usually begins when ERC meetings commence (around March).

605. Annual forecasts are published at the portfolio and entity level (PB Statements) and GGS-level (Budget Papers). This provides estimated GGS aggregates and more detailed estimates for each entity.

606. The annual Budget Papers are prepared by Treasury and Finance and set out the details of the Budget for the Parliament and for the Australian public.

607. The Budget Papers support the Budget-related decisions of Government, providing the fiscal outlook for the Australian economy and highlighting major new initiatives of the Government. Finance and Treasury coordinate production of the Budget Papers, in consultation with entities where required. Finance produces most of the tables sourced from the Budget system.

608. The Budget Papers, and other Budget-related Papers, are published every year at www.budget.gov.au. A high-level summary of information contained in each of the Budget Papers is presented below.

- **Budget Paper No. 1 — Budget Strategy and Outlook** usually comprises 10 statements:
  - Statement 1: Provides an overview of the economic and fiscal outlook, summarises the Government's fiscal strategy, and outlines key Budget priorities.
  - Statement 2: Presents the economic forecasts that underlie the Budget estimates.
  - Statement 3: Assesses the fiscal outlook against the Government's fiscal strategy.
  - Statement 4: Discusses the current challenges for fiscal policy and examines a range of indicators to assess the sustainability of Australia's Budget position.
  - Statement 5: Contains details of the estimates of Australian Government revenue.
  - Statement 6: Presents estimates of GGS expenses and net capital investment on an accrual accounting basis.
Statement 7: Covers the management of the major assets and liabilities on the
Government’s balance sheet and provides detailed information on Australian
Government net debt and net worth.

Statement 8: Outlines general fiscal risks and specific contingent liabilities which
may affect the Budget balances.

Statement 9: Presents Australian Government financial statements based on both
GFS and AAS.

Statement 10: Reports historical data for the Australian Government fiscal
aggregates across the general government, public non-financial corporations and
non-financial public sectors.

- **Budget Paper No. 2 — Budget Measures** summarises all measures introduced since the
  last Budget, and describes in detail all measures introduced since the last MYEFO and
  measures in the current Budget.

- **Budget Paper No. 3 — Federal Financial Relations** includes information on revenue
  provision and payments (GST and specific purpose payments), as well as an overview of
  fiscal developments in the states and territories.

- **Budget Paper No. 4 — Agency Resourcing** shows, for each entity, estimated expenses
  for each special appropriation Act, estimated balances and flows for all special accounts,
  estimated resourcing by type of appropriation, and estimated average staffing levels in the
  public sector.

**Intergenerational report**

609. The intergenerational report provides a basis for considering the Commonwealth's fiscal
outlook over the long term, including identifying emerging issues associated with an ageing
population. The report provides an economic outlook over 40 years. It is published every three
to five years.

**Portfolio Budget Statements (PB Statements)**

610. Each portfolio is required to prepare PB Statements that describe the Budget from an
individual entity perspective and provide a more detailed view of that entity's activities.

611. PB Statements present estimates for the Budget and forward years and serve to inform the
Parliament and the public of the proposed allocation of resources to government outcomes.
PB Statements provide an important means by which the executive government remains
accountable to the Parliament.

612. PB Statements also assist in interpreting *Appropriation Bills (Nos. 1 & 2)* and *Appropriation
(Parliamentary Departments) Bill (No. 1)*. There is an interpretation provision in the
appropriation Acts, which require PB Statements to be taken into account when interpreting
the items in the appropriation Acts.

613. Finance publishes *guidelines on the format of PB Statements* and, in conjunction with
Treasury, produces a Budget timetable that highlights key dates for the preparation of the
current year's PB Statements.

614. In addition to the PB Statements, each entity is still required to prepare an annual report in
accordance with the Australian Accounting Standards.

**Consideration of appropriation bills by Parliament**

615. Both houses of Parliament must consider and pass all Appropriations bills before they can
become law. Each house by convention refers the bills to the House Estimates Committee and
Senate Estimates Committee respectively to examine in detail. Each Committee will then refer
the bills to their respective houses with recommendations to either pass, not pass or pass with amendments.

616. Parliamentary Committees will examine the bills in conjunction with the PB Statements, Budget Papers and other documentation, and pose questions to the responsible minister and entity officials, who must justify their measures and underlying assumptions.

617. If the Appropriation bills are passed by both houses of Parliament, they go to the Governor-General for royal assent. Upon the receipt of royal assent by the Governor-General, the bills become law.

618. Appropriations that are provided in annual Appropriation Acts which have received royal assent prior to or on 30 June, are available to be drawn down by the relevant entities as cash through CBMS on 1 July or the first business day thereafter.

619. Portfolios may reassess their funding requirements and, if necessary, submit requests for additional funding during the Additional Estimates process. If there is still sufficient time left in the current financial year to approve additional expenditure, and for entities to spend it, the Government may request more Appropriation Acts from the Parliament.

4.11. Implementing and monitoring

Budget year

620. This section describes the work that is required during the Budget year to implement and monitor the measures approved in the Budget by Cabinet.

621. A critical aspect of ongoing Budget management is compiling and maintaining baseline estimates of revenue and expenditure for the Budget period. The estimates are based on:
   • current government policy settings and commitments
   • information on the economic environment
   • fiscal risks and pressures.

622. Entities make estimates updates in consultation with Finance and/or Treasury. The estimates help the Government to assess the balance between new spending and savings decisions that are required to achieve a range of policy objectives, which may include fiscal targets. The baseline estimates also identify specific areas of fiscal pressure, tension or misalignment with government priorities that may need particular attention in Budget development.

623. Australia uses a medium-term estimates framework made up of rolling estimates for the revised Budget (current year), the next Budget year and three subsequent years (or forward years) in order to more accurately reflect the cost of government activities.

624. Estimates are updated in CBMS at regular intervals by Commonwealth entities to make adjustments that reflect:
   • any actual spending
   • additional information
   • decisions since the previous estimates update.

625. The main reasons for maintaining robust and up-to-date Budget estimates are to:
   • ensure the Government has a clear understanding of the current and short- to medium-term fiscal outlook including any excess capacity between current estimates and desired fiscal outcomes that will allow for new spending or require savings — if they know what to expect it’s easier to plan ahead
   • prepare appropriations so that Commonwealth entities can withdraw money from the CRF
• inform the Parliament and the local and international community as to the state of Australia’s economy and General Government Sector finances
• ensure transparency so the Parliament and the public know where and how money is being spent.

