The Resource Management Framework

For Victorian Government departments

integrating the former Performance Management and Budget Operations frameworks

Effective from 1 July 2019

VICTORIA State Government | Treasury and Finance

The Secretary
Department of Treasury and Finance
1 Treasury Place
Melbourne Victoria 3002
Australia
Telephone: +61 3 9651 5111
Facsimile: +61 3 9651 2062
dtf.vic.gov.au

Authorised by the Victorian Government
1 Treasury Place, Melbourne, 3002

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Introduction

Purpose

The Resource Management Framework (RMF) helps Victorian Government departments to understand and apply the legal and policy framework that underpins resource management, budgeting and reporting processes.

The RMF includes mandatory requirements for departments on specific topics and guidance.

The RMF is a governance and operational framework for public sector accountability for the investment of public resources. Its objective is value-for-money outcomes for Victoria.

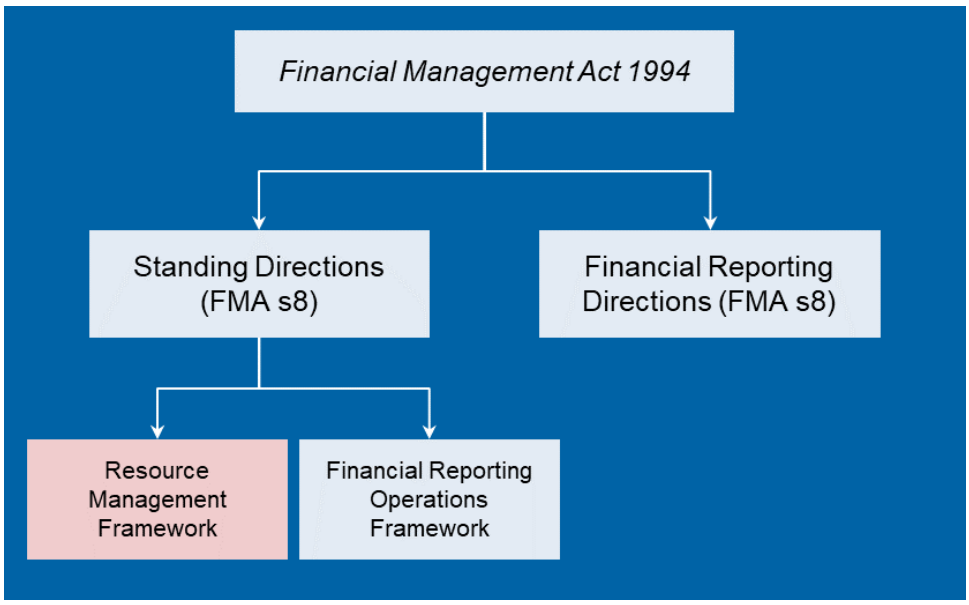
The RMF combines and replaces the Budget Operations Framework (BOF) and the Performance Management Framework (PMF).

Legal status

The RMF is issued by the Deputy Secretary, Budget and Finance Division at the Department of Treasury and Finance (DTF). The RMF is mandated for departments by direction of the Assistant Treasurer in the *Standing Directions 2018 under the Financial Management Act 1994* (Standing Directions).

Figure 1 illustrates how the RMF fits into the broader financial management framework for Victorian public sector agencies.

Figure 1: The Resource Management Framework within Victoria's Financial Management Framework



Applying and complying with the RMF

The RMF applies to all Victorian departments.[1] The RMF also applies where, on a department's behalf, service delivery is undertaken by a portfolio agency. For example, where a department has a lapsing program being delivered on its behalf by a portfolio agency, the department must ensure it applies the requirements of Section 6.1: Evaluating lapsing programs.

The *Financial Management Act 1994* (FMA) requires departments and Victorian public sector agencies to comply with requirements regarding financial management. While the Standing Directions only mandate the RMF for departments, other agencies subject to aspects of the FMA are expected to comply with its related requirements. For example, an agency that has monthly reporting obligations should comply with Section 5.4: Financial monthly reporting.

The Accountable Officer of each department must ensure the RMF is applied by complying with the mandatory requirements.

The Accountable Officer may delegate implementation of certain RMF requirements to departmental officers (unless otherwise instructed in the requirement). However, departments should note that ultimate accountability for any delegated requirements still remains with the Accountable Officer.

Departments are subject to the compliance requirements of the Standing Directions regarding the RMF. This includes public attestation of compliance in annual reports. Refer to Standing Directions 4.1 and 5.1 for more information.

It is expected agencies using public resources should manage and account for those resources transparently, consistently with stated Government policies, and, as far as possible, consistently with other agencies.

The RMF should be read in conjunction with the FMA, the Standing Directions, Financial Reporting Directions, and any DTF Information Requests issued, where relevant.

Other agencies are not bound by the RMF, but may voluntarily adopt it where relevant.

Commencement, DTF role and currency

This RMF is **effective from 1 July 2019.**

DTF manages and implements the RMF on behalf of the Deputy Secretary, Budget and Finance Division. If you have any questions, or would like to provide feedback on the RMF please email financial.frameworks@dtf.vic.gov.au.

The RMF may be amended and re-issued from time to time. Departmental Chief Finance Officers (CFOs) will be notified of any new releases of the RMF. Please also check the DTF website to ensure you are working with the latest version.

[1] 'Department' is defined as having the same meaning as para (a) of *department* in section 3 of the FMA.

Structure

This edition of the RMF incorporates two major parts:

- Part A: The Integrated Management Cycle; and
- Part B: Other budget policies and the accounting framework supporting budget management.

The RMF has two components:

- mandatory requirements; and
- non-mandatory guidance.

The sections are presented as follows:

1. Example chapter one

1.1 Example section one

Mandatory requirements
1.1.1 Mandatory requirement example one Explanatory detail about mandatory requirement one, including: (a) specific provisions, requirements and directions; and (b) additional related requirements **1.1.2 Mandatory requirement example two** Departments must apply mandatory requirement two.

Guidance

Guidance information which is non-mandatory in nature. This section attempts to assist the reader in gaining a broader understanding of the mandatory requirements laid out above. In certain sections, there are examples and worked examples provided in the attachments section.

More information can be found here

Note to this edition:

At the time of publication, the impacts of the following reforms have been reflected in the RMF:

- **Changes to the Australian Accounting Standards (AASB):**
  - *Section 4.1: Appropriation of certain revenue and asset proceeds – section 29 of the FMA* – new paragraphs added into guidance section to reflect changes to accounting standards AASB 15 and 1058 on revenue recognition (page 60).
  - *Section 4.12: Depreciation and depreciation equivalent* – new guidance relating to the funding the interest expense associated with the progressive recognition of Service Concession assets (page 85).
  - *Section 7.1: Capital Assets Charge* – new guidance concerning Right of Use (RoU) and Service Concession assets (page 115).
- **The introduction of the Central Banking System (CBS):**

  The following sections have been updated for references to the CBS for guidance purposes only:

  - Legal and policy framework – Victoria's appropriation framework – the Public Account (page 17)
  - Section 5: Accountability (page 91)
  - Section 5.6 Cash Management and reconciliation (pages 101 - 102)

  Existing cash flow forecasting Mandatory requirement 5.5.1 clarified to specify it applies to funds held in the Public Account.

If further changes in these areas of reform occur, the RMF will be updated and departments will be notified accordingly.

Table 1: Definitions

Term	Definition
Additions to the Net Assets Base (ATNAB)	An appropriation that provides for an increase in the assets of a department's statement of financial position.
Administered item	An item that will generally be characterised by the relevant department lacking the capacity to benefit from that item in the pursuit of the department's objectives, and the department lacking the capacity to deny or regulate access of others to that benefit.
Appropriation	An authority given by an Act of Parliament to draw certain sums out of the Consolidated Fund, now or at some future point in time, for the purposes stated, up to the limit (if any) of the amount in the particular Act.
Capital Assets Charge (CAC)	A charge levied on the written-down value of controlled non-current physical assets in a department's balance sheet, which aims to attribute to agency outputs the opportunity cost of capital used in service delivery.
Carryover	Occurs where an annual appropriation amount for the previous year was not fully applied and where the Treasurer has approved the application of the remaining amount in the next financial year, under section 32 of the FMA. Special or standing appropriations are not impacted by the carryover provisions.
Competitive neutrality	Involves achieving a fair market environment by removing or offsetting any competitive advantages or disadvantages due to public ownership of the government business.
Consolidated Fund	The Government's primary financial account, established by the FMA, that receives all Consolidated Revenue under the *Constitution Act 1975* and other moneys as defined in section 9 of the FMA.
Contributed capital	The recognition and reporting of the investment by the State in departments and their portfolio agencies, as reflected in a department's financial statements.
Controlled item	Generally refers to the capacity of a department to benefit from that item in the pursuit of its objectives and to deny or regulate the access of others to that benefit.
Department	Has the same meaning as para (a) of *department* in section 3 of the FMA.
Departmental objectives	A department's contribution to the Government's aspirations for the State of Victoria. They reflect the effects or impacts that Government, through departments, seeks to have on the community and other key stakeholders. They are usually set with a medium to long-term (i.e. four years or more) timeframe. The departmental objectives describe the department's contribution to Government objectives.
Departmental objective indicators	A piece of data that demonstrates progress towards the achievement of a department's objectives, and how they have impacted the Government's agenda over the medium to long term. Indicators provide evidence to support measurement and management of performance.
Depreciation	The systematic allocation of the cost or fair value of a tangible asset over its useful life.
Depreciation equivalent asset investment funding	The quantum of funds equal to actual depreciation expense, which is included in a department's output revenue and is reserved for asset investment in its portfolio.

Term	Definition
Equity investment in controlled agencies	Refers to the Government's equity investment in a department and other controlled agencies of the State, in its capacity as owner (See Contributed Capital definition).
***Financial Management Act 1994* (FMA)**	One of the key pieces of legislation underpinning the financial management framework of Victoria. The purposes of this Act are: (a) to improve financial administration of the public sector; (b) to make better provision for the accountability of the public sector; and (c) to provide for annual reporting to the Parliament by departments and public sector agencies.
Long service leave equivalent	The quantum of funds equal to actual long service leave expense, which is included in a department's output revenue and is reserved for paying out long service leave entitlements drawn down by employees.
Long service leave expense	A non-cash cost that recognises long service leave accrued by employees during the reporting period.
National Partnership payments (NPs)	A type of Commonwealth grant for a specific purpose (i.e. paid by the Commonwealth to support the delivery of specific projects, facilitate reforms, or reward jurisdictions that deliver on nationally significant reforms). See also Specific Purpose Payments (SPPs) definition.
Outputs	The final products, or goods and services produced or delivered by, or on behalf of, a department or public agency to external customers/recipients. Outputs include products and services delivered to the community (e.g. education, health services), or products and services provided to other departments (e.g. services provided by the Victorian Public Sector Commission to support the public sector).
Output price	The amount Government agrees to pay for the provision of an output with specified attributes.
Payments on behalf of the State (POBOS)	An appropriation that provides for payments to be made on behalf of the State. The department making the payment has no direct control with respect to the quantity of outputs delivered.
Provision for long service leave	An obligation (liability) of a department to its employees for accrued outstanding long service leave.
Provision of outputs	Delivery of goods or services by or on behalf of an authority or public agency.
Public Account	The Government's principal bank account. All cash transactions relating to the Consolidated Fund, the Trust Fund and Advances under sections 36 and 37 of the FMA are processed through the Public Account.
Revenue certification	The process where a department submits an invoice to support the appropriation revenue provided for outputs delivered and asset funding provided.
Rollover	The process of creating a new estimate year to the end of the last existing estimates year.

Term	Definition
Special (or Standing) Appropriations	Used for ongoing payments that need to be made independently of the Government's annual budget priorities. Special Appropriations represent a standing authority in an Act of Parliament and are not restricted to one financial year as annual appropriations are. They instead remain in force until the relevant Act is amended or repealed by Parliament.
Specific Purpose Payments (SPPs)	A type of Commonwealth grant for a specific purpose. National Specific Purpose Payments (National SPPs) are paid annually by the Commonwealth in key service delivery sectors. See also National Partnership payments (NPs).
State Administration Unit (SAU)	The SAU serves two primary functions: (a) as a mechanism for recording transaction flows and balances in the Public Account; and (b) a means of capturing certain relationships and balances between the Government (with DTF as the 'corporate head office') and departments (such as Contributed Capital balances).
State Resource Information Management System (SRIMS)	SRIMS is the State's central ledger, which supports DTF in its 'head office' role in being able to provide the Government with financial and performance information from departments and agencies to support whole of government decision-making and accountability obligations.
Surplus/deficit	Arises when the operating revenue generated by a department is greater/less than the department's operating expenses for a particular accounting period. This is also known as the net result from transactions (net operating balance).
Temporary Advance	An advance provided by the Treasurer under section 35 of the FMA to a Minister to enable him/her to meet urgent claims in the current budget year before parliamentary sanction is obtained.
Treasurer's Advance	An annual appropriation to the Treasurer to meet urgent expenditure claims that were unforeseen at the time of the Budget. Amounts advanced under this authority are reported to and sanctioned by the Parliament in a subsequent year's Annual Appropriation Bill.
Trust accounts	Separate accounts in the Trust Fund, which contain moneys set aside for specific purposes. The specific purpose for the establishment of each trust account is defined by the Minister, pursuant to sections 19 or 23 of the FMA, or is contained in a separate statute.
Trust Fund	Forms part of the State's Public Account, along with the Consolidated Fund. The Trust Fund encompasses a number of specific purpose accounts for funds that are not subject to parliamentary appropriation.
User charges	Receipts that satisfy the following criteria: (a) the receipt originates from payments made voluntarily for goods and services provided, and the payments made; and (b) the benefits gained by the user can be clearly linked to the cost of providing the products and services.

Term	Definition
Warrant	A written authority to spend specified sums during the financial year from the Consolidated Fund, which must be signed by the Treasurer, the Victorian Auditor-General and the Governor (see section 93 of the *Constitution Act 1975* and section 17 of the FMA).
Working accounts	A trust account facility (under section 23 of the FMA) designed to provide departments with direct access to user charge receipts for those activities conducted on a cost recovery or commercial basis separately from core departmental operations.

Part A: The Integrated Management Cycle

Figure 2: The Integrated Management Cycle

The Integrated Management Cycle (IMC) is a process cycle that summarises the main phases of the goal setting, planning and allocation of resources by Government and departments, and the accountability and review associated with the use of those resources.

The six phases of the IMC are:

1. goal-setting and purpose;
2. planning;
3. resource allocation – funding policies;
4. resource allocation – legal mechanisms;
5. accountability; and
6. evaluation.

Underpinning the IMC is a legal and policy framework, which supports financial management in Victoria.

The IMC incorporates elements of the former Performance Management Framework and Budget Operations Framework.

Roles and responsibilities

The IMC operates effectively when each of the areas of government and the VPS play their role. Roles and responsibilities are explained below.

Treasurer

The Treasurer is responsible for tabling the annual State Budget, which includes departmental performance statements and the Appropriation Bill. The Treasurer also applies the amount of appropriation that the Assistant Treasurer certifies for each department as part of the revenue certification process at the end of each financial year.

Assistant Treasurer

The Assistant Treasurer is responsible for performance management from a whole of government perspective and plays a number of roles in the IMC and the related activities of departments, including:

- specifying the minimum requirements for performance management;
- on behalf of Government, reaching final agreement with relevant Ministers on their departmental performance statements, including departmental objectives, indicators, outputs and performance measures;
- specifying reporting requirements for the annual report of operations, including reporting performance; and
- the annual revenue certification process.

Portfolio Ministers

Portfolio Ministers ensure their respective portfolios contribute to the achievement of Government objectives and priorities by approving portfolio-specific content in the departmental performance statement in the budget papers. Portfolio Ministers then report performance against these statements in departmental annual reports (including the report of operations).

Portfolio Ministers are responsible for the performance of their portfolios.

Parliament

Parliament holds executive government to account for its overall performance and plays a crucial role in authorising the annual Appropriation Bill following the annual budget.

In particular, the Parliamentary committee system provides a way of achieving greater public input into issues being considered by the Parliament.

To strengthen accountability and transparency for performance management, the Public Accounts and Estimates Committee (PAEC), at the invitation of the Assistant Treasurer, reviews output performance measures that departments propose to discontinue or substantially change through the annual budget process.

Departmental Secretaries (Accountable Officer)

Departmental Secretaries support Portfolio Ministers in achieving the Government's objectives and priorities (including oversight of departments and departmental portfolio public agencies). This is done through performance management activities, such as approving departmental plans, delivering outputs to the agreed performance standards, and supporting Portfolio Ministers to develop the departmental performance statement, medium-term plan and annual report.

Portfolio departments (departments)

Departments support their Secretary and Portfolio Ministers in achieving the Government's objectives and priorities. This is done through appropriate performance management activities, such as portfolio planning, delivering outputs to the agreed performance standards and preparing annual reports.

Public agencies

Public agencies determine and undertake appropriate performance management activities, deliver services in line with plans and the body's powers and functions, and prepare the annual report. Where the requirements of the RMF are inconsistent with requirements in an agency's establishing legislation, the latter takes precedence to the extent of the inconsistency.

Department of Treasury and Finance

The Department of Treasury and Finance (DTF) provides support to the Assistant Treasurer in the agreement and publication of the departmental performance statements in the budget papers. This includes reviewing the relevance of output measures, departmental objectives and indicators. DTF also provides advice to the Assistant Treasurer on the quality of departmental objectives, indicators, outputs and measures published in departmental performance statements.

DTF does not determine the content of final departmental performance statements. The departmental performance statement is an agreement between the Assistant Treasurer (on behalf of Government) and the relevant Portfolio Minister, based on their respective departments' advice.

DTF also reviews departmental output performance and provides analysis to Government on key areas of service delivery that constitute performance risks for government and recommends how to address these performance issues. As part of this assessment, DTF provides advice on revenue certification to the Assistant Treasurer and the Treasurer.

DTF supports the Assistant Treasurer in the ongoing management of the RMF through consultation with key stakeholders.

The legal and policy framework

Overview

The IMC is underpinned by a **legal and policy framework**.

Legal context for the collection and appropriation of public moneys

Governments collect and spend public money to provide essential goods and services to the community. To undertake this process, legal authority is required from Parliament.

The *Constitution Act 1975* (the Constitution), together with other legislation, establishes a framework for the collection of public money (revenue), the prudent management of finances, and the spending of public money (expenditure).

The Government collects revenue through taxes, fees for services, sales of assets, and other receipts (e.g. Commonwealth goods and services tax grants). The Constitution and the FMA prescribe that generally all such revenue must first go into the Consolidated Fund.[2]

[2] The Consolidated Fund and the Trust Fund make up the Public Account, which may be viewed as a set of bank accounts owned and operated by Government.

Section 92 of the Constitution provides the power for Parliament to appropriate revenues from the Consolidated Fund. This revenue may be appropriated to specific purposes as legislated by Parliament.

Parliament may only appropriate public money on the initiative of the Government. In particular, the Constitution:

- requires that any money Bill be preceded by a message from the Governor;[3]
- requires that an Annual Appropriation Bill deal only with appropriation;[4] and
- permits the Consolidated Fund to be drawn from only on warrants from the Governor.

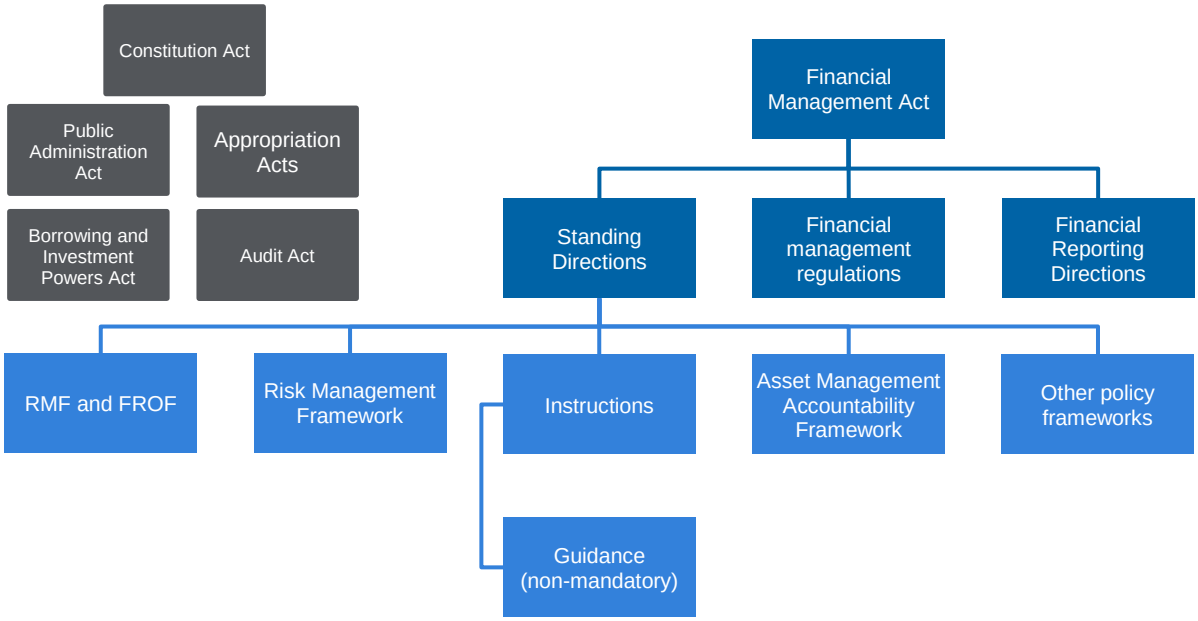
Financial management legislation

While the Constitution provides broad powers for government to use public money, there are laws that govern the use of that money and the accountability processes Government is obliged to satisfy.

The three principal pieces of legislation that underpin Victoria's resource management frameworks are the:

- *Financial Management Act 1994*;
- *Audit Act 1994*; and
- annual Appropriation Acts.

Figure 3: Interaction of financial and other legislation



[3] Refer section 63 of the *Constitution Act 1975*.
[4] Refer section 64 of the *Constitution Act 1975*.

Financial Management Act 1994

The *Financial Management Act 1994* (FMA) underpins Victoria's financial management framework. It provides for the use of public money, the accountability processes and subordinate legislation that departments and agencies must comply with.

Its key elements:

- relate to the financial administration of money coming into the hands of the Government;
- prescribe the collection, management and expenditure of, and the subsequent accounting and reporting to the Parliament for money, public property and other property;
- establish and define the scope of the Public Account, including the Consolidated Fund and the Trust Fund; and
- include financial responsibility and budget management provisions.

Section 40 of the FMA relates to the Government's commitment to output management by providing that a separate statement must accompany the annual Appropriation Bills, detailing:

- the goods and services produced or provided by each department;
- a description of the funds available to each department during the period;
- the estimated receipts of the department; and
- such other information as the Minister determines.

These requirements are met through the content of the annual budget papers, in particular Budget Paper No. 3, *Service Delivery* (BP3) and Budget Paper No. 5, *Statement of Finances* (BP5).

Audit Act 1994

The Victorian Auditor-General is an independent officer of the Victorian Parliament, appointed under the Constitution to conduct and report on financial and performance audits in the Victorian public sector.

The *Audit Act 1994* governs the powers and functions of the Victorian Auditor-General. The Act establishes the legal framework governing the ongoing role and functions of the Auditor-General. This Act identifies the statutory powers and responsibilities of the Victorian Auditor-General. It provides the authority for the Victorian Auditor-General to:

- conduct annual financial statement audits of public sector agencies;
- review and report on the estimated financial statements;
- undertake performance audits in the public sector, which encompass assessments of the economy, efficiency and effectiveness of the management of public resources by the government or individual government agencies;
- examine the use of public grants received by both private and public sector organisations; and
- determine the efficiency, effectiveness and economy of the services or functions that are delivered through contracts with private or not-for-profit providers (associated entities) through 'follow-the-dollar' performance audits.

Annual Appropriation Acts

An appropriation is an authority given by the Parliament to draw certain sums out of the Consolidated Fund, now or at some future time, for the purposes stated, up to the limit of the amount in the particular Act. It authorises the Government to use money from the Consolidated Fund, but it also restricts the expenditure to the particular purpose specified by the appropriation.

The annual Appropriation Act:

- provides the Treasurer with the authority to commit money from the Consolidated Fund, up to a specified amount; and
- sets out how much of that specified amount may be applied to each department and the purpose(s) for which that funding is provided.

Other legislation

The *Public Administration Act 2004* and the *Borrowing and Investment Powers Act 1987* support the financial management framework.

Public Administration Act 2004

The *Public Administration Act 2004* (PAA) reflects the Government's objective that the fundamental role of the public service is to serve the public interest. The PAA demonstrates the Government's commitment to:

- sustain an effective and impartial public service;
- protect public employment from politicisation by reaffirming and promoting the principles of merit and equity;
- promote the highest standards of public service conduct and integrity thereby strengthening public confidence and trust in government;
- drive improvements in the integrated delivery of government services;
- promote career opportunities in the public sector by ensuring a more coherent approach to workforce management and professional development;
- ensure the public sector workforce is capable of delivering high-quality services to the Victorian community, both now and into the future;
- promote standards of good governance in public agencies; and
- clarify the accountability relationship of public agencies to a responsible Minister who, in turn, is accountable to Parliament.

Borrowing and Investment Powers Act 1987

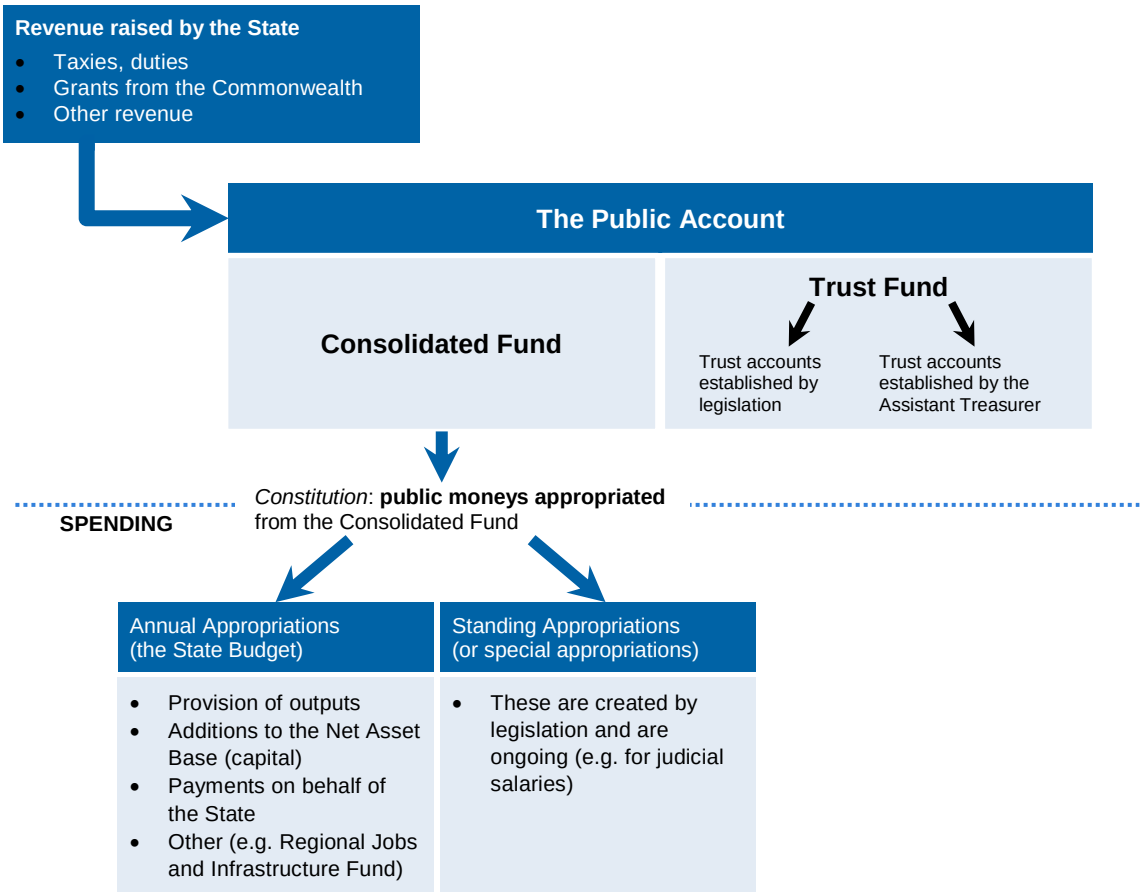
The *Borrowings and Investment Powers Act 1987* provides statutory authorities with the power to borrow and invest in a wide range of financial products, and to access the financial arrangements required to effectively manage their debt and investment portfolios.

Victoria's appropriation framework

Financial management is concerned with the sourcing, distributing and management of public money, to ensure funds are used appropriately and efficiently. Effective financial management allows for the continued delivery of public goods and services.

Figure 4 illustrates Victoria's appropriation framework, which ensures accountability and transparency of how public money is being used. The Constitution and FMA provide clear rules for how money is managed and accounted for.

Figure 4: Appropriation framework



In legislation, and supporting Victoria's financial management framework, are the concepts of:

- the Public Account;
- Consolidated Fund; and
- the Trust Fund.

The Public Account

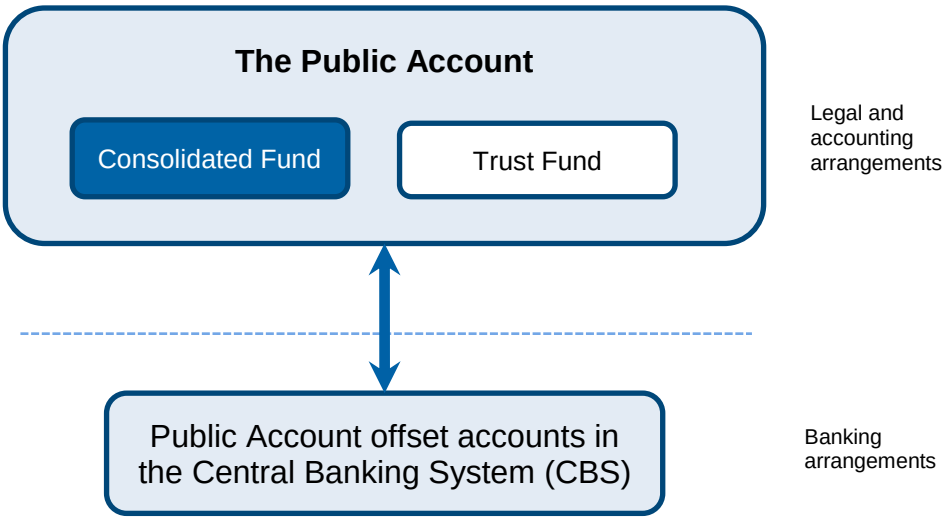
The Public Account is the Government's official bank account. The Public Account holds the cash balances of the Consolidated Fund and the Trust Fund. The State's financial transactions are primarily conducted through the Public Account (see Figure 5).[5]

Accounting arrangements – comprise a centrally managed account linked to departmental bank accounts (generally via the State Administration Unit).

Section 8.1: State Administration Unit

Banking arrangements – are determined by the State's cash and banking arrangements. These are a pool of accounts with a major financial institution, and form part of the State's Central Banking System (CBS).

Figure 5: Representations of the Public Account



Section 5: Accountability

Section 5.6: Cash management and reconciliation

[5] There are also funds that sit outside the Public Account, such as bank accounts that sit with statutory and other agencies.

The Consolidated Fund

The Consolidated Fund is the Government's primary financial account in the Public Account. Under the Constitution, the Consolidated Fund receives all revenue from which appropriations by Parliament are made.

Parliament appropriates money on a departmental basis annually from the Consolidated Fund for the following purposes:

- to produce or procure goods and services (output provision);
- to produce/buy capital items (asset investment);
- to make payments on behalf of the State; and
- as specified by other legislation.

The main types of appropriation are:

- Annual (as in the Annual Appropriation Act), including section 29 of the FMA;
- Treasurer's Advance; and
- Special (as per relevant legislation).

Annual appropriations

The Appropriation Acts provide Government with a record of what it is legally entitled to draw down from the Consolidated Fund for each financial year (other amounts may also be drawn down under special appropriations). Departmental appropriations, and similar appropriations for Parliament, are set out in *Schedule 1* of the Appropriation Acts.

There are three main types of appropriation that may be issued from the Consolidated Fund annually:

(a) Provision of outputs appropriation

This appropriation is issued from the Consolidated Fund for payment for output delivery.

Section 3.2: Funding outputs

(b) Additions to the net asset base appropriation

Additions to the net asset base (ATNAB) appropriation is issued from the Consolidated Fund for investment in assets. Under the State's funding framework, this appropriation is only provided when other funding sources for asset investment are exhausted.

Section 3.5: Funding assets

(c) Payments on behalf of the State

Payments on behalf of the State (POBOS) is an appropriation that provides for payments over which a department has no direct control and which is not related to delivery of output activity (classified as administered activity).

Section 7.4: Payments on behalf of the State (POBOS) appropriation

The concept of appropriation limits

'Appropriation limits' are the maximum amounts able to be legally drawn from the Consolidated Fund for any given item of appropriation. These limits are set by the appropriation amount included in the Appropriation Act.

However, departments should note that:

- appropriations do not limit the operating expenses incurred by departments;
- expenses incurred by departments will give rise to liabilities and obligations that departments are legally bound to meet as payments fall due;[6] and
- once appropriation limits have been reached, the Government is legally unable to commit additional funding to meet payments related to a department's expenses.

Section 29 *Financial Management Act 1994* – Annotated Revenue

The Appropriation Act also provides for the application of section 29 of the FMA, whereby departments on behalf of their relevant Minister may apply to the Treasurer to retain certain types of revenue/receipts from third parties.

Section 4.1: Appropriation of certain revenue and asset proceeds – section 29 of the FMA

Treasurer's Advance

As published in the annual Appropriation Act and in the DTF schedule, an *Advance to Treasurer*, or Treasurer's Advance (TA) is appropriated to be applied at the Treasurer's discretion to meet any urgent or unforeseen claims. A schedule of items of expenditure is submitted for parliamentary authority in a subsequent year's Appropriation Bill.

Section 4.4: Treasurer's Advance for urgent and unforeseen claims

Special (or Standing) Appropriations

Special appropriations are created by explicit provisions in legislation. A special appropriation provides authority to draw on the Consolidated Fund to spend money for one or more specified purposes, for example, to fund a particular project or function.[7]

Examples of special appropriations in the FMA are section 28 (borrowing against future appropriation) and section 33 (access to previously appropriated amounts).

Special appropriations that are ongoing and applied repeatedly over more than one year are also referred to as 'standing appropriations'.

[6] Regardless of whether departments have access to sufficient appropriations to meet such obligations.
[7] For example, judicial salaries have a special appropriation to ensure salaries are not at the discretion of the Government, thus maintaining the independence of the judiciary from Government.

Use of annual appropriation versus special appropriation

Generally, a special appropriation may be included in legislation when:

- it is important to demonstrate the independence of an agency from Parliament and the executive by providing for automatic payment of the remuneration of its officeholders (e.g. the salaries of judges and the Victorian Auditor-General are included in the Constitution);
- it is desirable to create a legal entitlement to money, which is to be provided in all instances that satisfy specific criteria;
- it is necessary to demonstrate the State's ability to meet its financial obligations independently of annual parliamentary approval of funds (e.g. the repayment of loans); or
- unique circumstances exist that would be difficult to accommodate in annual Appropriation Bills.

