



**Australian Government**

**OPERATION SUNLIGHT**  
Enhancing Budget Transparency

December 2008

## Introduction

On 16 April 2006 I re-released *Operation Sunlight – Enhancing Budget Transparency* a practical suite of measures to enhance Budget transparency which updated the paper I released on 24 October 2005. This suite of measures was developed after extensive consultation with a range of academics, journalists and professional analysts. The suite included measures aimed to enhance budget transparency and accountability by:

1. Tightening the outcomes and outputs framework.
2. Changing Budget Papers to improve their readability and usefulness.
3. Improving the transparency of estimates.
4. Expanding the reach of Budget reporting.
5. Improving Intergenerational reporting.

Operation Sunlight is a long-term investment in greater accountability for this and future Commonwealth Governments.

On 20 December 2007 I released the Commonwealth's Consolidated Financial Statements for 2006-07, which for the first time recognised the Goods and Services Tax as a Commonwealth tax and associated payments to the States and Territories as a grant expense thereby delivering an important commitment under Operation Sunlight.

On 24 March 2008 I announced that former Democrat Senator, Andrew Murray had commenced a review of Budget transparency issues as part of the Government's Operation Sunlight reforms. My announcement delivered on a commitment I made on 6 May 2007 to engage Andrew Murray to undertake a review should we be elected.

Andrew Murray is a widely-respected former Senator with major expertise in issues of financial transparency and parliamentary accountability. He has been active in numerous Senate inquiries that have recommended major Budget and financial reforms.

Andrew Murray reviewed options for greater disclosure of Budget and financial information looking to improve and/or supplement Operation Sunlight, and provided a report to the Government on 26 June 2008.

The Government didn't sit on its hands while the Review by Andrew Murray was being conducted and, as part of the 2008-09 Budget, delivered a series of key practical reforms, which included:

- providing additional Budget Paper information, including a register of Special Accounts held by agencies and information on agency Special

Appropriations, the source of almost 80 per cent of all Commonwealth spending;

- redesigning agency Portfolio Budget Statements to provide a more strategic focus, an increased emphasis on agency performance and a newly introduced Resource Statement to inform readers of all of the funds available to an agency; and
- reducing three sets of budget financial statements, which all measured the same economic activities, to one comprehensive set of financial statements in Budget Paper No.1 under Australian Accounting Standard 1049.

The Government's response to the recommendations of the Murray Review has now been incorporated into an improved and supplemented Operation Sunlight. The revised Operation Sunlight includes the original five strands expanded as a result of the Murray Review and an additional sixth strand noted below:

1. Tightening the outcomes and outputs framework;
2. Changing Budget Papers to improve their readability and usefulness;
3. Improving the transparency of estimates;
4. Expanding the reach of Budget reporting;
5. Improving Intergenerational reporting; and
6. Improving the Financial Framework.

This response shows a clear and continuing commitment to openness, transparency and good governance in the vitally important area of budget and financial management.

A robust budget and financial framework provides a solid and lasting foundation for good Government now and into the future.

A handwritten signature in black ink, appearing to read 'Lindsay Tanner'. The signature is fluid and cursive, with a large loop at the end of the last name.

Lindsay Tanner  
Minister for Finance and Deregulation

# 1. Tightening the outcomes and outputs framework

## Issues raised in the initial Operation Sunlight paper:

The Budget is structured around outcomes and outputs. Money is spent on outcomes while outputs and programs sit under the outcomes. Ministers approve their own outcomes. Some outcomes are so broad and general as to be virtually meaningless for Budget accounting purposes leading taxpayers to only guess what billions of their dollars are being spent on. Some of the more incomprehensible examples are:

- Outcome 4 for the Department of Family and Community Services is “Families and children have choices and opportunities – Services and assistance that: help children have the best possible start to life; promote healthy family relationships; and help families adapt to changing economic and social circumstances and take an active part in the community”.
- \$454 million is allocated to the Department of Employment and Workplace Relations for “Higher pay, higher productivity”.
- \$2.1 billion is allocated to the Department of Transport and Regional Services for “Assisting regions to manage their own futures”.