626. Budget estimates are the baseline on which future spending and revenue proposals are built, and are critical for ensuring that governments make decisions with the benefit of accurate and timely fiscal information.

627. Once estimates have been correctly entered for a measure, Commonwealth entities are required to track the performance of that measure over its life, to ensure that it is delivering outputs to the community that are consistent with the purposes Cabinet agreed for it.

628. Tracking is undertaken by developing Key Performance Indicators (KPIs), which are a series of methods to collect and evaluate information relevant to the measure against a particular appropriate standard. KPIs will vary according to the nature, resourcing, means of delivery and time scale of the measure.

629. It is the responsibility of each entity to ensure that its KPIs are accurate and appropriate so that correct information is provided to Government and to the Parliament.

Rolling updates of estimates

630. At agreed times, entities and Finance adjust the estimates in line with decisions or other known and agreed impacts. This is done through the annual estimates and monthly estimates modules in CBMS. Finance advises entities when CBMS is open for entering their estimate updates.

631. Spending and revenue estimates are brought together to provide the Government with a quality-assured set of tables of the current Budget bottom line. The consolidated estimates are used to report to the public or to provide internal advice to the Government ahead of a period of intense decision-making.

632. These ‘consolidations’ are prepared by Finance and usually happen at three points during the year:
• in April, as the basis for the preparation of the annual Budget
• in October or November, as the basis for the preparation of the MYEFO report (see below for further information)
• in early February, to provide the Government with up-to-date estimates before the ERC begins its Budget deliberations.

633. Finance reviews the changes and prepares consolidated whole-of-government information, including an up-to-date Budget bottom line and financial statements.

634. Budget estimates are also updated in CBMS before an election, in a report called the Pre-election Economic and Fiscal Outlook (PEFO). The update ensures that the Government, the Opposition, the Parliament and the public know the country’s fiscal position before the election.

635. In contrast to the other financial reports published each year by the Government, the PEFO is prepared independently by the secretaries of Finance and Treasury and released under their names without consulting with the Cabinet.

636. In advance of the next Budget, a third forward estimates year is created and the other forward years shuffle as follows:
• the current ‘Budget’ year becomes the ‘revised Budget’ year
• the current first forward year becomes the ‘Budget’ year
• the second forward year becomes the first forward year
• the third forward year becomes the second forward year
• a new third forward year is added.

637. This process is reflected below:

<table>
<thead>
<tr>
<th>Revised budget year</th>
<th>Budget year</th>
<th>Forward year 1</th>
<th>Forward year 2</th>
<th>Forward year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>We publish our estimates expenditure in the Budget</td>
<td>-</td>
<td>$100</td>
<td>$110</td>
<td>$120</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>In advance of the next Budget, we add a new third forward year estimate to assist in the next Budget round.</th>
<th>Revised budget year (estimated actual)</th>
<th>Budget year</th>
<th>Forward year 1</th>
<th>Forward year 2</th>
<th>Forward year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100</td>
<td>$110</td>
<td>$120</td>
<td>$130</td>
<td>$140</td>
<td></td>
</tr>
</tbody>
</table>

638. Entities enter estimates adjustments in CBMS for the new third forward year baseline to ensure it correctly reflects agreed estimates.

639. The new third forward year must be adjusted to reflect existing policy settings that:
• exclude measures, programmes or activities that terminate on or before the new forward year begins
• include new measures, programmes or activities that begin from the start of the new forward year
• include ongoing measures, programmes and activities.

640. In addition to the formal estimates processes, entities and Finance monitor spending on an ongoing basis, through the monthly actuals and monthly estimates modules in CBMS, in order to properly manage and report on the activities entities are funded for.

Reasons for adjustments

641. A Commonwealth entity may request an estimates adjustment for a number of reasons. This section summarises some of the common reasons for adjustments:
• A new or revised government decision or measure
• When the Government agrees to a new NPP or a change to a previous government decision, any financial impacts associated with these decisions will require an estimates adjustment.
• Programme-specific parameter changes
  o Where a programme has a specific set of parameters and they change, an estimates adjustment may be required. For example, the age pension has eligibility criteria based on age. If that parameter changes (increasing or decreasing how many people have access to the age pension), then the estimate of how much is expected to be spent on that programme would need to be adjusted.
• Movement of funds and slippage in implementation
  o If a change to the timing of when money is expected to be spent is proposed, the Government needs to agree on a Movement of Funds proposal. If approved, an
estimates adjustment will be required in order to show when the money is expected to be spent.

- Efficiency dividends
  - Currently, most Commonwealth entities are subject to an annual efficiency dividend that reduces departmental Budgets each year in anticipation of efficiencies being found.
  - The efficiency dividend applies to the operational (running) costs of government departments (unless they are specifically exempted by the Government). Operational costs include salaries and operational expenses.

**Mid-Year Economic and Fiscal Outlook (MYEFO)**

642. A core component of the Budget process is the regular preparation of estimates of spending and revenue. The estimates enable the Government to understand its financial position before making decisions at different stages in the Budget process.

643. Around six months after the Budget, the Government produces the Mid-Year Economic and Fiscal Outlook (MYEFO) report, which compares estimated expenditure to actual expenditure. The Charter requires the Treasurer to publicly release and table a MYEFO report by the end of January each year, or within six months after the last Budget, whichever is later. Typically, MYEFO is released in November. Since the first MYEFO report in 1997–98, the Treasurer and the Finance Minister have issued the report as a joint statement.

644. MYEFO estimates include any Government decisions made since the previous Budget that affected expenses and revenues. MYEFO also updates the Budgetary position, including Budget aggregates, by incorporating any changes to economic parameters.

645. The purpose of the MYEFO report is to provide updated information to allow assessment of the Government's fiscal performance against the fiscal strategy set out in Budget Paper No. 1. The MYEFO updates key information contained in the most recent Budget and contains a detailed statement of tax expenditures. An appendix to the MYEFO report summarises all policy decisions taken since the Budget was brought down, including their estimated financial consequences.

646. The information in the report takes into account, to the fullest extent possible, all government decisions and all other circumstances that may have a material effect on the fiscal and economic outlook.

647. The MYEFO information in CBMS is used to produce another set of Appropriation bills known as Additional Estimates bills, which are usually introduced into Parliament between February and April.

648. Entities can propose new or amended NPPs as part of the MYEFO process, using the same process as for Budget NPPs. However, ministers and entities should only seek funding during the MYEFO process if the need is urgent, unavoidable, and cannot be considered by Cabinet as part of the next Budget.