Disclosure and accountability

The Public Account disclosure in the budget papers provides a list of estimated special appropriation expenditure for the year. Note that increases in special appropriation expenditure beyond these estimates do not require Government approval. However, additional warrant will be required.

Warrants

Warrants are the legal instrument required to draw down **actual** funds from the Consolidated Fund.[8]

Each year's Appropriation Act requires a warrant to be prepared and authorised before funds can legally be drawn down from the Consolidated Fund.

If the original warrant is insufficient, a new warrant is required to draw down on any additional moneys appropriated from the Consolidated Fund in any given year. This requirement is applicable in some instances when supplementation to budgets is sought by departments (e.g. under sections 10 or 33 of the FMA).

DTF prepares warrants, which are signed by the Treasurer, counter-signed by the Victorian Auditor-General and then approved by the Governor. Until this occurs, no funds may legally be drawn down from the Consolidated Fund.

Section 4: Resource allocation – legal mechanisms

[8] Under section 93 of the *Constitution Act 1975* and section 17 of the FMA.

The Trust Fund

In the Public Account, the Trust Fund encompasses a number of accounts for funds that are not subject to parliamentary appropriation, such as:

- accounts created by legislation for specific purposes;
- accounts to record specific purpose payments from the Commonwealth for on-passing by the State to third parties; and
- accounts facilitating the receipt and disbursement of private funds held by the State in trust.

Trust accounts are operated by departments. Unlike the Consolidated Fund, no appropriation or warrant is required to authorise spending from a trust account.

Section 4.3: The Trust Fund and trust accounts

Other funding sources

A department's revenue base may also consist of funds received and held outside the Public Account, such as third party revenue held in separate bank accounts by schools.

In addition, other general government sector portfolio agencies are created on a 'stand-alone' basis such that they are able to generate and retain certain additional revenues without the requirement to pay it to the Consolidated Fund. However, many of these agencies are reliant on appropriated funds transferred from their department to deliver the Government's outputs or services, such as hospitals, TAFEs and certain transport-related agencies.

Government-owned businesses that generate their own operating revenue, such as water authorities, are subject to different governance and oversight, and are outside the scope of the RMF.

Victoria's resource management policies

Victoria's financial management legislation is supported by resource management policies and concepts that underpin public sector financial management. These policies support improved management of public sector resources, enabling the Government to better meet its objectives, while ensuring efficiency and effectiveness.

Allocating and managing resources

A key role of government is to provide essential goods and services to the community. To provide these goods and services, the Government collects and spends public moneys. While the Constitution Act provides broad powers for Parliament to appropriate public moneys, specific laws (such as the FMA) govern the use of these moneys and the accountability processes that the Government is obliged to satisfy.

The Government is responsible under section 23C of the FMA for establishing and maintaining a 'budget and reporting framework that is consistent with the principles of sound financial management'. Therefore, to ensure accountability and transparency to the public for the use of public moneys, there are budgeting, financial management and reporting accountability processes in place.

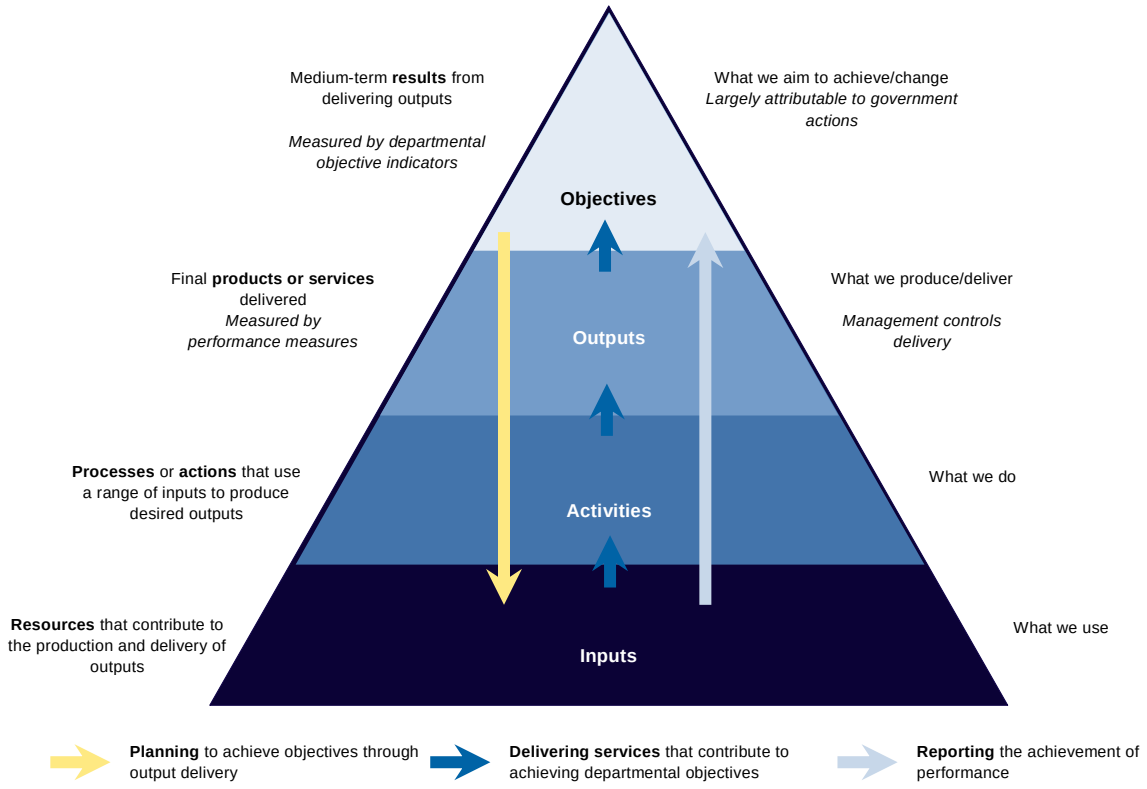
The Departmental Funding Model

Victoria has a system which devolves responsibility to portfolio ministers and departments to manage a global budget in delivering certain agreed outputs, which in turn are aligned to departmental objectives. This is known as the Departmental Funding Model (DFM).

Under the DFM, the Government contracts the delivery of goods and services to departments. Departments have flexibility in the way services are delivered but must account for the delivery of these services. This is an incentive for departments to perform and improve service delivery over time.

The DFM contains the concepts of outputs, objectives, and their associated indicators and performance measures. These are explained further in Figure 6, which illustrates the relationship between objectives and outputs, and the activities and inputs that contribute to outputs.

Figure 6: Performance management concepts



To ensure that Government priorities are being met, departments need to:

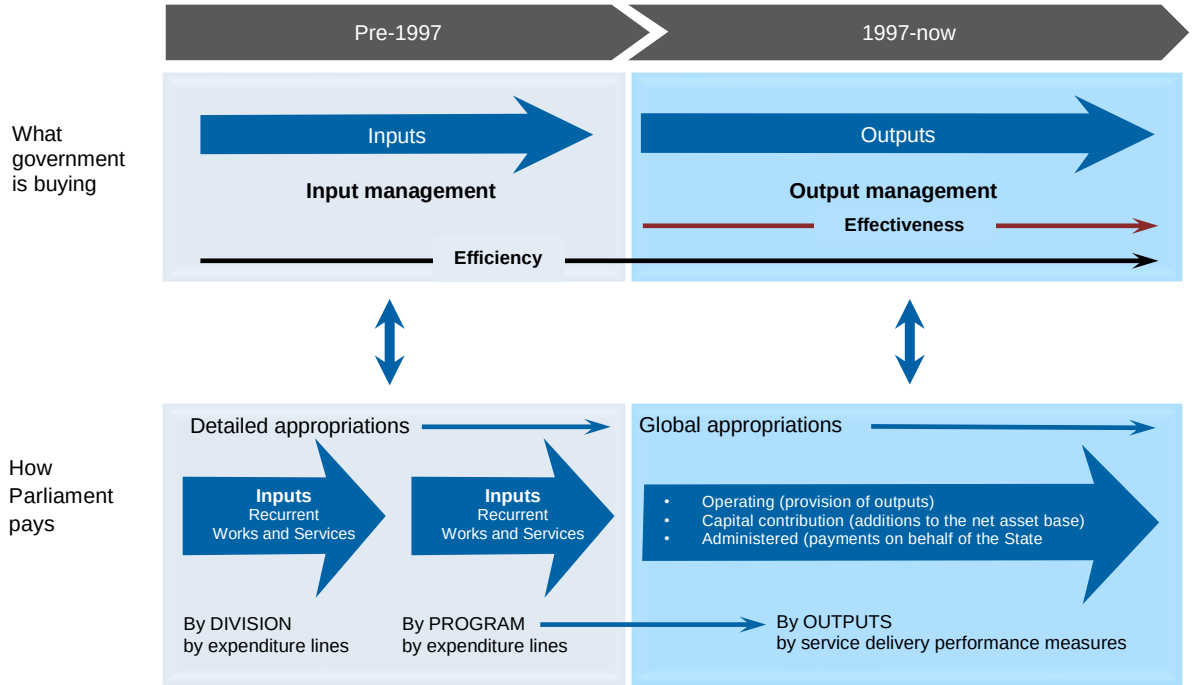
- determine how the activity of the department contributes to departmental objectives;
- determine what and how to deliver on these objectives; and
- manage the delivery of outputs appropriately to meet these objectives.

Interactions with appropriations

Providing funding for the delivery of outputs was introduced in the mid-1990s. Funding outputs aligns with the State's appropriation framework, where a global appropriation funds the 'provision of outputs', which the Treasurer allocates to departments, which then allocate to individual outputs in line with government priorities.

Before this, Victoria appropriated funding for the detailed input costs of government programs. Figure 7 demonstrates how Victoria's funding has evolved from being input-based to output-based.

Figure 7: From input-based funding to output-based funding



Accountability for performance

Under section 40 of the FMA, the Government must report to Parliament on:

- the management of the State's resources; and
- the performance of departments.

As the Government is ultimately accountable for the State's finances, departments are required to monitor and report on the management of service delivery performance.

Section 3.2: Funding outputs

Within the output framework there are critical roles and processes that are described throughout the RMF. These processes have been summarised in the tables below.

Planning

Performance measures are used in the planning stage to assist government in making resource allocation decisions, specifically how many units (or additional units) of goods or services can be delivered at what cost. Performance measures are used to ensure the delivery of outputs, and as a mechanism for accountability over government spending by specifying what the government wants to achieve.

Section 1.2: Specifying outputs and performance measures

Process	Accountable Officers	Government Ministers	Parliament
Planning	Specify performance measures that provide a meaningful mix that assesses service effectiveness and efficiency. Mandatory requirement (MR): 1.2.1 Set targets that are challenging but achievable. Section 2.3: Departmental Performance Statement (DPS) Ensure departmental performance statements include performance measures and targets. MR: 2.3.1 Conduct an annual review of performance measures and targets to ensure continued relevance. MR: 1.2.2 & 2.3.2	The Assistant Treasurer writes to Portfolio Ministers with recommendations for improving the DPS. Portfolio Ministers endorse the DPS, then the Assistant Treasurer approves. Section 2.3: DPS Portfolio Ministers write to the Treasurer for approval of carryover. MR: 4.8.1 Portfolio Ministers approve material changes to performance measures. MR: 3.3.1	Public Accounts and Estimates Committee (PAEC) reviews and reports on performance measures. Part A: The Integrated Management Cycle

Carryover

Carryover is the process of applying unused annual appropriation from one financial year into the following financial year. Carryover requests may be required where service delivery (and the achievement of associated performance measure/s) are pushed out from one financial year to the next.

Process	Accountable Officers	Government Ministers	Parliament
Carryover	Discuss carryover requests with DTF before any correspondence on the request is prepared. Ensure requests for carryover are accompanied with proposed adjustments to output and financial performance targets. MR: 4.8.1	The Treasurer assesses carryover requests and determines which to approve. MR: 4.8.1	

Revenue certification

Departments are required to submit an invoice twice a year for the purposes of certifying their revenue. The invoices are used to assess actual performance against agreed performance measures. Revenue certification is contingent on the successful delivery of output performance.

Process	Accountable Officers	Government Ministers	Parliament
Revenue certification	Submit an invoice to DTF to request the certification of revenue in conjunction with the output performance report. MR: 5.3.1	The Assistant Treasurer advises the Treasurer to formally apply the amount of appropriation revenue to be recognised by the department. Section 5.3: Revenue certification	

Reporting

Performance measures are internally reported and monitored in output performance reports, and publicly reported in budget papers and annual reports. Performance measures should be able to be used to identify trends over time, benchmarking across departments and against other jurisdictions.

Process	Accountable Officers	Government Ministers	Parliament
Reporting	Report performance measures against targets in departmental performance statements. MR: 2.3.1 Include footnotes noting any changes between years and explanations. MR: 2.3.3 Submit output performance report bi-annually to DTF, which includes actual performance against targets and an explanation of major variances. MR: 5.1 Disclose requirements in annual report Standing Directions: Direction 5.2	Revenue certified by the Assistant Treasurer based on reported output performance measures against targets. Output performance reports to the Assistant Treasurer. Section 5.1: Output performance report	PAEC investigates and publishes reports that make recommendations for improvement to the performance framework. Part A: The Integrated Management Cycle

1. Goal-setting and purpose

Overview

The first stage of the IMC is **goal-setting and purpose**.

This section guides departments in the specification of quality performance information to support Government objectives, in two parts:

1. specifying departmental objectives and objective indicators; and
2. specifying outputs and performance measures.

1.1 Specifying departmental objectives and objective indicators

Mandatory requirements

1.1.1 Specifying departmental objectives

The Accountable Officer must ensure departmental objectives:

(a) align with Government objectives and priorities;

(b) have a clear and direct link with outputs;

(c) represent the totality of the department's output budget; and

(d) only cover those responsibilities the department is funded to execute.

1.1.2 Specifying departmental objective indicators

The Accountable Officer must ensure departmental objective indicators:

(a) demonstrate the contribution of departmental outputs to the achievement of the objective through performance data;

(b) use existing and comparable data series, and use data that is regularly available;[9]

(c) identify the baseline;[10] and

(d) are reported in the department's annual report in line with the Financial Reporting Directions and the Model Report for Victorian Government Departments.

1.1.3 Reviewing departmental objectives and indicators

The Accountable Officer must ensure:

(a) an annual review of the department's objectives and indicators is conducted, to assess continued relevance; and

(b) any changes to departmental objectives and indicators are only made annually as part of the budget process (in departmental performance statements).[11]

1.1.4 Changes to departmental objectives and indicators[12]

If objectives and indicators are changed, the Accountable Officer must include in the budget papers an explanation as to why such changes have been made. Circumstances under which changes are required may include (but not limited to):

(a) machinery of government changes;

(b) changes in the Government's strategic direction;

(c) a change in Government; or

(d) other reasons as determined by the Government of the day.

[9] In the case of outputs that solely deliver policy advice to Government, qualitative descriptions rather than data series may be used.
[10] See footnote 11.
[11] Comparability of performance over time should be taken into account when considering changes.
[12] Addresses Recommendation 24, p187 and Recommendation 27, p192 of the Public Accounts and Estimates Committee's Report on the 2016-17 Budget Estimates, Chapter 9: Performance Management.

Guidance

Specifying departmental objectives

Departments need to be clear about what they are trying to achieve and that this aligns with Government objectives. Establishing departmental objectives and strategies while planning helps a department focus on achievable goals and reach the best possible results from the resources available. It is important departmental objectives cover the department's portfolio of responsibilities.

Departmental objectives should clearly identify:

- what the intended achievement is;
- who the beneficiaries are;
- the desired quality of the achievement; and
- a medium-term timeframe.

Useful departmental objectives clearly articulate the intended results of output delivery. Therefore, departmental outputs must have a clear link to departmental objectives.

Departmental objectives are not individual activities or strategies. Departments have the flexibility to explore alternative service delivery strategies (where appropriate) in order to achieve departmental objectives.

Departmental objectives reflect results that may be attributed to one or more government output or service.

Departmental objectives are progressively worked towards over a number of years.

Where an output delivers goods and services to other departments and agencies (i.e. internal to government), the objective should reflect this impact.

Attachment 1: Further guidance for developing departmental objectives

Specifying departmental objective indicators

Each departmental objective may require a set of indicators to monitor progress and demonstrate achievement of that objective. Indicators should be established to cover key aspects of each objective. Indicators should also provide information to influence decision-making.

Trends in objective indicators will help demonstrate the department's outputs are contributing to longer term Government objectives.

Good quality departmental objective indicators:

- provide a coherent link between a single objective and its supporting outputs;
- indicate the impact that output delivery is having on the community and is thereby helping to achieve departmental objectives;
- measure the results of Government action, rather than external factors;
- remain relevant over the medium to long term so progress can be tracked and compared;
- are free of perverse incentives and balanced with other departmental objective indicators; and
- ideally rely on existing, regularly updated data streams.

Attachment 2: Further guidance for developing departmental objective indicators

Accountability

Portfolio Ministers are accountable for departmental performance in the delivery of departmental objectives.

Departmental objectives are included in the following key reporting and accountability documents:

- Budget Paper No. 3, *Service Delivery* – Departmental Performance Statements;
- departmental medium-term plans; and
- departmental annual reports.

1.2 Specifying outputs and performance measures

Mandatory requirements

1.2.1 Specifying outputs and performance measures

The Accountable Officer must ensure:

(a) the identification of outputs required to best achieve departmental objectives;

(b) the specification of a meaningful mix of quality, quantity, timeliness and cost performance measures for each output that assess:

(i) service efficiency and effectiveness; and
(ii) all major activities of the output;

(c) the impacts of any major policy decisions (i.e. to fund a new initiative or change the level of service) are reflected in updated performance measures;

(d) all departmental operating costs are allocated to outputs;

(e) any outputs and performance measures created enable meaningful comparison and benchmarking over time;[13] and

(f) the data and methodology underpinning performance measures are available to DTF for review upon request.

1.2.2 Reviewing outputs and performance measures

The Accountable Officer must ensure:

(a) an annual review of the department's outputs and performance measures is conducted, to assess continued relevance; and

(b) any changes to departmental outputs and performance measures are only made annually as part of the budget process (in departmental performance statements).[14]

[13] Where possible, across departments and against other jurisdictions.
[14] Comparability of performance over time should be taken into account when considering changes.

Guidance

Defining outputs

Departmental outputs are products and services that are:

- delivered to the community by, or on behalf of, a department or agency (e.g. education, health services); or
- provided to other departments (e.g. services provided by the Victorian Public Service Commission to support the public sector).

The cost of delivering each output is identified when determining the output price in line with the Departmental Funding Model.

Section 3.2: Funding outputs

Level at which outputs should be specified

An output should capture the full activities and costs that make up a service that a department delivers.

An output should not be so large that it reduces transparency and accountability. Outputs should be specified at a level that will:

- assist Government in understanding and deciding on the outputs to be delivered;
- provide transparent and effective reporting to Parliament and stakeholders; and
- enable Government to determine whether the goods and services delivered provide value and contribute to departmental objectives.

Attachment 3: Further guidance for developing outputs

Specifying output performance measures and targets

Output performance measures specify a department's expected service delivery performance each year. Performance measures are the building blocks of the accountability system that drives continuous improvement and is the basis for the certification of departmental revenue (see Section 5.3).

Good quality output performance measures:

- help Government to make informed decisions about allocating resources;
- allow departments to develop and assess standards of service delivery in line with Government expectations;
- allow Parliament and the public to scrutinise and assess Government performance and spending of public funds; and
- drive continuous improvement through analysis of historical performance and negotiation of agreed targets from year to year.

Output performance measures should enable meaningful comparison and benchmarking over time, across departments and against other jurisdictions. For example, the interaction between two different measures (e.g. the number of services provided versus the hours per service) could provide an indication of a potential trade-off between the quantity and quality of the service.

Each output performance measure has an associated one-year target that stipulates the Government-agreed standard of service delivery for that year, as a level of quantity, quality, timeliness and cost.

Occasionally, a performance measure may be changed when there is a clear case that the replacement is a better measure. Typically, targets should be revised to reflect increases or decreases in funding, historical over-achievement, or productivity gains resulting from continuous improvement.

Changes to departmental outputs and performance measures should only be made annually as part of the budget process and be reflected in departmental performance statements.

Attachment 4: Further guidance for developing performance measures

Accountability

The content of departmental performance statements in the budget papers is a requirement of section 40 of the FMA for the annual Appropriations Bill to be accompanied by departmental statements of goods and services (i.e. outputs).

2. Planning

Overview

The second stage of the IMC is **planning**.

In this stage, the Government of the day sets out:

- how it will go about achieving its objectives and delivering outputs (through planning processes); and
- how it will hold each department to account for delivering its outputs to achieve Government objectives (departmental performance statements).

This section covers the following topics for this stage of the cycle:

1. long-term planning;
2. medium-term planning;
3. departmental performance statements; and
4. short-term planning.

Planning overview

Planning enables Government, Ministers and departments to prepare for future opportunities and challenges and drive improved service delivery. Planning helps identify what is required to deliver services and infrastructure to achieve desired results.

Planning involves:

- aligning a department's strategic direction with government policy objectives and priorities and/or Parliament's objectives set out in enabling legislation;
- assessing whether current departmental activities and outputs efficiently, effectively, and economically contribute towards achieving departmental objectives and Government priorities; and
- developing strategies to deal with opportunities and risks to improve results for Victorians.

Managing risk is integral to planning and departments should refer to the *Victorian Government Risk Management Framework*, [15] which describes minimum risk management requirements.

Table 2: Components of a comprehensive planning framework

Components of a comprehensive planning framework		
Long-term planning **5+ years**	Process to identify the long term environment facing the department, and formulate the department's high-level, long-term strategy for contributing to achieving Government's broad objectives and sustainable service delivery.	Mandatory requirements **refer Section 2.1**
Medium-term planning[16] **4 years**	Process to formulate the department's strategies to deliver services over the medium term to achieve departmental objectives, guided by Government objectives and priorities.	Mandatory requirements **refer Section 2.2**
Departmental performance statements	Articulates the goods and services (and output performance measures) the department will deliver. Articulates the medium-term impacts on departmental objectives (via departmental objective indicators) the outputs are expected to achieve.	Mandatory requirements **refer Section 2.3**
Short-term planning **1 year**	Process to formulate how the department intends to deliver outputs.	Good practice refer Section 2.4

[15] Available on the DTF website.
[16] In meeting the medium-term planning requirements, the terms corporate plan and strategic plan are interchangeable.

2.1 Long-term planning

Mandatory requirements
2.1.1 Long-term planning (a) The Accountable Officer must undertake long-term planning (five years plus) to assess the future operating environment, demand pressures and understand future service delivery and infrastructure needs. (b) All departmental long-term planning must be supported by appropriate modelling and scenario analysis.

Guidance

The Accountable Officer should maintain sound governance arrangements for long-term planning. Long term is defined as a minimum time horizon of five years (i.e. beyond the forward estimates period).

Long-term planning seeks to:

- assess the future operating environment and demand pressures[17], and to understand future service delivery and infrastructure needs;
- identify strategies to deal with challenges or risks within fiscal constraints;
- pursue the department's desired objectives;
- identify opportunities to reform and improve service delivery efficiency; and
- address service delivery performance, financials and asset investments.

Departments that already undertake long-term planning (or equivalent) are not required to undertake additional planning to meet Mandatory requirement 2.1.1 above.

To meet the mandatory requirements, departments should undertake fit for purpose long-term planning. Production of a physical plan is not necessary. Rather, departments should focus on demonstrating long-term planning activities have been undertaken, which are suitable to the circumstances of the department. Demonstration of compliance with these requirements can be evidenced by planning activities, or plan/s.

Periodic review of long-term plans if significant events occur (such as a change in Government) is recommended.

[17] Including assessing the future supply market, such as changing service delivery models, new entrants and market disruptions.

Sample case study: Local government long-term planning in WA

Western Australia is an example of good practice. Local governments are required to prepare a 10-year strategic plan with an accompanying financial plan.

The strategic plan:

- establishes the community's vision for the local government's future, including aspirations and service expectations; and
- drives the development of local government area/place/regional plans, financial plans, resourcing and other informing strategies, including workforce, asset management and services.

To develop the financial plan, local government:

- undertakes data gathering, identification of data sources and indices, and refers to up-to-date asset management plans, workforce plans and other existing plans and strategies;
- develops an initial 10-year model comprising revenue, expenditure and capital works without any changes to current policy – based on the current year's annual budget; and
- agrees a range of assumptions that can be used in the development of alternative models (covering variables such as estimated growth and demographic changes, inflation forecasts, alternative rate increases, likely interest rate movements, debt funding options and alternative service delivery).

The Queensland Department of Health's *Guide to health service planning* offers substantial guidance for health services planning, which departments could use as a reference in undertaking long-term service planning, while noting priorities can be different in different sectors.

Departments may undertake department-wide planning or plan for only one or multiple sectors. Where sector specific planning activities are undertaken, the department should ensure planning activities are consistent. Where appropriate, links to other sector planning should be documented.

Modelling and scenario planning

Modelling and scenario planning helps departments in identifying strategies to address future service needs.

Analysis of whether current services provide the best mix of strategic responses to meet the Government's priorities should lead to the development of alternative scenarios. This includes reform of service delivery, such as introduction of contestability or commissioning. Over time, these reforms should be developed to the point they are ready for government consideration and, once approved, should feed into medium-term planning processes. Long-term planning can help departments measure the change in priorities they aim to achieve in the longer term.

Tip

Scenario planning involves modelling the impact of various responses from a service delivery and financial perspective over a time horizon. For example, departments delivering large infrastructure programs are likely to require longer planning horizons. Critical considerations in long-term planning include demographic changes, service demand growth, revenue projections and financial sustainability of services.

Modelling and scenario analysis should include estimated budgetary and financial projections. It should also document data sources, unit cost, population growth and demand pressure assumptions.[18]

In line with Standing Direction 2.4.6.2, the departmental CFO may be asked to provide DTF with modelling and scenario analysis supporting long-term planning. This information may be requested in support of departmental funding requests through the annual budget process. Such a request will typically be made in writing by the Assistant Treasurer or the Secretary of DTF.

2.2 Medium-term planning

Mandatory requirements

2.2.1 Timing and coverage for medium-term planning

The Accountable Officer must prepare a medium-term plan, covering a rolling four-year period (budget and forward estimates), consistent with Government objectives, priorities and budget decisions.

2.2.2 Medium-term plan content

As a minimum, the medium-term plan must contain the following:

(a) a description of the nature and scope of the department's functions;

(b) strategic direction;

(c) overview of operating environment;

(d) the department's objectives and indicators;

(e) the key challenges impacting on the department's ability to achieve its objectives;

(f) key initiatives the department will implement to achieve its objectives;

(g) the department's asset, workforce and financial outlook;

(h) approved asset investment programs and targets over the next four financial years;

(i) approved use of accumulated State Administration Unit surplus balances on additional services and infrastructure; and

(j) linkages in planning across government(s) and key stakeholders the department will engage with to ensure efficient, effective, economical and timely delivery on policies and priorities.

2.2.3 Publishing the medium-term plan

The Accountable Officer must approve and publish the medium-term plan on the department's website. The Accountable Officer must ensure the medium-term plan is refreshed every year to reflect changes in Government objectives and priorities on or before 31 August.

[18] Data sources could include the ABS and DataVic.

Guidance

Consistent with the requirements for agency planning under Standing Direction 4.1.1(a) to (d), medium-term planning helps departments identify and deliver outputs and infrastructure that will contribute to efficient, effective, economical and timely achievement of departmental objectives and delivery of government priorities over the medium term (budget and forward estimates).

Much of the content of the medium-term plan will be consistent from one year to the next. However, some sections may require an update to reflect new key initiatives, challenges or priorities facing the department. Departments may structure their medium-term plan to best suits their needs.

The medium-term plan can be published online in the format preferred by the department (e.g. Word, PDF or interactive web format).

Attachment 5: Overview of medium-term planning process

Defining key initiatives

There are two types of key initiatives that should be outlined in a department's medium-term plan:

- new programs or projects the department or Minister has chosen to fund internally to achieve a specific purpose; or
- specific programs or projects detailed in the Budget, Budget Update or Pre-Election Budget Update. These can include 'asset initiatives', 'output initiatives', 'revenue initiatives', 'revenue foregone initiatives' and 'expenditure reduction initiatives'.

The expected outcomes of all key initiatives should be described.

Link to the annual report

Achievement against key initiatives, departmental objective indicators and output measures identified in the departmental performance statement and medium-term plan is reported in a department's annual report. The annual report is a key accountability mechanism for Parliament, as it provides data and analysis to assess whether departments have met their annual and medium-term goals.

Objective indicators increase focus on medium-term performance in the annual report. Reporting performance against indicators enables departments to demonstrate continuous improvement in the overall effectiveness of services. Publication of the medium-term plan provides a 'clear line of sight' between planned and actual performance.

Section 5: Accountability

2.3 Departmental performance statements

Mandatory requirements

2.3.1 Content required in departmental performance statements

The Accountable Officer must ensure departmental performance statements include at a minimum:

(a) departmental objectives and objective indicators;

(b) outputs with associated descriptions;

(c) associated quantity, quality, timeliness and cost output performance measures and targets (output tables);

(d) departmental mission statements;

(e) any discontinued outputs and performance measures;

(f) an output cost summary table that lists the total cost of outputs; and

(g) any other information requested in a DTF Information Request.

2.3.2 Annual review of departmental performance statements

The Accountable Officer must undertake an annual review and assessment of the department's outputs, output structures and associated performance measures in consultation with DTF, to assess continued relevance and robustness.

2.3.3 Performance measure footnote requirements

The Accountable Officer must include the footnote disclosure listed below in the departmental performance statements (where applicable):

(a) all new performance measures;

(b) all renamed/edited performance measures;

(c) replacement or consolidation of performance measures;

(d) all proposed discontinued measures/outputs, which include performance measures:

  (i) previously reported that are proposed to be discontinued in the budgeted financial year;

  (ii) with changes in source data/methodology used to measure target or changes in unit of measurement, which renders past performance history incomparable; and

  (iii) that have been reclassified (i.e. quality, quantity or timeliness);

(e) any complex measures where having an explanatory footnote would assist readers to understand the measure and its purpose;

(f) all movements in targets (including output costs) between years; and

(g) all significant[19] movements between targets and expected outcomes (including output costs and movements in comparison to previous years).

[19] 'Significant' means a five per cent variance (increase or decrease), or a change that may be of public interest.

Mandatory requirements

2.3.4 Approval

The Accountable Officer must ensure the departmental performance statements are endorsed by the relevant Minister(s) before submission to the budget process.

Guidance

Departmental performance statements describe the Government objectives (measured by suitable performance indicators) that departments seek to achieve over the medium term, together with the outputs funded to achieve these objectives.[20]

Departmental performance statements are published in Budget Paper No. 3, *Service Delivery* (BP3) as part of the annual budget process. Section 40 of the FMA is the primary authority for the publication of outputs and associated performance measures in departmental performance statements, which states:

The Minister [the Treasurer] must prepare, in association with the annual appropriation Bills, a statement of information under departmental headings setting out:

> *(a) a description of the goods and services to be produced or provided by each department during the period to which the statement relates, together with comparative information for the preceding financial year.*

Output performance measures disclosure requirements

The output tables in departmental performance statements present output performance measure information in the following four columns:

- the coming year's budget target;
- the expected outcome for the previous budget year;
- the previous year's budget target; and
- the actual outcome for the most recently ended financial year.

Discontinuing or substantially changing output performance measures

If a performance measure does not meet good practice criteria, it may be changed, discontinued or replaced with a better measure.

Performance measures may change substantially due to:

- machinery of government changes;
- a shift in focus of the service;
- development of improved measures; or
- the establishment of new data sets, which can collect different information.

[20] Departmental outputs and their associated quantity, quality, timeliness and cost measures represent an agreement on the goods and services the department intends to deliver in the financial year, in alignment with Government objectives.

Performance measures may be discontinued because:

- they are no longer relevant due to a change in Government policy or priorities and/or departmental objectives;
- projects or programs have been completed, substantially changed, or discontinued;
- milestones have been met;
- funding is not provided in the current budget for the continuation of the initiative; or
- improved measures have been identified for replacement.

A current measure should not be discontinued when it is the sole indicator of an attribute (e.g. quality) of the output, or where there has been under-performance.

Performance should continue to be measured and reported for lapsing programs funded internally through reprioritisation.

Performance measures can be replaced by a more appropriate measure where the new measure provides more meaningful information to Parliament and the public.

Section 6.1: Evaluating lapsing programs

Estimating expected output performance measure outcomes

When estimating expected outcomes for reporting purposes, departments should:

- track performance over time (on a quarterly or monthly basis) to support estimation;
- use year-to-date data as a starting point for estimation;
- consider annual trends in previous years and relevant external factors;
- check with service delivery areas as to whether there are any risks to achieving the target and ascertain a likely expected outcome; and
- request explanations for any expected variances and validate.

Performance measure footnotes

Footnotes assist in communicating changes in performance measures, or changes in how measures are reported, to ensure performance can be measured consistently over time.

Attachment 6: Departmental Performance Statements – performance measures footnotes guidance

Output structures and changes to outputs

Under FMA section 40, the Treasurer is responsible for approving departmental output structures and changes to departmental outputs. This responsibility can be (and has been) delegated to other Ministers, such as the Assistant Treasurer, or undertaken by a relevant Cabinet Committee.

Producing the departmental performance statements

As part of the process in producing departmental performance statements, departments submit budget funding proposals to DTF for negotiation and agreement on the price, quantity, quality and timeliness measures for each output being reported.

Therefore, any negotiations on the efficiency and effectiveness of outputs should occur during the budget process.

Departmental performance statements should include measures and targets that are challenging (to the extent they represent value for money) but achievable. Targets should not be aspirational goals.

Departments should also consider the contribution of departmental portfolio agencies in the development of departmental performance statements.

DTF reviews departmental performance statements as part of the budget process. DTF then advises the Assistant Treasurer on whether to approve the final determination of the outputs and associated performance measures.[21]

Review by the Public Accounts and Estimates Committee

After the budget papers are published, the Government invites the Public Accounts and Estimates Committee (PAEC) to review performance measures that are proposed to be substantially changed or proposed to be discontinued, to ensure these measures are receiving a high level of scrutiny. Departments are informed of the outcomes of PAEC's review, and updates to BP3 Appendix A are reflected by DTF on the Government's Budget website.

Departments must provide the necessary footnotes and associated targets and estimated outcomes for measures that are proposed to be discontinued, as these measures may be reinstated at PAEC's request. If a measure listed in BP3 Appendix A is continued, a current year target is identified to ensure continuity of reporting and transparency in the publication of performance information.