There is also imprecise reporting of targets and little reporting back against key result areas. Loose outcome descriptions can also foster incentives for money to be shifted between outcomes for political purposes or for spending such as government advertising to be undertaken for overt political purposes without parliamentary approval.

- For example, Audit Report No. 31 2006 on the Roads to Recovery Program found that money had been shifted from one outcome - “a better transport system for Australia” to another outcome “greater recognition and development opportunities for local, regional and territory communities”. This is open slather for political pork-barrelling.
- For example, in *Combet and Roxon v Commonwealth*, the Commonwealth Government argued that the PBS is irrelevant in understanding what is contained in appropriations. Instead it was claimed that the broad Outcome appropriation description of ‘higher productivity, higher pay workplaces’ was enough to justify the \$55 million industrial relations advertising campaign. The advertising campaign was not mentioned in the Portfolio Budget Statement (PB Statement).

The outcomes and outputs framework was intended to shift the focus of financial reporting from inputs (programs, expenses, and recipients) to outputs and outcomes i.e. actual results. While this is worthy in theory, it has not worked. Basic information on inputs was lost in the changeover, and reporting of outcomes is seriously inadequate.

## **Government policy is to:**

1.1 Actively vet outcomes to ensure cross-government consistency. Results will be described by target for the current year and forward estimates, the expected outcome for the previous year and the actual result for the previous year. Quantity, timeliness, and cost measures will be developed and tracked over time. Outcomes will be as detailed and meaningful as possible.

- The Government is undertaking a review of all General Government Sector agency Outcome Statements, to meet higher standards of specificity and transparency. These revised Outcome Statements will be in place from the 2009-10 Budget. The 2009-10 Portfolio Budget Statements (PB Statements) will also include program level reporting for the budget and forward years to improve the reporting of quantity, timeliness and cost.
- The Government has already improved reporting arrangements in the 2008-09 PB Statements, including reporting on measurable targets.
- Murray Review recommendations 9 and 40 refer.

1.2 Instigate a systematic program of evaluation of results against targets. This will be done by the Department of Finance and Deregulation and be subject to performance audit by the Australian National Audit Office (ANAO).

- The Government introduced improved reporting arrangements in the 2008-09 PB Statements, including mandating details of key performance indicators and reporting on measurable targets.
- The Government will further improve on these arrangements, introducing program reporting from the 2009-10 Budget requiring agencies to set targets for their results and performance for the budget and forward years. Finance will provide guidance to agencies to assist in improving the quality of reporting, noting that the ANAO sets its own audit schedule.
- Murray Review recommendation 9 refers.

1.3 Develop more detailed and binding descriptions of the content of appropriations in the PB Statements. This would help strengthen the role of Parliament under sections 81 and 83 of the Constitution in scrutinising and approving appropriations.

- The Government is undertaking a review of all General Government Sector agency Outcome Statements, to meet higher standards of specificity and transparency. These improvements will be supplemented by enhanced reporting at the outcome level in 2009-10 PB Statements.

- Murray Review recommendation 40 refers.

1.4 Include in the Budget Papers a review and report back on the performance of funding allocations from the previous year's budget including whether savings have been met.

- The Government introduced the Agency Resource Statement in 2008-09 PB Statements to provide a more complete picture of the resources available to an agency. Outcomes of the funding used will then be reported in Annual Reports from 2008-09 and will be an ongoing feature of these agency publications.
- This information will be further supplemented when the Government introduces program reporting from the 2009-10 Budget in PB Statements. This will include financial data for the prior year, budget year and forward years to better report on an agency's financial performance.
- Murray Review recommendation 40 refers.

1.5 Additional initiatives to be undertaken as recommended in the Murray Review include:

- Individual Senior Executive Service employees' performance agreements have regard to the achievement of relevant outcomes, outputs and Key Performance Indicators. Finance will include this advice in future guidance to agencies on the outcomes framework.
- Murray Review recommendation 42 refers.