649. The Government may bring additional Appropriation bills to Parliament subsequent to the Additional Estimates bills, if it considers there to be a need for additional funding that was not included during the MYEFO round, which cannot wait until the next Budget. These additional bills are referred to as Supplementary Additional Estimates bills. There is no limit to the number of bills that the Government can present to Parliament for consideration.
The Portfolio Additional Estimates Statements (PAES) inform the Parliament and the public of changes since the Budget to the proposed allocation of resources to government outcomes. Like the PB Statements, the PAES provide an important means by which the executive government remains accountable to the Parliament.

The PAES explain the Appropriation Bills (Nos. 3 & 4) and Appropriations (Parliamentary Departments) Bill (No. 2) to Senators and Members of the House of Representatives, which includes providing some actuals alongside the updated estimates. There is an interpretation provision in the appropriation Acts, which requires the PAES to be taken into account when interpreting the items in the appropriation Acts.

The PAES are produced when additional appropriations are requested by the Government within a financial year. The PAES inform Senators, Members of the House of Representatives and the public of changes since the Budget to the proposed allocation of resources to government outcomes (such as a result of Machinery of Government changes).
5. Reporting

5.1. Purpose of this part

The purpose of reporting is to communicate performance information to the Government, the Parliament and the general public. This reporting allows people to consider and assess the Government’s fiscal and non-financial performance and the financial position of the public sector. This part provides an overview of:

- requirements for reporting compliance with the Commonwealth Resource Management Framework
- reporting requirements for Commonwealth entities and the Commonwealth as a whole
- the legislative requirement for reporting on financial and non-financial performance
- the types of reports that are produced
- major fiscal aggregates used in public sector reporting and how to review them
- financial statements including income statements and balance sheets
- basic accounting principles and apply them to the recording of transactions.

5.2. Compliance reporting under the PGPA Act

Compliance reporting by Commonwealth entities is currently under review. As part of the implementation of the PGPA Act, for 2014-15 the Finance Minister has required accountable authorities and/or directors of Commonwealth entities to report on their compliance with relevant legislation (under section 19). The report must indicate whether or not, in the opinion of the accountable authority and/or director, the entity has complied with the PGPA Act and rules (the PGPA framework) and other legislation.

The purposes of the compliance reporting is to:

- support compliance with the PGPA framework
- ensure that ministers, and the presiding officers in the case of the parliamentary departments, are kept informed of compliance issues within their portfolios
- improve officials’ understanding of the PGPA framework
- support continuous improvement by identifying areas of non-compliance and actions that can be taken to improve processes and compliance
- help Finance to identify issues that are common across entities that may require action or improvement.

The 2014-15 transition compliance report must be provided to the Finance Minister (as well as the entity’s responsible minister), through the Secretary of Finance, by 15 October 2015.

Finance is currently consulting with Commonwealth entities to determine the form and need for compliance reporting after 1 July 2015. For more information, see RMG-208 PGPA Framework Compliance Reporting.

5.3. Non-financial performance reporting

An objective of the PGPA Act is to improve whole-of-government performance reporting. Performance reporting promotes more rigorous and transparent resource management planning and evaluation by entities. A key component of the enhanced Commonwealth performance framework is for all Commonwealth entities to include annual performance statements in their annual reports from 2015-16.
From 1 July 2015 the PGPA Act requires all Commonwealth entities to prepare annual performance statements that will acquit performance against the measurements and describe the significant factors that influenced the achievement of intended results (section 39). Annual performance statements increase the profile of non-financial performance information and provide a clear and informed read, across budget-related publications, about issues related to the governance, performance and accountability of entities.

The annual performance statements must be published in an entity’s annual reports and must include the matters set out in section 16F of the PGPA Rule:

- statements of preparation (similar purpose to the statements by accountable authorities for their annual financial statements, to provide assurance regarding quality of the preparation and information included in the annual performance statements)
- actual performance results achieved in the reporting period against the planned performance defined in the corporate plan
- analysis of the factors that contributed to the entity's performance in achieving its purposes that provides context to its performance over the reporting period.

The adequacy of an entity’s performance reporting can be reviewed in several ways:

- an entity's audit committee can review the appropriateness of the accountable authority's performance reporting (section 17 of the PGPA Rule)
- the responsible minister or the Minister for Finance may ask the Auditor-General to examine an entity’s annual performance statement (section 40 of the PGPA Act) or
- the Auditor-General may at any time conduct a performance audit (Division 2 of Part 4 of the Auditor-General Act 1997).

The PGPA Act requires entities to provide their annual reports to their responsible minister by 15 October each year (section 46).

For more information about:
- the enhanced Commonwealth performance framework, see Part 2.4 above
- annual performance statements, see RMG-134 Annual performance statements for Commonwealth entities.

### 5.4. Financial reporting

**Types of financial reports required by legislation**

Financial reports are produced and consolidated within the Commonwealth public sector at different levels, at the level of:

- individual Commonwealth entity or individual Commonwealth companies
- the general government sector (GGS) and
- the total Commonwealth public sector.

Figure O below (discussed in more detail in Part 1 above) illustrates the institutional structure of the Commonwealth public sector and the sector classification. The Commonwealth public sector comprises the General Government Sector (GGS), public non-financial corporations and public financial corporations.
666. The PGPA Act requires:
   • all Commonwealth entities to prepare and present audited annual financial statements (section 42)
   • corporate Commonwealth entities to ensure audited annual financial statements are also presented for any subsidiaries (section 44)

667. The PGPA Act requires Commonwealth entities to prepare annual financial statements in accordance with the accounting standards and the FRR. The annual financial statements are important accountability mechanisms for accountable authorities to check the use of public resources for which he or she is responsible.

668. Financial statements must be:
   • written in plain English and provide sufficient information and analysis for the Parliament to make a fully informed judgment on the entity’s financial performance
   • reflect alignment, as far as practicable, of reporting regimes within government (including PB Statements and PAES) and between the government and non-government sectors
   • audited by the ANAO (sections 43-44) – the Auditor-General gives an opinion as to whether the financial statements have been prepared in accordance with relevant requirements, and whether they give a true and fair view of the matters required to be dealt with
   • included in the annual report of a Commonwealth entity and presented to the relevant portfolio minister by the 15 of October each year, for presentation to the Parliament (section 46).

669. Non-corporate Commonwealth entities must also prepare annual reports that are consistent with guidelines issued by the APSC under the PS Act.