2.4 Short-term planning

Guidance

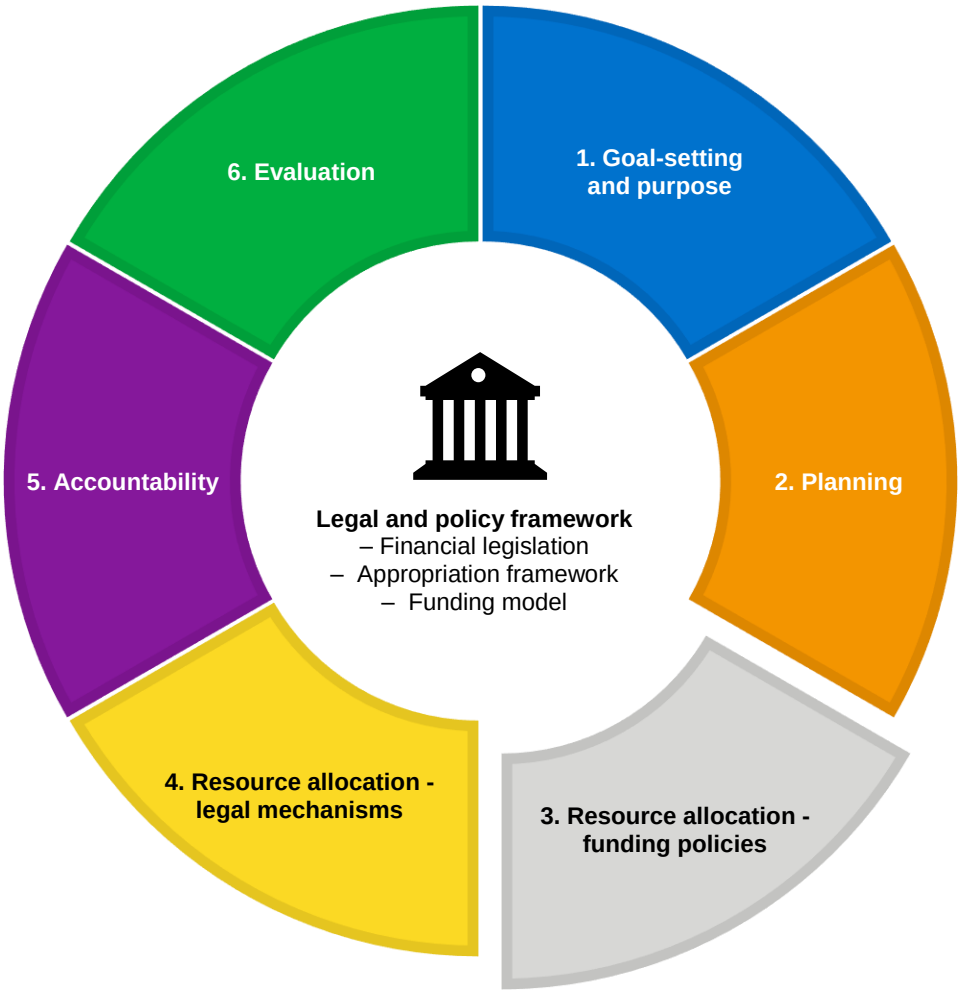
Short-term planning goals are published in the annual departmental performance statement (specifically the outputs/deliverables and performance measures), which provides the basis for annual performance reporting on the delivery of outputs that contribute to departmental objectives.

Internally, business planning determines operational processes, staffing arrangements and budgets allocated to achieve the relevant performance goals for the year.

Departments could also oversee the development of more specific plans for portfolio agencies to assist in implementing departmental strategies to deliver the agreed outputs consistent with the requirements for agency planning under Standing Direction 4.1.1(a) to (d).

[21] Performance measures are used to assess output delivery as part of the revenue certification process (see Section 1.2 for more information).

3. Resource allocation – funding policies



Overview

The third stage of the IMC is **resource allocation – funding policies**.

This stage explains the major funding policies that support the State's financial management:

1. The State Budget;
2. funding outputs (and the Departmental Funding Model);
3. varying the budgeted output funding mix;
4. varying the output price; and
5. funding assets.

3.1 The State Budget

The State Budget is the primary planning mechanism for determining the level and priorities for government spending. The budget process allows the Government to assess proposals and make decisions about the allocation of available resources.

The budget has two components that support the Government's request to Parliament to appropriate money from the Consolidated Fund for the upcoming financial year.

Appropriation Bills

The Government must pass an Appropriation Bill through Parliament to use public money from the Consolidated Fund. This Bill outlines the amount of public money appropriated to each department for outputs, assets, payments on behalf of the State, and other appropriations specified in the Bill. A separate Appropriation Bill is also submitted for the Parliament itself.

Budget papers

Section 40 of the FMA requires detail of the goods and services to be delivered with the appropriation. The budget papers also describe the Government's fiscal strategy, the State's overall budget position and the objectives of each department's service delivery.

The role of Cabinet and Cabinet committees in the budget process

Cabinet is the principal decision-making body of the Government. It consists of all Ministers of the Crown and the Cabinet Secretary. The Premier, as the leader of the Government, is the chair of Cabinet.

Each Government will designate a committee responsible for making budget decisions on behalf of Cabinet. This committee is responsible for considering all output, revenue, asset investment and financing proposals submitted by departments on behalf of Ministers for the development and delivery of the State Budget. This committee usually comprises the Premier, the Treasurer, the Assistant Treasurer, and often, other Ministers.

DTF supports this committee's budget deliberations by providing process management and secretariat support, and information, advice and recommendations, in conjunction with the Department of Premier and Cabinet.

DTF leads the preparation of the budget papers once the committee finalises its budget decisions.

Tabling the Budget

Usually on the first Tuesday in May each year, the Treasurer introduces the Appropriation Bills to Parliament to appropriate public money, and also presents the annual budget papers. These documents outline Victoria's budget position, detail how the Government will spend the public money it expects to collect over the next year, and request approval from the Parliament to use public money for that year.

3.2 Funding outputs

Guidance

The Departmental Funding Model

The Departmental Funding Model (DFM) underpins Victoria's devolved output-based system, in which Government funds departments for the delivery of outputs, rather than funding inputs.[22] Departments are 'paid' an agreed 'price' by Government for each output (an 'output price') based on an agreed level of quantity, quality and timeliness performance measures.

The DFM requires departments to fully manage all costs within an agreed 'price' for services, and be accountable for controlling costs.

The DFM is based on the following principles:

- *a clear focus on service delivery:* Departments are paid a price to deliver agreed outputs to specified performance standards. If these standards are met, the output price will be paid by Government;
- *simplicity in setting estimates:* Price is set by agreed formulas to provide departments with certainty about forward revenue levels;
- *allocating responsibility for productivity and risk where they are best managed:* Departments are responsible for managing costs within the price paid by Government. Departments have flexibility (within normal legal and policy parameters) in how they manage costs/inputs to deliver outputs within total revenue earned;
- *departmental revenue for the provision of outputs*: The sum of amounts paid by Government for all of the department's outputs, and may be applied to meet any costs associated with the delivery of outputs; and
- *base output price*: Determined and varied in line with Government output decisions as part of ongoing budgetary processes, and escalated through indexation to maintain alignment with movements in either the rate of inflation or in line with government policy.

Section 3.3: Varying the budgeted output funding mix

Attachment 7: The Departmental Funding Model

Attachment 8: Applying the correction appropriation accounts in SRIMS as part of the Departmental Funding Model

[22] Such as employee expenses, maintenance costs, lease payments etc.

Output management and variations to funding

Departmental funding for outputs assumes that output specifications and associated performance measures remain constant over the life of the output across the forward estimates.

Government will generally not increase the price it pays for outputs for the upcoming budget year once the budget has been set. Departments are expected to manage the expenses associated with the delivery of the agreed outputs within this annual funding envelope.

However, Government may agree to change the output price it pays for outputs in exceptional circumstances, such as when Government agrees (outside and within the annual budget process) to a change in the quantity, quality and timeliness characteristics of an output.

Variations may occur within the annual funding allocation that involve:

- the increase in production of one output, and the reduction of another output; or
- the introduction of a new output/s that were not in the department's original budget.

Section 3.3: Varying the budgeted output funding mix

Section 3.4: Varying the output price

Outputs that are partly externally funded

When the department provides outputs that are partly externally funded, the following principles and rules apply:

- the output is disclosed and reported as the total product or service consumed by the public (not only the part the Government funds);
- when a section 29 of the FMA agreement or trust account arrangement is in place, the revenue receivable must be treated as departmental revenue;
- the budgeted net output price (revenue received from Government) must be determined by:
  - estimated total accrual cost of the output; less
  - estimated revenue from external users/buyers of the product/service;
- if actual revenue exceeds actual expenses, departments may retain the surplus; and
- if actual revenue is less than the budgeted revenue, under the DFM, departments must fund the deficiency from internal sources, unless the deficiency is caused by a decrease in demand from factors outside the department's control, or otherwise determined. If this occurs, the department may submit a request on behalf of the relevant Minister for supplementary funding.

Section 4: Resource allocation – legal mechanisms

Products or services provided by an external provider

When a department provides outputs delivered by an external provider, the following principles and rules apply:

- the output must be specified as the Government's contribution to the service delivery, in terms of any performance measures negotiated with the provider, which forms the basis of payment by the Government; and
- the output price must be the price negotiated by Government with the external provider, which may be either a total amount, or based on quantities delivered.

Relationship between appropriation funding and the DFM

Departmental annual appropriations are made on an accrual and global basis for each department. From this global allocation of funds, departments are responsible for managing their own budgeting and expenditure, including budgeting for their portfolio agencies, in line with the principles of the DFM.

The appropriation provided for an output may be equated with the 'price' paid by Government for delivery of an output. However, outputs may also be partially funded by third party revenue obtained external to Government.

Departments should ensure they are able to identify the individual revenue streams associated with the provision of outputs, and be able to provide this information to DTF upon request. The revenue streams may include:

- application of annual appropriations for provision of outputs, including any section 29 of the FMA revenue;
- other revenue generated by the department to offset costs of output delivery including Trust Fund receipts, or receipts from outside of the Public Account; and
- special appropriations provided for output provision.

Global appropriations provide departments with flexibility to adjust to pressures and to respond to changed circumstances within the spending limit provided. However, significant changes to output delivery and/or new policy decisions require approval from the Government.

Section 3.3: Varying the budgeted output funding mix

Accountability mechanisms

A department's Minister(s) and Secretary are accountable to the Cabinet and Parliament for ensuring the department's resources are sufficient to enable it to meet all payments as and when they fall due.

Therefore, departments retain responsibility for monitoring the extent of application of appropriations, informed by the Assistant Treasurer's certification, and the Treasurer's application of revenue.

3.3 Varying the budgeted output funding mix

Mandatory requirements

3.3.1 General requirements

The Accountable Officer must:

(a) ensure the relevant Minister approves any material changes in the budgeted output mix (in terms of quantity, quality, timeliness and cost);

(b) advise DTF as soon as practicable, once the relevant Minister has approved changes to the budgeted output mix;

(c) ensure any budgeted output mix changes are:

(i) compatible with meeting the Government's objectives; and
(ii) linked to departmental objectives as defined in the department's medium-term plan and business plans; and

(d) ensure any changes to the budget output mix must not result in increased or ongoing future demand pressures that will exceed the department's forward estimates (unless agreed by the Treasurer/the relevant Cabinet Committee).

3.3.2 Varying the mix of outputs within five per cent of revenue per output

As requested by the relevant Minister, the Accountable Officer may make changes to the budgeted output mix as contained in BP3 of **up to five per cent** of the revenue for any individual output.

3.3.3 Varying the mix of outputs in excess of five per cent of revenue per output

The Accountable Officer must ensure the relevant Minister writes to the Assistant Treasurer to:

(a) obtain approval for any output mix changes, or the establishment of new outputs, **in excess of five per cent** of individual output revenue;[23] and

(b) DTF is advised in the department's next bi-annual output performance report and formally state the change complies with the conditions outlined in Mandatory requirement 3.3.1.[24]

[23] Before the changes are made by the department.
[24] DTF will then advise the Treasurer and the Assistant Treasurer whether the change complies with all of these conditions.

Guidance

Departments may wish to vary their output funding mix during a budget year for a number of reasons, such as (but not limited to):

- responding to unanticipated events (e.g. unforeseen demand changes);
- technological innovations;
- the adjustment of required output quality targets; or
- in response to specific Government policy decisions (such as the imposition of savings).

Departments may make changes to the budgeted output mix as contained in BP3 by up to five per cent of the revenue for any individual output, subject to the following:

- changes to revenue earned for output provision must not exceed the total appropriation available for that purpose in Schedule 1 of the Appropriation Act;[25]
- changes must be compatible with meeting the Government's priorities, and can be linked to departmental objectives as defined in the department's plans; and
- changes must not result in increased or ongoing future demand pressures that will exceed the department's forward estimates, unless previously approved by the Treasurer or the relevant Cabinet Committee.

Changes to the budgeted output mix published in BP3 above five per cent of individual output revenue (including the establishment of new outputs) must be first approved by the relevant Minister and the Assistant Treasurer before the changes can be made by a department.

3.4 Varying the output price

Policy decisions to review the price paid for existing outputs, or to introduce new outputs, are decisions for Government. Departmental appropriation revenue will vary in line with future policy decisions.

Price may also be adjusted or modified through a review of output price.

Where departments believe that cost pressures in an output may impact the ongoing viability of service delivery, departments should submit a business case on behalf of the relevant Minister to the relevant cabinet committee demonstrates the cost pressure:

- cannot be sustained within the total departmental price, to the extent that service delivery is adversely affected;
- is a result of factors outside the control of the department; and/or
- is not a result of service/quality expansion and/or demand growth (these issues will continue to be considered in the context of the Government's policy decision framework).

Section 4: Resource allocation – legal mechanisms

[25] This is adjusted for any approved supplementary funding provided through Treasurer's Advance, or the carryover of unapplied appropriation from the previous year.

3.5 Funding assets

Mandatory requirements

3.5.1 Asset investment proposals considerations

On behalf of the relevant Minister, the Accountable Officer must describe how a proposed asset investment is the most effective and efficient means of supporting the delivery of departmental outputs, and meets Government objectives.

The proposal must also consider:

(a) any alternatives such as:

(i) leasing;
(ii) outsourcing and/or private provision; and
(iii) private provision and/or solutions requiring no new assets;

(b) the whole-of-life costs of the asset, including costs involved with re-adapting the asset to meet changing demands; and

(c) the implications on output provision performance (quantity, quality, timeliness, revenue and expense) of the investment.

3.5.2 Order of funding for approved asset investments

The Accountable Officer must ensure the department's approved asset investment program is funded from the following sources in the specified order below:[26]

(a) where relevant, funds provided by the Commonwealth (usually directed to a specific project or category of projects);

(b) where relevant, net proceeds of asset sales accessed under a section 29 agreement (may be directed to a specific project or category of projects);

(c) current year depreciation equivalent balance;

(d) prior years depreciation equivalent balance held in the SAU inter-entity account; and

(e) Additions to the Net Asset Base (ATNAB) appropriation funding.

3.5.3 Replacing assets

The Accountable Officer must ensure an asset is not replaced unless:

(a) options to address demand have been considered; and

(b) doing so is consistent with the department's asset investment planning, long-term service planning and Government priorities.

[26] With written approval from DTF, a department may vary the order in which these funding sources are applied.

Guidance

This section should be read in conjunction with the Asset Management Accountability Framework,[27] which seeks to ensure public assets are managed with consideration for their whole lifecycle costs and to optimise service delivery outcomes. The framework establishes a number of mandatory requirements and provides guidance on good practice for asset management.

Departmental investment prioritisation and approval

Departments are expected to allocate sufficient funding to maintain their assets within their allocated budget. Where service delivery objectives can be improved through additional investment, funds can be sought through the budget process for consideration against other investment priorities.

Content of asset investment proposals

DTF recommends the Investment Management Standard (IMS) be used to shape a major investment in the early planning stage.[28] The IMS is a process for applying simple ideas and practices that help organisations direct resources to deliver the best outcomes from their investments.

Asset investment proposals should be supported by a business case that includes sufficient documentation and analysis to support the proposal.

Departments are expected to comply with DTF's business case template, which is annually revised to ensure it reflects government policies and priorities for investment decision-making.

The investment lifecycle and High-Value High-Risk guidelines provide comprehensive guidance to assist in the development of the full business case.[29]

Departments must ensure any funding proposals for asset investment have considered:

- alternative funding sources that may offset the cost of a proposal, provided the funding source is relevant to the proposal being considered; and
- that any contingency calculations included in a proposal are well-developed and robust.

These asset investment proposals are assessed by central agencies, with recommendations made to the relevant Cabinet committee on the merits of each proposal.

Cabinet process

Asset investment proposals are evaluated and approved by Cabinet committees during budget deliberations.

The budget papers reflect the outcome of Cabinet decisions, including the purpose of the investment, approved funding and cash flows over the forward estimates.

[27] Available on the DTF website.
[28] See above.
[29] See above.

Following budget deliberations, the Treasurer's approval is required to adjust project cash flows.

Cabinet committees are expected to approve major scope changes if a department wishes to substitute another project in place of one that has been approved.

DTF's role in determining asset funding decisions

DTF will consider the robustness of supporting information as part of its role advising Government on investment decisions. For asset funding proposals, this may include information derived from Asset Information Management Systems and asset management strategies.

Funding approved asset proposals

Asset investments can be funded from a variety of sources, which should be drawn down in the following order:

1. **Commonwealth funds for specific projects:** if such funds are received, these must be applied against these projects as the priority source of funding;
2. **Net proceeds from asset sales:** these proceeds may be used to fund asset investment, provided they have been subject to a section 29 of the FMA agreement. Where a purchase of a new asset involves the trade-in of an existing asset, the use of the proceeds from the trade-in to fund the assets will require section 29 approval;
3. **Depreciation equivalent in the SAU inter-entity account:** these funds comprise of the balance held by each department in its SAU inter-entity account for current and prior years' unspent depreciation equivalent revenue; and
4. **Additions to the Net Asset Base (ATNAB) appropriation funding:** should the first three sources be insufficient to fund the department's approved investment program, the provision of additional ATNAB appropriation by Government may be required.

The order of the drawdown of funds used to fund asset investment is also listed in the mandatory requirements of this section.[30]

Section 4.1: Appropriation of certain revenue and asset proceeds – section 29 of the FMA

Section 4.12: Depreciation and depreciation equivalent

Departmental asset investment program

Asset investment spending during any budget year will consist of:

- the first year's expenditure on new major asset investments approved by the relevant Cabinet committee to be started in the budget year; and
- estimated annual cash flows for those assets approved by Government in previous years' investment programs.

[30] A department may also use its retained surpluses on the provision of outputs to fund asset investment, subject to the provisions of approval under section 33 of the FMA.

Recognition of the operating costs associated with assets

Operating costs associated with the holding of assets include depreciation expense and Capital Assets Charge (CAC). Departments should recognise the impact of these operating costs in asset proposals, and throughout the life of the asset.

The inclusion of depreciation expense on controlled assets in output costing and pricing recognises assets have a finite working life, and enables funds to be allocated (via depreciation equivalent) to finance the acquisition of new or replacement assets to meet future service delivery plans.

CAC recognises the cost to Government of the capital invested in assets.

Section 7.1: Capital Assets Charge

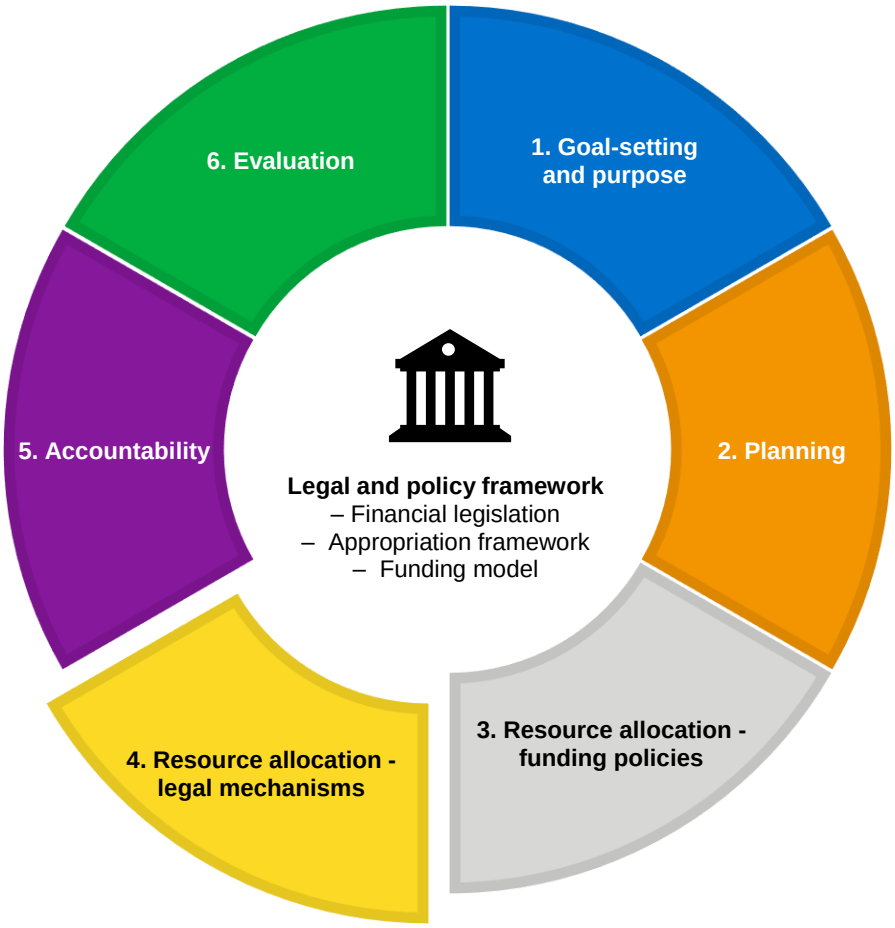
Managing growth in the asset base

Where additional capital funding is approved that leads to a material increase in the total value of depreciable assets, departments are responsible for ensuring output revenue remains sufficient to meet the costs of asset management that support output delivery.

This may be achieved by:

- agreeing with Government that additional outputs will be produced from additional appropriation revenue;
- increasing revenue from non-appropriation sources; or
- negotiating increases in output prices.

4. Resource allocation – legal mechanisms



Overview

The fourth stage of the IMC is **resource allocation – legal mechanisms**.

This section outlines the legislation associated with managing departmental funding and obtaining additional funding. This legislation works alongside the principles of the DFM, asset funding policies, and other financial policies.

Legal mechanisms to manage funds

Possible arrangements include:

- retaining fees and charges revenue from the delivery of outputs, Commonwealth grants for specific purposes, and receipts from the disposal of surplus assets under section 29 of the FMA arrangement (see also Section 4.1);
- accessing Commonwealth grants under section 10 of the FMA (see Section 4.2); and
- trust account arrangements – circumstances when a trust account arrangement may be suitable are outlined in Section 4.3.

Legal mechanisms to request additional funds

The source of the additional funding, if approved, will be determined by the Treasurer taking into account the requirement to manage the overall parliamentary appropriation authority available to the Government, and within the parameters of the DFM. Some of these funding sources will require the preparation of additional warrant.

Possible sources of funding may include:

- supplementation through a Treasurer's Advance under the Appropriation Act (see Section 4.4);
- supplementation through a Temporary Advance under section 35 of the FMA (see Section 4.5);
- borrowing against future appropriation under section 28 of the FMA (this is a Special Appropriation provision) (see Section 4.6);
- carryover of unused prior years appropriations under section 32 of the FMA (see Section 4.8);
- access to balances in a department's State Administration Unit (SAU) inter-entity account (see Section 4.9);
- access to a Public Account advance under section 37 of the FMA (see Section 4.10); and
- payments of awards for salaries and related costs under section 3(2) of the annual Appropriation Act.

Each of these mechanisms requires the approval of the Treasurer or relevant Cabinet committee. Departments should not assume an application to access one of these funding sources will guarantee receipt of that source of funding.

The conditions and processes for applying for most of these sources of supplementary funding are detailed in Sections 4.4 to 4.13.

Other mechanisms for varying funding

Transfer of appropriation within a department – Departments (on behalf of the relevant Minister) may also request transfers to or from other appropriation items (purposes) for that department, with the approval of the Treasurer under section 30 of the FMA.[31]

Machinery of government changes – The Government may choose to transfer administrative responsibilities and appropriation authority between departments, under administrative arrangements ordered by the Governor in Council under the *Administrative Arrangements Act 1983.* Refer to the *Victorian public sector operating manual on machinery of government changes* issued October 2016 for more information (available on the DTF website).

Section 4.7: Transfers between items of departmental appropriation – section 30 of the FMA

[31] This excludes Parliament and Court Services Victoria which operate under section 31 and section 31A of the FMA, respectively.

4.1 Appropriation of certain revenue and asset proceeds – section 29 of the FMA

Mandatory requirements

4.1.1 Commonwealth grants provided for specific purposes

(a) The Accountable Officer may lodge a request with DTF to access payments from the Commonwealth for specific purposes by the following means:

(i) a section 29 agreement; or
(ii) utilising section 10 of the FMA.

(b) The Accountable Officer must discuss these options with DTF before submitting a request.[32]

(c) For Commonwealth expenditure accessed via a section 29 agreement, if access to those funds is required beyond a financial year, the balance may be made available in the following year (subject to a department meeting the section 32 of the FMA carryover requirements).

(d) The carrying over of a section 32 carryover (i.e. into a second year) is not permitted under the FMA. The Accountable Officer must only recognise/claim what they have drawn down and spent to this point in time. If applicable, the Accountable Officer on behalf of the relevant Minister may apply for access to the remaining funds by submitting a request to the Treasurer or as part of a Budget bid for the relevant Cabinet committee to consider.

(e) The Accountable Officer must ensure funds from the Commonwealth have been deposited with DTF before accessing the appropriation.

(f) If the output or asset investment is delivered by the State for less than the funds provided by the Commonwealth, the excess funds may only be applied to finance activities outlined in each Commonwealth agreement. The Accountable Officer must liaise with the Commonwealth on the application of any excess funds and obtain agreement from the relevant Cabinet committee or the Treasurer.

4.1.2 User charges

(a) The Accountable Officer must lodge a request with DTF to establish a section 29 agreement for user charges (fee for service).

(b) Eligible user charge estimates must be agreed with DTF on an unchanged policy basis, i.e. each agreement shall be based on the expected level of receipts from the implementation of existing policies at current prices.[33]

(c) Unless the service is new and unfunded, the agreed estimate is deducted from the gross appropriation to arrive at a net appropriation to which section 29 applies.

[32] Note that the Treasurer's approval of a formal request from the relevant Minister is required to establish a section 29 agreement.
[33] For guidance on setting prices, refer to the *Cost Recovery Guidelines*, available on the DTF website.

Mandatory requirements

4.1.3 Asset sales

(a) The Accountable Officer of a department wishing to retain the proceeds earned from disposal of an asset or class of assets must:

(i) lodge a business case with DTF regarding the disposal; and
(ii) request the relevant Cabinet committee or Treasurer's approval (on behalf of their relevant Minister) for annotation of the proceeds to their Additions to the Net Asset Base (ATNAB) appropriation.

(b) The impact on the balance sheet from the asset disposal and revenue retention must be discussed with DTF before finalisation of the business case.

(c) The Accountable Officer must consider the *Victorian Government Land Sales Financial Framework*[34] regarding the retention of receipts from land sales.

Guidance

Under normal circumstances, money received by the State for any purpose must be credited to the Consolidated Fund (under section 9 of the FMA).[35]

However, section 29 of the FMA provides the legal authority, in conjunction with the Appropriation Act, for amounts received relating to certain receipts/revenue to be credited or annotated to a departmental appropriation item. Section 29 'deems' these amounts to be appropriated for the purposes of those items.

Access to these amounts are subject to a section 29 agreement between the relevant Minister making the request, and the Treasurer.

The types of revenue (receipts) that may be considered in a section 29 agreement are:

- Commonwealth specific purpose grant revenue;
- specific purpose revenue from Municipal Councils;
- revenue from outputs (relating to user charges but excluding regulatory fees); and
- receipts from asset sales.

Establishment of section 29 agreements

The following steps should be followed in developing section 29 agreements:

- departments are to advise DTF in writing of the amount and nature of the revenue they wish to be annotated to the department's appropriation, and complete a schedule listing each revenue item for inclusion in the agreement to support the request. This schedule comprises three columns:

  1. the previous year's **revised revenue estimate** amount – this is the outturn estimate, or total actual revenue (if known) for the revenue item;

[34] Available on the DTF website.
[35] Unless by or under an Act it may be paid into another fund (such as an account in the Trust Fund, or an account operated by a statutory authority).

2. the **agreed revenue base** amount – this is the amount (agreed between the relevant Minister and the Treasurer) that would be reinstated to a department's base appropriation if the section 29 arrangement was terminated at a later date (i.e. the 'unchanged policy base' amount); and
3. the **agreed revenue estimate** amount – this is the total amount estimated to be received under the agreement in the given financial year. This amount should be reviewed and agreed each year as part of each section 29 agreement;

- the relevant Minister then submits a formal request to the Treasurer seeking agreement; and
- the Treasurer may then choose to approve (or not approve) each revenue item proposed for inclusion in a section 29 agreement.

Other things to note about section 29 agreements:

- such agreements only apply to departments;
- the agreements increase a department's annual appropriation by the *actual revenue recognised* (or in the case of asset sales – the *actual receipt of the cash*) rather than the estimated amount noted in an agreement;
- for user charges, any increases in revenue that are the result of the application of competitive neutrality principles may be retained by the department (i.e. on an unchanged policy basis); and
- the appropriation item must specify section 29 of the FMA in the Appropriation Act for a given year, otherwise an agreement cannot apply.

As section 29 is an annual appropriation, all section 29 agreements lapse at the end of the financial year, and are therefore required to be renewed on an annual basis.

User charges

When a section 29 agreement for user charges is reached as part of the budget process, the appropriation for the particular item in the Appropriation Act is reduced by the amount estimated to be received from the source of revenue identified in the section 29 agreement.

Where estimated revenue is exceeded

If a department exceeds the agreed revenue estimate, the appropriation is increased to the value of the additional revenue and is available to the department. This revenue may be used for any purpose consistent with the appropriation item and the department's agreed objectives and/or asset investment program.

However, there are different types of revenue arrangements under section 29 of the FMA.

Commonwealth specific purpose grant revenue, and specific purpose revenue from municipal councils

Departments should not claim revenue under a section 29 arrangement if those funds are not needed in the year to meet costs incurred. If access to excess revenue from these sources of funds is required in the following financial year, departments may apply for carryover of these funds subject to the approval of the Treasurer. Alternatively, departments may apply to access these funds through section 10 of the FMA.

Section 4.2: Commonwealth grants – section 10 of the FMA

Section 4.8: Carryover of unused appropriation – section 32 of the FMA

Revenue from outputs (relating to user charges)

In some cases, departments could exceed the revenue estimate for user charges but will not have spent the additional revenue by the end of the year. For example, if there is an over-collection of user charges relative to the expenditure incurred, this may result in a surplus which will accrue in a department's SAU inter-entity account. Departments may then apply for access to these surpluses in a subsequent year subject to the approval of the Treasurer.

Section 4.10: Public Account Advances – section 37 of the FMA

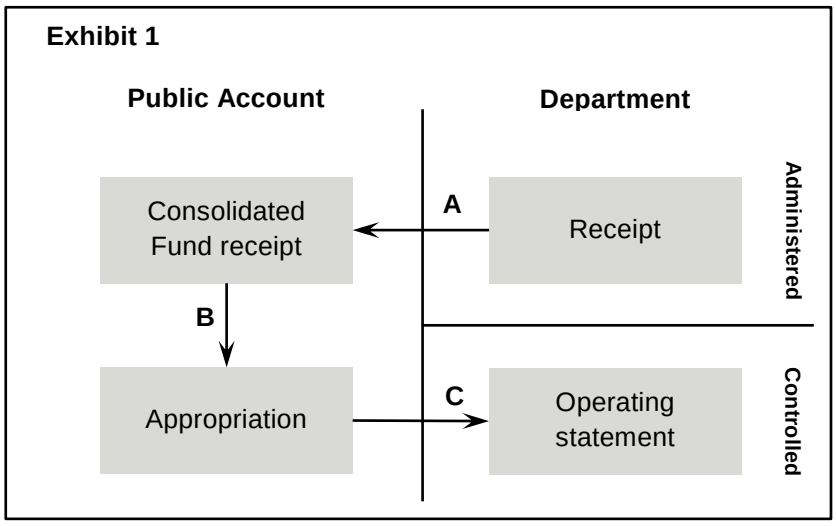
Receipts from asset sales

Departments may only draw down on the actual cash received from an asset sale and only to the extent required in the current year to fund cash outflows for approved investments. Any unspent receipts at year end are then subject to section 32 carryover.

Accounting for section 29 revenue

The accounting treatment for the recognition of section 29 revenue flows is depicted in Figure 8.

Figure 8: Accounting for recognition of section 29 revenue flows



Step A: All cash received by a department is recognised as administered and is required under section 9 of the FMA to be paid into the Consolidated Fund. Normal accounting standards are applicable for revenue recognition by the State.

Step B: If the revenue relates to user charges, Commonwealth grants, and/or sales of non-current physical assets, and a section 29 agreement is in place, the relevant appropriation item is increased accordingly.

Step C: The Treasurer may apply the appropriation. The department then recognises the revenue as controlled.[36]

[36] It should also be noted that for section 29 of the FMA to be applicable, there must be a provision included against the relevant item in Schedule 1 of the annual Appropriation Act. If such a provision is not included in the Appropriation Act then section 29 cannot be applied in the financial year covered by the Appropriation Act.

Specific purpose payments from the Commonwealth (refer Mandatory requirement 4.1.1)

Eligibility

The Commonwealth Government provides grants to the States for specific purposes under section 96 of the Commonwealth Constitution.

Section 29 agreements for Commonwealth grants received for specific purposes are arranged at the start of each financial year, or upon the receipt of the grants from the Commonwealth.

There are currently two types of tied Commonwealth grants for specific purposes: Specific Purpose Payments (SPPs) and National Partnership Payments (NPs). These grants are received into the Consolidated Fund first (with the exception of Health Reform grants) and then appropriated.

Commonwealth grants that do **not** qualify for a section 29 agreement include:

- grants provided for on-passing paid directly into a trust account, including the *National Health Reform Agreement,* which is subject to a separate process; and
- general purpose grants paid into the Consolidated Fund.[37]

Not all specific purpose payments are for State Budget programs. A substantial proportion of these are for on-passing to other parties, such as non-government schools and local government authorities. In most of these cases, the State simply acts as a vehicle for distributing the Commonwealth funds via a trust account in the Trust Fund. In addition, a number of other relatively small Commonwealth grants are paid direct to specific trust accounts in the Trust Fund and similarly are not subject to appropriation.

Application (revised under the accounting standards changes)

Commonwealth grants received for specific purposes (SPPs or NPs) that are paid to the Consolidated Fund are to be included in section 29 agreements. Commonwealth grants paid directly into a trust account are excluded from such arrangements.

Under accounting standards AASB 15 and 1058, if transactions occur in an enforceable agreement with another party and that agreement includes sufficiently specific performance obligations, revenue can only be recognised when the entity has fulfilled its performance obligation. Previously, revenue recognition was allowed when funds were received, regardless of whether performance obligations had been fulfilled.

Under AASB 1058, revenue can only be recognised on capital projects in line with the construction profile of the asset. Departments need to ensure the revenue accessed under section 29 has in fact been earned, in the same reporting period as it is claimed. This is unlikely to be the case where advance payments for capital projects to agencies are made, for example.

[37] These are Goods and Services Tax (GST) grants, GST transitional grants and national competition policy payments.

User charges (refer Mandatory requirement 4.1.2)

Eligibility

A section 29 arrangement for user charges may be established to provide departments with access to revenue they generate from the sales of goods and services (outputs).

Section 29 agreements for user charges are not mandatory. Such arrangements are only established by agreement on an annual basis between the relevant Minister and the Treasurer.

User charges need to be carefully distinguished from other forms of revenue such as regulatory fees (also classified in accounting terms as user charges), fines, dividends, interest and taxes as these are not eligible for retention. Care needs to be taken in making this distinction, as in some cases there is a fine line between regulatory fees and other user charges.