## **2. Changing Budget Papers to improve their readability and usefulness**

### **Issues raised in the initial Operation Sunlight paper:**

Budget Paper No. 1 (BP No.1) is the main Budget Paper but its focus is somewhat confused. It contains information on the immediate economic outlook (Statement 3) as well as information on longer-term issues to do with prosperity and sustainability (Statement 4). These statements may be better placed in a separate Budget Paper that focuses more squarely on the Federal Government's strategic fiscal objectives as well as non-budget policies related to longer-term performance.

BP No. 1 lacks detail on classes of recipients, sources of revenue and which classes get assistance, under what conditions, average amounts paid and results achieved. There is no analysis of the impact of the tax and welfare system on income groups much less the non-achievement of savings. Information is hard to piece together given that portfolio responsibilities for income support are split between the Departments of Employment and Workplace Relations, Family and Community Services and Education Science and Technology.

There is insufficient mapping of spending by agencies on particular programs between Budget Papers and the PBS. Expenses are classified on two different bases. The PBS classify expenses by outcome. BP No.1 classifies by function or purpose. The two are not reconciled. Transparency is further reduced where responsibilities sit across portfolios.

- For example, spending on the Housing and community amenities function and the three sub-functions (see BP No. 1, 2005-06 p6-13) traverses programs in the portfolios of Defence, Transport and Regional Services and Family and Community Services. There are no program descriptions. Instead, users have to try their luck hunting programs through at least three different sets of PBS.

There are mixed views about the appropriate accounting standard used in the Budget Papers – Government Finance Statistics (GFS) which applies to the public sector or Australian Accounting Standards (AAS) which applies to the private sector. Options to standardise the two are currently being examined. Rather than prolong the debate, it may make more sense to settle for one standard in the Budget Papers and be done with it, thereby avoiding the problem of politicians 'cherry-picking' information depending on the result they want. Other information would not be lost but go to an Appendix.

The Budget Papers do not treat the GST as a Commonwealth tax. Both the Australian Bureau of Statistics and Auditor-General agree that constitutionally, the GST is a Commonwealth tax because the GST is imposed and administered under Commonwealth legislation. Conveniently for the Government, not reporting it understates Commonwealth taxation.

## **Government policy is to:**

2.1 Remodel BP No. 1 to focus on information that helps to assess the merits of government spending and tax levels. This would include information on the distribution of welfare, health and education benefits between income groups, and the taxes paid by such groups. Further advice will be sought including making Statements 3 and 4 a separate Budget Paper.

- The Government introduced additional information in Statement 6 of Budget Paper No.1 in the 2008-09 Budget.
- The Government is considering future improvements to the readability and usefulness of Budget Papers.
- Murray Review recommendation 24 refers.

2.2 List programs in the Budget Papers that sit under sub functions including forward estimates. This program information would be cross-referenced to the PB Statements. Individual PB Statements would contain a 'contra' reference back to the Budget Papers.

- The Government will introduce program reporting from the 2009-10 Budget in PB Statements. This will result in improved cross-referencing between sub-function reporting in Statement 6 of Budget Paper No.1 and PB Statements.
- Murray Review recommendation 9 refers.

2.3 Make Government Financial Statistics the standard in the Budget Papers. Australian Accounting Standard material would be provided in an Appendix with additional schedules.

- The Government prepared a single set of financial statements for the 2009-10 Budget using the Australian Accounting Standard Whole of Government and General Government Sector Financial Reporting (AASB 1049). This single set of financial statements replaced three sets that were prepared and published in previous Budget papers.
- The Government is continuing to work with the Australian Accounting Standards Board (AASB) to set out an approach to harmonise accounting standards at the entity level.
- Murray Review recommendations six, seven and 24 refer.

2.4 Count the GST as a Commonwealth tax.

- The Government counted the GST as a Commonwealth Tax in preparing the 2006-07 Consolidated Financial Statements. This



treatment was used for the 2008-09 Budget, and will be continued in future reporting.

- Murray review recommendation 24 refers.

2.5 Additional initiatives to be undertaken as recommended in the Murray Review include:

- The Government will review the administered / departmental distinction to improve transparency and ensure consistency in budgeting and reporting. The clarification will complement improvements in the disclosure of appropriations that have been included in agency PB Statements.