670. Entities are required to enter information from their internal financial records into CBMS, which is then used by Finance to produce the Budget Papers, MYEFO, Consolidated Financial Statements (CFS) and Final Budget Outcome reports.
Reporting on the general government sector (GGS)

671. The GGS is a classification developed by the Australian Bureau of Statistics (ABS) to cover the components of the public sector that undertake the Commonwealth’s core government activities. The PGPA Act requires the Finance Minister to prepare and present consolidated monthly financial reports (section 47) for the GGS in a form consistent with the Budget estimates, as soon as practicable after the end of each month.

672. The Charter of Budget Honesty Act 1998 requires the Treasurer to present to Parliament:
   - mid-year economic and fiscal outlook (MYEFO) report (sections 14 to 17 of the Charter) by the end of January in each year, or within 6 months after the last budget, whichever is later
   - final budget outcome (FBO) report (sections 18-19 of the Charter) by the end of September each year.

Monthly reporting

673. The monthly financial statements provide an important budget tracking mechanism for the Government and enable an assessment of actual results against the Budget.

674. Financial actuals are entered by GGS entities into CBMS, from which the consolidated data is published by the Finance Minister on a monthly basis. Monthly financial statements are used to:
   - assist the Australian Government in complying with public reporting obligations under the International Monetary Fund’s (IMF) standards
   - contribute to the National Accounts.

675. The National Accounts are a series of reports published by the ABS on an annual basis. They can be found on the ABS website. The National Accounts provide information about various national accounting aggregates at Commonwealth, state and territory levels, including gross product (using expenditure, production and income measures), household income, household final consumption expenditure, public sector final consumption expenditure, private gross fixed capital formation, public gross fixed capital formation, international trade in exports and imports of goods and services, state final demand, industry gross value added, total factor income by industry, compensation of employees, gross operating surplus and gross mixed income by industry, agricultural income, and various measures of household income. Data are presented in current price and chain volume measures.

676. The National Accounts allow governments, the public and international bodies to gauge the performance of the Australian economy and of the economic behaviours of the different levels of government (Commonwealth, state and territory, and local). Transparency about the Australian economy encourages investment in Australia by internal and external investors, and enables governments and private parties to borrow at lower interest rates (due to greater lender confidence).

MYEFO report

677. The MYEFO report compares estimated expenditure to actual expenditure for the last six months, and provides a summary of new measures decided by the government since the last Budget. The data is derived from estimates and actuals entered by GGS entities into CBMS, and consolidated and published by Finance.

678. The MYEFO process is considered in more detail in Part 5 above.

FBO report

679. The FBO report is derived from actuals data entered by GGS entities into CBMS, and consolidated and published by Finance. It provides consolidated financial statements at the GGS level, but by convention it also contains outcomes for the other sectors to provide
consistent comparisons with non-public sectors. The FBO enables a comparison of the final actuals for a year with the Budget forecast for that year. This can be used to improve the government’s budgeting processes.

**Reporting on the total Commonwealth public sector**

680. The PGPA Act requires the Finance Minister to prepare and present audited annual Consolidated Financial Statements (CFS) (section 48). This end of financial year report differs from the FBO report in that it covers all entities and companies that comprise the entire Commonwealth public sector (including the GGS and public financial and non-financial corporations, which are not part of the GGS).

681. The CFS is prepared by Finance on an annual basis, and presents an aggregated view of the performance of the Commonwealth public sector as a whole (all government-controlled entities). These statements should be seen as complementary to the more detailed annual reports produced by individual Commonwealth entities and companies.

682. The CFS also:

- provide disaggregated information by ABS classified sectors
- use the same audit-cleared data as the Final Budget Outcome report (sometimes updated for some entities due to timing of audit clearances)
- adopt Australian Accounting Standards (AAS) treatment where there is a difference between Government Finance Statistics (GFS) and AAS (the difference is explained in the next section below)
- provide some explanations for variances between actuals and estimates.

**5.5. Accounting in the Commonwealth public sector**

683. This section discusses how to record and interpret financial information collected by Commonwealth entities and companies.

**Reporting methodology**

**AAS and FRR**

684. In the Commonwealth public sector, the PGPA Act and the *Charter of Budget Honesty Act 1998* require all Commonwealth entities, Commonwealth companies and the Commonwealth as a whole to prepare financial data in accordance with the Australian Accounting Standards (AAS) (as interpreted by the FRR). The AAS are set by the Australian Accounting Standards Board (AASB). These standards are generally consistent with international standards, so that international comparisons can more easily be made.

685. The AAS are concerned with financial performance and stewardship of resources in both the private and public sectors. The AAS require the preparation of accrual-based and cash-based general purpose financial statements. Accrual and cash accounting will be discussed in more detail in the next section below.

686. The Commonwealth public sector has different accounting arrangements from the private sector because of the different purpose and environment of the public sector:

- Commonwealth entities are usually focused on achieving social outcomes
- whereas the overriding goal of private sector entities is to maximise returns to shareholders (directors are legally required to do this under the Corporations Act).
687. The public sector also manages types of resources that do not exist in the private sector. Since the AAS apply broadly to both the private and public sectors, the PGPA Act enables the Finance Minister to issue rules to provide authoritative guidance for Commonwealth entities and companies (section 42) on:

- how to apply the AAS
- which option must be used when the AAS have options or ambiguity and
- additional reporting requirements specific to public sector entities, for example, appropriation reporting.

688. The FRR:

- ensures consistency of accounting policy choices across Commonwealth entities in areas where Australian Accounting Standards (AAS) allow reporting entities to make accounting choices. Consistency is important to ensure comparability of financial reports across entities and to facilitate the consolidation of individual entity financial statements when preparing the Australian Government’s consolidated financial statements
- provides clarity on the treatment of public sector-specific issues that are not adequately dealt with under AAS
- enhances the clarity and usefulness of information presented in financial reports to the Government and external parties.

689. The ANAO and government entities are consulted on the preparation and revisions of the FRR. Finance may also issue policy and guidance (see Section 1.7 above) to assist Commonwealth entities to apply the Rule and prepare time and accurate financial statements that fairly present the entity’s financial position, financial performance and cash flows.

**Additional standards**

690. An additional Commonwealth policy requirement is that financial information be recorded and reported consistent with the Government Finance Statistics (GFS) to enable comparative data to be collected across the Commonwealth public sector.

691. GFS is not an accounting system. GFS is a macroeconomic statistical system managed by the Australian Bureau of Statistics (ABS). GFS is designed to support economic analysis of the public sector to allow comprehensive assessment of the economic impact of government activities and is consistent with international statistical standards.

692. Financial information is mapped to AAS accounts and GFS functions, providing alternative views of the accounting data. The GFS statistics enable policy-makers and other parties to:

- assess the impact of policy decisions on the economy
- make international comparisons of performance information
- analyse the financial operations and financial position of the public sector at either the specific government, institutional sector or transactional level.