The following criteria should be used in determining whether a revenue item is a valid *user charge*:

- the revenue should stem from payments made voluntarily for goods and services provided; and
- the payments made and the benefits gained by the user can be clearly linked to the provision of the products and services.

Regulatory fees on the other hand are characterised by one or more of the following:

- they are compulsory and serve primarily as an instrument of government policy; and
- they generally reflect the granting of a privilege or right to undertake a regulated activity.

Application

Section 29 agreements are based on the principle of applying current prices.

The 'current price' of the base amount does not automatically mean existing prices are indexed by the forecast Consumer Price Index (CPI). Depending on the nature of the service, this may need to be determined on a case-by-case basis.

DTF's cost recovery guidelines, available on the DTF website

Goods and services tax

Under the provisions of the *Commonwealth A New Tax System (Goods and Services Tax) Act 1999*, fees and charges paid to a government department are deemed to be subject to the goods and services tax (GST).

Departments should refer to Division 81 of the Commonwealth Act to identify any Victorian Government fees and charges that are excluded from GST.

Given Victorian public sector departments and agencies are registered separately for GST purposes, they should regularly review the fees and charges, as they will individually be responsible for the management and remittance of GST to the Australian Tax Office.

Note that when preparing a section 29 agreement, the revenue items that comprise the agreement will be **exclusive** of GST.

Receipts from asset sales (refer Mandatory requirement 4.1.3)

Eligibility

The cash proceeds from the sale of departmental controlled (not administered) physical assets may be accessed through a section 29 agreement.

The Treasurer must agree to:

- the proposed sale of the particular asset or class of assets; and
- the amount derived from the sale to be annotated to the department's ATNAB appropriation if only a portion of the proceeds are to be annotated.

A department wishing to use a section 29 agreement for asset sales, should include any proposal to dispose of assets or class of assets in their budget funding business cases for new asset investment.

Departments are encouraged to think broadly about possible opportunities for asset disposal as part of any asset initiative development.

Departments should also refer to the *Victorian Government Land Sales Financial Framework* when considering land sales opportunities.

Application

Timing issues associated with accessing the proceeds of sale will be unique to each situation. Where the proceeds of sales are to be applied to asset replacement, there may be a need to arrange an advance of funds to cover the period before sale proceeds become available.

Other issues may include:

- the change of accounting treatment regarding the asset (e.g. a non-current physical asset may have a different value when converted to an asset held for resale);
- the estimate of anticipated proceeds;
- the impact of actual proceeds being different to the estimate;
- responsibility for the costs associated with the disposal; and
- interest by other agencies in acquiring the asset in question.

Discussions will be held with each department on the configuration of balance sheets in the context of budget formulation. At this time, the options for asset disposal and the opportunity for the retention of proceeds will be discussed and tested.

Victorian Government Land Sales Financial Framework

4.2 Commonwealth grants – section 10 of the FMA

Mandatory requirements

4.2.1 Conditions for accessing section 10 of the FMA

If applicable, the Accountable Officer, may (on behalf of the relevant Minister) make an application for a special appropriation to access Commonwealth funds under section 10 of the FMA if one or more of the following conditions apply:

(a) it is a new Commonwealth agreement established during the year; or

(b) if it is likely funds will be required to be accessed beyond the next financial year.

4.2.2 Managing requests under section 10 of the FMA

The Accountable Officer must ensure:

(a) all options for accessing payments from the Commonwealth are discussed with DTF before submitting a request;

(b) funds from the Commonwealth have been deposited into the Consolidated Fund before accessing the appropriation; and

(c) a letter from the relevant Minister to the Treasurer seeking access to Commonwealth funds under section 10 of the FMA includes:

(i) the reasons for the request;
(ii) the quantum being sought to access;
(iii) appropriate supporting documentation from the Commonwealth;
(iv) how the funding request aligns with Government objectives; and
(v) adjustments to output and financial performance targets arising from the request.

Guidance

Section 10 of the FMA provides a special appropriation for access to Commonwealth grants paid into the Consolidated Fund.

Governor in Council approval is required for a section 10 request.

Once a section 10 request is approved, access to those Commonwealth funds is available across financial years (annual requests are not required for those funds), however a warrant is required each year.

4.3 The Trust Fund and trust accounts

Mandatory requirements

4.3.1 Creating a trust account

(a) When a trust account is being created through legislation, the Accountable Officer must inform DTF about its impending creation and advise DTF once it is established to process the requirements to administer and report on the trust account.

(b) When a trust account is proposed to be set up under the Assistant Treasurer's powers under the FMA, the Accountable Officer must submit a letter of request from the relevant Minister to the Assistant Treasurer, who will then consider the proposed trust account.

4.3.2 Reviewing trust accounts

(a) The Accountable Officer must maintain and periodically review its trust accounts to determine if there is a continued need for each trust account and that the appropriate amounts are in it.

4.3.3 Specific requirements for the Treasury Trust Fund

(a) The Accountable Officer must not set up new arrangements in the Treasury Trust Fund unless it is for its original and intended purpose (i.e. the recording and accounting for unclaimed and unidentified moneys held by departments).

(b) The Accountable Officer must undertake a regular review of their activity in the Treasury Trust Fund to ensure inappropriate balances do not build up in the Treasury Trust Fund.

(c) The Accountable Officer must ensure moneys left unclaimed or unidentified in the Treasury Trust Fund after a period of seven years are transferred to the Consolidated Fund.

4.3.4 Specific requirements for the inter-departmental transfer trust account

(a) Grants provided to one portfolio department may be transferred to and held in the inter-departmental transfer trust account for use by another portfolio department for the funding of a specific initiative or program.

(b) This trust account must not hold any physical assets, and must not be overdrawn.

(c) Moneys left unspent from the inter-departmental transfer trust account after three years must be returned to the Consolidated Fund.

4.3.5 Closing trust accounts

The Accountable Officer must:

(a) request the Assistant Treasurer to close a trust account when the purpose for which it was created no longer exists; and

(b) ensure any residual money from closing a trust account is credited to another trust account or to the Consolidated Fund, as directed by the Assistant Treasurer.

Guidance

The Trust Fund forms part of the State's Public Account as a separate and discrete component from the Consolidated Fund. Part 4 of the FMA (sections 19 to 23) covers the Trust Fund.

Trust accounts in the Trust Fund may be established by:

- an Act of Parliament, under legislation for a specific purpose;[38] or
- the Assistant Treasurer, under section 19(1) of the FMA (defining the purpose for which they are established), following a request from a department.

A trust account established by a statute will be restricted to the purposes set out in that statute.

Trust accounts are usually established for the use of a single department, although in some instances a trust account may be accessed by more than one department, or may be generic in nature.

The Trust Fund comprises the following types of accounts.

State Government trust accounts

Established to record the receipt of certain State funds and their disbursement for specified purposes. These include trust accounts established to record the receipt and disbursement of State revenues, which are hypothecated (through special appropriations) to particular purposes, e.g. gaming revenue is hypothecated for the provision of health services.

Commonwealth and joint Commonwealth and State accounts

Established to record the receipt and disbursement of specific purpose payments from the Commonwealth Government, which are on-passed by the State to other organisations (such as non-government schools and local government). These accounts are generally established to comply with Commonwealth legislation or specific agreements with the Commonwealth.

Specific purpose operating accounts

Established to essentially quarantine commercial activities in departments from the rest of the department's business. They include:

- specific purpose trust accounts established under section 19 of the FMA;
- working accounts established under section 23 of the FMA; and
- trust accounts established under specific legislation.

[38] For example, the *Conservation, Forests and Lands Act 1987* provides for the Conservation, Forests and Lands Stores Suspense Account (section 22(1)); and the Conservation, Forests and Lands Plant and Machinery Fund (section 23(1)).

Treasury Trust Fund, agency and deposits accounts

Some of the larger accounts in this category are the Victorian Government Solicitor's Trust Account, Estate Agents Guarantee Trust Account, Conservation Agency Trust Account, Finance Agency Trust Account, and Public Works Agency Trust Account.

Revenue in Treasury Trust Fund includes:

- unidentified money and un-presented cheques;
- suspense accounts established for accounting purposes;
- working accounts established for departmental commercial and service units;
- the inter-departmental transfer trust account; and
- accounts established to facilitate the receipt and disbursement of private funds held by the State in trust. These moneys may include bequests, donations, prizes, scholarships and research grants. This is generally in the form of a genuine fiduciary trust, which can be either administered or controlled by the State and mostly involves management of money provided by a member or members of the public for a specific purpose.

The specific purpose for the establishment of each trust account is either defined by the Assistant Treasurer (under section 19 of the FMA) or is contained in a separate statute.

The inter-departmental transfer trust account (SRIMS authority code 4740)

This trust was established in mid-June 2017 to facilitate the transfer of moneys (grants) from one portfolio department to another.

This trust account is not meant to hold physical assets and, similar to other trust accounts, cannot be overdrawn.

Revenue other than grants (for example, the retention of revenue generated from sales of goods and services) should utilise alternative legal or funding mechanisms to access those funds (for example, section 29 of the FMA).

The Assistant Treasurer may direct any unspent moneys, once the purpose of the grant has been fulfilled, be remitted back to the Consolidated Fund.

Criteria to consider when requesting the creation of a trust account

A department should consider the following criteria when requesting the creation of a new trust account:

Criterion 1 – Purpose of the proposed trust account

- What is the purpose of the intended trust? (It should be clearly explained).
- Could an existing trust account be used for the required purpose?
- Given the flexibility of the appropriations framework, would a section 29 arrangement suffice?

Criterion 2 – A need to quarantine/set aside the money from the rest of the department's operations

- Are the moneys being held in fiduciary trust for an external party? Is it likely to be a long-term arrangement?
- Is there legislation that prescribes such an arrangement be set up (e.g. pursuant to a Commonwealth Act)?
- Are there other agreements or arrangements in place that require having such moneys separated in the Public Account?
- Without a specific trust account, would existing financial management systems be inadequate to clearly separate the external party transactions from core departmental business?

Departments should also consult DTF at the earliest opportunity to determine the appropriateness of any proposed trust account arrangement.

Investment of money in trust accounts

Section 21 of the FMA provides that the Assistant Treasurer may invest money standing to the credit of a trust account, but interest on money invested can only be credited to the trust account if the money is a deposit under section 20, or if crediting of interest is provided for in specific legislation.

The investment of funds held in a trust account is subject to the Standing Directions or specific legislation.

Management of moneys in trust accounts

Trust accounts must not be overdrawn at any time, unless this is specifically permitted by legislation. Otherwise, commitments to expenditure may only be made from a trust account where there is sufficient cash available in the trust account to cover the expected payments.

If a payment is required to be made that would result in a trust account becoming overdrawn when this is not permitted by legislation, an advance or other legally available source of funds must be sought as soon as practicable before the payment is made so the trust account is not overdrawn. If there are financial investments in the trust fund, these are only considered to be available to pay expenditure if fully liquid (e.g. at-call investments). Note it is not appropriate to incur an interest expense on funds obtained to cover any shortfalls in a trust account without the Treasurer's agreement.

Accounting for trust accounts

Each specific trust account is identified by a unique trust authority (i.e. the third segment of the whole of government chart of accounts) and contains ledger accounts, which can potentially record revenue, expenses, investments, assets and liabilities (i.e. the full range of natural accounts) for certain departmental activities.

Change in purpose of trust accounts

Ministerial approval is required to change the purpose of a trust account, unless that change of purpose has been legislated.

Renaming of trust accounts

Trust accounts may be renamed to better reflect their purpose. The approval of the Assistant Treasurer is not required for this to occur, although DTF should be notified of the details of the intended change.

Process for the closure of a trust account

The FMA allows the Assistant Treasurer to make a direction to close a trust account where appropriate. However, a trust account established by statute is to be closed by further legislation, or by the means, if any, specified in the statute.

Where a trust account has been created by legislation that does not provide a means of closing that trust account, or of dealing with any residual balance, the legislation will need to be amended.

Reporting on trust accounts

For reporting purposes trust accounts fall into two categories:

- **controlled trust accounts**: where the responsible department can make decisions about how the funds are used; and
- **administered trust accounts**: for which decisions about how the funds in the accounts are used are made outside the department. The department's responsibility for these trust accounts is limited to processing the trust account's receipts and payments.

The assessment of whether a trust account is deemed to be controlled or administered is entirely the responsibility of the department concerned. As such, decisions will be subject to audit review, they should consult with their relevant director at the Victorian Auditor-General's Office in the determination of the appropriate classification.

The financial transactions and balances of accounts in the Trust Fund are reported in the financial reports of the administering departments.

A high-level summary of these transactions and balances is also included in the State's annual Financial Report. Departments are required to report on both categories of trust accounts in their audited financial statements.

Specific trust accounts – further details

Departmental working accounts

Departmental working accounts in the Trust Fund provide a means of giving departments direct access to user charge receipts for those activities conducted on a commercial basis separately from core departmental activities. Section 23 of the FMA governs the establishment and operation of departmental working accounts.

The main requirements for a departmental working account are that:

- the activity is undertaken by a discrete business unit, operating to a business plan and producing its own set of accounts;
- the charges applying to the activity comply with the *Competitive Neutral Pricing Policy*; and
- provision is made for a dividend on any profit component, to be repaid to the Consolidated Fund.

The Treasury Trust Fund

The Treasury Trust Fund was originally established under the *Audit Act 1958* to facilitate the recording and accounting for unclaimed and unidentified moneys held by departments.[39]

However, over time the uses of the Treasury Trust Fund have expanded beyond this impose without clear direction. Therefore, the use of the Treasury Trust Fund is strictly monitored by DTF.

To assist in meeting the needs of cross-departmental activity/program delivery and emerging Trust Fund needs, the inter-departmental transfer trust account has now been established to manage grant transfers between departments. This trust account should be used in place of the Treasury Trust Fund when transferring such amounts between departments.

4.4 Treasurer's Advance for urgent and unforeseen claims

Mandatory requirements

4.4.1 Managing requests for Treasurer's Advance

The Accountable Officer must ensure:

(a) all requests for Treasurer's Advance are discussed with DTF, including the quantum of funding sought, before any correspondence is prepared for the request; and

(b) a letter from the relevant Minister to the Treasurer seeking a Treasurer's Advance includes:

- (i) the reasons for the funding request, including whether the request is urgent and unforeseen;
- (ii) the quantum of the funding sought;
- (iii) confirmation that there are no other sources available to fund the request;
- (iv) how the funding request aligns with Government objectives;
- (v) adjustments to output and financial performance targets arising from the request; and
- (vi) funding variations previously approved by the Treasurer or the relevant Cabinet committee for the program or output seeking an advance.

4.4.2 Reporting on Treasurer's Advance expenditure

All expenses and obligations to which any Treasurer's Advance is applied must be reported in the financial year in which the advance was made.

4.4.3 Restrictions on Treasurer's Advance

Any unapplied component of a Treasurer's Advance in a given year lapses at the end of the year. The Accountable Officer is not permitted to carry over a Treasurer's Advance to the following year.

[39] With the repeal of the Act in 1994, the FMA includes provision for the continuation of all existing trust funds and, now provides the legal authority for the continuing operation of the Treasury Trust Fund consistent with its original purpose.

Guidance

Definition

The Treasurer's Advance (TA) represents a specific appropriation made available to the Treasurer each year as part of the annual Appropriation Act, to meet any '… urgent claims that may arise before Parliamentary sanction is obtained'. Parliamentary sanction is obtained through the tabling in a subsequent financial year's annual Appropriation Bill, which includes a schedule outlining all payments made against TA in that previous financial year.

Additional warrant is **not** required to access TA.

Conditions

TA capacity is limited to the amount that appears in Schedule 1 of the Appropriation Act under DTF. As such, the Treasurer will initially only provide approval in-principle for successful funding requests. The final source of funding for this supplementation will be reviewed by DTF and confirmed by the Treasurer towards the end of the financial year, taking into account total TA capacity and other available sources of departmental appropriation authority.

TA may be applied to output or asset funding requests. This is determined by the Treasurer, informed by advice from DTF.

Reporting

Accountability for use of the TA is met through:

- the presentation of a summary of each year's expenditure in the State's annual Financial Report, which is tabled in the Parliament after the end of each financial year; and
- the proceeding year's Appropriation Act.

Application and assessment process

A Minister may apply for budget supplementation from TA by submitting a letter of request to the Treasurer.

Each request is assessed by DTF and advice is provided to the Treasurer. The Treasurer will then determine whether or not to fund the request.

Additional notes

A TA request is for funding in the current financial year only. If changes in funding are required in the other forward estimates years, this should be foreshadowed in the TA request and a submission should then be made as part of the annual budget process.

Section 7.3: Central contingencies

Approval notification

The Treasurer will provide return correspondence to the Minister making the request.

DTF will also advise the department on the following if the funding request is approved:

- the source of the funding;
- the revenue limit; and
- adjusted output and financial performance targets (if relevant).

4.5 Supplementation under section 35 of the FMA

Mandatory requirements

4.5.1 Managing requests for supplementation under section 35 of the FMA

The Accountable Officer must ensure:

(a) all requests for supplementation under section 35 of the FMA are discussed with DTF, including the quantum of funding sought, before any correspondence is prepared for the request; and

(b) a letter from the relevant Minister to the Treasurer seeking supplementation under section 35 of the FMA includes:

(i) the reasons for the funding request;
(ii) the quantum of the variation sought;
(iii) confirmation that there are no other sources available to fund the request;
(iv) how the funding request aligns with Government objectives;
(v) adjustments to output and financial performance targets arising from the request; and
(vi) funding variations previously approved by the Treasurer or the relevant Cabinet committee for the program seeking the supplementation.

4.5.2 Reporting supplementation under section 35 of the FMA

All expenses and obligations to which any section 35 of the FMA request is applied must be reported in the financial year in which the supplementation was provided.

4.5.3 Restrictions on section 35 of the FMA

If any component of a section 35 of the FMA supplementation in a given year remains unapplied (i.e. unspent) at the end of the financial year, it may only be carried over to the following year with the approval of the Treasurer (section 35 (4) of the FMA).

Guidance

Definition

Section 35 of the FMA authorises the Treasurer to issue funding out of the Public Account to enable a Minister to meet urgent claims in the current budget year. Such urgent claims for budget supplementation may include funding required for additional output and asset investment initiatives approved by the relevant Cabinet committee.

Parliamentary sanction is required for this funding pursuant to the specific wording of section 35 itself. This is addressed in a subsequent year's Appropriation Bill (section 7). Therefore, because it is technically an advance from the Public Account until such time as approved by Parliament, a warrant is **not** required for supplementation under section 35 of the FMA.

In a single budget year, the Treasurer is only authorised under section 35 to issue temporary advances of up to 0.5 per cent of the total amount appropriated by the annual Appropriation Act (the main bill) for that year.[40]

Conditions

The Treasurer will initially only provide approval in-principle for successful funding requests under section 35. The final source of funding for this supplementation will be reviewed by DTF at the end of the financial year, taking into account other available sources of departmental funding.

The Treasurer is only able to approve section 35 advances in the year they apply. Advances cannot be approved after the end of the financial year.

Reporting

Accountability for use of section 35 is met through:

- the presentation of a summary of each year's expenditure in the State's annual Financial Report, which is tabled in Parliament after the end of each financial year; and
- the following year's Appropriation Act (for section 35 funding arising late in a financial year after the figures for the following financial year's Appropriation Bill have been set, the accountability will be through the subsequent year's Appropriation Act).

Application and assessment process

A Minister may apply for budget supplementation from section 35 by submitting a letter of request to the Treasurer.

Each request is assessed by DTF and advice is provided to the Treasurer. The Treasurer will determine whether or not to fund the request.

Approval notification

The Treasurer will provide return correspondence to the Minister making the request.

DTF will also advise the department on the following if the funding request is approved:

- the source of the funding;
- the revenue limit; and
- adjusted output and financial performance targets (if relevant).

[40] The Appropriation Bill for Parliament is not included in the calculation. Section 35 of the FMA does not appropriate the amount, it is section 7 of a subsequent year's Appropriation Bill (the main Bill) that does so. Since the following year's appropriation is submitted to the Parliament before the end of the financial year, the amounts presented for ratification are delayed until the following year's Bill. There is no equivalent schedule in the Bill for Parliament.

The difference between a Treasurer's Advance and supplementation under section 35 of the FMA

A TA and supplementation under section 35 of the FMA provide the Government with two sources of (almost identical) additional funding to supplement the budget in a given year. The key difference is that the TA appropriation is accounted for in the budget estimates and the Annual Appropriation Bill (under the Treasury and Finance portfolio), whereas funding legally available under section 35 is generally not included in the estimates.

In practice, this has meant section 35 has been used to fund capital expenditure (which does not impact the operating statement), while Treasurer's Advance is usually reserved for operating (output) expenditure. Note there is no provision in the FMA or elsewhere that precludes section 35 being used to fund operating expenditure, or TA being used to fund capital expenditure.

DTF will determine the final funding sources and seek approval from the Treasurer accordingly to use this section of the FMA.

4.6 Borrowing against future appropriation – section 28 of the FMA

Mandatory requirements

4.6.1 Managing requests to borrow against future appropriation under section 28 of the FMA

The Accountable Officer must ensure:

(a) all requests for borrowing against future appropriation are discussed with DTF, including advising of the quantum of the funding sought, before any correspondence is prepared for the request; and

(b) a letter from the relevant Minister to the Treasurer seeking supplementation from section 28 of the FMA, includes:

- (i) the reasons for the funding request, including how the request aligns with the specific requirements of section 28. Specifically:
  - why it is considered prudent and advantageous to expend the money in the current financial year; and
  - why the benefit of that allocation will accrue, or continue, in the next financial year;
- (ii) the quantum of the additional funding sought;
- (iii) that there are no other sources available to fund the request (or demonstrate there is an inability to redeploy existing resources to meet assessed requirements);
- (iv) how the funding request aligns with Government objectives;
- (v) adjustments to output and financial performance targets arising from the request; and
- (vi) funding variations previously approved by the Treasurer or the relevant Cabinet committee for the program seeking the advance.

4.6.2 Reporting on section 28 of the FMA expenditure

All expenses and obligations to which any section 28 of the FMA advance is applied must be reported in the financial year in which the advance(s) was made.

Guidance

Definition

Section 28 of the FMA enables the bringing forward of funding from future appropriations to the current year. Under the FMA, the Governor in Council, on the recommendation of the Treasurer, may approve an allocation to a department in addition to their annual appropriation amounts.

Section 28 supplementation is deemed a special appropriation and a warrant is required.

Conditions

For a section 28 request to be approved, the FMA states the Treasurer must not recommend the allocation to the Governor in Council unless the Treasurer is 'satisfied this allocation is for a prudent and advantageous purpose in the current financial year, and the benefit will accrue, or continue, in the next financial year'. Typically, this may apply to new capital projects or to capital projects that have been brought forward for continuation or completion. A successful justification for expenditure on outputs would be more difficult to sustain.

Under section 28 an amount issued must not exceed three per cent of the department's total (gross) annual appropriation for the year. The total available across all departments is 0.5 per cent of the total annual appropriation for that year.

Reporting

Accountability for use of section 28 is also met through the presentation of a summary amount in the State's annual Financial Report, which is tabled in Parliament after the end of each financial year.

Application and assessment process

A Minister may apply for budget supplementation from section 28 of the FMA by submitting a letter of request to the Treasurer.

Each request is assessed by DTF and advice is provided to the Treasurer. The Treasurer will determine whether or not to recommend the funding proposal to the Governor in Council for approval.

Approval notification

The Treasurer will provide return correspondence to the Minister making the request. DTF will also advise the department on the following if the funding request is approved:

- the source of the funding;
- the revenue limit; and
- adjusted output and financial performance targets (if relevant).

The difference between a bring-forward of appropriation under section 28 of the FMA and a payment from the Public Account under section 37 of the FMA

A bring-forward of appropriation under section 28 of the FMA and an advance from the Public Account under section 37 of the FMA each provide the Government with additional funding to supplement the budget in a given year. Neither of these funding sources are budgeted for in the budget estimates.

There are four main differences between section 28 and section 37 which departments need to consider before requesting either:

- section 28 provides a standing appropriation to issue money, whereas a payment from the Public Account under section 37 has the characteristics of an advance, which must be repaid at a future time, usually from a future year's appropriation (or other legal source);
- section 28 may only be used if the Treasurer is satisfied that the benefits from spending the money now will accrue or continue in the next financial year, whereas amounts issued under section 37 do not have this constraint;
- section 28 is limited to three per cent of the requesting department's current annual appropriation (and limited to 0.5 per cent of state's annual appropriation). There is no limit on the amount that may be issued under section 37; and
- interest is payable (at the Treasurer's discretion) on amounts issued under section 37, whereas interest is not payable on amounts issued under section 28.

DTF will consider these factors and the impacts on the financial statements of the department and the State in advising the Treasurer on the use of either section.

4.7 Transfers between items of departmental appropriation – section 30 of the FMA

Mandatory requirements

4.7.1 Managing appropriation transfers under section 30 of the FMA

The Accountable Officer must ensure:

(a) all requests for transfers are discussed with DTF, including advising of the quantum of the transfer sought, before any correspondence is prepared for the request; and

(b) a letter from the relevant Minister to the Treasurer seeking agreement to transfer amounts between appropriation items under section 30 of the FMA includes:

(i) the reasons for the request;
(ii) the quantum of the variation sought;
(iii) there are no other sources or mechanisms available;
(iv) how the request aligns with Government objectives;
(v) adjustments to output and financial performance targets arising from the request; and
(vi) other variations previously approved by the Treasurer or the relevant Cabinet committee for the programs affected.

Mandatory requirements

4.7.2 Reporting expenditure under section 30 of the FMA

All expenses and obligations to which any section 30 transfer is applied must be reported in the financial year in which the transfer was made.

Guidance

Definition

Section 30 of the FMA enables the relevant Minister, with consent from the Treasurer, to transfer an amount from one annual appropriation item to another in the current year, up to the limit appropriated in that year.[41]

A warrant is **not** required for a section 30 request.

Conditions

For a section 30 request to be approved, the relevant Minister must demonstrate:

- the amount of appropriation being transferred is no longer required for the original purpose for which it was appropriated, and
- the amount otherwise available in the appropriation to which the funds are being transferred is insufficient to fund the initiative/project.

Reporting

Accountability for use of section 30 is also met through the presentation of a summary amount in the State's annual Financial Report, which is tabled in Parliament after the end of each financial year.

Application and assessment process

Transfer requests must be in the form of a letter from the relevant Minister addressed to the Treasurer.

Each request is assessed by DTF and advice provided to the Treasurer. The Treasurer will determine whether or not to consent to the request.

Approval notification

The Treasurer will provide return correspondence to the Minister making the request. DTF will also advise the department if the transfer request is approved.

[41] Note, this only applies to appropriation items in the annual appropriation bill and does not apply to special appropriations.

4.8 Carryover of unused appropriation – section 32 of the FMA

Mandatory requirements

4.8.1 Managing requests for carryover of appropriation

The Accountable Officer must ensure:

(a) all requests for carryover are discussed with DTF, including the quantum of the carryover sought, before any correspondence is prepared for the request; and

(b) a letter from the relevant Minister to the Treasurer seeking approval to carryover unspent appropriation under section 32 of the FMA, includes:

- (i) the quantum of the carryover sought (for any output, ATNAB and POBOS appropriation);
- (ii) the reasons for the carryover request. This must include an explanation of why the carryover is sought, as well as information to justify its approval. Explanations must also include the identification and details of specific programs or projects that have resulted in the request;
- (iii) adjustments to output and financial performance targets arising from the request; and
- (iv) the application of any prior year's carryover on the programs or projects that form part of the request.

4.8.2 General carryover approval conditions and limits

(a) Under the FMA, only the Treasurer is permitted to carry over unapplied appropriation into the following year. The Treasurer assesses each carryover request, and makes the final decision as to whether or not to approve each request.

(b) Carryovers into the following budget year can only be considered where the appropriation has not already been applied.

(c) Any unapplied appropriation not approved for carryover will lapse.

(d) A department is not permitted to carry forward again an amount already carried over from a preceding year.

(e) Departments must follow any additional criteria developed by DTF that will be used to assess and inform advice to the Treasurer on carryover requests.

4.8.3 Specific conditions for carryover for output appropriation

(a) The Accountable Officer is not permitted to apply for carryover of unapplied output appropriation that is more than three per cent of the total (gross) appropriation for that item, unless the Treasurer directs otherwise.

(b) Any carryover request cannot exceed the difference between revenue certified and total appropriation provided in a financial year.

(c) A carryover request shall not be granted if:

- (i) the department's revenue for the year has been fully certified. or
- (ii) the Treasurer determines the request does not comply with an assessment made under criteria specified in Mandatory requirement 4.8.2(e).

Guidance

Definition of carryover

A carryover arises when amounts appropriated annually for departments or the Parliament, which remain unapplied at the end of one financial year, are approved by the Treasurer for application in the following financial year (i.e. amounts are 'carried over' and deemed added to the appropriation for the following financial year). This approval is granted under the authority of section 32(1) of the FMA.

The carryover provisions do not apply to special or standing appropriations.

Departments are **not** required to obtain a warrant for a section 32 request, as neither the request nor its subsequent approval (if granted) in itself involves drawing money from the Public Account. However, amounts drawn from the Public Account in the following financial year in consequence of the approval will need to be covered by a warrant. This usually means amounts carried over will need to be considered by DTF in calculations of the amount required for the following financial year in Warrant No 1, which is obtained when the Appropriation Act is passed, but a separate warrant may be created if necessary.

General carryover guidance

Provision of output appropriation

Where a department has delivered less than its budgeted quantity of outputs, but the outputs actually delivered have been provided within the budgeted unit cost, the department on behalf of the relevant Minister may apply to the Treasurer for approval for the remainder of the appropriation to be carried over to a subsequent year.

DTF will assess any requests for carryover against the department's revenue certification claim and the Government's priorities to ascertain whether the request is reasonable.

Additions to the net asset base (ATNAB) appropriation

Where a department's capital investment program has proceeded more slowly than originally budgeted, a department may seek the Treasurer's approval to carry over the unapplied appropriation specific to the delayed projects. Appropriation associated with a capital project that is to be discontinued is not usually eligible for carryover. The unapplied appropriation associated with such projects normally lapses, unless the Treasurer authorises otherwise.

Requests for carryover of unapplied appropriation for additions to the net asset base are considered on a case-by-case basis.

Payments made on behalf of the State (POBOS) appropriation

A department on behalf of the relevant Minister may apply to the Treasurer for a carryover related to the deferral of any payments made on behalf of the State.

Requests for carryover of unapplied appropriation for payments made on behalf of the State are considered on a case-by-case basis.

When should carryover apply (or not apply)?

A department's carryover request will be considered and assessed on a case-by-case basis by DTF.

There are certain types of expenditure which, as a general rule, DTF would not support for carryover. Such examples include:

- funding for initiatives the Government has decided should not continue;
- employee expenses for ongoing employees; and
- funding for the awarding of legal costs (where the outcome is not yet determined).

Contrasting carryover with the definition of a surplus

Where a department *fully delivers* the outputs funded by provision of output appropriations, and the output expenses are less than its revenue, the difference is recognised as a surplus on the provision of outputs.

Departments retain this surplus in their State Administration Unit receivables account, and may apply to use it in a future financial year to increase the quantity or quality of outputs provided, subject to the approval of the Treasurer.

In contrast, a carryover implies a department has been unable to use the full appropriation amount in its output delivery, so there has been *under-delivery* of the output. It is the Government's prerogative whether or not to fund the output shortfall in the following financial year, or alternatively to apply the funds to the delivery of an additional output initiative.

Update of budgets with carryover estimates

Departments should include any forecast appropriation carryover estimates in their annual budgets. They should also review and, if required, revise appropriation carryover estimates during each update of the budget.

4.9 Access to previously appropriated amounts under section 33 of the FMA

Mandatory requirements

4.9.1 Managing applications for previously appropriated amounts

Access to previously appropriated amounts under section 33 of the FMA may be granted for one of the following:

(a) use of prior years' surpluses;

(b) long service leave (LSL) funding accumulated in prior years;

(c) payment of outstanding creditors or other accrued obligations; or

(d) depreciation equivalent funding accumulated in prior years (for funding asset investment only).

4.9.2 Process and requirements for section 33 of the FMA

The Accountable Officer must ensure:

(a) all FMA section 33 requests are discussed with DTF, including quantum of the funding sought, before any correspondence is prepared for the request; and

(b) a letter from the relevant Minister to the Treasurer or the relevant Cabinet committee to access one of the sources of funding in Mandatory requirement 4.9.1 under FMA section 33 includes:

(i) the reasons for the funding request;
(ii) the quantum of the funding sought;
(iii) how the purpose of the funding request aligns with Government objectives; and
(iv) adjustments to output and financial performance targets arising from the request.

4.9.3 Reporting on expenditure under section 33 of the FMA

All expenses and obligations to which any section 33 of the FMA is applied must be reported in the expenses and payments of the financial year in which the amount was made available.

Guidance

The use of section 33 of the FMA

Section 33 of the FMA is the enabling authority (special appropriation) to access the accumulated balances of a department's SAU receivables account, and requires the Treasurer's approval to draw on the Consolidated Fund.

A warrant is required for section 33 requests. For specific guidance on when section 33 of the FMA may be used, refer to the following sections:

- departmental surpluses (Section 4.11);
- depreciation equivalent balances (Section 4.12), and
- LSL equivalent balances (Section 4.13).

4.10 Public Account advances – section 37 of the FMA

Mandatory requirements

4.10.1 Managing requests for Public Account advances under section 37 of the FMA

The Accountable Officer must ensure:

(a) all requests for funding under section 37 of the FMA are discussed with DTF, including the quantum of funding sought, before any correspondence is prepared for the request; and

(b) a letter from the relevant Minister to the Treasurer for advances under section 37 of the FMA includes:

- (i) the reasons for the request;
- (ii) the quantum of the amount sought;
- (iii) there are no other sources available to fund the request;
- (iv) how the funding request aligns with Government objectives;
- (v) adjustments to output and financial performance targets arising from the request;
- (vi) supporting cash flow projections over the forward estimates and the proposed source of funds to meet the repayment schedule with expected timeframes; and
- (vii) funding variations previously approved by the Treasurer or the relevant Cabinet committee for the program seeking the advance.

4.10.2 Reporting expenditure under section 37 of the FMA

All expenses and obligations to which any section 37 of the FMA is applied must be reported in the financial year in which the advance(s) was made.

Guidance

Definition

Section 37 of the FMA enables the advancing of funds from the Public Account, to be repaid at a later point in time.

A warrant is **not** required for a section 37 request as it is not a drawdown from the Consolidated Fund.

The differences between advances from the Public Account under section 37 of the FMA and a bring-forward of appropriation under section 28 of the FMA are outlined in Section 4.6.

Conditions

The Treasurer's approval is required for a section 37 Public Account advance, which will provide the authority to draw down on the funds.

Such an advance may be used as temporary (short-term) funding pending receipt of other revenues, including future year appropriations in the following circumstances (not a definitive list):

- to pay the outstanding bills of a department or public agency; or
- to bring forward funding of an investment or initiative that realises savings at a later point in time.

Repayment of the advance is required, and interest may be charged on such advances.

Departments should also review and, if required, revise estimates during each update of the budget, noting the Treasurer's approval is required for any deviations from the agreed repayment schedule.