Murray Review recommendation 10 refers.

- The Government has consolidated parts 1, 2 and 3 of the Final Budget Outcome to provide one statement which includes GST and was prepared in accordance with AASB 1049. Future whole-of-government statements will also be prepared on this basis.

Murray Review recommendation 24 refers.

- Finance will investigate the feasibility of including ministerial remuneration in the CFS (or in another public report) and will provide further advice to Government on this issue.

Murray Review recommendation 36 refers.

### **3. Improving the transparency of estimates**

#### **Issues raised in the initial Operation Sunlight paper:**

Material estimation errors are often 'hidden' as parameter variations and there is no system of continuous fiscal disclosure to inform users of material variations.

Estimation errors are a natural part of implementing new policy. Unfortunately, estimation errors from policy decisions such as increased take-up are often treated as 'parameter variations', disguising the real impact of policy decisions. The Private Health Insurance rebate is a case in point. The 1998 measure or 'policy decision' was estimated to cost \$5.2 billion over the first four years of its operation. It actually cost \$6.6 billion. The increase in cost is counted as a 'parameter variation'.

Transparency of estimates is also not aided by agencies not consistently reporting when expenditure slips and the forward estimates are 're-phased' or adjusted. This sometimes allows agencies and Ministers to announce spending and then re-announce that same spending ad infinitum.

Stable economic policy is not served by sudden jumps in revenue or expenses throwing out the Budget bottom line between key economic statements. This is made worse when markets and commentators are caught out by the size of the fluctuations. The private sector operates under rules of continuous disclosure. Why shouldn't the public sector?

The Department of Finance and Deregulation publishes monthly financial statements for the current financial year in a form consistent with the Budget estimates (fiscal balance, the underlying cash balance and the net operating result). The date of publication varies significantly.

Unfortunately, there aren't even mandated reporting dates for key publications such as the Mid-Year Review and the Australian Government's Monthly Financial Statement. For example, the July and August 2005 reports were released on 30 September 2005.

#### **Government policy is to:**

3.1 Require the Treasury and Finance to publish material changes in revenue or expenses on their web sites. Consolidated and updated fiscal and cash balances will be produced and published on both the Treasury and Finance web sites every three months.

- Government will continue to publish consolidated revenue and expense information at Budget time, as part of the Mid Year Economic and Fiscal Outlook during the financial year, and through the (audited) Consolidated Financial Statements after the completion of the financial year.

- Murray Review recommendation 21 refers.

3.2 Mandate regular publication dates for key economic documents such as the monthly financial statement.

- Government will consider advice on timing for release of monthly financial information prior to the 2009-10 financial year.
- The Government will also include a comparison of estimated and actual results, based on a profile of how resources are expected to be used.
- Murray Review recommendation 23 refers.

3.3 Additional initiatives to be undertaken as recommended in the Murray Review include:

- The Government is considering proposals to put to the Senate to clarify the allocation of items between the Appropriation Bills.
- Murray Review recommendations 4 and 5 refer.

#### 4. Expanding the reach of Budget reporting

There are a number of areas of budgeting that be made more transparent – special accounts, standing appropriations, tax expenditures and the Contingency Reserve.

##### **Issues raised in the initial Operation Sunlight paper:**

*Special accounts* grant a right to departments to draw from the Consolidated Revenue Fund. While there are guidelines on the management of such accounts and they are reported in agency PBS there is no consolidated list of such accounts and their balances.

Standing or special appropriations operate under their own legislation and are usually uncapped and entitlement-driven (e.g. most social security payments). In Audit Report No.15 2004-05, Financial Management of Special Appropriations, the ANAO found “widespread shortcomings...in the management and disclosure of Special Appropriations”. They account for about 80 percent of Commonwealth government spending compared to about 25 percent in the UK and have been growing over time.