693. The GFS enables activities of all governments to be measured in standard financial terms. The GFS distinguishes between transactions and other economic flows that impact on movements in assets and liabilities held by governments. The statistics include information about the value of government investments and debt.

694. To enable entities and companies to prepare one set of financial reports that conforms with the AAS and the GFS, the Australian Accounting Standards Board (AASB) has developed AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (see Figure P). AASB 1049 applies to the CFS, not to individual entities or companies.
Figure P. Accounting standards and statistics

<table>
<thead>
<tr>
<th>Australian Accounting Standards</th>
<th>Harmonisation</th>
<th>Government Finance Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus on financial performance, position and stewardship over resources</td>
<td>Focus on the government’s impact on the economy</td>
<td></td>
</tr>
</tbody>
</table>

Types of financial statements

695. The process of identifying, measuring, recording and communicating financial information to assist users of that information, is generally referred to as *accounting*. Accounting has two main aspects:
- keeping accurate records of financial information and
- communicating this information to in a timely way, to help users make informed decisions.

696. The AAS and FRR require that key financial information be gathered and recorded by each entity and company according to the specified Chart of Accounts (CoA). The CoA is a list of all relevant categories of information (called *accounts*) by which the information is organised. The accounts in turn are organised into particular *financial statements*, which are standardised summaries of particular accounts at a given point in time. Each statement is organised in a different way, to provide a different perspective on the operations of the entity or company. The most important financial statements are:
- statement of financial performance (also known as the income statement)
- statement of financial position (also known as the balance sheet)
- statement of cash flows
- statement of changes in equity.

697. Each of these statements is further divided in the following ways:
- by time period:
  - *estimates* look forward and forecasts what is likely to happen (for example, in the Budget Papers)
  - *actuals* look back and explain what has already happened (for example, in the CFS)
- by control type (this is discussed more in relation to annual appropriation bills in Part 1 above):
  - *departmental activities*, over which entities have a great level of control or discretion in the way the resources are used (departmental items are those associated with the day-to-day operations and program-support activities, typical examples include employee salaries and other administrative expenses)
  - *administered activities*, which are not controlled by the entity because they are ‘administering’ the activity on behalf of the government (typical examples include grants, subsidies, benefit payments and tax receipts)

698. Commonwealth entities must produce separate sets of financial statements according to each of these divisions, on a monthly and annual basis. For example, an entity that manages administered amounts must produce four separate income statements over the monthly and annual cycles (departmental estimates, departmental actuals, administered estimates and administered actuals).
5.6. Understanding financial statements

Double-entry accounting

The Commonwealth public sector uses double-entry accounting. Each account maintains a ‘history’ of transactions, or other changes in monetary values related to a particular aspect of the entity. A transaction is any event with a financial impact that can be reliably measured. For example, to buy a pen you give the newsagent money in return for a pen. This is an example of a simple transaction. Note that money does not have to change hands for a transaction to occur. Recording transactions against an account (whether in an entity’s internal accounting system or in CBMS) is often referred to as entering a journal or adjustment.

Each transaction is recorded in at least two accounts (hence ‘double-entry’). Each transaction results in at least one account being debited, and at least one account being credited, with the total debits of the transaction equal to the total credits. This is known as the accounting equation:

\[ \text{debits} = \text{credits} \]

If all entries are recorded accurately, the aggregated accounts will ‘balance’ because the total of debit entries will equal the total of credit entries. Accounts are categorised, and grouped into those of similar types – assets, liabilities, equity, income and expenses (these are explained more in the next section). Contra accounts are accounts that offset other (specific) accounts. For example, the accumulated depreciation account offsets the original asset account to arrive at the asset’s proper (net) accounting value (depreciation is explained in the next section.)

Cash and accrual accounting

There are two different systems for recording adjustments in double-entry accounting:

- **Cash accounting**, used for cash flow statements, appropriation bills and the statements in Budget Paper No. 4 (Estimated expenditure from special appropriations, Cash flows and balances of special accounts, and some portions of the Agency Resourcing Table; for more information, see Part 4 above)
- **Accrual accounting**, used for most statements, including income statements, balance sheets, changes in equity statements, and the Agency Resourcing Table.

The core difference between accrual and cash accounting is the point of time when transactions are recognised. Cash accounting is simply the process of recording what is received and what is paid, the system recognises financial impacts as occurring at the time of payment or receipt of cash.

Accrual accounting records financial impacts associated with a transaction at the time the transaction occurs, regardless of when the related cash movements occur. For example, recording the time at which goods are obtained, but not yet paid for. Entities must enter adjusting journals at the end of each monthly, quarterly and annual accounting period (depending on specific entity or company requirements) to allocate transactions to the period in which they actually occurred.

Accruals occur when an accounting event happens but no money has yet changed hands. Deferrals are the opposite, and occur when money has changed hands but the corresponding event happens in the future. Some common types of journal adjustments include:

- **Prepayments** are necessary to account for cash that has been paid prior to the delivery of goods or completion of services. When this cash is paid, it is first recorded in an account
called 'prepayments'. The account is reduced when the goods or services that have been paid for are received.

- **Income in advance** is different to a prepayment in that it refers to money received before the relevant good or service is provided. For recording and reporting purposes, this is a type of deferral, as recognition is deferred until a future date. It is recorded in the relevant account and similar to prepayments, the account is reduced when the corresponding goods or services for which income has been received, are provided.

- **Accrued revenue** is revenue that has been earned but not yet received in the corresponding reporting period. For example, a landlord's record for monthly rent that is paid in arrears.

- **Accrued expenses** are expenses that have been incurred but not yet paid for in the corresponding reporting period. For example, a client's billing record for a post-paid mobile phone contract.

- **Depreciation** periodic adjustments that indicate how much of an asset’s value has been used. The recording of depreciation causes an expense to be recognised, while the net value of the asset declines, thus showing a more accurate perspective on the current value of the asset over time. There are several methods for calculating depreciation, generally based on either the passage of time or the level for activity or use of the asset.

**Income statement**

706. A statement of financial performance (more commonly referred to as an income statement), is a report that shows income, expenses and other comprehensive income for a specific period of time, usually a financial year. The purpose of an income statement is to show whether the organisation has made or lost money during the reporting period. The key components of the statement are:

- **income accounts**, which report **increases** in economic benefits (or service potential) to the organisation during the accounting period – this can be either an increase to an asset or a decrease to a liability (assets and liabilities will be discussed in the balance sheet section below). **Crediting** income accounts reports increases in income, while debiting them reports decreases in income.