4.11 Departmental surpluses

Mandatory requirements

4.11.1 Application of departmental surpluses

Subject to compliance with the procedures set out at Section 4.9, a departmental surplus[42] on the provision of outputs may be applied at the discretion of the Accountable Officer, provided the use of the departmental surplus is one-off in nature and does not give rise to any future year commitment or customer expectations of future commitment.

Guidance

Output appropriation is provided to departments by Government as payment for the production of agreed outputs.

Under this funding model, Government pays a 'price' to departments (recognised as revenue) for delivery of outputs. If a department produces outputs for less cost than the revenue provided, it records a surplus on these outputs, which is included in the balance of the department's SAU inter-entity account.

The department may apply to the Treasurer to access and apply that surplus to other spending proposals under section 33 of the FMA. This is intended to act as an incentive to departments for delivering outputs for less than the agreed 'price'.

The range of purposes to which a surplus may be applied is not limited as long as departments comply with the broad parameters set out in the mandatory requirements.

This guidance should be read in conjunction with Section 4.9 (access to previously appropriated amounts under section 33 of the FMA). Note a warrant is required to access surpluses generated in prior years.

[42] A departmental surplus is not to be confused with an operating surplus. An operating surplus occurs when revenue exceeds expenses in a department, which may include revenue and expenses that are not output-related (e.g. revenue from the sale of assets).

The contrast with carryover

Carryover occurs when an annual appropriation amount for the previous year was not applied and the Treasurer has approved the application of this amount in the following year. This implies under-delivery of the outputs concerned, whereas a surplus is the difference in appropriation revenue achieved above the cost of delivery of an output.

4.12 Depreciation and depreciation equivalent

Mandatory requirements

4.12.1 Depreciation equivalent for asset revaluations

The Accountable Officer must ensure that a letter is sent from the relevant Minister to the Treasurer to request an increase in a department's depreciation equivalent (appropriation) funding, to account for any increase in depreciation expense following asset revaluations.

4.12.2 Depreciation equivalent for portfolio agencies

If informed by a decision of the Government, a department may transfer depreciation equivalent funding for approved capital projects in portfolio agencies as a capital grant expense to the agency concerned. The receiving agency will recognise the grant as revenue.

4.12.3 Depreciation on administered assets

(a) Depreciation on an administered asset must be recorded in a department's administered entity.

(b) A department must not include depreciation on an administered asset in departmental controlled operating costs for budgeting or reporting purposes.

(c) Depreciation equivalent asset investment funding does not apply to the acquisition of an administered asset.

(d) If an administered asset is required to be replaced or enhanced, funding must be sought as part of a submission.

Guidance

Definition of depreciation equivalent

Depreciation equivalent is the amount of appropriation revenue equal to actual depreciation expense for a given year. As depreciation is a non-cash expense, this amount remains undrawn in the Consolidated Fund, but is initially recognised notionally for the department in its SAU receivable account until expended on approved capital investment items.

What is the purpose of depreciation equivalent?

The purpose of depreciation equivalent revenue is to preserve the net asset value of the department by providing a source of asset investment funding. Both the Appropriation Act and section 33 of the FMA for accumulated prior year unspent balances require that expenditure can only be made on fixed assets.

Under accrual budgeting principles, depreciation equivalent is one of the primary sources of funds available for asset investment, along with:

- proceeds of net asset sales (generally accessed under a section 29 agreement); and
- Additions to the Net Asset Base (ATNAB) appropriation funding.

Other sources of funding include Commonwealth (section 29 agreement) or other third party revenues (generally through ATNAB or revenue of portfolio agencies, such as TAFEs or hospitals).

Refer to Section 3.5 for more information on the funding of assets, and **the order in which the fund sources should be accessed**.

There is no direct link between depreciation equivalent and the renewal and replacement requirements in a department's physical asset base. However, the intent of depreciation equivalent is to be a primary contributor to sustain asset investment requirements.

How does a department access its depreciation equivalent balance?

A department may only access depreciation equivalent to fund approved asset investment programs determined by the Government.

Current year's depreciation equivalent revenue – may be accessed by a department to fund approved asset investment.

Prior year's depreciation equivalent balances – a department may submit a request to the Treasurer to access this balance in its SAU account under section 33 of the FMA.[43]

For instructions on the application of a section 33 request, please see Section 4.9 (access to previously appropriated amounts under section 33 of the FMA).

Note where a department has prior years' depreciation equivalent balances available, these balances should be applied to asset investment before accessing their ATNAB appropriation.

Depreciation on administered assets

Administered assets are managed by a department on behalf of the State. Departments should maintain accounting records of depreciation on administered assets in the same way as their controlled assets.

However, depreciation on administered assets is not associated with departmental output delivery, therefore it is not included in output costs.

When an administered asset is to be replaced or enhanced, an amount for asset investment should be sought as part of the overall appropriation for administered items.

Transfer of depreciation equivalent to agencies

As a general rule, depreciation equivalent revenue should **not** be applied to government-controlled agencies outside the general government sector.

[43] Section 33(2) of the FMA only permits depreciation equivalent balances to be used to fund asset investment.

Impact of asset revaluations

As part of an asset revaluation process, the accumulated depreciation associated with the asset being revalued is 'written back' into the accounts. There is no impact however on the existing depreciation equivalent balances in a department's SAU inter-entity account.

Other information on depreciation equivalent

What is the difference between depreciation and depreciation equivalent?

Depreciation expense refers to the non-cash expense charged to an agency's accounts to represent the allocation of an asset's cost over its useful life. As this expense has no associated cash outflow, the depreciation equivalent revenue included as part of a department's output appropriation funding remains in the Consolidated Fund. Being part of the revenue earned by a department for the year, it is recorded as a receivable in the department's SAU inter-entity account, pending drawdown from the Consolidated Fund for approved asset investment purposes.

What is the difference between depreciation equivalent and *accumulated* depreciation?

There is no direct link between accumulated (i.e. unspent) depreciation equivalent in the SAU (which is an asset), and accumulated depreciation, which captures the written-down value of assets in the Balance Sheet (a contra-asset).

Attachment 9: Depreciation Equivalent – Asset funding sourced from provision of outputs appropriation diagram

FRD 119A Transfers through Contributed Capital

Note to this edition:

Funding the interest expense associated with the progressive recognition of Service Concession assets[44] (under the AASB changes)

Under the progressive recognition of public private partnerships as required under the changes in the accounting standards, departments will incur (non-cash) interest expenses in the lead-up to commercial acceptance. DTF considers that these expenses should be funded by additional appropriations to ensure a department receives sufficient revenue for the costs incurred in output delivery, provided the existing funding requirements for such assets are funded from appropriations.

Given the non-cash nature of these expenses, departments should record this 'receivable from government' in its SAU. In order to avoid a perpetual balance in the SAU from this, departments should swap existing appropriations for the service payments for a drawdown of this funding from the SAU following commercial acceptance until this funding source from the SAU is exhausted.

Appropriation for depreciation during the progressive recognition should generally not be required as depreciation should only commence upon the completion of the asset.

[44] These are contractual and other arrangements between the public sector and the private sector, whereby the public sector either arranges for projects to be privately financed or provides existing infrastructure and the private sector either supplies the infrastructure and operates it, or operates existing infrastructure provided to it in the delivery of what are ordinarily considered to be public services.

4.13 Long service leave (LSL) and long service leave equivalent

Mandatory requirements

4.13.1 Valuation of balances of accumulated long service leave

The Accountable Officer must ensure:

(a) the accumulated long service leave (LSL) provision is estimated in line with the reporting provisions set out in AASB 119;

(b) any variation to the liability is brought to account as a revaluation of the liability at 30 June each year, split between its components of 'transaction' and 'other economic flows'; and

(c) the gain or loss on revaluation of the LSL provision is included in 'other economic flows' in the departmental operating statement.

4.13.2 Including estimated annual LSL expense in output costs

Estimated annual LSL expense (i.e. the amount expensed as a transaction in a department's controlled operating statement) must be included in calculating the total estimated output costs of a department.

4.13.3 LSL equivalent

(a) A LSL equivalent amount is recognised in the SAU inter-entity account when an actual LSL expense is first recognised.[45]

(b) Any revaluation or write back of LSL that has been classified as an 'other economic flow' does not change the LSL equivalent amounts in the SAU inter-entity account.

(c) LSL equivalent accumulates as a financial asset in a department's SAU inter-entity account, until used to fund LSL payouts.

4.13.4 Transferring LSL balances between departments

(a) When employees are transferred between departments *as a result of a machinery of government change*, the accumulated liability and the full amount of LSL equivalent must be transferred between the two departments.

(b) For all other transfers of employees between departments (e.g. due to job transfers, promotions etc.), only the accumulated liability is transferred between the two departments. The LSL equivalent is not transferred.

4.13.5 Funding long service leave when LSL equivalent is exhausted

(a) The Accountable Officer must ensure sufficient LSL equivalent is included in budgeting processes, to cover any expected upcoming LSL payouts.

(b) When a department's expected LSL payouts in a particular budget year is estimated to exceed the funds available in its SAU inter-entity account, departments may seek additional supplementation by providing a submission to the relevant Cabinet committee for consideration.

[45] This **excludes** any subsequent recognition of gains or losses on revaluation of the LSL provision arising from the changes in present value resulting from the discount (bond) rate applied.

Guidance

LSL provision

Accumulated LSL provisions for employees are a liability on each department's balance sheet. The LSL entitlement expense starts to accumulate when an employee completes a prequalifying period with a department. In each accounting period an operating expense is recognised, which progressively increases the corresponding accumulated liability.

Generally, under existing public sector employment conditions, employees are entitled to three months LSL after 10 years of service, which can be accessed on a pro rata basis after seven years of service.

LSL represents an obligation (or a liability) of the department to its employees and any LSL outstanding at the end of each reporting period is accrued.

Theoretically, the LSL entitlement starts when an employee commences with a department. However, in practice, a LSL expense is financially recognised when an employee completes a prequalifying period of service (although generally the legal obligation to pay out LSL does not commence until an employee has achieved seven years' continuous service).

LSL equivalent

The component of a department's revenue stream, equal to actual LSL expense incurred by an employee, becomes the amount of LSL equivalent available to a department, recognised in its SAU balance. This amount is set aside notionally in the Consolidated Fund for the purposes of paying out LSL when required.

Drawdown of cash to fund LSL payouts

Cash payments for LSL, regardless of the period to which the liability relates, will be met by drawing against the LSL equivalent balance in the SAU inter-entity account. It may be some years before payment is due, and in that time the balance in the SAU inter-entity account should have increased sufficient to cover the amount due in cash. If, because of an unexpected demand for LSL payouts, there is insufficient LSL equivalent balance available, the department will need to apply for additional funding to cover the expected cash shortfall.

Payment to employees will draw down against the department's LSL provision when:

- employees choose to use their LSL entitlement after it matures (through the taking of leave, or via a monetary payout); or
- employees cease employment with the Victorian public service and their employment agreement entitles them to a monetary payout of part or all of their accrued benefit.

Departments do not need to apply to access LSL equivalent accumulating in the SAU inter-entity account to pay out LSL unless the drawdown of cash for this purpose leaves the SAU closing balance at 30 June lower than the year's opening balance at 1 July. In this latter case, approval is required under section 33 of the FMA to access the prior year's SAU balance.

For instructions on the application of a section 33 request, please see Section 4.9 (access to previously appropriated amounts under section 33 of the FMA).

Transferring employees between departments

Adjustments of LSL obligations relating to employees transferred between departments may be affected as an annual adjustment covering net transferred entitlements of all transferred employees.

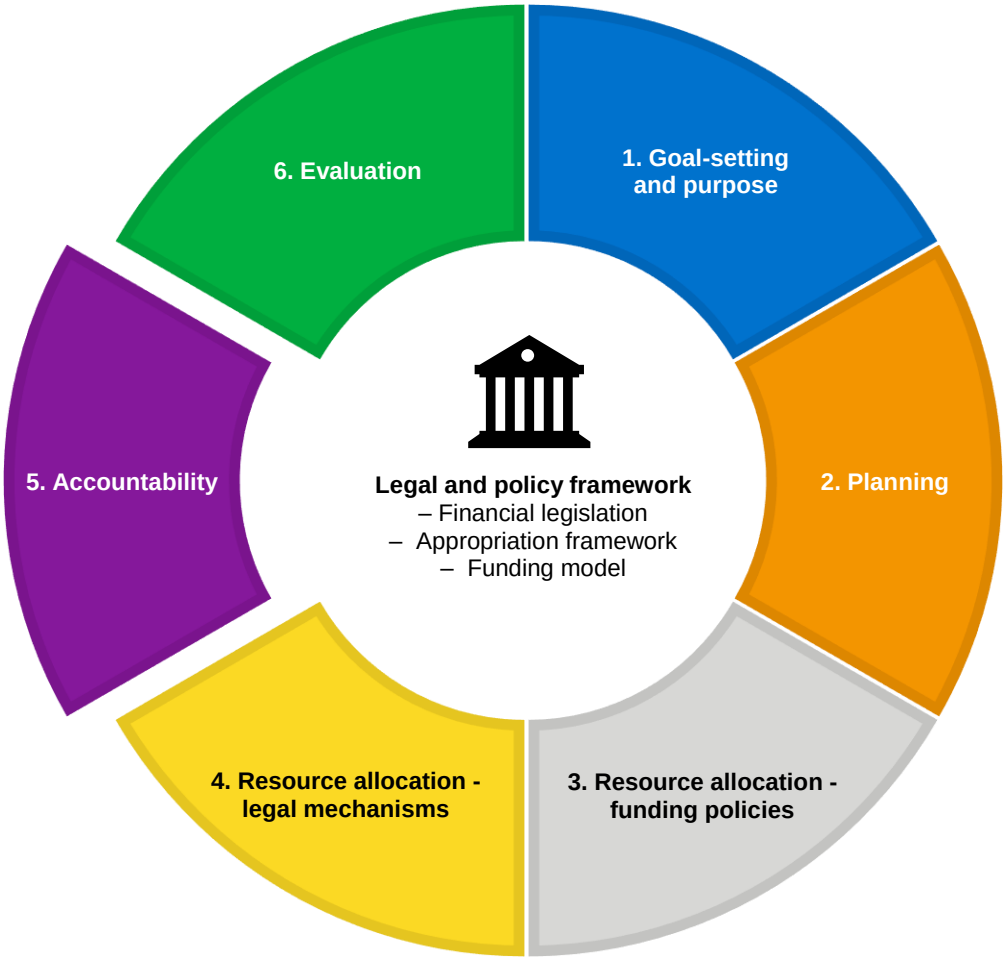
Attachment 10: Pro-forma journal entries for LSL transactions

Attachment 11: Representation of long service leave funding flows (DJPR as the example)

AASB 119 Employee Benefits

FRD 17B Wage Inflation and Discount Rates for Employee Benefits

5. Accountability



Overview

The fifth stage of the IMC is **accountability**.

DTF is responsible for supporting the Treasurer and the Assistant Treasurer in discharging their accountability to Parliament for:

- the overall financial and performance management of the State; and
- the Government's reporting obligations under the FMA.

Departments are responsible for:

- providing quality and timely information to assist in resource allocation processes;
- supporting departmental secretaries and Portfolio Ministers during parliamentary estimates hearings;
- providing DTF with information[46] in accordance with DTF Information Requests through budget and performance management processes;

[46] Departments are often responsible for collating and submitting information on behalf of portfolio agencies.

- appropriate financial management and reporting on the resources it uses and controls, to ensure expenditure is efficient and effective; and
- establishing their own internal performance reporting arrangements to assess delivery performance against plan and budget, and progress towards achieving the department's objectives.

To assist DTF in its accountability and advisory roles, departments are required to comply with data and reporting requirements. Data submission to DTF for these purposes is usually provided through the State Resource Management System (SRIMS), or through other mechanisms as advised by DTF.

There are two reporting categories:

- **External reporting** – reporting to Parliament and the general public in budget papers and departmental annual reports; and
- **Internal reporting** – reporting on output performance and asset reporting, for monitoring and revenue certification purposes, and monthly reporting and cash forecasting. This is the focus of this stage of the IMC.

Internal reporting and accountability

The performance measurement reporting and accountability arrangements discussed below provide information to aid Government decision-making on resource allocation and delivery.

Output performance report

The output performance report provides analysis and discussion on the progress of delivery of departmental outputs and their associated performance measures and targets against targets published in Budget Paper No. 3, *Service Delivery*.

The aim of the output performance report is to provide information to Government to improve results, and to hold output managers to account.

Output performance monitoring occurs formally through six-monthly reports.

Asset investment report

The asset investment report provides information to Government on the progress of delivery of significant asset projects in the State. This includes determining if targets are being met.

Assessment of the Government's asset investment program occurs through quarterly reports.

Revenue certification

As an extension of the concept of Government paying a 'price' for services delivered, departments are required to submit an 'invoice' to Government to support the appropriation revenue provided to departments for outputs delivered and asset funding provided. This is known as the revenue certification process.

The invoice is submitted with accompanying output performance, and quarterly asset investment reports, to support the revenue claim.

The revenue claimed is reviewed by DTF, and the final amounts are certified by the Assistant Treasurer and applied by the Treasurer at the end of the financial year.

Monthly reporting

DTF is responsible for generating a monthly financial report from September to June each financial year.

The purpose of the monthly financial report is to provide Ministers and the DTF executive with analysis of key fiscal aggregates and information on specific line items of financial statements regarding the performance of the general government sector during the reporting period.

Cash flow forecasting and cash management

DTF's role is to monitor and manage the cash flow requirements for the Public Account, through information obtained from departments. This assists DTF in managing the budget, the State's level of borrowings, its investments, and its risk profile.

Appropriate management of the Public Account assists to:

- ensure there is enough cash available to service bills;
- identify and appropriately invest any surplus funds to maximise returns to the State, or to identify funding deficits for appropriate action; and
- detect any unusual activity/movements and take action where required.

The Central Banking System

Victoria operates the Central Banking System (CBS), which centralises the State's funds and bank accounts. It aims to improve the State's working capital management and help manage its investment portfolio and borrowings.

The Standing Directions specifically requires departments and general government sector agencies to hold all surplus funds in the CBS.[47]

[47] There are certain exemptions to this requirement, outlined in the Standing Directions.

5.1 Output performance report

Mandatory requirements

5.1.1 Frequency and timing of the output performance report

The Accountable Officer must submit an output performance report[48] bi-annually (i.e. for the six months ended 31 December and the 12 months ended 30 June) to DTF to support its revenue certification invoice claim, within the timeframes in the DTF Information Request.

5.1.2 Requirements for the output performance report to support the revenue certification claim invoice

The Accountable Officer must include the following information in the output performance report to support the revenue certification claim invoice (see Section 5.3):

(a) a table listing revenue claimed against target for each output;

(b) a table listing actual performance compared to target for each output (for all agreed quantity, quality, timeliness and cost measures); and

(c) comments and discussion on any major variances between actual output performance and target output performance.

5.1.3 Other information requirements for the output performance report

The Accountable Officer must also include in the output performance report:

(a) *key strategic performance issues* – significant emerging issues or risks[49] that are material to the performance of the department and portfolio, and those issues currently being addressed that are likely to impact on key Government priorities;

(b) *major budget commitments and follow-up issues* – progress on specific budget commitments and initiatives, and reporting on other issues the relevant Cabinet committee has requested;

(c) *progress against efficiency targets* – progress made in the achievement of efficiency targets endorsed by Government;

(d) *prior year's carryover* – detail on the use of these carryover amounts from the previous financial year, identified by outputs affected;

(e) *upcoming year's carryover* – information on expected carryover amounts for June. This must include identification of the outputs that are affected by the carryover;

(f) *hypothecated trust accounts* – with balances and/or annual revenue streams of $25 million or more, unless alternative reporting arrangements are in place;

(g) *machinery of government changes* – information on their impact and implementation during the financial year; and

(h) any changes to the annual output mix that have occurred during the year.

[48] Also refer to Financial Reporting Direction FRD 8D *Consistency of budget and financial reporting (January 2016).*
[49] Not limited to performance against output performance measures.

Guidance

The output performance report provides information to inform:

- reporting to the relevant Cabinet Committee on the output performance of departments and highlighting key service delivery issues at a whole of government level. This may include:
  - implementation of key business strategies and initiatives;
  - financial and service delivery performance; and
  - the identification of budget pressures and emerging risks to future performance or the budget outlook; and
- recommendations to the Treasurer and the Assistant Treasurer on the amount of revenue which should be certified for each department based on their reported output performance against targets.

Section 5.3: Revenue certification

Departments should consider informing the governing body responsible for monitoring their departmental performance (e.g. the Senior Executive Group) during the financial year.

Output performance reporting specifically should:

- identify performance trends, gaps and risks;
- facilitate the implementation of mitigation strategies and corrective actions, if required; and
- cover both the financials and non-financials and the interrelationships between them to enable integrated performance information to be reported.

Output performance monitoring should be conducted for all levels and types of plans (e.g. corporate, operational and financial plans).

Departments should consider informing the relevant Minister of significant risks when they become aware of the following:

- significant variations to strategies compared to plan;
- significant variations to targets compared to plan; and/or
- any financial or non-financial (including reputational) developments which may materially impact the department or the Government.

DTF assessment of the output performance report and revenue certification claim invoice

On receipt of each revenue certification invoice, DTF assesses actual departmental output performance against agreed performance measures based on output delivery.

In the event that assessment at output level may be deemed inappropriate, DTF and the department may agree on alternative, suitable and appropriate performance information that could be used as the basis for revenue certification.

Revenue claimed by departments is deemed to be certified if outputs meet or exceed their agreed quantity, quality, timeliness and other agreed performance measures at year end. Revenue paid into trust accounts may be certified ahead of service delivery.

Where actual performance data for the six months to December is not available due to time lags the following applies:

- estimated performance is based on actual performance for three months of the year and estimated performance for the remaining three months or some other measure agreed between DTF and departments; and
- if actual performance data becomes available subsequently, and materially varies from that previously estimated, any resulting revenue adjustment is taken onto the department's books at the end of financial year.

Where actual performance data is not available at year-end due to time lags, the following applies:

- estimated performance is based on actual performance for nine months of the year and estimated performance for the last quarter or some other measure agreed between DTF and departments; and
- if actual performance data becomes available after the financial statements have been audited/published and materially varies from that previously estimated, any resulting revenue adjustment is taken onto the department's books in the following financial year.

5.2 Asset investment report

Mandatory requirements

5.2.1 Frequency and timing of the asset investment report

The Accountable Officer must submit an asset investment report on a quarterly basis to DTF, within the timeframes in the DTF Information Request.

5.2.2 Submitting quarterly asset phasings

The Accountable Officer must ensure departmental quarterly phasings for asset investment projects are agreed between DTF and departments within the first quarter of each financial year, or as specified in a DTF Information Request.

5.2.3 Reporting on each asset project

The Accountable Officer must provide the following information in an asset investment report for each asset:

(a) asset project name;

(b) funding source;

(c) phasings of quarterly expenditure;

(d) key milestone dates; and

(e) any other relevant information such as the type of work.

Mandatory requirements

5.2.4 Asset investment report

The Accountable Officer must provide information on:

(a) issues relating to the overall progress and outlook on specific major asset projects including progress on the annual investment program, both in terms of project delivery and financial expenditure;

(b) the progress and delivery of all investment projects being undertaken by the Government (as listed in Budget Paper No. 4, *State Capital Program*); and

(c) the source of funds used to fund asset investment, including:

(i) depreciation equivalent funding;
(ii) Additions to the Net Asset Base (ATNAB) appropriation (which may include revenue from a section 29 arrangement);
(iii) revenue from the Commonwealth; and/or
(iv) other third party revenue sources.

Guidance

The asset investment report provides DTF with a department's overall asset investment program on a quarterly basis. This information is then complied by DTF to inform:

- reporting to the relevant Cabinet Committee on the progress of capital projects, and
- recommendations to the Treasurer and the Assistant Treasurer on the amount of revenue that should be certified (the ATNAB amounts).

5.3 Revenue certification

Mandatory requirements

5.3.1 Requirements for the revenue certification claim invoice

(a) The Accountable Officer must submit an invoice to DTF to request certification of revenue from the following sources:

(i) *provision of outputs appropriation (including any section 29 of the FMA revenue)* – for delivery of outputs assessed against agreed performance measures;
(ii) *Additions to the Net Asset Base (ATNAB) appropriation (including any section 29 of the FMA revenue)*; and
(iii) *Payments on behalf of the State (POBOS) appropriation* – for activity conducted on behalf of the state.

(b) The Accountable Officer must submit a revenue certification invoice to DTF bi-annually for the following time periods:

(i) one for the six months ending 31 December – the *provisional* invoice; and
(ii) one for the 12 months ending 30 June – the *final* invoice.

(c) The Accountable Officer must sign each invoice before lodgement with DTF (cannot be delegated).

(d) The revenue certification invoice claim must be submitted in conjunction with the relevant output performance report.

Mandatory requirements
5.3.2 Treatment of appropriation revenue Following certification of revenue, the Accountable Officer must recognise and report appropriation revenue in line with accepted accounting standards.

Guidance

A revenue certification invoice claim is required to be submitted by a department twice a year.

Invoice submitted for the six months ending 31 December

This invoice is provided for noting only. A department may post the full value of the revenue claim to its revenue account in this period, but the amount is subject to subsequent verification (and potential alteration).

Overall process

On receipt of each invoice, DTF assesses:

- actual departmental output performance against agreed performance measures based on output delivery;
- asset investment issues regarding the ATNAB component of funding used; and
- any administered issues by considering the POBOS component of funding.

DTF then provides advice to the Assistant Treasurer regarding the department's invoice and whether any adjustments should be made, more specifically:

- **invoice for the six months ending 31 December** – DTF advises the Assistant Treasurer if there are any issues including under performance which may have an impact on revenue certification at 30 June; and
- **invoice for the 12 months ending 30 June** – DTF advises the Assistant Treasurer on whether the invoice should be accepted as submitted.

Revenue claimed by departments may be rejected when outputs do not meet their performance measures and/or service delivery has not occurred. This means that the final revenue certified may be less than the invoiced amounts received from departments.

On the basis of this advice, the Assistant Treasurer advises the Treasurer to formally apply (or note, in December) the amount of appropriation revenue to be recognised by the department.

Specific issues

Actual versus estimated data

In some circumstances, revenue certification for the year will not be based on actual performance data due to time lags in data availability and therefore an estimate will need to be provided.

This estimated performance should refer to actual performance over the latest 12 month period (e.g. April to March) for which full data is available, together with the estimated impact in the final months of the year of any reasonably certain factors which will have a material effect on performance.

This means that end-of-financial year (i.e. annual) revenue could be certified, and audited, on the basis of performance data estimated in good faith. Assuming actual data becomes available only after the financial statements have been audited and published, then any revenue adjustment will be taken onto the department's books in the following financial year.

Carryover

Where a department has delivered less than its budgeted quantity of outputs, but the outputs actually delivered have been provided within the budgeted unit cost, the department may apply to the Treasurer for approval for the remainder of the appropriation to be carried over to a subsequent year

Section 4.8: Carryover of unused appropriation – section 32 of the FMA

Trust accounts

Revenue paid into trust accounts may be certified ahead of service delivery, provided that the revenue transfer is consistent with the requirements of the Appropriation Act.

In line with the appropriate use of trust accounts, such revenue is not necessarily matched to expenditure in any particular year, which may result in balances being carried into the following year.

5.4 Financial monthly reporting

Mandatory requirements

5.4.1 Monthly feed requirements

Each month[50], the Accountable Officer must submit[51] to DTF:

(a) a trial balance data feed into SRIMS, within five business days after the end of the month being reported; and

(b) commentary/explanations, with CFO sign-off on both controlled and administered items, within 10 working days after the end of the month being reported, on:

(i) variations between budgeted and actual results;
(ii) variations comparing the current year to the previous year; and
(iii) any other significant factors which have influenced the reported results.

5.4.2 Other requirements

The Accountable Officer must provide appropriate documentation to DTF, as stated in the relevant DTF information request.

Guidance

DTF produces a monthly financial report from September to June each financial year. This report provides Ministers and the DTF executive with analysis of key fiscal aggregates and information on specific line items of financial statements regarding the performance of the general government sector during the reporting period.

The quality of the advice provided to Government on the financial performance and position of the State is dependent on the quality and timeliness of the data and analysis submitted by departments. Departments are expected to work closely with their DTF contacts in providing data and analysis of a sufficiently high standard to deliver this outcome.

[50] The monthly financial report is produced from September onwards, therefore monthly feeds for July and August are not required.
[51] Unless other instructions are provided via a DTF Information Request.

5.5 Cash flow forecasting

Mandatory requirements

5.5.1 Forecasting requirements for funds held in the Public Account

(a) By the last business day of each month, the Accountable Officer must provide the following forecasts to DTF:

(i) a rolling daily cash flow forecast for the next two months ahead (months 1 and 2); and

(ii) a rolling monthly cash flow forecast for the remaining months ahead (months 3 to 12).

(b) These cash flow forecasts must be updated prior to 10:30am each business day in order to reflect the latest cash flow requirements.

(c) The monthly cash flow forecasts must be reviewed and authorised by the departmental CFO prior to being provided to DTF.

(d) The Accountable Officer must provide to DTF, reasons for any material variations (above 10 per cent) between:

(i) the latest cash flow forecasts and those provided in July each year (based on the Budget);

(ii) the latest cash flow forecasts and the prior month's cash flow forecasts;

(iii) material variances between the cash flow forecasts and actuals; and

(iv) any other information requested by DTF.

Guidance

During the last week of each month, departments update their cash flow estimates for the next 12 months by the fifth working day of the following month.

The forecasts comprise the cash requirements for their expenditure bank account(s), and the receipts to revenue bank account(s).

As the financial year progresses, cash flow forecasts will deviate. Departments are requested to update these forecasts in a timely manner by advising DTF of any deviations from forecasts.

It is advised that departments prepare forecasts of their cash flow for each month consistent with their departmental annual cash flow statements published in Budget Paper No. 5 *Statement of Finances* (BP5).

As the cash flow statements in BP5 may include transactions outside of the Public Account, departments will need to remove these transactions from their monthly cash flow forecasts before submitting them to DTF.

5.6 Cash management and reconciliation

Mandatory requirements

5.6.1 Daily cash transaction recording requirements

The Accountable Officer must claim and process the daily departmental general government bank account transactions in the cash ledger by no later than close of business three days after the entry has been loaded into SRIMS.

5.6.2 Monthly cash transaction reconciliation requirements

(a) At month end, the Accountable Officer must reconcile all cash transactions with Treasury Corporation of Victoria (TCV) for the calendar month with their respective departmental general government bank account statements.

(b) The reconciliation under (a) must be completed in time for the following timelines to be met:

(i) by the fifth business day of the new month: all departmental account transactions must be claimed and processed into the cash ledger and reconciled to the department's end of month bank statement; and

(ii) by the 10th business day of the new month: departments must submit a monthly reconciliation between its actuals and cash ledger for specified accounts via email to cashmanagement@dtf.vic.gov.au.

Guidance

The cash ledger and actuals ledger balances must align. The following diagram shows the requirements at a high level:

Cash ledger in SRIMS	**Must agree** ⟷	Actuals ledger in SRIMS

The central State Administration Unit (SAU) reconciliation relies upon the accuracy of this reconciliation.

Attachment 12: Template for cash and actuals reconciliation in SRIMS provides the monthly reconciliation template to be used at the calendar month end. The template aims to assist departments to balance data and to identify any reconciling items prior to submitting their SRIMS feed to DTF. This reconciliation is authorised by each department's CFO.

Additional information

The Central Banking System

The State of Victoria operates a centralised system of cash management comprising the accounts held within the Public Account, and other accounts outside of the Public Account (known as the Non-Public Account), and other trust account investments held external to the Public Account. This grouping of accounts is held within the Central Banking System (CBS).

The arrangement requires departments and general government sector agencies to hold surplus funds in the CBS. The CBS enables the cash management requirements of the general government sector to be centrally managed and reduces interest expense as borrowings can be minimised.

In certain circumstances or in line with legislative requirements, departments and agencies can invest funds with the Treasury Corporation of Victoria or the Victorian Fund Management Corporation.

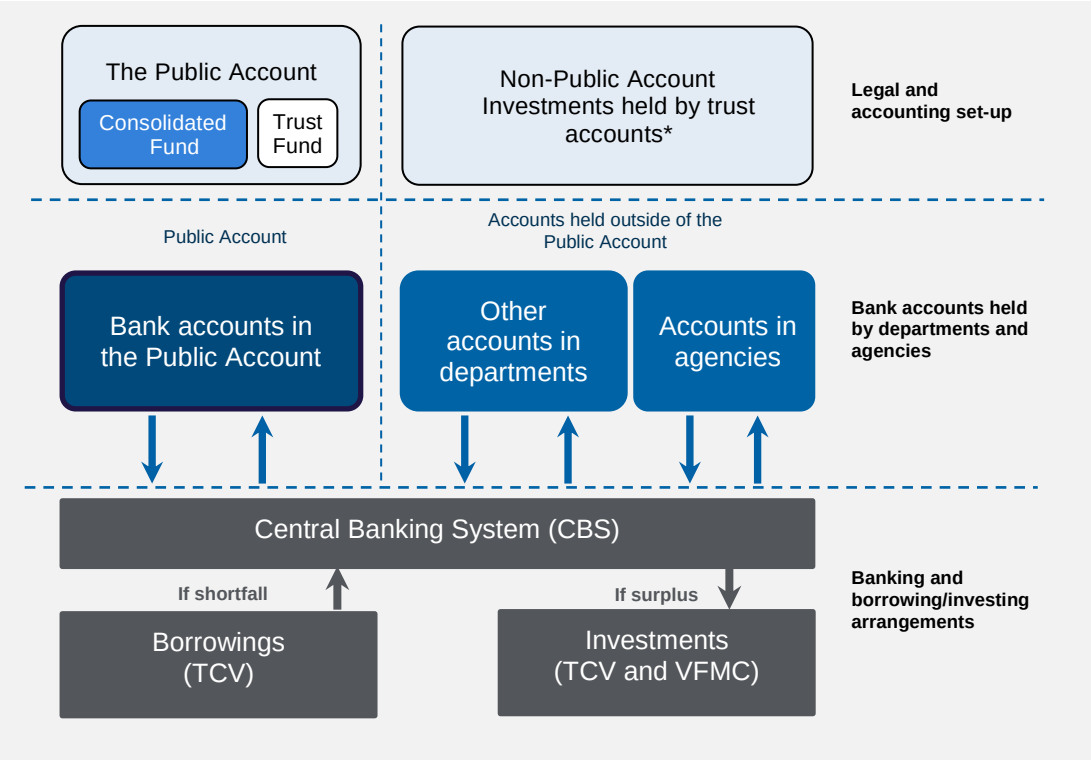
TCV and the Victorian Funds Management Corporation's (VFMC) role in the State's cash management and investment

TCV is the central financing authority for the State of Victoria, and is the interface between the State and the wholesale financial markets. TCV's borrowing programs provide financing liquidity for the State and its authorities.

To maintain sufficient cash flow in the Public Account, DTF may borrow funds from TCV to meet its daily expenditure commitments. If there are surplus funds within the Public Account, these funds are managed and invested into short-term investments within the CBS, or with TCV or VFMC, to optimise returns to the State.