*Tax expenditures* involve granting certain taxpayers, activities or assets more favourable tax treatment than applies to others. They are not subject to the same budget processes or trade-offs as expenditure programs. Once in, tax expenditures are hard to change or remove. ‘Equity’ implications of tax expenditures flowing to high income earners are rarely assessed (25 percent of households don’t have access to tax expenditures because they don’t pay tax). In 2005-06, tax expenditures were around \$31 billion against total expenses of \$206 billion. Total spending would be 15 percent higher if tax expenditures were added back. It may be even higher as many tax expenditures are simply not estimated by Treasury.

For example:

- certain taxpayers can be released from a tax liability where the liability would cause serious hardship (2005 Tax Expenditures Statement, p57). No cost is given.
- certain in-house loan benefits provided to employees to meet employment-related expenses are exempt from fringe benefits tax (2005 Tax Expenditures Statement, p125). No cost is given.

The *Contingency Reserve* is a global reserve which is supposed to allow for: amounts not yet allocated to individual programs; the tendency to underestimate costs of existing programs in future years and the tendency to overestimate administered item expenses in the early years as programs get up to speed. In the lead-up to elections these ‘hidden’ allocations can be very important. There is no detail on year by year fluctuations.

## **Government policy is to:**

### *On special accounts –*

4.1 Require the Minister for Finance no later than 31 August each year to table a consolidated register of special accounts. This would detail the relevant statutory provisions, date of establishment/duration, purpose, and amount expended at the close of the financial year. This is consistent with amendments already proposed to the Financial Framework Legislation Amendment Bill (No. 2) 2005.

- The Government included a Special Accounts register in Budget Paper No. 4 (Agency Resourcing) with effect from the 2008-09 Budget. This information will be further enhanced in 2009-10, with the inclusion of special account financial flows in Budget Paper 4.
- Special Account details including actual amounts spent and received are already reported in the Consolidated Financial Statements.
- Murray Review recommendation 13 refers.

### *On standing or special appropriations –*

4.2 Consistent with the above, establish a register of standing appropriations.

- The Government introduced a register of special appropriation estimates in Budget Paper No.4 for the 2008-09 Budget.
- Murray Review recommendation 12 refers.

### *On tax expenditures –*

4.3 Require an independent up-front audit and assessment of existing concessions.

4.4 Require more detailed specification of what is to be achieved from tax expenditures, set in place processes for their periodic review and notionally allocate such expenditures to functions and sub functions to facilitate comparisons with other expenditure.

- The Government, through the Treasury and relevant agencies, is progressively reviewing all tax expenditures.
- The Treasury has already indicated in its response to the ANAO performance audit report Preparation of the Tax Expenditures Statement that it agrees with the bulk of ANAO's recommendations, with some qualifications.
- Murray Review recommendation 20 refers.

*On the Contingency Reserve –*

4.5 Require a reconciliation table by sub function for changes across the forward estimates. This would be produced in the Budget and at Mid Year Economic and Fiscal Outlook.

- The Government now considers that publishing information on the components of the Contingency Reserve is inconsistent with the purpose of the reserve. However, Finance will include revised guidance in the Budget Papers and on its website for the 2009-10 Budget to further clarify the purpose and operation of the Contingency Reserve.
- Murray Review recommendations 17 and 18 refer.

4.6 Additional initiatives to be undertaken as recommended in the Murray Review include:

- The Government, through the Minister for Finance, will issue public advice in the Budget Papers and on its website by the 2009-10 Budget to further clarify the nature of the Advance to the Finance Minister (AFM) and the Contingency Reserve. Additional information on the AFM will be provided to the Parliament for the 2008-09 Budget year.
- Murray Review recommendation 18 refers.

## 5. Improving Intergenerational reporting

### Issues raised in the initial Operation Sunlight paper:

The Treasurer produces an Intergenerational Report every five years as per the provisions of the *Charter of Budget Honesty Act 1998*. The Charter was a first attempt to publish more demographic information every five years and to set out costing arrangements during the election campaign. Given the increased focus on demographic issues, the Charter is now in need of a revamp.