- **expense accounts** are the opposite of income, and report **decreases** in economic benefits (or service potential) to the organization during the accounting period – these can be either a decrease to an asset or an increase to a liability. **Debiting** expense accounts reports increases in expenses, while crediting them reports decreases in expenses.

707. The total for all credit records must equal the total for all debit records, since all monetary and other economic flows arrived from some source, and went to some destination. If the total for income accounts is higher, then the organisation has received a ‘net operating surplus’ (a ‘profit’ in private sector terminology) during the accounting period. The organisation now has greater economic benefit than it had. If the reverse occurs, the organisation has a ‘net operating deficit’ (a ‘loss’ in private sector terminology) and now has less economic benefit than it did. The difference between income and expenses is resolved through one or more accounts that measures profit or loss, and so provides the balancing journal.

**Balance sheet**

708. A statement of financial position (more commonly referred to as a balance sheet) operates like a 'snapshot' of an organisation's financial condition on a given date. A balance sheet usually has three components:

- **asset accounts**, which report resources the entity controls that will provide future economic benefits. Since the public sector in primarily not a profit-seeking operation, 'future economic benefits' often represent increases to service potential (the ability to provide benefits to citizens and carry out government outcomes). Examples of assets
include physical things such as vehicles or buildings, amounts of money that people owe the Commonwealth, or intangible things like software. **Debiting** asset accounts reports increases in assets, while crediting them reports decreases in assets.

- **liabilities** accounts, which report obligations of an entity arising from past transactions or events, the settlement of which is likely to result in an outflow of economic benefits. Examples of liabilities include loans, accounts payable or certain types of leases. **Crediting** liability accounts reports increases in liabilities, while debiting them reports decreases in liabilities.

- **equity** accounts, which report amounts left after liabilities are deducted from assets (that is, unclaimed resources that the organisation owns). Examples of equity include share capital, retained profits/losses and revaluation reserves. **Crediting** equity accounts reports increases in equity, while debiting them reports decreases in equity.

709. The total for all credit records must equal the total for all debit records, so that:

- total assets = total liabilities + total equity, or
- total liabilities = total assets – total equity, or
- total equity = total assets – total liabilities.

**Statement of changes in equity**

710. The statement of changes in equity is a schedule derived from balance sheet accounts, that summarises and explains all increases and decreases to the total equity balance of the organisation over the course of the accounting period. It operates as a complement to the balance sheet.

**Cash flow statement**

711. The cash flow statement is the only one of the three primary statements that is based on cash accounting principles. It reports the total movement of cash (either physical or electronic cash transfers) or cash equivalents (highly liquid assets that can easily be monetised, for example bearer bonds or bank overdrafts). Cash flow statements have the following components:

- **cash receipt** accounts, which report all cash or cash equivalents that the organisation has obtained control over during the accounting period (most commonly, by banking the amount in one of the organisation’s bank accounts, or by receiving a legal document that entitles the organisation to borrow cash amounts). **Crediting** receipt accounts reports increases in incoming cash, while debiting them reports decreases in incoming cash.

- **cash payment** accounts, which report all cash or cash equivalents that the organisation has lost control over during the accounting period (most commonly, by spending or lending cash). **Debiting** receipt accounts reports increases in outgoing cash, while crediting them reports decreases in outgoing cash.

712. The total for all credit records must equal the total for all debit records, since all cash flows arrived from some source, and went to some destination. If the total for receipts accounts is higher, then the organisation has received a ‘net cash surplus’ during the accounting period. The organisation now has greater economic benefit than it had. If the reverse occurs, the organisation has a ‘net cash deficit’ and now has less economic benefit than it did. The difference between receipts and payments is resolved through an account that measures surplus or deficit, and so provides the balancing journal.

**Aggregate reporting**

713. The accounts in the income statements and balance sheets are aggregated in what is known as the **fiscal balance**, in the FBO and CFS. The fiscal balance shows the total net effect of the economic activities of the relevant entities and companies according to the accrual accounting
system. The accounts in the cash flow statements are aggregated in what is known as the *underlying cash balance*, in the FBO and CFS. The fiscal balance shows the total net effect of the economic activities of the relevant entities and companies according to the cash accounting system. Some common examples of aggregates used in whole-of-government reporting are included in Figure Q below:

**Figure Q. Aggregates**

<table>
<thead>
<tr>
<th>Fiscal balance</th>
<th>Underlying cash balance</th>
<th>Net worth</th>
<th>Net debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrual measure</td>
<td>Cash measure</td>
<td>Economic measure of wealth</td>
<td>Common measure of the strength of the government’s financial position (also used in cash accounting days)</td>
</tr>
<tr>
<td>Revenue less expenses less investment in non-financial assets</td>
<td>Operating receipts less operating payments less investment in non-financial assets less Future Fund net receipts</td>
<td>Assets less liabilities</td>
<td>Interest-bearing debts less associated financial assets</td>
</tr>
<tr>
<td>Shows whether the government has to borrow from financial markets to cover its activities</td>
<td>Shows whether the government has to borrow from financial markets to cover its activities</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
6. Commonwealth companies

6.1. Commonwealth controlled companies

714. The Commonwealth has established and controls a number of companies (see further information on Commonwealth companies in Section 1.4 above). These companies are:

- established under, and subject to, the Corporations Act 2001 and
- legally and financially separate from the Commonwealth.

715. However, while the Corporations Act is the primary regulatory framework that applies to Commonwealth companies, the PGPA Act imposes certain additional requirements to ensure Commonwealth companies meet required standards of public sector accountability.

716. Chapter 3 of the PGPA Act sets out requirements that Commonwealth companies have to comply with in addition to the requirements of the Corporations Act in order to meet appropriate standards of public sector accountability.

717. Commonwealth companies are listed in the Flipchart of Commonwealth entities and companies. Examples of current Commonwealth companies include: NBN Co Limited and Australian Rail Track Corporation Limited.

6.2. Establishment of Commonwealth companies

718. The PGPA Act defines a Commonwealth company and a wholly-owned Commonwealth company (sections 89-90). The three control tests in the PGPA Act reflect the tests in the Corporations Act to determine whether a body corporate is a subsidiary of another body corporate.

719. The FFSP Act provides authority for the Commonwealth to form companies and to acquire shares in, or become a member of a company, so long as the proposed company is specified in the FFSP Regulations and the objects or proposed activities of the company are specified in the Regulations.