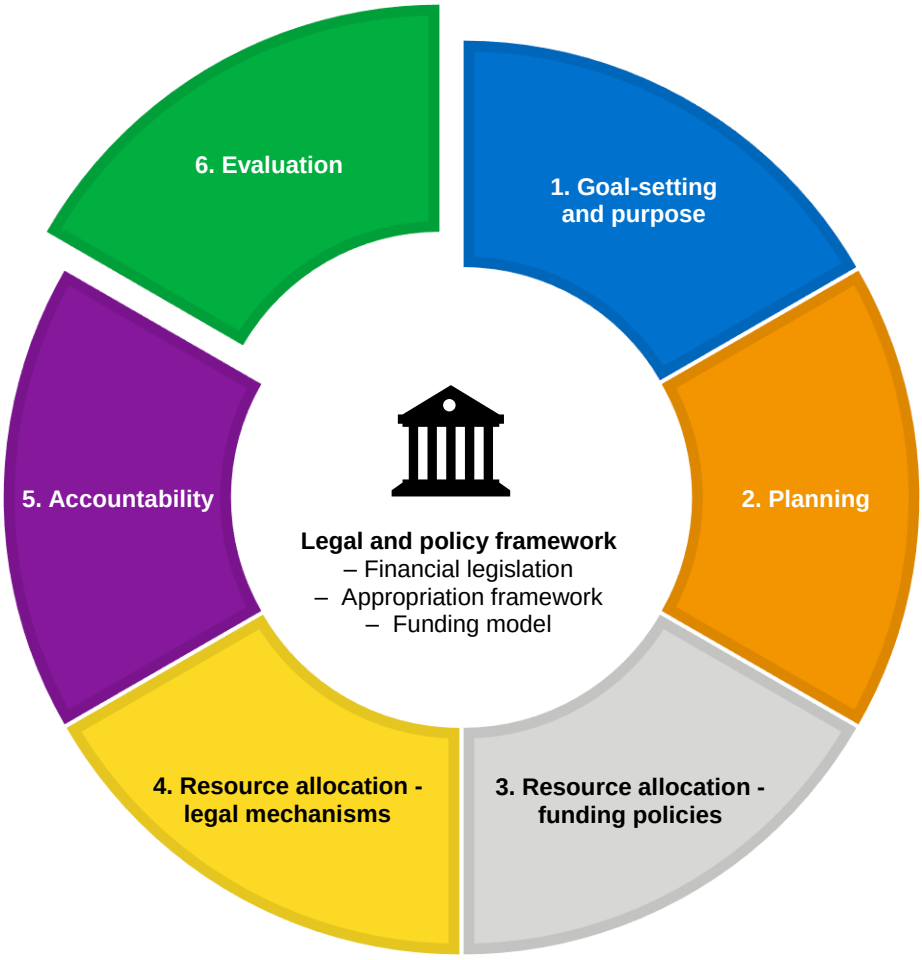
The State's cash management arrangements are summarised in the following diagram:

Figure 9: Cash management arrangements in Victoria



** Trust accounts within the Trust Fund may hold investments with TCV or VFMC*

6. Evaluation



Overview

The sixth stage of the IMC is **evaluation**. This section outlines the lapsing programs, funding reviews and rollover policies.

Purpose of evaluations

Evaluations are an objective and systematic way of reporting on the contribution a program has made to the achievement of stated goals, outputs and desired objectives. Evaluations seek evidence of the actual performance of a policy or program, during or after its implementation.

An evaluation should generate information that is credible and useful for decision-making and program improvement processes.

Evaluations should also recommend appropriate actions, including whether the programs remain the best policy response, or align with Government priorities. A culture of evaluation and continuous improvement assists in designing future programs.

Departments should regularly review the base funding of outputs to ensure that public spending on outputs remains efficient and effective. These reviews should systematically consider the continued relevance of the outputs delivered to achieve outcomes for Victorians, and the appropriateness of the price paid for these services. Consideration of alternative methods of service delivery should be considered as part of these reviews and provide information for long and medium-term planning.

What to consider in conducting evaluations

Departments should consider in conducting evaluations:

- the uses for which the evaluation is intended;
- the main stakeholders who have an interest in the evaluation findings;
- when the information is needed; and
- the resources available to conduct an evaluation.

Determining these factors will impact on what tools, methods and approaches to use in evaluations.

Four common stages to an evaluation

There are a number of approaches to evaluations, but these are four stages common to all approaches:

- **Defining the purpose –** defining what the program is and what needs to be evaluated;
- **Planning –** deciding what evidence needs to be collected, and how it will be collected and used;
- **Conducting the evaluation –** study, making decisions: collecting the evidence, analysing and assessing the findings, making recommendations; and
- **Disseminating –** using the findings and recommendations of the evaluation.

Why conduct evaluations?

In an environment of competing priorities and limited resources, evaluations are an important way to assist Government, departments and managers to achieve desired policy outcomes and demonstrate value-for-money. Well-designed evaluations can strengthen public sector efficiency, effectiveness and accountability by:

- enhancing the ability to achieve government priorities and policy outcomes;
- strengthening resource allocation planning and decision making;
- assessing and improving the performance and impact of service delivery; and
- demonstrating results as part of accountability to key stakeholders.

A culture of evaluation and continuous improvement can also assist future program design and management by encouraging the ongoing capture and transfer of learnings from individual programs.

When planning should start for evaluations

Evaluation planning should start at the initial stages of developing a policy or program business case.

Data for an evaluation can be collected at the early planning stage of a new policy or program once clear objectives have been identified for that program. Asking key evaluation questions during planning can help determine program objectives, especially since it may not always be easy to identify clear program objectives at this early planning stage.

It can also be useful at the program planning stage to develop a logical model or causal relationship between the program and the outcomes to be achieved. This will make it easier to identify how the intended policy or program objectives or outcomes will be achieved. These program plan elements should help to determine what information will be needed for the evaluation.

Attachment 13: Planning, designing and conducting effective evaluations

Investment Management Standard, available on the DTF website

6.1 Evaluating lapsing programs

Mandatory requirements

6.1.1 Evaluating lapsing programs seeking continued funding

The Accountable Officer must ensure that:

(a) evaluations of lapsing programs (if conducted) are completed within 12 months of when the funding is due to lapse;

(b) for programs with total funding of **$20 million[52] or more**:

- (i) DTF endorses the evaluation scope and terms of reference before it commences (in consultation with the Department of Premier and Cabinet);
- (ii) **for programs with funding for two years or more**, the evaluation report is submitted to DTF **by the last Friday in October** of any given year, before a submission requesting continued funding for the program is lodged; and
- (iii) **for programs with funding for less than two years**, the evaluation report is submitted to DTF as part of the submission requesting continued funding for the program;

(c) for programs with total funding of **less than $20 million**, either:

- (i) an evaluation report; **OR**
- (ii) appropriate evidence[53] that clearly demonstrates efficient and effective achievement of the program's objectives;

is provided to DTF as part of the submission requesting continued funding for the program;

(d) when requested by DTF, that either:

- (i) a draft report (or other review materials) for an evaluation is provided to DTF; or
- (ii) DTF is provided with appropriate opportunities to be involved in any steering committee or other governance arrangement that oversights the direction of an evaluation; and

(e) the evaluation is conducted by a person or party[54] who is independent[55] of the area that has delivered the program.

[52] Total program funding relates to funding provided over the four years (if applicable) prior to the date at which the program is scheduled to lapse.
[53] Such as changes in output performance measures.

Mandatory requirements

6.1.2 Questions to address in the evaluation of lapsing programs

The Accountable Officer must ensure evaluation reports for lapsing programs address the seven questions below:

1. **Justification/problem:** What is the evidence to support the continued need for the program, and what is the role for Government in delivering this program?
2. **Effectiveness:** What is the evidence of the program's progress toward its stated objectives and expected outcomes, including alignment between the program, its output (as outlined in BP3), departmental objectives and Government priorities?
3. **Funding/delivery:** Has the program been delivered within its scope, budget, expected timeframe, and in line with appropriate governance and risk management practices? What were the challenges in delivery of the program? How were these challenges addressed?
4. **Efficiency:** Has the department demonstrated efficiency in the delivery of the program?
5. **Risk:** What would be the impact of ceasing funding for the program (e.g. service impact, jobs, community) and what strategies have been identified to minimise negative impacts?
6. **If funding is continued:** Reassess funding required to deliver the program using data collected through service delivery. Does the initial funding allocated reflect the true cost required to deliver the program?
7. **If funding is continued:** What level of efficiencies could be realised?

6.1.3 Budget submissions requesting continued funding from completed evaluations

The Accountable Officer must include in the submission:

(a) what impacts will result if funding to the program were to cease;

(b) strategies to minimise negative impacts where appropriate;

(c) alternatives should funding not be approved; and

(d) the efficiencies that could be realised if ongoing funding was approved.

6.1.4 Evaluating lapsing programs <u>not</u> seeking continued funding

The Accountable Officer must provide to DTF a list of programs lapsing in the current financial year, for which further funding is not being sought, and an explanation of why further funding is not being sought.

[54] If consultants are engaged to conduct evaluations of lapsing programs, they are bound by Cabinet confidentiality.
[55] Independence does not mean that the evaluation needs to be done by parties external to the department. It may be conducted by another area within the department as a peer review, as long as that party was not involved in that program's delivery.

Guidance

Definition

A lapsing program is a program to deliver services (output-related[56]) that is funded *for a specified time period only* (and not ongoing in nature). Programs of a 'one-off' or a time-specific nature (e.g. funding provided for specific events) are considered 'fixed-term' and do not fall under the definition of a 'lapsing program'.

Pilot programs test the potential of a program to contribute towards Government objectives on a longer term basis, and should therefore be evaluated as a lapsing program to determine whether or not funding should continue.

A. General information for all evaluations

Conducting an evaluation

Evaluations of lapsing programs must assess the effectiveness and efficiency of the program, and provide evidence-based information to inform Government's decision-making.

An evaluation approach should reflect the program's size, complexity, profile and associated risks. The potential costs and benefits of evaluation approaches and designs, including the decision to use an internal or external evaluator, should also be considered.

The program evaluation should be conducted in line with the principles outlined in Attachment 13: Planning, designing and conducting effective evaluation, the *National Statement on Ethical Conduct in Human Research*[57], and any legal obligations. The evaluation may also consider relevant academic thinking and national and international practices to program delivery (i.e. such as through a literature review).

Required level of independence of evaluator

The evaluator is not required to be external to the department or the VPS. The evaluator is only required to be someone not involved in the direct delivery of the program. For example, the program could be peer-reviewed by another team within the department.

The evaluation should however be project-managed independently of the program delivery area.

For evaluations by a third party, contractual arrangements should allow scope for DTF, or its nominee, to engage in discussions with, and receive briefings from, the third party on methodology, assumptions and the final report.

Evaluation reports criteria

As general principles, evaluation reports should:

- provide a clear description of the purpose and context of the evaluation;
- address key evaluation questions clearly and succinctly, and provide findings with detailed analysis;
- avoid the use of jargon;

[56] May also include grants.
[57] Available on the National Health and Medical Research Council website.

- disclose who reviewed the program and their relationship to the department and the program;
- clearly outline data and data collection methodologies used;
- provide results of the evaluation that are based on evidence directly resulting from the program (i.e. results are not to be based on other data outlined in pilots or similar programs in Victoria or from other jurisdictions);
- clearly state the challenges or failings that may have adversely affected the delivery of the program and responses to the challenges;
- provide conclusions that reflect those determined by or agreed with the evaluator; and
- provide recommendations that are clear, practical, realistic, rigorous and able to be implemented, including a focus on how the program could run more efficiently and effectively in the future.

Attachment 14: Guidance on lapsing programs evaluations

Assessing effectiveness using program evaluation models

An evaluation of the effectiveness of a program should be conducted based on the principles of the Neyman-Rubin Causal Model (NRCM), which sets out a quantitative approach to evaluating cause and effect. This helps ensure that the review only captures improvements in outcomes that result from the program, and excludes the effect of other, non-program influences on outcomes. Guidance on the NRCM and associated program evaluation techniques is provided by the World Bank in Impact Evaluation in Practice.

Impact Evaluation in Practice guide, available on the World Bank website

Evaluation report structure

The evaluation report should be structured with the following sections:

- an executive summary (suggested not more than 3 pages);
- introduction and context;
- methodology, design and data;
- key findings;
- key conclusions; and
- recommendations.

Evaluation reports should be fit-for-purpose relative to the scale of the lapsing program.

Evaluation report size and length

For evaluations of programs with total funding greater than $20 million, evaluation reports should be no longer than 30 pages (not including any appendices).

For evaluations of programs with total funding less than $20 million, if an evaluation report is prepared, then that report should be no longer than 10 pages (not including any appendices).

Note that the number of pages listed above are suggestions only to provide guidance to departments as to approximate sizing of reports.

Evaluation criteria as part of a policy proposal/business case

Evaluation criteria and data requirements should be established during the initial stages of developing a policy or program proposal (i.e. evaluation strategy as part of business case submissions) to ensure adequate information is available to evaluate performance and success.

Other matters

Note that requests for continued funding of lapsing programs that do not comply with the requirements in this section may not be supported by DTF for Cabinet Committee consideration.

B. Specific information for programs over $20 million and funded for two or more years

Departments should note that the threshold for program evaluations requiring terms of references has been lifted from $5 million to $20 million in this version of the RMF. This has been done to enable DTF to better target the evaluations to be reviewed, and to reduce the compliance burden on departments.

The new requirement for the submission of an evaluation report for these programs by the last Friday in October of each year will assist in informing the early stages of the Budget process and setting budget capacity.

Data requirements for evaluation of programs of $20 million or more

For programs of this size, cost and complexity, more sophisticated approaches for the collection of data are likely to be needed (e.g. research, primary data collection and complex analytical models).

Data may include, but not be limited to, quantitative data collection methods (e.g. data such as Australian Bureau of Statistics census data) and quantitative analysis methods (e.g. numerical observations and categories, cost benefit and statistical analysis).

Qualitative data collection methods (e.g. open-ended interviews, direct observation or written documents) and analysis methods (identifying themes, concepts and patterns from the data) should also be considered as part of an evaluation.

Note to this edition:

Departments are strongly encouraged to apply the NRCM where it is appropriate to do so, particularly in reviews of larger programs, and in reviews where quantitative analysis has been undertaken. Departments should also note that the application of the NRCM may be mandatory in the future, to continue improving of the standard of evaluations across Government.

DTF will provide further guidance to departments on how to apply the NRCM.

6.2 Funding reviews

The requirements and guidance for funding reviews are currently under review. Departments will be advised when this policy is updated.

6.3 Process for the creation of the fourth year estimates in the State Resource Information Management System (rollover)

Guidance

The budget numbers in SRIMS consist of a budget year and three estimates years, known collectively as the forward estimates. At the end of each year, these forward estimates are 'rolled over', and a new estimates year is added at the end of the forward estimates period. This is known as the rollover year.

This process in SRIMS typically occurs in October/November (after the finalisation of the State's annual Financial Report). These estimates are intended to capture the known funding for programs relevant to the State in that particular financial year, as well as estimates from non-policy changes, such as the receipt and use of own-source revenue, and other estimates updates based on the best available knowledge at a point in time.

Explanation of the forward estimates

The 'forward estimates' consist of the current year, the following year, plus three additional years.

For example, the current forward estimates consist of the following years:

Current year	Next Budget year	Budget year + 1	Budget year + 2	Budget year + 3
2018-19	2019-20	2020-21	2021-22	2022-23

Once the 2019-20 budget year commences (1 July), it becomes the new current year, the budget years get 'rolled forward' by one, which then creates the requirement for the new budget year (i.e. the rollover year).

Current year	Budget year	Budget year + 1	Budget year + 2	Budget year + 3 (rollover year)
2019-20	2020-21	2021-22	2022-23	2023-24

The rollover creation process

Currently, the rollover and creation of a new estimates year is carried out by DTF each year as part of the Budget Update process in November.

This involves the following steps:

1. DTF copies over the estimates (movements) from the previous year into the new year created in SRIMS.
2. DTF then processes journal entries to adjust these estimates for any Departmental Funding Model (DFM) indexation and General Efficiency Dividend (GED). These adjustments are applied to each department's appropriation revenue item, with the associated expense amount for the new year allocated to the Indexation Adjustment Account (86999).
3. Departments are then required to submit journals for items that need to be adjusted and also to reallocate the amount from the Indexation Adjustment Account to appropriate expense accounts.

Timing

The revised rollover process commences in October (post finalisation of the annual Financial Report), and is usually completed by the end of January.

List of items to consider in a rollover process

Below is a list of items for departments to consider when completing a rollover and creation of the new forward estimates year. Note this is not an exhaustive list and is intended to be a guide only.

Note to this edition:

DTF is currently reviewing and reconciling the forward estimates, particularly estimates for the Purchase of Non-Financial Assets (PNFA). DTF is seeking to reconcile these PNFA estimates to cash flow estimates requirements for Government-approved capital projects, to ensure accuracy and transparency in the forward estimates.

Departments are therefore requested to keep adequate and ongoing records of what asset programs are contained within their PNFA forward estimates, including the rollover year. Departments are requested to pay particular attention to reviewing and updating their PNFA estimates in the creation of rollover years to ensure continued accuracy.

DTF shall provide further information to departments on specific requests for asset information and reconciliations via DTF Information Requests.

Table 3: Considerations in creating rollover year

Item	Comments
Ensuring the removal of sunsetting initiatives	DTF will review all journal entries to ensure that lapsing programs have been removed.
Changes to Special Appropriation: examples include hypothecated revenue, judicial salaries and Electoral Commission appropriation	DTF will check the amounts posted are reasonable in terms of growth over the forward estimates (relative to actuals and existing forward estimates) and will request an explanation if the estimates look significantly different to what is expected. Note some special appropriations substantially vary in line with the underlying purpose (e.g. Electoral Commission).
Commonwealth grants and associated expenditure/capital	These adjustments will be reviewed on a case-by-case basis.
Indexation for any fixed price items (e.g. contracts)	Departments should have a record of all fixed price items. DTF will check the reasonableness of indexation applied.
Employee entitlements	Departments must check the entitlements on the balance sheet are reasonable, and advise DTF on the validity of the estimate. Departments may need to review the number of pay periods for the estimate year to determine estimated changes to accruals.
Any movements in current and non-current items	Departments are required to check for items that are split between current and non-current that appear to fluctuate between years, e.g. finance leases.

Item	Comments
Any revaluations to balance sheet	Refer to FRD 103E which outlines the asset revaluation schedule for departments.
Any asset purchases or sales	Reconciliation of capital expenditure estimates and specific projects/programs will be required for the creation of each estimates year.
Trust fund cash balances and associated revenue and expenses	Departments should ensure any movements in cash balances align with movements in interest revenue and expense accounts.
Reallocation of DFM/GED balance from Indexation Adjustment Account (86999) to the appropriate expense accounts.	Once adjustments have been made, the account should be zero.
Any (other) items from the long-term commitments database	Departments should include initiatives of a cyclical nature (for example, the costs associated with holding an election).

Part B: Other budget policies and the accounting framework supporting budget management

7. Other budget policies

These policies form part of the broader financial management framework, and supplement the IMC.

7.1 Capital Assets Charge (CAC)

Mandatory requirements

7.1.1 Capital Assets Charge levy rate

The Accountable Officer must apply a Capital Assets Charge (CAC) levy rate of eight per cent on the budgeted written down value of controlled non-current physical assets of the department and its portfolio (general government sector) agencies, as per the amount in Budget Paper No. 5, *Statement of Finances* (BP5).

7.1.2 Charging of CAC to actuals

The Accountable Officer must apply the CAC of eight per cent of the budgeted written down value of controlled non-current physical assets (as per BP5) each month spread equally over 12 months.

7.1.3 CAC allocation across outputs

The Accountable Officer must allocate the CAC across the department's outputs as part of departmental budgeting processes.

7.1.4 Exclusion of administered assets from CAC

The Accountable Officer must not include administered assets in the calculation of the non-current physical assets base on which the CAC is charged, as these assets do not contribute to output delivery.

Guidance

What is the CAC?

CAC is a charge (operating expense) levied on the written down value of controlled non-current physical assets of a department (i.e. the department and its general government sector portfolio agencies detailed in its balance sheet). The charge aims to facilitate the full costing of outputs by attributing to agency outputs the opportunity cost of capital used in service delivery.

Departments are appropriated the amount of CAC appropriation funding equal to eight per cent of the budgeted written down value of controlled non-current physical assets of the department and its portfolio (general government sector) agencies, to fund the CAC expense.

The CAC policy is subject to periodic review by DTF.

CAC cost allocation across outputs

CAC is paid by the portfolio department as a whole, with each department responsible for allocating CAC expenses across its outputs and to its internal divisions and portfolio (general government sector) agencies.

To ensure prices are not distorted, the proportion of total departmental CAC that should be included in the cost of each output should reflect as closely as is practical the proportion of departmental non-current physical assets that are used in the production of the output.

Potential variations to the CAC

There may be circumstances where the CAC amount to be charged on a monthly basis by a department is different to what is required as per Mandatory requirement 7.1.2. Situations where this may occur could include machinery of government changes. Departments should discuss such situations with DTF to determine whether adjustments to the CAC amount and total appropriations are necessary.

Exemptions from the CAC

Financial and intangible assets

Financial assets (which include cash, investments and deposits with the SAU inter-entity account), and intangible assets, are not subject to CAC.

Specific controlled physical assets

The following assets are exempt from the CAC:

- the declared road network controlled by VicRoads encompassing:
  - pavement and earthworks;
  - sound barriers;
  - bridges;
  - traffic signal control systems; and
  - construction in progress;
- national parks;
- cultural collections and structures; and
- motor vehicle finance lease assets held under the whole of government Standard Motor Vehicle Policy.

Impact of revaluations and variations in asset base

Departments should manage their asset base effectively, and carry out timely asset revaluations in line with accounting standards. Such revaluations may affect the amount of CAC payable by a department in future periods.

Construction-in-Progress

The CAC applies, unless otherwise exempt, to Construction-in-Progress (CIP), in the years following the commencement of the construction:

- year 1 of construction – no CAC applies; and
- year 2 onwards – recognise prior year's construction amounts for the purposes of applying CAC.

Note to this edition:

DTF is in the process of evaluating the appropriateness of applying CAC to Right of Use (RoU) assets[58] and Service Concession assets.

In line with the new accounting standards, an interest charge will be accounted for on the outstanding liabilities (the lease liability under AASB 16 and the financial liability under AASB 1059). On the basis that this interest charge is deemed to be a proxy for the cost of capital tied up in the assets recognised by departments under these two standards, for the time being, all RoU assets and all Service Concession assets will be exempted from CAC until a more detailed policy review is undertaken.

7.2 Hypothecation arrangements

Mandatory requirements

7.2.1 Instructions on hypothecation arrangements

The Accountable Officer must discuss with DTF any proposal it considers could potentially be funded through a hypothecation arrangement.

7.2.2 Criteria for the consideration of hypothecation arrangements

The Accountable Officer must consider each of the following criteria in a hypothecation proposal:

(a) Criterion 1 – Clear superiority over alternative arrangements

(i) why a hypothecation arrangement is superior in the set of circumstances;
(ii) what alternative arrangements have been considered;
(iii) the reasons why the alternative arrangements have not been deemed suitable for adoption; and
(iv) what differences in outcomes alternative arrangements would likely produce.

(b) Criterion 2 – Links to whole of government priorities

(i) what key Government priority does the proposal hope to achieve and how will it do this?
(ii) are the proposed spending initiatives likely to remain a Government priority over the next four to five years?
(iii) what flexibility is there to adapt the funding to any future changes in Government priorities?

[58] Under the AASB changes, an entity now recognises interest expense on the lease liability (obligation to make lease payments) and depreciation on the 'right-of-use' asset (that is, the asset that reflects the right to use the leased asset).

Mandatory requirements
(c) Criterion 3 – Clear link between, and stability of, revenue sources and expenditure (i) demonstrate a clear link between the new revenue source and proposed expenditure; (ii) state the anticipated size and timing of the expenditure and revenue streams, and how the streams will vary over time; and (iii) explain any risks associated with the forecasting of the revenue and expenditure streams. **(d) Criterion 4 – Regular review process** Each proposal must incorporate a formal review mechanism and sunset clause.

Guidance

Definition

Hypothecation is the linking of specific expenditure requirements with particular revenue sources, either through legislation (hard hypothecation), or through government policy alone (soft hypothecation). There may be some instances where such an arrangement is desired in directing certain revenue streams towards a particular program or initiative, such as the hypothecation of revenue from roads safety initiatives towards the funding of roads infrastructure (through the Better Roads Victoria Trust Account).

Comment on hypothecation arrangements

As a general rule, unless otherwise determined by the Government, expenditure is not tied to specific revenue sources, in order to provide the Government with maximum flexibility in the way it chooses to allocate resources to meet its objectives. Also, depending on their design, hypothecation arrangements may also lead to less scrutiny being placed on projects, services or programs, and may lead to an inefficient and ineffective allocation of resources if Government priorities change over time.

If a hypothecation arrangement is to be considered, departments should consider a soft hypothecation arrangement. These arrangements are more flexible, can be amended through government policy, and are typically broader in their application. The revenue for such hypothecation arrangements should flow through the Consolidated Fund, and not to trust accounts or other funds or accounts outside the Public Account.

7.3 Central contingencies

Mandatory requirements

7.3.1 Managing requests to access central contingencies

In requesting access to funding from central contingencies for previously approved Government funding decisions, the Accountable Officer must ensure the request documentation to DTF includes:

(a) the reasons and context for the request;

(b) the quantum of the funding sought;

(c) reference to the Government decision to support the request;

(d) how the funding request aligns with Government priorities;

(e) proposed adjustments to output and financial performance targets arising from the request; and

(f) any funding variations previously approved by the Treasurer or the relevant Cabinet Committee for the program or output.

7.3.2 Reporting expenditure from central contingencies

All expenses and obligations to which any funding from central contingency is applied, if related to funding from the Treasurer's Advance, must be reported in the financial year in which the funding was provided.

7.3.3 Restrictions on central contingencies

Any unapplied component of funding from central contingency from a Treasurer's Advance in a given year lapses at the end of the year. The Accountable Officer is not permitted to carry over contingency funding sourced from Treasurer's Advance to the following year.

Guidance

Definition

Central contingencies are provisions established by Government for future expenditure which have not yet been allocated to specific departments. These contingencies are held and managed by DTF.

Government may set aside central contingencies to provide for:

- service growth;
- new initiatives in future budgets;
- Government decisions which for various reasons, are not recorded in the relevant department's or agency's financial statements at that time;
- future cost pressures; and
- urgent and unforeseen expenditure.

Central contingencies for outputs and assets are outlined in the notes of the estimated financial statements and are categorised by 'decisions made but not yet allocated' and 'funding not allocated to specific purposes'.[59] Treasurer's Advance forms a part of the central contingencies.

Application and assessment process

Once a request is made to the Treasurer or relevant Cabinet committee for the release of budget funding held in central contingency, advice is provided by DTF to the Treasurer or the relevant Cabinet committee.

The Treasurer or the relevant Cabinet committee will decide whether to approve the release of the central contingency to the relevant Minister.

Approval notification

Departments will be advised if the release from the central contingency is approved.

Reporting

Accountability for use of the Treasurer's Advance, in the context of the central contingencies, is also met through the presentation of a summary of each year's expenditure in the State's annual Financial Report, which is tabled in the Parliament after the end of each financial year.

7.4 Payments on behalf of the State (POBOS) appropriation

Mandatory requirements

7.4.1 Managing requests for POBOS appropriation

The Accountable Officer must ensure:

(a) all requests for POBOS funding are discussed with DTF, including advising of the quantum of the funding sought, before any correspondence is prepared for the request; and

(b) a letter from the relevant Minister to the Treasurer seeking POBOS funding includes:

- (i) the reasons for the funding request, including an explanation of why the funding is sought, and supporting information to accompany the request;
- (ii) the quantum of the funding sought; and
- (iii) the source of the funding (e.g. Treasurer's Advance or other revenue source).

7.4.2 Reporting on POBOS expenditure

All expenses and obligations to which any POBOS is applied must be reported in the financial year in which the advance was made.

[59] Output and asset contingencies are disclosed in Budget Paper No. 5.

Guidance

Definition of POBOS appropriation

POBOS appropriation is provided to enable a department to make **non-discretionary payments**. These are payments for which the department is not receiving goods or services in return (and therefore such payments are not related to output delivery). The department is also not authorised to vary the terms and conditions under which such payments are made.

Use of POBOS funding

POBOS appropriation may only be used to fund the administered expenses or administered capital payments of a department.[60]

All payments made under a POBOS appropriation are treated as administered payments of the department. However, not all administered payments are covered by a POBOS appropriation. Some administered payments can be funded through a special appropriation or a trust account.

Any new proposal for an administered payment to be funded from a POBOS appropriation will usually relate to an agreement or legislation determined as a whole of government initiative.

Funding will be determined by the relevant Cabinet committee.

If additional POBOS funding is required, supplementary funding must be sought through the other legislative mechanisms available, such as:

- Treasurer's Advance;
- an advance under section 28 of the FMA; or
- or an advance under sections 35, 36 or 37 of the FMA.

Section 30 of the FMA allows funding to be moved between POBOS and another appropriation item for a department (i.e. provision of outputs or Additions to the Net Asset Base appropriation). However, a department would need to provide clear reasons for such a transfer, and explain how it would impact on the department's output and asset delivery.

[60] If funding is required for output delivery, it must be funded from appropriation for the provision of outputs.

8. The accounting framework supporting budget management

8.1 The State Administration Unit (SAU)

What is the SAU?

The concept of the SAU was developed with the introduction of accrual output budgeting and management in the late 1990s.

The SAU was set up for the following purposes:

- as an accounting mechanism for capturing and recording transaction flows and balances in the Public Account; and
- a means of capturing certain relationships and balances between the Government (with DTF as the 'corporate head office') and departments (through Contributed Capital balances).

Note the SAU is not a separate legal entity in its own right.

The components of the SAU

The SAU consists of three components:

1. SAU inter-entity accounts;
2. SAU branch ledger; and
3. SAU head office/central component.

1. The SAU inter-entity account(s)

This SAU component is most relevant to departments.

The SAU inter-entity account comprises each department's **appropriated** but **unspent (not yet drawn down)** funds that are available to it in the Public Account, sourced from non-cash expenditure (such as depreciation and long service leave) or liabilities for expenditure not yet paid for i.e. accrued expenses.

In the State's ledger the SAU inter-entity transactions are effected through three receivables accounts:

- Account 45000 – SAU Inter-Entity (Consolidated Fund);
- Account 45500 – Trust Fund Inter-Entity (Trust Fund); and
- Accounts 47xxx and 48xxx (where x is a placeholder for a digit) – other SAU related transfers.

These accounts are used in each department's **controlled** entity.

Departments are required to submit a half-yearly dissection report to DTF to explain the movements and balances in its SAU inter-entity accounts.

Section 8.2: The SAU inter-entity account dissection

2. The SAU branch ledger

This SAU component records the administered transactions of each department, such as:

- payments on behalf of the State (various amounts in the annual Appropriation Act or grants on-passed through the trust fund from the Commonwealth to an entity outside of the Victorian Government);
- the amount invested by government in its controlled agencies (other than the core departments); and
- revenue received on behalf of the State and paid to a central agency (such as tax revenue).

In the State's ledger, the SAU branch ledger is represented in department's accounts by the x100 entity in each department.

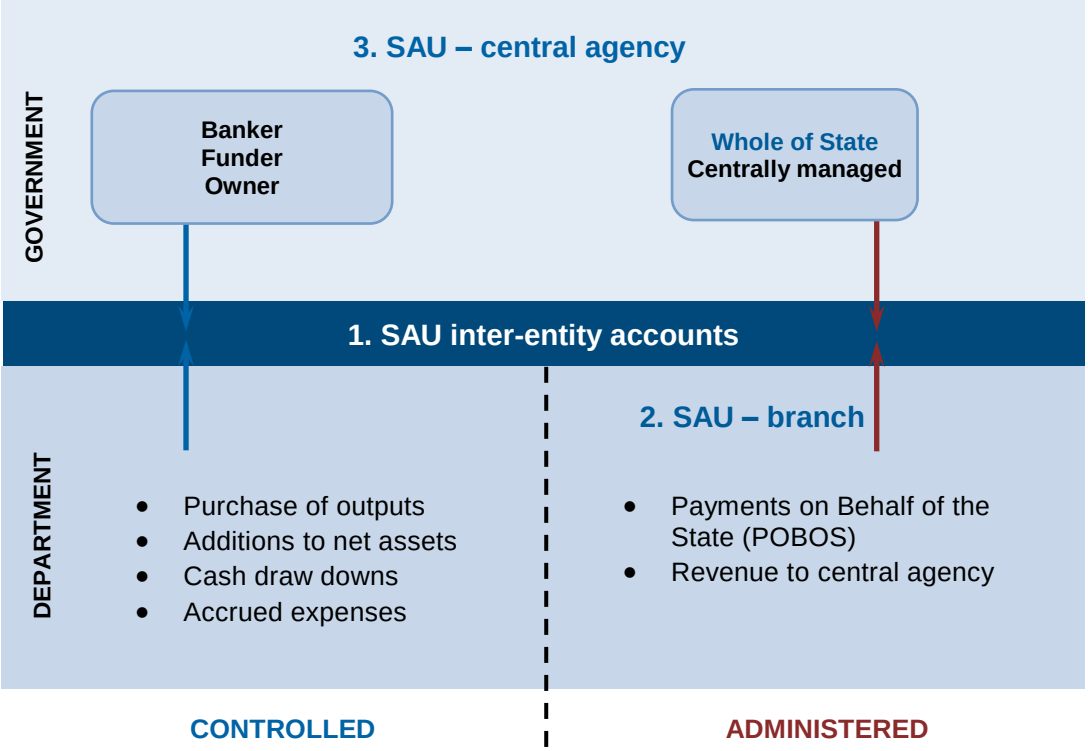
3. The SAU head office/central agency component

This SAU component records the transactional flows between departments and the Public Account. It may also record transactions that do not functionally or operationally belong to a particular department.

In the State's ledger, this component of the SAU is represented by the entity 9200 'State Administration Unit'. This component is visible to, and maintained centrally by DTF. Departments are generally not involved in the workings of this component of the SAU.

The three components of the SAU are also represented in Figure 10.

Figure 10: The SAU diagram



How the three components of the SAU interact

The following section seeks to explain the SAU's workings through a hypothetical set of transactions.

Table 4: Sample SAU transactions

Transaction/event	Entity	Account	Amount
Receipt of taxation revenue by DTF (administered entity)	7100 (SAU branch ledger)	6xxxx (Revenue)	-1000
Submission of tax revenue to Consolidated Fund (via SAU)	7100 (SAU branch ledger)	90500	+1000
Receipt of taxation revenue by the SAU	9200 (SAU central agency)	70570	-1000
Recognition of funds in the State's bank account	9200 (SAU central agency)	10230 (Bank)	+1000
Funds appropriated for expenses (cash items)			
Drawdown from bank account	9200 (SAU central agency)	10230 (Bank)	-200
Transfer to department	9200 (SAU central agency)	86500	+200
Appropriation drawn down by department	Controlled Dept. Entity	71200	-200
Expense incurred	Controlled Dept. Entity	86000	+200
Funds appropriated for expenses (non-cash items)			
Drawdown from bank account	9200 (SAU central agency)	10230 (Bank)	-400
Transfer to department	9200 (SAU central agency)	86500	+400
Appropriation drawn down	Controlled Dept. Entity	71200	-400
Increase in departmental SAU inter-entity account	Controlled Dept. Entity	45000 (SAU inter-entity account)	+400
Depreciation expense incurred	Controlled Dept. Entity	81xxx	+400
Recognition of accumulated depreciation (contra-asset)	Controlled Dept. Entity	2xxxx	-400

Attachment 15: The history of the establishment of the State Administration Unit

8.2 The SAU inter-entity account dissection

Mandatory requirements

8.2.1 SAU inter-entity account dissection requirements and time frames

The Accountable Officer must:

(a) undertake a SAU inter-entity account dissection twice a year;[61]

(b) complete the SAU dissection template; and

(c) ensure the relevant CFO certifies the SAU inter-entity account dissection and forward it to DTF; and

(d) provide the dissection in line with the timeframes advised in DTF Information Requests.