The Charter doesn't disaggregate long-term spending pressures by program and arguably five years is too long between updates. Insufficient attention is paid to demographic pressures in costing new policies. Many government programs may be affordable now but are set to grow steeply beyond the forward estimates at a time when workforce participation rates and the tax base decline. The current forward estimates do not capture such trends early enough. The current forward estimates period should be extended to six years for programs likely to be subject to demographic pressures.

The Charter fails to acknowledge emerging trends in the private sector where corporations are increasingly taking account of the longer-term environmental and social costs and benefits of their actions. More can be done via integrated triple-bottom-line analysis.

Policies of governments and oppositions are not costed fairly under the Charter. The Charter is heavily biased in favour of the government of the day including the release of the Pre-election economic and fiscal outcome up to 10 days into the election campaign with no opportunity for independent scrutiny. Access to costing resources for the Opposition only applies during the heat of an election campaign whereas the Government has access year-round.

### Government policy is to:

5.1 Improve the co-ordination of the Commonwealth's long-term modelling capability to reduce long-term risks to the Budget.

- The Government has provided funding to Finance to enhance expenditure modelling capabilities.
- Murray Review recommendation 29 refers.

5.2 Require all expenditure measures at risk of long-term growth to be subject to mandatory assessment at the time a proposal is considered.

- The Government already reports on programs that have longer term financial implications beyond the forward estimates period in the Budget Papers.

- Murray Review recommendation 27 refers.

5.3 Make it mandatory that all new programs subject to significant demographic risk be assessed and reported over a 40 year timeframe consistent with the Intergenerational Report.

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

- Murray Review recommendations 27 and 28 refer.

5.4 Extend the forward estimates period to six years for programs likely to be subject to demographic pressures to make it easier to identify emerging cost pressures earlier.

- The Government already reports on programs that have longer term financial implications beyond the forward estimates period in the Budget Papers.

- Murray Review recommendation 27 refers.

5.5 Investigate the utility of a whole-of-government triple-bottom line (economic, environment and social) chapter in the Intergenerational report.

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

- Murray Review recommendation 30 refers.

5.6 Revitalise the Charter of Budget Honesty Act 1998 including by legislating to allow the Government or Opposition to request the Secretaries of the Departments of the Treasury and Finance to prepare a costing of any policies within 12 months of the last day for issue of the writs for a general election to the end of the caretaker period. Agreed costings would then be publicly released.

- The Government is undertaking a review of the Charter of Budget Honesty Act 1998.

- Murray Review recommendation 25 refers.



5.7 Have the Intergenerational Report produced every three years with greater disaggregation at the program level.

- The Government will produce the Intergenerational Report at least once every parliamentary term.
- Murray Review recommendation 26 refers.

## 6. Improving the Financial Framework

Following the Murray Review, Operation Sunlight now includes a sixth strand which focuses on improving the financial framework.

### **Government policy is to:**

6.1 Address weaknesses in the current treatment of depreciation and fund agencies for their net cash requirements.

- The Government will cease funding for depreciation from 1 July 2009 for collecting institutions in relation to their heritage and cultural assets and from 2010-11 for all other agencies in the general government sector.
- The Government will seek advice from the ANAO on the proposed approach.
- Murray Review recommendation 15 refers and recommendation 16 partially refers.

6.2 Improve the presentation of agency financial statements.

- The Government will introduce a Net Cost of Services presentation of income statements from the 2009-10 financial year. This recognises the nature of public sector activity and the emphasis on the net cost of services to Government.
- Murray Review recommendation 15 refers.

6.3 Enhance compliance on matters relating to financial administration and management.

- The Government will examine ways that Finance can enhance the compliance function including the promotion of an efficient compliance system for the public sector.
- Murray Review recommendations 37, 38 and 39 refer.

6.4 Report to the Parliament on overall trends in agency compliance and develop a process for chief executives to inform the responsible minister and the Parliament of the results of investigations into material compliance failings.

- The Government will prepare a report on the trends in aggregate analysis of all chief executives' Annual Certificate of Compliance results in the 2008-09 Budget reporting period.
- Chief executive officers are already required to disclose compliance failings to their relevant minister and to Finance.

Murray Review recommendations 38 and 39 refer.