6.3. Resource management requirements for Commonwealth companies

PGPA Act

720. The PGPA Act:

- places a series of continuous disclosure requirements on the directors of wholly-owned Commonwealth companies (section 91)
- requires directors of wholly-owned Commonwealth companies to have an audit committee in accordance with any requirements in the PGPA Rule (section 92)
- enables the Finance Minister to issue a legislative instrument applying certain government policy to wholly-owned Commonwealth companies (section 93)
- requires the corporate plans of all Commonwealth companies to include the matters set out in section 27A of the PGPA Rule (more information on corporate plans for Commonwealth companies, see RMG-133) (section 95)
- requires directors of wholly-owned Commonwealth companies to prepare an entity’s budget estimates (section 96)
- requires a copy of Commonwealth companies’ annual reports prepared under the Corporation Act to be provided to the responsible Minister (section 97)
enables Commonwealth companies to chose an auditor other than the Auditor-General. However, if the auditor is not the Auditor-General, the audit report must be provided to the Auditor-General (section 98).

721. Commonwealth companies are not required to produce annual performance statements Under the PGPA Act. However, under section 27A of the PGPA Rule, companies are required to report, in their annual reports, on the actual performance results achieved against the performance information outlined in their corporate plans.

**Employment legislation**

722. Depending on which jurisdiction a Commonwealth company operates in, these companies generally engage staff under the relevant state employment framework.
7. Further information and guidance

7.1. The Commonwealth Resource Management Framework

To assist readers, links to more specific guidance have been provided contextually throughout the Companion. For further information and guidance related to resource management, the finance.gov.au/resource-management site provides a one-stop shop for officials. Key tools on the site include:

- **Introduction** – introductory resources such as training and eLearning modules, and information on the Public Management Reform Agenda and transition to the PGPA Act
- **Consolidated guidance** – a complete index of all resource management guidance
- **Glossary** – common resource management terms
- **PGPA legislation & rules** – links to the PGPA Act, and the rules and instruments made under it
- **Governance** – the PGPA Flipchart of Commonwealth entities and companies, governance policy, Australian Government Organisations Register, government business enterprises and machinery of government changes
- **Accountability & internal controls** – guidance helps accountable authorities and officials meet their general duties, including requirements for accountability and internal controls
- **Managing performance** – the performance framework, guidance on corporate plans, annual reports, annual performance statements, technical guidance for the development of performance information
- **Appropriations** – information related to annual and special appropriations, guidance on adjusting appropriations
- **Spending relevant money** – guidance related on approving commitments of relevant money, types of arrangements and managing relevant property
- **Managing cash** – guidance related to collecting revenue or money, banking cash, investing, borrowing and the use of credit cards, recovering amounts owing to the Commonwealth and loss and recovery of relevant money
- **Entity reporting policy** – guidance related to accounting and annual and monthly financial reporting
- **Working with others** – guidance on cooperating and collaborating with others.

Readers will also find the following list of websites useful. These sites contain source material that was used to compile the Companion.

- **www.budget.gov.au** – the most recent Budget overview and papers
- **dpmc.gov.au** – Cabinet handbook, Legislation handbook, Parliamentary sitting dates, Administrative arrangements orders (AAOs), list of ministers and ministries, Office of Best Practice Regulation, Office of Deregulation
- **comlaw.gov.au** – up-to-date archive of all current legislation, legislative instruments, and Bills, reports and instruments currently before parliament
- **aph.gov.au** – up-to-date information on Parliamentary business, including Bills before Parliament, tabled reports, Hansard, Committee activities, Parliamentary sitting dates
- **anao.gov.au/publications** – auditor-general’s opinions, better practice guides, official audit reports commissioned by Government, assurance activities
- **gold.gov.au** – official directory of Government business, including names/contact details of Ministers, entities, companies, officials.
## 7.2. Appendix 1 – Different types of arrangements