8.2.2 Specific end of year requirements

(a) The SAU inter-entity account dissection must be provided to the Victorian Auditor-General's Office and DTF as part of the end of year process, together with the final draft of the department's annual report.

(b) The date for delivery of the dissection to the Victorian Auditor-General's Office must be negotiated between each department and its auditors.

8.2.3 Machinery of government changes requirements

When machinery of government changes occur, the SAU inter-entity account dissection must be updated by affected departments as at the date of the machinery of government change. A copy of the dissection must then be provided to DTF within timeframes determined by DTF.

8.2.4 Resolution of issues

(a) Departments must resolve any issues/variances identified by DTF in a timely manner.

Guidance

The SAU inter-entity account comprises each department's appropriated but unspent (not yet drawn down) funds and other amounts that are available to it in the Public Account. This may include balances payable from the Consolidated Fund or cash held DTF on behalf of Trust Accounts in the Trust Fund.

[61] This coincides with the Mid Year and annual financial reporting requirements. A departmental CFO may decide to complete inter-entity account dissections at more frequent intervals for internal management and control purposes.

Specifically, the SAU dissection seeks to account for a department's:

- appropriations by Parliament;
- the drawdown of cash by departments in line with the appropriate parliamentary authority;
- appropriation-funded accruals (such as employee entitlements and payables);
- unspent depreciation equivalent;
- unspent LSL equivalent; and
- surplus on the provision of outputs.

The SAU inter-entity dissection – template and additional notes

Departments are required to submit a regular dissection report to DTF to explain the movements and balances in this account. This is required to satisfy legal, audit and budget monitoring requirements.

The template consists of five tabs:

- Statement C1 – Dissection of departmental SAU inter-entity balances in the Consolidated Fund (controlled entities);
- Statement C2 – Reconciliation of Controlled SAU to appropriation;
- Statement C3 – Reconciliation to departmental operating statement;
- Statement C4 – Reconciliation to departmental financial statements; and
- Statement A1 – Reconciliation of Administered SAU to appropriation.

Please also note the following about the SAU dissection:

- only the controlled entities in a department require both a dissection (refer *Statement C1*) and reconciliations. However, a reconciliation of movements in the Administered Entity SAU inter-entity account to appropriations is also required (refer Statement A1);
- as Trust Fund transactions do not flow through the Consolidated Fund, these are not included in Statement C1, but are included in Statement C4; and
- reconciliations of Controlled and Administered Appropriations in the SAU are required – refer to *Statement C2* (controlled) and *Statement A1* (administered).

For more information on how to populate the SAU dissection template, please contact DTF.

SAU dissection template, available on SRIMS

Reporting on the SAU inter-entity account (account 45000) dissection

The SAU inter-entity account balance dissection must be reconciled to the relevant financial statements to ensure the integrity of the information provided.

The SAU inter-entity account is considered a current receivable amount in the financial statements, as it is expected departments will draw down on the bulk of their appropriations within a 12-month period. Consequently, there is no requirement to re-measure this receivable to present value terms.

Note inter-entity account 45500 represents cash held in Trust Accounts and is available on demand to settle trust fund payables. As such, it is reported as Cash at Bank in departmental financial statements.

8.3 Policy and non-policy journal entries in SRIMS

Introduction

The primary aim of the forward estimates in SRIMS is to provide reliable aggregate and departmental budget estimates based on Government's existing policies. The forward estimates in SRIMS enhances the Government's capacity to make effective medium and long-term budget decisions.

The forward estimates in SRIMS operates on a four-year cycle, which is integrated with the budget process. Once the estimates have been published in the budget papers they are rolled forward, with estimates for a new fourth year added.

As part of the annual Budget and Budget Update processes, departments may submit budget journal entries to update their budget and forward estimates in SRIMS for approval by DTF.

Section 6.3: Process for the creation of the fourth year estimates in SRIMS (rollover)

Policy and non-policy journal entries

The budget journal entries submitted by departments to adjust the forward estimates, are identified and tracked as either 'policy' or 'non-policy', explained further below:

Policy journal entries

Policy journals entries reflect Government decisions. These journal entries should be attributable to a Cabinet committee, Treasurer or ministerial decision that supports the estimate adjustment. Policy decisions also include decisions to provide a department with additional budget supplementation.

A policy journal entry will allow a department to post variations to appropriation accounts.

Examples of SRIMS policy journals include (but are not limited to):

- decisions from budget deliberations or new initiatives;
- Treasurer's Advance decisions; and
- section 37 Public Account advances.

Departments may only increase their appropriation by applying for supplementation under the relevant legislation or policy, and obtaining approval from the Treasurer or the relevant Cabinet committee.

Non-policy journal entries

A non-policy journal entry reflects largely administrative and all other changes. A non-policy journal does not allow for a variation of appropriation amounts.

Examples of non-policy SRIMS journals include:

- reallocations between expense accounts;
- machinery of government changes (as these have no impact on whole of government aggregates);
- changes to third party revenue estimates; and
- asset revaluations/devaluations.

Attachments

Attachment 1: Further guidance for developing departmental objectives

1. Clear and concise

Objectives should focus on a single achievement and not include too many target groups or areas. Objectives that are too broad or attempt to include too many components may be confusing and difficult to measure. Use of the word 'and' should be minimised as it may encourage including lists of sub-objectives. Objectives should be informative to a wide range of users.

2. Focus on the result or impact the Government is seeking to achieve

Objectives should be consistent with the Government's priorities, and any statement of outcomes by a service area, department or the Government.

Objectives should clearly identify what is to be achieved (result), rather than strategies, discrete services or products, activities or processes. Results are not things a department can do, but are *changes* expected to be observed in the community, environment or economy.

Objectives should be expressed as the impact on the community that a group of outputs can reasonably achieve over the medium to long term. This will minimise the impact of external influences (factors outside the department's control).

Examples

- ☑ Reduced impact of major bushfires and other extreme events on people, infrastructure and the environment
- ☒ Improving the efficiency of court processes [implies a public good and appropriate objective for department but does not note the final impact on the community]

3. Strategic focus

An objective should have a strategic focus and be aligned with the department's vision and mission. It should not be pitched at too high a level. If every objective can be linked to every output, then it is likely objectives are too high level. Each objective is likely to have a number of supporting outputs (refer Figure 6: *Performance logic underpinning service delivery*).

4. Focus on the standard of expected service delivery

An objective should reflect the desired standard of service quality the department is expecting to deliver, and this should be quantifiable. Words describing delivery standards such as 'high quality', 'excellent' or 'good' should be defined or replaced by quantifiable ambitions.

5. Identify the target group/s that will benefit

Describe the clients/recipients who are to benefit from the achievement of the objective.

6. Measurable within a specific time frame

Ensure progress towards achievement of the objective can be measured/quantified through departmental objective indicators over the medium to long term.

Ensure an explicit relationship between departmental objectives and outputs.

Articulate how output delivery will contribute to the achievement of the objective.

Examples

☑

Departmental objective	Output
Reduced impact of major bushfires and other emergencies on people, infrastructure and the environment	Fire and Emergency Management

Tip

- Although it is recognised an output may contribute to multiple objectives, each output should be linked the objective that is expected to have the greatest impact.

Checklist: objective characteristics

A departmental objective of good quality will meet the criteria below.

Criterion	Checklist
Clear, concise and specific	• Is it unambiguous? • Does it clearly articulate: – what is being delivered/developed? – the target audience? – expected standard? – when it will be achieved?
Focus on results	• Does it accurately reflect Government's service delivery ambitions? • Is the objective realistically achievable? • If all outputs are successfully delivered will this achieve the departmental objective?
Measurable and timely	• Is the objective readily measurable through choice of appropriate indicators? • Will demonstrable progress towards achieving this objective be possible in the medium term?

Attachment 2: Further guidance for developing departmental objective indicators

This attachment outlines five areas of focus in setting useful objective indicators.

1. Attributable

Departmental objective indicators should focus on impacts that can reasonably be achieved through delivery of outputs. Indicators should be set at a level that minimises the extent of factors outside the department's control and identifies what is to be achieved, rather than what outputs are delivered or what processes are followed.

There are many tools to assist in developing performance information, including Program Logic, and the Investment Logic Model (ILM).[62]

2. Focus on measurable results

Seek a clear and explicit alignment of outputs to departmental objectives. Good quality indicators demonstrate how output delivery contributes to achieving the departmental objective. Indicators should be relevant and reflect what the department is trying to achieve, not simply what is measurable.

3. Pitch at a level to best inform performance analysis and decision-making

Set departmental objective indicators at a level that will best support the analysis of performance and decision-making. This should be determined on a case-by-case basis having regard to existing indicators and the costs associated with developing new indicators.

4. Use existing data sets

Wherever possible departments should consider existing indicators, data sets and measures that could be used to demonstrate the contribution of outputs towards the achievement of departmental objectives.

This could include performance information provided to the national reporting framework for the Council of Australian Governments, information in the Report on Government Services, or other measures used in departmental reporting. If additional data collection is required, the costs involved should be balanced with the benefits (usefulness) of using the data collected.

[62] Further information on the ILM can be found on the DTF website.

5. Describe a change

Indicators reflect the effectiveness of the department's outputs in contributing to achieving the objectives and they should help determine whether the target group/community is 'better off'.

Examples of good quality vs poorer quality objective indicators

- ☑ 'Year 12 or equivalent completion rates of young people'
- ☑ 'Property loss from structure fire (current year dollars per person)'
- ☒ 'Leads policy development on key priority issues' [*is this measurable/quantifiable?*]
- ☒ 'The prevalence of selected chronic disease risk factors is reduced' [lacks specificity– which chronic disease factors should be measured]

Checklist: objective indicator characteristics

An objective indicator of good quality will meet all criteria.

Criteria	Checklist
Attributable	• Is the indicator reflecting the impact of the contributing outputs? • Is the indicator influenced by external factors outside the control of the department?
Available	• Will data be available in a timely manner – at least annually and over the entire forward estimates period? • Does it already exist? • Is it sufficiently robust?
Comparable	• Does the indicator allow for comparisons overtime, between target groups and across jurisdictions?
Influenced by key stakeholders	• Have those responsible for delivering the outputs been consulted, such as non-departmental service providers? • Has the Minister responsible for delivering the outputs been consulted?
Manageable	• Have the costs of data collection been considered? • Does the benefit created by gathering data outweigh the burden? • Have other more cost effective indicators been considered?
Verifiable	• Is the methodology and process for data collection and indicator reporting clearly documented? • Are processes in place to maintain performance records to a standard that allows an independent auditor to verify integrity?

Attachment 3: Further guidance for developing outputs

1. Identify the range of goods and services being provided

Departments should review all of the goods and services being delivered and determine which can be grouped as similar services or those trying to achieve the same objective. This should also occur when new funding for a program or initiative is being considered by Government.

2. Test the size of the output

Consolidation of goods and services reduces transparency and accountability, and makes it difficult to assess performance. For example, an output with too many services or programs bundled together diminishes the usefulness of performance measures, as indicators of true performance for each service or program. Departments should review the size of the output using the following criteria:

- Discrete products or services – are the services closely related or homogenous in nature?
- Targeted – are the services targeting a specific problem for the same customer?
- Purpose – is the purpose of the services the same?
- Size/materiality – is the output less than 10 per cent of the department's total output cost and less than 0.5 per cent of the State's total budget?
- Control/influence – to what extent can a single person be directly responsible for the performance of the output?
- Function – does the output deliver a legislated function or lend itself to machinery of government changes? (e.g. Consumer Affairs)

If answering no to one of the first four questions, the output is too large.

Another consideration is whether an output reflects an agency with specific legislated functions. Agencies may be established to deliver a specific objective, which lends itself to being a separate output. Depending on the size of the agency, it may be appropriate to have multiple outputs.

3. Describe the output

Output descriptions should be clear and concise, and use language that is suited to a general audience. They should detail the range of goods and services provided and the programs and activities undertaken.

Explicit references should be made to the broad activities, targeted beneficiary of the goods or services, and the intended impact of successful service delivery.

Output descriptions should demonstrate alignment with one departmental objective.

Output titles should make clear the nature of services being delivered. Where possible, it should encapsulate what is being delivered and to whom, and describe a deliverable rather than a problem.

Examples – Titles

☑ Prisoner Supervision and Support

☑ Ports and Freight Network Improvements and Maintenance

☒ Aboriginal Affairs

☒ HACC Primary Health, Community Care and Support

Examples – Description

☑ Provide community-based supervision, healthcare and support services to divert young offenders from the youth justice system and minimise the likelihood of further offending. [Identifies activity, beneficiary and result]

Tips

- Write output titles and descriptions in plain English.
- Abbreviations, jargon and technical language should not be used.

Checklist: output characteristics

An output specification of good quality should meet the following criteria.

Criteria	Checklist
External focus	• Does the output deliver services to an external customer? • Does the external customer derive a benefit from the delivery of services? • Is the output externally focused and not measuring or reflecting departmental inputs?
Objective focus	• Does the output contribute to the achievement of departmental objectives? • Can a link be demonstrated between the output and its impact on the achievement of departmental objectives? Is it sufficiently robust?
Clear	• Does the output assist Government to understand what it is funding and what it will receive for its money, which is described through performance measures in terms of: – the cost per unit of the output; – the quantity of the output units to be delivered; – levels of quality of the services to be delivered, and – the timing or frequency of the delivery of products and services? • Does the output inform Parliamentarians and the community of government performance about what services are being delivered, to whom and why? • Does the output enable departments (and managers and staff in departments) to understand what they must deliver and why?
Measurable	• Does the output have an impact on the department's objectives that can be measured? • Can the output demonstrate the impact it is designed to achieve? • Can the output be routinely measured so Government will know if it is receiving what it paid for?
Comparable	• Does the output enable Government to consider whether there are alternative providers for the output by enabling comparison/benchmarking of performance for delivery of similar services?

Assessment tool: output disaggregation

The assessment approach and summary ratings for output disaggregation are mapped out below. If an output meets most of the criteria then it is less likely suitable for disaggregation. A summary assessment along the spectrum of suitability for disaggregation will be made on the basis of the assessment against each of the criteria. If an output could not be disaggregated, departments must assess the individual output performance measure to test its completeness and appropriateness.

Output disaggregation				
Assessment criteria	**Key considerations**	**Summary ratings**		
		Disaggregate	**Partially disaggregate**	**Do not disaggregate**
Does the output represent an appropriate proportion of the departments/State Budget?	Does the output cost meet the Resource Management Framework guidance regarding 10 per cent of total departmental or 0.5 per cent of Government expenditure?	More than 10 per cent of the department's or 0.5 per cent of the State's budget	n/a	Less than 10 per cent of the departments or 0.5 per cent of the State's budget
Does the output line up with the organisational and/or delivery agency's structure using a consistent service delivery model?	• Can the output and its performance measures be easily attributed to core functional responsibilities and service delivery mechanisms in the department or portfolio agency? • Does the output line up to homogenous service delivery mechanisms?	Limited (if any) alignment between output and structure and inconsistent service delivery model	Some degree of alignment between output and structure and relatively consistent service delivery model	Strong alignment between output and structure and consistent service delivery model
Is aggregating the output likely to provide improved transparency regarding the departmental expenditure/performance?	Is aggregating the output likely to provide users an improved understanding of how the funding is allocated across core services and expenditure types and what is delivered in return?	Disaggregated output likely to provide users an improved understanding of expenditure/performance	Disaggregated output may provide users an improved understanding of expenditure/performance	Disaggregated output unlikely to provide users an improved understanding of expenditure/performance

Output	[text]	Output cost	[$]
Output description		% of departmental budget	[%]
[text]		% of State Budget	[%]

Output disaggregation		
Assessment criteria	**Summary assessment**	**Comment**
Does the output represent an appropriate proportion of the department's/State Budget?	[Copy relevant summary rating from the output disaggregation assessment table]	
Does the output line up with the organisational and/or delivery agency's structure using a consistent service delivery model?	[Copy relevant summary rating from the output disaggregation assessment table]	
Is disaggregating the output likely to provide improved transparency regarding the departmental expenditure and performance?	[Copy relevant summary rating from the output disaggregation assessment table]	
Summary	[Findings, actions and recommendations]	

Attachment 4: Further guidance for developing performance measures

Performance measures: quantity, quality, timeliness, cost

Departments must consider four key attributes when developing performance measures:

1. Quantity performance measures

Describe outputs in terms of how much, or how many. Quantities will conceptually be different for each output type. However, quantity could take the form of the number of discrete deliverables or capacity provided. They also tend to demonstrate the volume of work being undertaken.

A quantity measure can be:

- wholly in the control or influence of the department (e.g. compliance services) or is a known activity (State elections);
- affected by demand to a certain extent, but the target can reasonably be forecast/quantified (e.g. number of students enrolled in public schools, court cases heard, family services cases provided to Aboriginal families); or
- measuring capacity or capability for outputs where this is the primary function being purchased by Government. For example, emergency management permanent operational staff, or staff (or time) engaged in policy development may be appropriate measures when there is wide volatility of goods and services delivered between years.

Quantity measures can often be converted into efficiency measures by combining them with cost to show the unit cost. This may not be appropriate in all situations.

2. Quality performance measures

Describe how well a service is being delivered (i.e. whether output delivery has been up to the expected standard of performance). Standards might be contained in legislation, agreements, or other requirements. Quality measures can also demonstrate if output delivery has met comparable better practice benchmarks associated with departmental objectives and intended results.

Measurement of compliance with legislated standards should be used sparingly, as this is usually a basic minimum standard rather than the quality of service desired by Government. These measures do not allow for continuous improvement from year to year. However, where the main function of the output is delivering a legal requirement, it may be appropriate to use compliance with legislation as a measure.

A fundamental aspect of quality is the assumption the product or service is defect-free and fits the purpose for which it was intended. Quality can be achieved through using specific criteria (e.g. accuracy, completeness, accessibility, customer satisfaction, continuity or equity of supply).

3. Timeliness performance measures

Provide parameters for how often, or within what time frame, outputs will be delivered.

Timeliness may be a measure of either:

- efficiency, measured by turnaround times; or
- effectiveness, measured by waiting or response times.

4. Cost performance measures

Reflect the full accrual cost to a department of producing an output. The cost measure for each output is the total cost and includes State appropriation revenue, as well as funding from other sources to produce the output.

Other areas of consideration

Balanced set of measures

The mix of quality, quantity, timeliness and cost measures for each output should give a balanced and complete performance picture of what the output is trying to achieve and how the delivery of the output will be measured.

Interaction between measures can provide insights into service performance. It is important to have measures that are closely linked to individual bundle of services in an output. These measures need to be presented in a way that allows inference to be drawn by signalling the interaction to stakeholders. For example, by using language, terms and/or presenting them together.

Cover all the major activities

The department should select measures that assess all the important aspects of the output being delivered, such as key deliverables and critical activities to explain whether the department has efficiently and effectively delivered these outputs.

Alignment with objective indicators

There should be alignment between output performance measures and objective indicators. Performance measures, in conjunction with objective indicators, should help demonstrate a department's achievements compared to intentions.

Use existing data sets

Departments should consider existing measures and data sets that could be used to demonstrate output performance. This could include performance information under the national reporting framework for the Council of Australian Governments (COAG), information in the Report on Government Services, or other measures used in departmental reporting.

Assumptions and methodology

Departments should document the assumptions and methodology underpinning the performance measures. These should include how the supporting data is calculated or derived, source and frequency of data collection, as well as any other business rules and assumptions.

Setting targets

Targets should be realistic and achievable. They should provide meaningful information on the expected level of goods and services to be delivered, and enable Government to prioritise actions, set agreed direction, focus attention and resources and provide evidence of performance. Targets should not be stretch or aspirational targets, as the final performance statement is a delivery contract between Government and a department.

In developing output performance targets, departments should:

- be clear about what is to be delivered;
- examine past trends, variations in performance and the performance of other providers;
- formulate targets drawing on existing measurement data from a range of sources, where possible;
- consider the extent of influence the department can exert over the service to be delivered; and
- consult with relevant ministers where required.

Performance measures should remain consistent over time to enable comparison of performance. However, targets should be reassessed and amended where:

- there is constant over or underperformance against the current target;
- a policy change makes the current target unachievable; or
- there is a change in the funding allocated to the delivery of goods and services in an output.

Note a target that is too ambitious may encourage misrepresentation of performance. This could occur where desire to meet an unrealistic target results in an overstatement of actual performance.

Example

☑ 'Service provision rating (Commissioner assessment of Secretariat performance)' *[clear data source]*

☑ 'Timely handling of objections (within 90 days)' *[defines how it is being measures]*

☒ 'Arts portfolio public body annual reports tabled in Parliament by the required statutory dates' *[not challenging enough as this is a basic legislated requirement]*

☒ 'Progress of Regional Rail Link' *[not clear whether the measure relates to proportion of funding spent, milestones met, track laid etc.]*

Tips

- Performance measures should be written in plain English and be obvious to the public as to whether the outcome was positive or negative;
- targets of 0 or 100 per cent should not be used in most cases as they have no capacity to demonstrate continuous improvement from year to year and may not be sufficiently challenging; and
- targets involving wide ranges should not be used in most cases as they allow a wide range of performance to be considered a positive result and may not be sufficiently challenging. For example, if a (fictitious) performance measure 'customer satisfaction with delivery of services' was set with a target ranging between 50 per cent and 100 per cent, this would be considered too wide and not sufficiently challenging.[63]

[63] This addresses Recommendation 28, p198 in the Public Accounts and Estimates Committee's Report on the 2016-17 Budget Estimates, Chapter 9: Performance Management.

Checklist: performance measurement characteristics

The eight accurate criteria below indicate a better practice standard in public sector output performance measurement information. The following checklist should be used to assess the quality of each output performance measure and whether the set of performance measures achieves a faithful representation of the output performance. An output performance measure of good quality will meet all checklist items.

Criteria	Checklist
Attributable	
High quality output performance measures should not be unduly influenced by changes in external factors, such as economic and environmental conditions. Successful delivery of the activities/programs in an output should be attributable to the actions of the organisation.	• Is the output performance measure directly attributable to programs and/or activities delivered by the organisation under the output?
It is recognised that in some outputs, external factors can impact on the quantity, quality, timeliness and cost of service delivery. For example, ambulance services and court cases, where the level of demand may be primarily determined by factors outside the organisation's control. However, measures of these services are appropriate where the delivery of these services is within the actions of the organisation and responsibility for performance is considered to rest with the organisation.	• For outputs affected by demand, has the organisation put in place mechanisms to forecast and manage demand?
Clear	
High-quality output performance measures should be written in clear, concise, and non-technical language so they can be easily understood and easily related to the performance of the output. There should be no ambiguity about what is being measured.	• Is the measure written in clear language and unambiguous? • Is the measure readily interpretable by Parliament and the community? • Is it clear what the measure is intended to show and why it is important? • Is it clear whether exceeding, precisely achieving or coming under the target is a good result?
Comparable	
High-quality output performance measures should allow an organisation to demonstrate how its service delivery compares to past performance, performance across similar outputs, and performance in services delivered by other providers. This enables Government to assess whether the output represents value for money.	• Does the measure allow for comparisons of the output's performance: – over time – across similar programs, program areas or initiatives – across similar jurisdictions – between similar outputs delivered by other providers? – Does the measure enable benchmarking between providers of similar outputs?

Criteria	Checklist
Useful Performance measures should be capable of being used in a variety of ways. In addition to assessing and reporting performance, they should also inform decision making by the organisation and by Government as well as helping other stakeholders understand the organisation's performance. The data should be available to meet relevant planning and reporting timeframes.	• Can the measure be used to inform government decision making? • Can the measure be used for internal management, and for external reporting and decision making? • Does the measure and target clearly set out performance expectations for the output? • Have key stakeholders been consulted (i.e. relevant Ministers, managers and staff responsible for service delivery)? • Do key stakeholders regard the measure as useful? • Can the data be collected at a frequency that aligns with planning and reporting cycles?
Relevant High-quality output performance measures should be a measure of the services delivered. Performance measures should align with both the departmental objectives and the relevant output.	• Does the measure accurately reflect performance against what is intended to be achieved? • Does the measure align with departmental objectives? • Does the measure provide a good indication of success? • Does the set of measures provide coverage of the key aspects of performance? • Is it clear how achieving the target will assist in achieving departmental objectives?
Achievable Performance targets need to be challenging (i.e. represent best value for money), but still achievable. Targets should act as a driving goal for those working to achieve it. This is a balancing exercise: on the one hand, targets that are too achievable do not encourage continuous improvement, and, on the other hand, targets that are impossible to achieve will not provide Parliament and the public with useful information. Targets should not be stretch/aspirational targets but delivery targets.	• Does the performance measure provide a challenging, but realistic target for the organisation to achieve? • Can the performance target be altered to address under or over performance, in line with Government budgetary decision making from year to year?
Transparent Performance measures need not only to be transparent themselves, but the information collected also needs to be transparent. It must be clear how the performance data is collected (and in some circumstances why), and any limitations must be disclosed. Information must also reflect new initiatives and new funding, must be reflected by changes in performance measures and/or targets. (Note, this information is maintained by departments, but not published in the departmental performance statements).	• Is there a clear management audit trail of data treatment, calculation and reporting? • Has the measure been tested for unintended consequences? • Have counterbalancing measures been considered where unintended incentives have been identified? • Can the performance measure target be changed to reflect increased funding? • Have any data shortcomings and/or limitations been disclosed?

Criteria	Checklist
Evidence based High-quality output performance measures should have a sound evidence base. Data should be available so results against the performance measures can be observed and reported.	• Have a common set of current data definitions and key terms been communicated to all involved in the collection of data? • Have the methodologies (data collection, processing and monitoring procedures) been documented? • Are there standards and procedures for the collection, storage and retrieval of data? • Are processes in place to retain performance records to a standard that allows an independent auditor to verify information integrity? • Are processes in place to reassess the measure (and the associated output) each year for the annual State Budget process? • Have the data and methodology underpinning performance measures been verified for accuracy prior to publication?

Documentation and reporting of performance measures

Measuring performance requires timely and relevant collation and analysis of data. Data must be collected at set timeframes and must be accurate and comparable to achieve a meaningful picture of the performance.

The utility of performance information can be optimised if they are integrated back into planning and decision-making. It is vital departments provide DTF the following output information required in the publication of budget papers:

- output that the performance measure relates to;
- performance measure code;
- performance measure name;
- unit of measure; and
- type of measure – quantity, quality, timeliness or cost measure.

To support this information, departments also need to keep a record of the following:

- business purpose of the performance measure and what the measure is assessing;
- detailed definition of the terms used;
- how the data is collected, measured and calculated; and
- frequency of measurement.

Examples of policy and advisory-related performance measures

Performance measure	Target
Technical quality of policy advice papers assessed by a survey with a methodical robustness of 90 per cent.	At least an average of 70 per cent
The satisfaction of the relevant Minister with the policy advice service, per the common satisfaction survey.	At least 70 per cent
The total cost per hour of producing outputs	$
All new significant operating expenditure proposals are subject to cost benefit analysis or similar.	100%
Audit opinion issued by the Victorian Auditor-General on the Financial Statements of the Government.	Unqualified
Compliance with risk management policies and parameters for management of Crown lending and Crown bank accounts	No breaches
Annual Report, including financial statements, is produced in line with the *Financial Management Act 1994* requirements and free from material errors.	Achieved
Advice to entities and ministers on budget processes was provided within agreed timeframes.	100 per cent compliance
Degree of compliance with deadlines of briefings to the ministers, and or senior executives following release of public reports	100 per cent compliance

Assessment tool: performance measures – completeness

The performance measure completeness consideration tests whether the outputs performance measures represent the main components of expenditure and whether there are relevant units of accountability for performance and/or efficient/effective service delivery.

Performance measure completeness – general criteria				
Assessment criteria	**Key considerations**	**Summary ratings**		
		Yes	**Partial**	**No**
Overarching consideration Does the mix of performance measures reflect the main expenditure components of the output?	Are the respective performance measures across the output representatives of the main components of expenditure and are there relevant units of accountability for performance and/or efficient/effective service delivery? If NO – what additional measures should be incorporated?	Yes	n/a	No – Key components are missing (Recommend additional measures are added)

Performance measures completeness – Does the mix of performance measures reflect the main expenditure components of the output?			
Output	**Activities**	**Key elements**	**Captured under current BP3 reporting?**
[Output title]	[Activity 1]	[measurable element]	[Is the element currently captured in BP3 reporting?]
		[measurable element]	[Is the element currently captured in BP3 reporting?]
		[measurable element]	[Is the element currently captured in BP3 reporting?]
	[Activity 2]	[measurable element]	[Is the element currently captured in BP3 reporting?]
		[measurable element]	[Is the element currently captured in BP3 reporting?]
		[measurable element]	[Is the element currently captured in BP3 reporting?]
	[Activity 3]	[measurable element]	[Is the element currently captured in BP3 reporting?]
		[measurable element]	[Is the element currently captured in BP3 reporting?]
		[measurable element]	[Is the element currently captured in BP3 reporting?]
Summary			
Suitability for disaggregation	**Suitable**		**Unsuitable**
	Note: Based on your assessment, position the dot to reflect the output's suitability for disaggregation.		

Organisation structure
[Group/Division]
Area 1
Area 2
Area 3
Area 4
Area 5
Area 6
Area 7

Instruction: Adjust the red circle to reflect the proportion of the division/area covered by the output.

Assessment tool: performance measures – appropriateness

The performance measure appropriateness consideration assessment approach and summary ratings comprise general and specific considerations. The general consideration tests whether the suite of measures reflect the main expenditure components of the output. The specific consideration is sequential and considers the existing measures individually to ascertain if:

- a measure is providing directly relevant and detailed information, then it is recommended to be maintained;
- a measure is not providing relevant information, consideration is given to other more detailed available information that may be relevant; and
- there are no alternative information sources, then consideration is given whether to discontinue the measure or another more relevant measure can be developed.

Performance measure appropriateness (specific) sequential criteria				
Assessment criteria	**Key considerations**	**Summary ratings**		
		Yes	**Partial**	**No**
Does the performance measure provide relevant information to facilitate informed analysis?	Does the performance measure provide the level of detail required into departmental performance to assist users? • If YES – then maintain as is	Yes – Measure provides directly relevant and detailed information to support user analysis. (Recommend measure is maintained)	Partial – Measure provides information that may support user analysis.	No – Measure does not provide information to support user analysis.
If Partial or No to above Is there (or is it likely) more granular/relevant data/information related to the specific measure or activity is available to facilitate informed analysis?	Does the department have further information and detail that aggregates up and/or provides more relevant performance information than that currently reported? • If YES – then recommend measure is disaggregated or revised	Yes – More detailed and relevant information is available. (Recommend measure is disaggregated or revised)	Partial – More detailed information may be available and of relevance.	No – Further detail is not currently collected or reported by the department.
If Partial or No to above Is there another more relevant measure that can be developed that would facilitate informed analysis?	Is there more relevant measure or data point that would better facilitate informed analysis?	Yes – (Recommend a relevant replacement measure)	n/a	No – Relevant measure cannot be easily replaced (Recommend measure is discontinued)

Performance measures appropriateness						
Performance measure	**Unit of measure**	**201X-1X target**	**Assessment criteria**			**Comment**
			Facilitates informed DTF analysis and advice?	Is more granular data/ information available?	Should measure be replaced or discontinued?	
Quantity						
Quantity measure 1			[assessment rating]	[assessment rating]	[assessment rating]	
Quantity measure 2			[assessment rating]	[assessment rating]	[assessment rating]	
Quantity measure 3			[assessment rating]	[assessment rating]	[assessment rating]	
Quality						
Quality measure 1			[assessment rating]	[assessment rating]	[assessment rating]	
Quality measure 2			[assessment rating]	[assessment rating]	[assessment rating]	
Quality measure 3			[assessment rating]	[assessment rating]	[assessment rating]	
Timeliness						
Timeliness measure 1			[assessment rating]	[assessment rating]	[assessment rating]	
Timeliness measure 2			[assessment rating]	[assessment rating]	[assessment rating]	
Timeliness measure 3			[assessment rating]	[assessment rating]	[assessment rating]	
Summary						

Attachment 5: Overview of medium-term planning process

The medium-term planning process revolves around four key stages, which are outlined in detail below.

1. Setting a clear direction establishing vision, mission, objectives and indicators

This process of planning entails developing the department's vision, mission, goals and objectives. The mission statement clarifies the department's purpose in the context of the Government's objectives. It is important to note this stage of planning occurs before the State Budget as the departmental objectives are endorsed during the budget process. The finalised plan reflects objectives consistent with the budget papers.

The departmental objectives are measured by supporting indicators. With these measurable indicators, departments can monitor progress and make necessary adjustments each year. A further task is to consider outputs or deliverables needed to achieve the department's objectives. The associated output performance measures objectively measure the degree of success of output delivery.

Throughout this process of setting and refining the strategic direction for the department, departments may engage with Minister/s and key stakeholders as required.

2. Assessing the operating environment: situation analysis

A range of external and internal factors can affect the achievement of departmental objectives and outputs. These should be considered during medium-term planning, with relevant risk mitigation strategies developed to ensure desired priorities can be achieved. Planning takes into account the impact of cross-portfolio issues. However, the finalised plan is specific to the relevant portfolio. Departments can use horizon scanning to assess opportunities and identify limitations and capabilities to deliver the outputs and achieve departmental objectives.

External analysis includes:

- forecasts of economic conditions;
- sector-specific inflationary pressures;
- longer-term changes to the determinants for demand;
- inconsistent/variable demand for services provided;
- demographic and population changes;
- anticipated technological developments;
- actions by other governments; and
- the regulatory environment.

Internal analysis includes:

- the department's culture and structure;
- capacity and capability to deliver;
- resources, including the available technology and condition of assets; and
- physical location of output delivery providers.

With the external and internal analysis, departments can consider strengths, weakness, opportunities and threats (SWOT).

3. Strategy formulation

After analysing the department and the environment in which it operates, strategies and implementation plans can be developed to meet output delivery and departmental objectives, taking into consideration government policies and internal activities. Formulating strategies and implementation plans should involve the whole business (including portfolio agencies) to ensure the emerging drivers, risks, challenges and opportunities are identified and addressed.

Some areas for consideration include:

- output restructures e.g. output mix;
- demand and supply factors;
- use of technology and innovation;
- minimising operating costs and achieving operational efficiency;
- workforce planning to improve capability;
- planning to manage and achieve optimal value from the asset base;
- engaging markets in maximising value from procurement and external service providers; and
- addressing specific government policies and targets.

Resource planning is also an integral part of medium-term planning process through the inclusion of specific targets for planning purposes.

4. Feedback, control and reporting

Objectives and output delivery strategies and actions should be continuously assessed by setting standards, monitoring performance and acting to manage any variances. Modifications should be made from time to time to address significant change not foreseen, including the use of innovation, market mechanisms and technology.

Attachment 6: Departmental performance statements – performance measure footnotes guidance

This attachment provides further guidance on the preparation of performance measure footnotes as part of the preparation of departmental performance statements.