<table>
<thead>
<tr>
<th>Financial Arrangement</th>
<th>Substantive Purpose</th>
<th>Criteria</th>
<th>Authority required</th>
<th>Example(s)</th>
<th>Related Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants</td>
<td>Promote policy objectives through the provision of financial assistance with or without conditions.</td>
<td>Relevant money (or other CRF money) paid to a recipient other than the Commonwealth. Intended to assist the recipient achieve its goals. Intended to promote one or more of the Commonwealth public sector’s policy objectives. The recipient may be required to act in accordance with specified terms and conditions.</td>
<td>Grants that are not the ordinary services and functions of government require either separate legislation or need to be included within a programme listed in Schedule 1AA or Schedule 1AB of the FFSP Regulations.</td>
<td>Open competitive grants rounds. Targeted and one-off grants. Entitlement programmes that are not supported by their own legislation. Some sponsorships, subsidies and rebates. Gifts of relevant money. Ex gratia payments.</td>
<td>Commonwealth Grants Rules and Guidelines RMG-411: Grants, Procurements and Other Financial Arrangements RMG-412: Australian Government Grants: Briefing and Reporting ANAO Better Practice Guides</td>
</tr>
<tr>
<td>Procurements</td>
<td>Achieve policy objectives through the acquisition of goods and services for the Commonwealth’s own use or for the use of third parties.</td>
<td>The process of procuring goods and/or services. May be for the Commonwealth’s own use or may be on behalf of third parties.</td>
<td>Most procurement for an entity’s own use will be for the ordinary services and functions of government and will not require separate legislative authority. However, a procurement may require separate legislative authority, where it is not for the ordinary services and functions of government, either through its own legislation or through Schedule 1AA or Schedule 1AB of the FFSP Regulations.</td>
<td>Procuring supplies and equipment, consultancy services, memberships, advertising and travel.</td>
<td>Commonwealth Procurement Rules</td>
</tr>
<tr>
<td>Financial Arrangement</td>
<td>Substantive Purpose</td>
<td>Criteria</td>
<td>Authority required</td>
<td>Example(s)</td>
<td>Related Guidance</td>
</tr>
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<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Gifts of relevant property</strong></td>
<td>To transfer relevant property to the recipient free of charge.</td>
<td>The Commonwealth must have acquired or produced the property to use it as a gift, or the gift is expressly authorised by law, or the Finance Minister (or delegate) has authorised the gift in writing, or the gift is made in accordance with any requirements prescribed by the rules.</td>
<td>The power to make gifts of relevant property is established under section 66 of the PGPA Act.</td>
<td>Gifts of relevant property to visiting dignitaries.</td>
<td>RMG-206: Accountable Authority Instructions – Non-corporate Commonwealth Entities</td>
</tr>
<tr>
<td><strong>Compensation payments</strong></td>
<td>To compensate individuals or groups for financial losses or other adverse consequences caused by a decision, action or omission on the part of the Commonwealth.</td>
<td>The criteria for a particular compensation payment will be set out in either its enabling legislation or the Scheme for Compensation for Detriment caused by Defective Administration (CDDA Scheme).</td>
<td>Payments made as part of the CDDA Scheme will likely fall within the ordinary services and functions of government and not require separate legislative authority. Other compensation payment schemes will require their own legislation.</td>
<td>Payment in accordance with the CDDA Scheme.</td>
<td>RMG-401: Request for discretionary financial assistance under the PGPA Act RMG-409: Scheme for compensation for detriment caused by defective administration</td>
</tr>
<tr>
<td><strong>Benefit and entitlement payments established by legislation</strong></td>
<td>To provide a benefit to individuals or groups that meet specified criteria as established by legislation.</td>
<td>An entitlement is a right to a particular payment established in legislation and generally involves no obligation on the recipient to spend the proceeds for any particular purpose, or to subsequently account for or acquit the expenditure.</td>
<td>Entitlements established by legislation must be supported by their own legislation.</td>
<td>Examples of entitlements established in legislation include pension payments made through the Social Security (Administration Act) 1999, payments to veterans through the Veterans’ Entitlement Act 1986.</td>
<td>RMG-411: Grants, Procurements and Other Financial Arrangements</td>
</tr>
<tr>
<td><strong>Tax concession or offset</strong></td>
<td>Achieve policy objectives by directly reducing the amount of tax an individual or other bodies must pay.</td>
<td>Specific categories of tax concessions and offsets are contained in the various pieces of taxation legislation administered by the Australian Taxation Office.</td>
<td>All taxation legislation administered by the Australian Taxation Office.</td>
<td>Fuel excise rebate.</td>
<td>Australian Taxation Office</td>
</tr>
<tr>
<td>Financial Arrangement</td>
<td>Substantive Purpose</td>
<td>Criteria</td>
<td>Authority required</td>
<td>Example(s)</td>
<td>Related Guidance</td>
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<tr>
<td>Investments</td>
<td>Earning income or a profitable return for the Commonwealth.</td>
<td>An investment is an arrangement that involves the purchase of an asset by the Commonwealth for the primary purpose of earning income or a profitable return for the Commonwealth.</td>
<td>Investments are made under the authority of specific enabling legislation or sections 58 and 59 of the PGPA Act.</td>
<td>Investments made under the Future Fund Act 1996.</td>
<td>RMG-301: Investment by Commonwealth entities</td>
</tr>
<tr>
<td>Loans</td>
<td>May be made for a variety of reasons, including policy purposes and as a means of facilitating repayments to the Commonwealth. However, the primary purpose of a loan is not to earn a commercial rate of return or profit for the Commonwealth.</td>
<td>An arrangement under which the Commonwealth advances a sum of relevant money to an external recipient with the recipient agreeing to repay that sum (with or without interest) on a future date or on demand. While interest may be payable under a loan, it may not be at commercial rates.</td>
<td>Loans that are not the ordinary services of government require either separate legislation or need to be included within a programme listed in Schedules 1AA or 1AB of the FFSP Regulations.</td>
<td>Concessional loans.</td>
<td>RMG-411: Grants, Procurements and Other Financial Arrangements</td>
</tr>
<tr>
<td>Borrowings</td>
<td>To enter into agreements to borrow money. Non-corporate entities must repay any borrowing within 90 days.</td>
<td>A discretionary power of the Finance Minister or delegate (unless otherwise authorised in legislation) to make agreements to borrow money (including by obtaining an advance on an overdraft or obtaining a credit card or credit voucher).</td>
<td>Borrowings are made under the authority of specific enabling legislation or sections 56 and 57 of the PGPA Act.</td>
<td>Use of an official entity credit card.</td>
<td>Borrowings page on the Finance website</td>
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<tr>
<td>Act of grace payments</td>
<td>To provide financial relief to individuals or other bodies where there is a moral rather than a legal obligation on the Commonwealth and there are no other means of redress.</td>
<td>A discretionary power of the Finance Minister or delegate to make payments on behalf of individuals or other bodies due to special circumstances.</td>
<td>The power to make act of grace payments is established under section 65 of the PGPA Act.</td>
<td>Cases where legislative and administrative provisions do not take sufficient account of the special circumstances of individual cases.</td>
<td>RMG-401: Request for discretionary financial assistance under the PGPA Act</td>
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### 7.3. Appendix 2 – Budget events and tasks schedule

<table>
<thead>
<tr>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
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<th>May</th>
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<tr>
<td><strong>Pre-Budget Year</strong></td>
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<td><strong>Government priority</strong></td>
<td>Portfolio minister proposes policy priorities to the PM</td>
<td>Government undertakes initial strategic budget planning</td>
<td>PM decides which proposals may be submitted to ERC</td>
<td>Portfolio departments prepare draft PBSs</td>
<td>ERC considers policy priorities</td>
<td>ERC considers NPPs contained in the PBSs</td>
<td>CBMS: Budget estimates update</td>
<td>Budget Cabinet considers NPPs approved by ERC</td>
<td>Budget papers produced</td>
<td>Senate Legislation Committee hearings</td>
<td>Appropriation bills considered and usually passed by Parliament by end of June</td>
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<td><strong>Cabinet submissions</strong></td>
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<td><strong>ERC decision</strong></td>
<td>Portfolio departments lodge final PBSs to Cabinet Secretariat</td>
<td>Finance agrees costings contained in draft PBSs</td>
<td>CBMS: pre-ERC estimates update</td>
<td>Risk and assurance processes</td>
<td>CBMS: Budget estimates update</td>
<td>Budget Night (2nd Tuesday) Budget papers and appropriation bills introduced to Parliament</td>
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<tr>
<td><strong>Budget</strong></td>
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<td><strong>Budget delivered to Parliament</strong></td>
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### Budget Year

Performance monitoring

- MYEFO papers produced
- Senate estimates hearings
- Additional estimates bills passed by Parliament (usually by end of April)

### Mid-year economic and fiscal outlook

- Additional Estimates appropriation bills prepared

### Post-Budget Year

- Entities prepare annual reports (financial statements audited by ANAO)
- Entities’ annual reports published
- Consolidated Financial Statements (CFSs) audited by ANAO and published by Finance
- Finance Minister provides report to Parliament on the use of Advances to the Finance Minister (AFMs)
- Parliament passes AFM report (usually by end of April)

**Final Budget Outcome**