Wording for standard footnotes

The following wording is suggested to be used:

New performance measures

'New performance measure for 20xx-yy to reflect Government priorities regarding <xyz>/new funding/etc.'

New budget initiatives

'The higher 20xx-yy target reflects new funding in the 20xx-yy Budget for the <xyz> initiative.'

Renamed/edited performance measures

'This performance measure replaces the 20xx-yy performance measures <xyz>. The new measure is the same as the previous measure except for <xyz> and measures the same activity.'

'This performance measure renames/edits the 20xx-yy performance measures <xyz>. The new measure reports on the same activity as the previous measure, however has been amended for increased clarity.'

- Note: renamed/edited performance measures are published in the performance statements. The previous measures are not required to be published as a proposed discontinued or substantially changed measure.

Replacement or consolidation of performance measures

'This performance measure is proposed to replace the 20xx-yy performance measure <xyz>. It has been amended/replaced to more accurately reflect <xyz>.'

'This performance measure is proposed to consolidate the 20xx-yy performance measures <xyz> and <xyz> into a new measure for 20xx-yy. These measures have been consolidated to <xyz>.'

- Note: previous year performance measures that are proposed to be replaced or consolidated are required to be published as a proposed discontinued or substantially changed measure.

Proposed discontinued measures

'This performance measure is proposed to be discontinued as <it is no longer relevant/it has been replaced by the 20xx-yy performance measure '…'/previous budgets did not allocate funding for the program beyond 30 June 20xx>.'

Proposed discontinued measures as a result of a machinery of government change

‘This performance measure is proposed to be discontinued due to machinery of government changes effective <day month 20xx>. This measure was previously presented as part of the <xx objective> of the former <Department>. Reporting on this measure is no longer <appropriate/relevant> as <it was a function of the former department/a proportion of the measure relates to Department x/....>.’

- Note: this footnote is intended to capture full and partial transfers and functions to and from departments as a result of a machinery of government change.

Performance measures transferred between outputs

‘This performance measure is transferred directly from the <xyz> output.’

Machinery of government change

‘This performance measure has been introduced as a result of machinery of government changes that resulted in the transfer of <xyz> functions <out of/into> the department.’

Significant and/or material movements (a) in targets between years; (b) between targets and expected outcomes within or between financial years; or (c) output costs between years

‘The higher/lower 20xx-yy target reflects <additional services or funding/the effect of…>.’

‘The 20xx-yy expected outcome is <lower/higher> than the 20xx-yy target due to <….>.’

Note: footnotes explaining changes in targets or the setting of targets must include:

- at a minimum, whether the change is due to changed government policy, funding or program delivery, or changed external circumstances (i.e. Commonwealth, consumer trends etc.), and
- factors that have contributed to any targets being set at levels that could be reasonably interpreted as being significantly understated compared to the previous year.

Footnotes involving per cent and percentage point

A percentage point is the unit for the arithmetic difference of two percentages. e.g. going from 80 per cent to 84 per cent is a 4 percentage point increase (not a 4 per cent increase).

This means if the target is 80 per cent and the expected outcome is 84 per cent, the variance is five per cent, which requires a footnote.

Attachment 7: The Departmental Funding Model (DFM)

Calculation of output price in the DFM

As part of the DFM, output prices are generally indexed (except for some exclusions) so a department's ability to deliver services is not eroded over time by inflation.

In the budget and forward estimates, this is reflected in two sets of 'prices':

- **base output price** – these prices are indexed by an indexation factor throughout the forward estimates, to reflect general price movements in the economy; and
- **fixed output price** – these prices remain fixed through the forward estimates and are not indexed.

Total output price is defined in the following equation:

Total output price = (Base output price – exclusions) x indexation factor + exclusions

Indexation factor used in the DFM

The DFM allows for indexation based on the official State Government forecast of the *Consumer Price Index (CPI) – All Groups, Melbourne*, or an alternative rate, determined at the Treasurer's discretion.

The current practice is to apply an indexation factor of *2.5 per cent* per annum. This aligns with the mid-point of the Reserve Bank of Australia's 2 to 3 per cent inflation target band and the average rate of inflation (as measured by the *CPI – All Groups, Melbourne*) over the past two decades.

Exclusions to the application indexation under the DFM

Some components of output delivery are not subject to uniform indexation, or else are subject to different price indexation, as a result of:

- explicit Government decisions (e.g. non-wage health specifics such as drugs and prosthetics);
- special arrangements, such as Commonwealth/State matching arrangements (e.g. young people in nursing homes); or
- existing contracts to deliver outputs negotiated through a tender process (e.g. public transport contracts).

The General Efficiency Dividend[64] is also not subject to indexation under the DFM.

Further discussion on the exclusions to the application of DFM indexation are outlined below.

[64] The General Efficiency Dividend is an efficiency measure applied by departments to non-frontline wage and non-wages costs.

Output delivery contracts

Existing major output delivery contracts are excluded from uniform indexation for the life of the existing contract term where the price for an agreed level of service on a no-policy change basis is subject to differing indices prescribed in the existing contract.

For such contracts, when the estimate of the price needs to be revised during the forward estimates period, DTF and the relevant department agree any upward or downward movement based on the indexation methodology prescribed in the contract. Should the methodology require the use of forecast indices, the forecasts must be agreed with the Treasurer, in a similar manner to the uniform indexation forecasts.

Future contracts to deliver outputs will not be excluded from the uniform indexation arrangements unless there is an explicit government decision to do so.

Specification and pricing of outputs partly funded externally

A number of departments charge users directly for some products or services, with this revenue meeting either part or the whole of the cost of the product or service delivery.

In other cases, an external service provider (this could be a public non-financial corporation or a non-government entity) provides products or services directly to the public and charges the users an amount which covers only part of the cost, with the difference funded by government contribution.

If an output appears to be a clearly definable item with a readily identifiable cost, the important issue for management purposes is the total net cost to Government of the delivery of that output.

After identification of the total delivery cost, and expected demand and hence revenue received from external users, the department can then consider the net price of the output to Government.

The department and Government should seek to minimise the total output delivery cost while balancing:

- the charges imposed directly on customers for the product or service (as per Standing Direction 3.8 – refer to the *Cost Recovery Guidelines*);
- any aspects of the service which Government will fund as a Community Service Obligation (CSO);
- the net output price to Government; and
- any National Competition Policy issues.

Attachment 8: Applying the correct appropriation accounts in SRIMS as part of the DFM

DFM appropriation accounts

There are a number of 'annual appropriation' accounts in the State Resource Information Management System (SRIMS):

Account 71210 (Constant Output Price) – used for appropriation revenue that is subject to indexation under the DFM.

Account 71220 (Escalation Increment) – used for the indexation component provided to departments under the DFM.

Account 71200 (Revenue from Annual Appropriations (fixed price)) – used for appropriation revenue in the following instances:

- revenue provided for specific Government decisions where indexation differs from the DFM indexation rate, *or where no indexation applies*;
- special Commonwealth/State matching arrangements; and
- existing contracts to deliver outputs negotiated through a tender process.

Attachment 7: The Departmental Funding Model

General comments

Departments are responsible for identifying the correct revenue streams associated with the provision of outputs and assigning the revenue to the correct DFM appropriation accounts. If the accounts are not applied correctly, material distortions to the estimates may arise over time.

Departments are advised to discuss with their DTF contact if guidance on the use of these accounts for specific transactions is required.

Attachment 9: Depreciation equivalent – Asset funding sourced from provision of outputs appropriation diagram

Operating Statement for the Provision of Outputs for the Department. Authority codes between 2005 and 2220	Amount $		Balance Sheet	Amount $	Comment
Revenue			SAU inter-entity account 45000		
			SAU inter-entity account opening balance	200,000	SAU inter-entity account opening balance covering prior-years depreciation equivalent per SAU inter-entity Dissection Statements
			Current year actual depreciation expense equivalent	50,000	Department receives appropriation for the provision of outputs which is deposited in its SAU inter-entity account.
			Total available depreciation equivalent	**250,000**	
Appropriation for the Provision of Outputs – Accounts 71050 to 71200	-1,000,000		Appropriation covering current year other output expenses.	950,000.00	
Total Appropriation Revenue for the Provision of Outputs received during the current year.	-1,000,000		**Total Appropriation funding available in the SAU inter-entity account**	**1,200,000**	
Expenses (outputs)			Payments SAU inter-entity account payments comprising:		
			Payment for property plant and equipment (Additions to the Net Assets Base) from previous year's depreciation equivalent	-200,000	Payment for property plant and equipment from previous year's depreciation equivalent. In this instance, the Treasurer's approval under S.33 of the FMA is required.
Depreciation (includes amortisation) – Accounts between 81000 and 81950.	50,000		Payment for property plant and equipment (Additions to the Net Assets Base)	-50,000	Payment for property plant and equipment from current year's depreciation equivalent.
Other Expenses – Accounts between 80100 and 80985 and between 82000 and 90800	950,000		Payments for output expenses	-950,000	Normal payments for output expenses from the Provision of Outputs appropriations.
Total expenses	**1,000,000**		**Total draw-downs from the SAU inter-entity account**	**-1,200,000**	
Total operating result	**0**		**Total Balance in the SAU inter-entity account**	**0**	

Attachment 10: Pro-forma journal entries for LSL transactions

1. Accruing of long service leave by employees

The provision for long service leave (LSL) progressively increases as a result of accumulating LSL expense.

Dr Long service leave expense (other than revaluation of present value of LSL) – account 80500 (transaction flows)

Dr Long service leave expense – gains (losses) on revaluation account 80550

(Annual appropriation authority codes must not be used with this account).

Cr Long service leave provision (liability)

Departments receive funding for the payment of LSL (Other than revaluation of present value of LSL – account 80550) as part of the revenue received for the delivery of outputs. This revenue is recorded in the form of a deposit in the SAU inter-entity account.[65]

Dr SAU inter-entity account LSL (asset)

Cr Revenue for outputs (revenue)

2. Recognition of long service leave resulting from previous employment outside the Victorian budget sector

Employees in the Victorian public service (VPS) may have a period of service with a previous employer that was outside the VPS but is still recognised for LSL purposes.

Dr LSL expense (expense)

Cr LSL provision (liability)

3. Pay out of leave: employee resigns, retires or takes a payout in lieu of leave

Upon resignation, retirement or by request, an employee receives a payment in lieu of LSL if he/she is recognised as having seven or more years of service and has not fully drawn down on his/her available LSL entitlement:

Dr LSL provision (liability)

Cr Cash at bank (asset)

Cash at bank would be reimbursed from the SAU inter-entity account:

Dr Cash at bank (asset)

Cr SAU inter-entity account LSL (asset)

[65] Appropriation revenue is not provided for LSL gains/(losses) on revaluation due to changes in the present value resulting from the discount (bond) rate applied.

4. Employee resigns or retires – no pay out of leave provision as a result of not accruing a sufficient entitlement to a payout under their conditions of employment

An employee who resigns or retires is not entitled to receive a payment in lieu of LSL if they are not recognised as having at least seven or more years of service and is not entitled to pro rata payment in lieu of LSL upon cessation of employment.

In this situation the LSL provision is written back against LSL expense and no reduction is made to the deposit with the SAU inter-entity account.

Dr LSL provision (liability)

Cr LSL expense (expense)

5. Deposits accrued in the SAU inter-entity account are sufficient to fund long service leave

It is expected that there will generally be sufficient SAU deposits accrued to fund LSL as it falls due for payment. The following transactions would normally apply:

Dr LSL provision (liability)

Cr Cash at bank (asset)

Cash at bank would be reimbursed from the SAU inter-entity account as follows:

Dr Cash at bank (asset)

Cr SAU inter-entity account LSL (asset)

Refer Attachment 11: Representation of LSL funding flows for an illustration how the SAU inter-entity account is funded for LSL expense.

6. Deposits accrued in the SAU inter-entity account are insufficient to fund LSL over the long-term

There may be occasions where deposits accrued in the SAU inter-entity account will be insufficient to pay LSL over the long-term due to some unforeseen condition arising. There are two specific times when this can occur:

1. there is an increase in the number of staff taking LSL in a particular year; or
2. due to the age profile of staff in a department, a significant number of staff who have accrued LSL fall due for retirement.

For both conditions noted above:

Reduction in liability (provision for LSL)

Dr LSL provision (liability)

Cr Appropriation[66]

Cr SAU balance (to the extent that existing balances are available)

[66] This example assumes that additional output appropriation has or will be made available.

7. The transfer of an employee's accrued LSL entitlement when that employee secures employment outside of a department to an organisation not covered by agreements for the transfer of LSL funding

Circumstances may arise where an employee secures employment outside a department and their accrued LSL provision is recognised by the new employer. Unless employment arrangements exist for the payment of LSL on a pro rata basis upon resignation the following applies:

Dr LSL provision (liability)

Cr LSL expense (expense)

8. LSL accruals for salaries paid from Special Appropriations or trust funds

Normally salaries and employee entitlements will be funded out of output revenue. However, there will be some cases where the source of funds will be either from special appropriations or trust funds. In these circumstances it will be necessary to charge LSL expense against the Special Appropriation or trust fund with a corresponding increase in the SAU inter-entity account.

(a) LSL is accrued

Dr LSL expense (expense)

Cr LSL provision (liability)

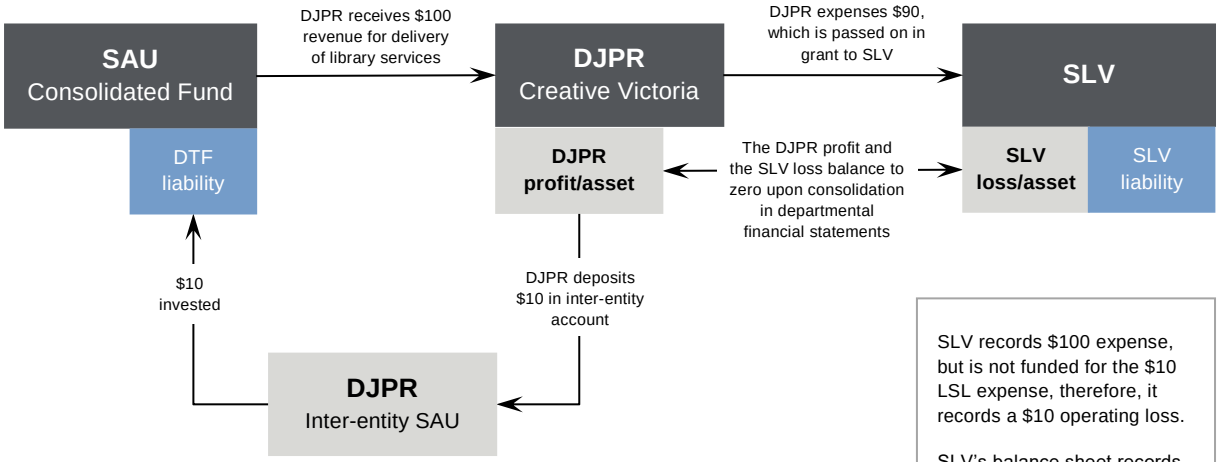
(b) Transfer of funds equal to LSL expense into the SAU inter-entity account

Dr SAU inter-entity account LSL (asset)

Cr Special Appropriation (revenue)

Attachment 11: Representation of LSL funding flows

(Department of Jobs, Precincts and Regions (DJPR) and State Library Victoria (SLV) used in this example)



DJPR receives $100 revenue from the SAU for delivery of SLV outputs. SLV's costs are $10 for LSL expense and $90 for other expenses.

DJPR does not fund SLV for the $10 LSL expense because SLV will not spend this as cash in the budget year. Accordingly, DJPR records a $90 expense (current grant to SLV) and a $10 profit held as a **receivable/asset** in its inter-entity SAU account.

The balance in the DJPR inter-entity account is invested in the DTF SAU, the DJPR profit and the SLV loss balance to zero upon consolidation in departmental financial statements.

SLV records $100 expense, but is not funded for the $10 LSL expense, therefore, it records a $10 operating loss.

SLV's balance sheet records a $10 **liability** equal to the increase in their LSL provision, and a $10 decrease in **accumulated funds** equal to the unfunded $10 held by DJPR.

SLV needs to provide a business case proving that it requires the $10 before it will be passed on from DJPR.

Attachment 12: Template for cash and actuals reconciliation in SRIMS

This template gives departments the opportunity to show any reconciling items and should reflect the reconciliations currently undertaken by departments.

Monthly reconciliation between cash and actuals ledger in SRIMS

Department of _____

Monthly reconciliation as at _____/_____/20__

Entity	Account	Authority	Actuals ledger amount	Cash ledger amount	Variance amount	Comment
XXXX	XXXXX	XXXX				
	45000					
	45500					
	46000					
	47000					
	48001					
	50010					
	50015					
	50020					
	50030					
	50040					
	50127					
	71050					
	71200					
	71400					
	79900					
	90500					

Entity	Account	Authority	Actuals ledger amount	Cash ledger amount	Variance amount	Comment
	90800					
	11000					
	14100					
		TOTAL				
	_____ Chief Finance Officer (or delegate) ___/_____/_____			By the 10th business day of the new calendar month this reconciliation must be returned to DTF via email to cashmanagement@dtf.vic.gov.au		

Attachment 13: Planning, designing and conducting effective evaluations

Step 1: Define the purpose of the evaluation

Clearly defining the purpose of an evaluation helps in identifying who will use the evaluation results, when the evaluation should be conducted, and who should conduct the evaluation.

The method of evaluation, communication, timing and use of results largely depends on the purpose of the evaluation.

The most important part of this step is firstly making sure that it is understood what the policy or program is all about i.e. what is the expected outcome or result of the policy or program?

A good understanding of the program will help to identify why the evaluation needs to be done, how the evaluation will be used and who should conduct the evaluation.

Examples of evaluation purpose

Purpose	Description
Improve and inform policy	To review policy effectiveness on an evidence basis, develop future options and alternatives.
Support and improve budget priorities	To identify cost effectiveness, efficiencies and/or resource allocation options.
Drive organisation learning and improvement	To make adjustments and improvements to existing or future programs and policies.
Improve accountability and transparency	To ensure a robust system of performance measurement and management.

Sometimes it can be unclear what a program is trying to achieve, or the aims may never have been set out at the beginning of the program's implementation. A useful way to identify a program's objectives would be to consider these key evaluation questions:

- What are the service needs that are being met? Who are the recipients of the service?
- What problem or issue is the program trying to address?
- Is the program delivery a new or improved service? Has the program replaced other services?
- What are the outputs being delivered in terms of quantity, quality, timeliness and cost?

Information that may be useful to answer these questions could be contained in government policy statements, ministerial press releases, departmental corporate and business plans, departmental performance statements, business cases and submissions to Cabinet and Cabinet sub-committees.

Step 2: Decide when the evaluation should be conducted

Evaluations may be conducted before, during or after a program has been implemented, depending on the purpose. As a general guide:

Timing	Purpose
Pre-program implementation	To inform decisions to proceed and support budget priority decisions.
During-program implementation	To monitor project performance and identify possible improvements.
Post-program implementation	To assess achievement of project objectives, inform and improve policy.

Step 3: Decide who should conduct the evaluation

This step involves determining who should be responsible for conducting the evaluation and implementing its outcomes. A trade-off may need to be made between using external or internal resources or evaluators to evaluate the policy or program. Internal evaluators will generally have a deeper understanding of the program context so it is more likely that organisational learning will occur, while external evaluators are more objective in their approach to the program. To ensure independence, evaluations should not be conducted by a party involved in the delivery of the program under evaluation.

Determining who should conduct the evaluation depends on the purpose of the evaluation. As a general guide:

Who	Purpose
Central agencies	When the objectives are to assist and improve budget priority decisions and resource allocation decisions.
Department/agency self-evaluation	When the objectives are organisational learning and improved implementation. Examples include department evaluation unit, program managers and officers, department internal audit. Can be limited by time and resources.
Independent examination and performance assessment	When the objectives are to improve accountability, transparency and provide alternative perspectives. Can include policy practitioners, management consultants, public bodies, community groups and auditors. The focus can be more on accountability than improvement.
External experts and policy expertise	When the objectives are to assess policy evidence and effectiveness, provide new perspectives on public policies or specialised evaluation skills. Examples include policy practitioners, research bodies, academics and management consultants.

Step 4: Decide how the evaluation should be conducted

Deciding how to conduct an evaluation depends on the intended use of the evaluation results and the nature of the program itself. The design, approach and method should fit the purpose of conducting the evaluation.

As a result, decisions need to be made about:

- What information, data collection and evaluation methodology would provide the right evidence to best inform the people making decisions on the evaluation?
- What methods and data will produce the best evidence to support the intended purpose of the evaluation – on time and within budget?

Some considerations include:

- social, economic and financial impacts of the program;
- risks associated with the program and how these are being managed; and
- different service delivery options available to government.

Most programs will generate a lot of useful information during the course of program planning and implementation that can be used to address these evaluation questions.

Step 5: Consider how to determine the success of an evaluation

As part of designing an evaluation program, consideration should be given to whether the intended purpose has been met. Some questions that may guide this assessment include:

- Is the evidence presented sufficient to make this decision?
- Has the program accomplished what it was designed to do – why, or why not?
- What recommendations and options for future change or improvement can be made depending on the intended purpose?

It is also important to clarify the differences between measuring the success of the evaluation and measuring the success of the program under evaluation.

Step 6: Consider how to report the findings and recommendations

Determining how the evaluation will be reported depends on the original purpose of the evaluation and the intended use of the evaluation results. Different communication formats may be required for different stakeholders. Evaluation findings may also be integrated into other reporting formats, for example, progress reports during the development of the program could be used within final reports post-program implementation.

The main types of reporting are:

Reporting type	Intended use
Formal published document/report	To communicate findings for significant programs or policy. This can include formal reports to stakeholders, the public and management.
Less formal communication	To transfer learnings, to improve the program or to assess operational performance. This can include formal oral briefings, workshops, stakeholder forums, meetings and briefings to management and staff.

Step 7: Using the evaluation findings

Evaluation reporting is not just about the communication of results. It is important to ensure that the findings are used to achieve the purpose for which the evaluation is intended. This may include tailoring the findings to match the needs of stakeholders.

Some useful questions to help to identify the evaluation audience include:

- Who is going to make decisions about the program and its future, based on the evaluation?
- What do the end-users want to know about the project?
- Why is this information important to the end-users?
- When do the end-users want this information?

How should the evaluation be conducted?

There is no particular way to choose the most appropriate method to evaluate a program, given that most methods of data collection and analysis have some bias or limitation. For example, using more sophisticated models can deliver thorough and insightful results, but the trade-off is usually the need for more time, expert knowledge and resources. Cost, time, resources and skill availability should be considered when determining design, approach and method

The type of evaluation approach used should be commensurate with the size and importance of the program, for example, additional expertise and evidence may be required for larger, complex and more costly programs.

As a useful guide, remember:

- Often the most appropriate evaluation approach and method is a combination of methods.
- The most important part of any evaluation is to document the purpose and the process.

Characteristics of best practice evaluation

Characteristics	
Focused on key issues that inform decision making	To ensure that an evaluation will be used to inform future decision making, it is important that it focuses on the key issues that matter to the relevant stakeholders and decision makers. In the planning stage it is important to identify the stakeholders that have an interest in the program and obtaining their commitment to be involved in the evaluation or to use the findings. Defining the terms of reference early in the evaluation planning process will also help ensure that those involved are clear from the beginning on what is being evaluated and why.
Robust and Rigorous – systematic, evidenced-based approach to assess performance	The most effective evaluations are comprehensive and get to the core of the program. However, given time and resources limitations, a trade-off will need to be made between the amount, type and extent of the evidence that is collected and analysed. The best way to approach this decision is to be clear about what is being measured and why, and what information will address the purpose of the evaluation. In the planning stage it is important to determine what existing data is available, what new data will be required and whether any requisite specialist skills are available. This will help avoid a difficult trade-off between collecting more information and the cost of collecting that information.
Reliable, Useful and Relevant	The real test of an effective evaluation is whether the results can be understood and used by decision makers and stakeholders. This includes making sure that the results can be relied on, and that any assumptions, underlying calculations or projections and conclusions are documented and explained. The way in which evaluation results are reported and presented is also very important. Good evaluation reports are clear, succinct and easily understood. Recommendations should make sense, be practical and be informed by sound and objective information and analysis.
Timely	The impact that evaluation results can have on decision makers and stakeholders is dependent on the timely availability of results. An evaluation should be timed to fit in with departmental and whole of government planning and resource allocation processes.

Common methods and approaches used to collect data and conduct an evaluation

It is important to ensure that the selected methods and approaches fit the purpose of the evaluation and will be suitable for providing data to answer the key evaluation questions. No single method or data collection approach will be suitable to answer all evaluation questions, and a combination of methods and approaches may be needed to comprehensively evaluate a program.

Level of Sophistication	Evaluation data and method types	Potential uses	Constraints	Common Applications
Lowest	Literature search/Best practice models	Identify what is happening in other jurisdictions, new and best practice ideas. Enhance understanding of causes of various problems and identify future strategies and options.	• Causal relationships can be difficult to test. • Often needs supplementary information and analysis.	• Starting point in all evaluations. • Cheap and easy way to collect information. • Useful in the program planning phase to identify service delivery options, community needs and to improve and inform policy.
	Pilots and case studies	Identify what works and what doesn't to guide future program development and implementation – without having to fully examine or implement a program.	• Can be difficult to broadly apply the learnings from specific pilot and case • Can be costly and time consuming to conduct an in-depth pilot study. Case studies are generally easier to do because they rely on historical information.	• Useful for all evaluations. • Most useful to generate information to drive organisational learning and improvement, make adjustments and improvements, share and transfer learnings.
	Internal performance reports such as: • surveys; • internal and external reports; • other compliance reports; • management reports; and • program files.	Measure progress achieved against initial expectations and performance measures.	• Can be difficult to make clear inferences about causal relationships and impacts of programs. • May need supplementary information and analysis. • Can require some expertise to interpret.	• Most useful in providing a starting point and background information for all evaluations. • Input to cost-benefit and net impact analysis. • Useful to improve accountability and transparency and drive organisational learning and development.

Level of Sophistication	Evaluation data and method types	Potential uses	Constraints	Common Applications
	Benchmarking/performance measurement	Measure program performance relative to comparable performance standards. Identify best practice performance and how to adopt these practices to improve the program.	• Requires comparable performance measures. • Requires program performance measures to be identified upfront. • May need supplementary information and analysis. • Requires expert knowledge and time to identify relevant measures and analyse results.	• Useful to support and improve budget priorities, improve accountability and transparency, and drive organisational learning and development.
	Review of statistical collections	Identify quantitative and qualitative economic, social and environmental impacts of a program. Inform the generation and testing of alternative models and options.	• May require supplementary information and analysis. • Not all program results can be quantified. • Requires expertise to perform data analysis. • Availability of data can vary.	• Most useful as an input to evaluations that measure cost-benefit or the net impact of programs. • Useful to improve and inform policy, and support and improve budget priorities.
	Cost benefit analysis	Identify and quantify full range of program costs and benefits. Quantifies inputs and outputs. Objective way to compare and rank alternative programs. Depends on a reliable source of predictive data generated by other methods.	• Focuses on quantitative measures and costs of a program – some costs and benefits may not be able to be measured in dollar terms. • Requires expertise in statistical modelling and use of cash flow techniques such as NPV and discounted cashflow.	• Particularly useful to support and improve budget priorities, identify cost effectiveness and efficiencies, and guide resource allocation decisions.
	Net impact evaluation or outcome-based evaluation	Assess net effect of a program by comparing against a 'do nothing' position. Identify what would happen if the program had not occurred. Identify extent to which a program or	• Time and resource intensive. • Potential reliance on proxies to measure alternative outcomes – can be difficult to find good proxies for outcome measures.	• Particularly useful to improve and inform policy by providing evidence to develop alternatives and future policy options. • Useful to also improve accountability,

Level of Sophistication	Evaluation data and method types	Potential uses	Constraints	Common Applications
		policy has achieved its desired outcomes once it has been implemented. Review unintended consequences and impacts of programs.	• Can be difficult to collect accurate historical data and evidence. • Requires specialist expertise, knowledge or input such as economic and social research skills.	improve budget priorities and drive organisational learning and improvement through identifying potential improvements.
Highest	Cost effectiveness	Quantify program costs and benefits when they cannot be valued in dollars – qualitative analysis. Unlike cost benefit analysis, measures outputs and outcomes in both quantitative and qualitative terms. Identify potential impacts to reduce the costs of a program. Useful to compare and rank programs in terms of their costs for reaching given outcomes.	• Requires specialist economic or social research expertise and program knowledge to objectively assess effectiveness. • Need clear measures or proxies for outcomes – it can be difficult to find good proxies for outcome measures. • Can be time and resource intensive.	• Particularly useful to improve and inform policy by providing evidence to develop alternatives and future policy options. • Useful for improving accountability and budget priorities, and driving organisational learning and development through identifying potential improvements.

Attachment 14: Guidance on lapsing programs evaluations

While the following is intended as guidance to support the questions posed in Mandatory requirement 6.1.2, departments are advised to follow the guidance as closely as practicable in preparing their evaluations.

Question 1 – Justification/problem: What is the evidence of continued need for the program and role for government in delivering this program?

The evaluation should address and provide evidence of:

- the extent the program continues to address a demonstrable need and is responsive to the needs of Victorians;
- the extent to which the department has investigated other options to address the identified need or problem;
- why the program continues to be the best way to respond to the problem and deliver the intended outcomes;
- how economic, environmental and social conditions have changed since the program was funded and how continuation of the program will meet these conditions;
- the market place not being able to deliver the program;
- no similar services being provided by the Victorian Government, the Commonwealth, or Non-Governmental Organisation sector that have commenced since the program's inception; and
- the capacity (resources and monetary) and capability of the department to continue the program while responding to any changes found as a result of the evaluation.

Question 2 – Effectiveness: What is the evidence of the program's progress toward its stated objectives and expected outcomes, including alignment between the program, its output (as outlined in BP3), departmental objectives and any Government priorities?

The following information should be provided as a minimum:

- clearly articulate the stated objectives of the program and outcome it was seeking to achieve (at start up and any revisions), why the program approach was considered the best way to achieve the outcomes. If the objectives of the program were not clearly articulated at start up, supplementary explanatory information is required;
- demonstrated alignment between the program's stated objectives, its output, departmental objectives, intended outcomes/impacts and any stated Government priorities;
- clear articulation and demonstration of the impact of the service on clients;
- provide performance results based on quantitative output and outcome data (e.g. number of clients seen, targeted client survey). Qualitative data may also be provided, however greater weighting will be given to quantitative information provided;[67]

[67] Qualitative data may be sourced from open ended interviews, direct observation or written documents), and qualitative analysis methods (identifying themes, concepts and patterns from the data) may also be provided.

- where full year data is not available, departments are required to provide any available data along with any assumptions made;
- where appropriate, external factors outside of the department's control should be identified to provide context for evaluation results around the achievement of outcomes; and
- describe any quantifiable unintended benefits and costs.

Question 3 – Funding/delivery: Has the program been delivered within its scope, budget, expected timeframe, and in line with appropriate governance and risk management practices? What were the challenges in delivery of the program?
How were these challenges addressed?

The following information should be provided at a minimum:

- detail the original scope and any scope changes (including associated funding and objective/performance adjustments) agreed by the relevant Cabinet Committee;
- total approved budget (including but separating out from original approval any agreed scope variations), program costs and major cost drivers;
- list of the price paid by Government and all additional funding provided to the program over the past three years (as applicable);
- list the total costs incurred for the delivery of the program (including disaggregation by expense category) for each of the three previous years (as applicable);
- a breakdown of program expense categories;
- all entities which charge expenses to the program cost;
- brief timeline and status of program delivery implementation. If not delivered on time or on budget, a clear explanation of why. If any variations to the timeline for program delivery have been approved by Government over the life of the program this should be highlighted; and
- demonstrate why the governance and risk management practices surrounding the program are appropriate. If considered not appropriate, explain why and describe proposed changes.

Question 4 – Efficiency: Has the department demonstrated efficiency and economy in the delivery of the program?

Provide a brief statement of the extent and level of any efficiencies realised in the delivery of the program (e.g. how the program is being delivered at lowest possible cost without compromising quality, any improvements that have led to downstream efficiencies).

For larger programs ($20 million or greater) – provide data and evidence of improved efficiency and economy (demonstrating that the program is being delivered at lowest possible cost without compromising quality, highlighting improvements that have led to downstream efficiencies).

Question 5 – Risk: What would be the impact of ceasing the program (e.g. service impact, jobs, community) and what strategies have been identified to minimise negative impacts?

Provide an outline of:

- how the department could successfully exit from delivering the program if Government so desired;
- what the impact would be (both internal and external and direct and indirect); and
- what strategies have been identified to minimise these impacts.

Departments are not required to look at alternate policy/program options in answering this question.

Question 6 – If further funding was provided: Reassess funding required to deliver the program using data collected through service delivery. Does the initial funding allocated reflect the true cost required to deliver the program?

The following information should be provided at a minimum:

- identify cost drivers and gaps between estimated and actual costs;
- comparable benchmarking of program costs and processes; and
- expected changes in funding needs if further funding was provided. For example, the cost of delivering a program is generally expected to be higher in the first few years due to initial set up costs and training costs.

For programs of about $20 million or greater, data and evidence of any discrepancies of the initial funding allocation, the actuals and the estimated additional funding required, should be provided.

Data and evidence for this may include, but not be limited to:

- results benchmarking cost of delivering similar services within the organisation or an industry benchmark;
- actual demand versus estimated demand for the program/service;
- costs associated with addressing the actual demand (at an aggregated level, e.g. broad average costs); and
- a list of assumptions used in cost analysis.

Question 7 – If further funding was provided: What level of efficiencies could be realised?

Provide an outline of the level of efficiencies which ongoing funding could provide including clear explanation as to how this information was derived.

Attachment 15: The history of the establishment of the SAU

One of the most significant financial management reforms in the late 1990s was the move from cash to an accrual-based appropriation budgeting and reporting regime. The Public Ledger Operating Statement began to reflect revenues earned, regardless of whether cash has been received, and expenses incurred, but not necessarily paid (or payable) in cash.

Under these reforms, the concept of the State Administration Unit (SAU) was established, and became operational on 1 July 1998. The SAU formalises arrangements between departments and DTF as the 'Corporate Office' for the State of Victoria from an accounting and reporting perspective following the introduction of accrual output budgeting and management.

At any given time, the balance held in each department's SAU inter-entity account represents appropriated funds available to that department which have not been drawn. This can result in substantial financial assets being available to departments, which represent the value of appropriations that have been applied but for which money has not been drawn from the Consolidated Fund.

Purpose of the SAU dissection:

For Victorian Government departments, to:

- manage the application of appropriation funding provided;
- ensure legal and administrative requirements are met;
- identify and verify unspent depreciation equivalent to be applied against asset initiatives during the current year, and in the out years, contained in the forward estimates;
- identify unspent levels of long service leave (LSL) equivalent to be applied to fund future drawdowns on the provision for LSL;
- identify and verify the surplus on the provision of outputs, which will be available for application against future initiatives, following the Treasurer's approval; and
- identify departmental obligations to pay employee entitlements, creditors and other commitments since 1 July 1998, for which output appropriation has been certified but not drawn.

For DTF to verify that:

- legal and administrative requirements have been met;
- the unspent component of the depreciation equivalent is available for future application towards asset investment/replacement when formulating the forward estimates; and
- the surplus on the provision of outputs is available for application against initiatives to be approved by the Treasurer.

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