2006-07 BUDGET PAPER No. 4

# AGENCY RESOURCING 2006-07

**(Including Appropriation (Parliamentary Departments) Bill (No. 1) 2006-2007**

**Appropriation Bill (No. 1) 2006-2007**

**Appropriation Bill (No. 2) 2006-2007)**

CIRCULATED BY
SENATOR THE HONOURABLE NICK MINCHIN
MINISTER FOR FINANCE AND ADMINISTRATION
OF THE COMMONWEALTH OF AUSTRALIA
FOR THE INFORMATION OF HONOURABLE MEMBERS
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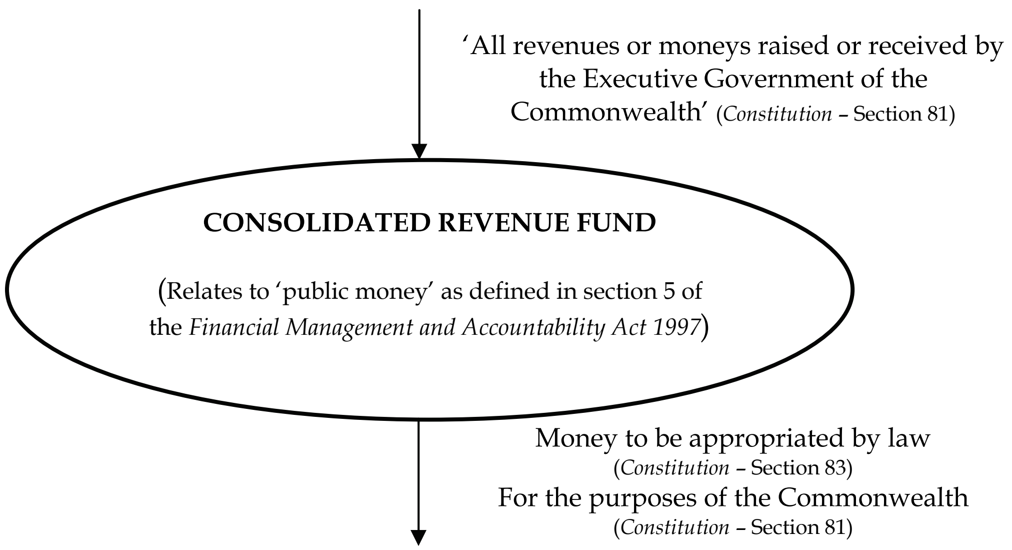
# Introduction

The purpose of Budget Paper No. 4 is to provide, in a single publication, information on appropriations being proposed in the budget year. It contains reproductions of the budget annual appropriation bills, as well as the Agency Resourcing table that shows, by entity, all moneys expected to be available to be spent by source of appropriation[1]. It also has an index so that all resourcing for an individual entity can be readily found.

## APPROPRIATIONS

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

**The Constitution and the Consolidated Revenue Fund**




Section 83 of the Constitution provides that no money shall be drawn from the Treasury of the Commonwealth except under an appropriation made by law.

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

Section 81 provides that all appropriations from the CRF must be for the purposes of the Commonwealth. The 'Treasury' of the Commonwealth, noted in section 83, equates to the CRF referred to in section 81. Together, sections 81 and 83 provide that there must be an appropriation, made by law, for the purposes of the Commonwealth, before money may be drawn from the CRF. This is a key element of the provisions which safeguard Parliament's control over Government spending.

Appropriations can be classified as either special appropriations, or are one of the annual appropriation Acts. Budget Paper No. 4 contains the three Budget annual appropriation bills: Appropriation (Parliamentary Departments) Bill (No. 1) 2006-2007, Appropriation Bill (No. 1) 2006-2007 and Appropriation Bill (No. 2) 2006-2007.

Section 53 of the Constitution provides that the Senate may not amend proposed laws appropriating money for the ordinary annual services of the Government. Under section 54 of the Constitution, a proposed law appropriating money for the ordinary annual services of the Government can only deal with such appropriations. Accordingly, the annual appropriations are split into those that provide for the ordinary annual services of the Government (Appropriation Bill (No. 1) 2006-2007) and those that do not (Appropriation Bill (No. 2) 2006-2007).

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

The services of the three parliamentary departments are not considered to be ordinary annual services of the Government. Accordingly, there is a third budget annual appropriation bill, the Appropriation (Parliamentary Departments) Bill (No. 1) 2006-2007, which proposes appropriations for the parliamentary departments.

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

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

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

Where special accounts are credited with amounts, such as from an indirect tax, a special appropriation or an annual appropriation (as is provided for under section 14 of Appropriation Bill (No. 1) 2006-2007), the FMA Act provides an appropriation for the purposes of the special account up to the balance of the account.

The annual appropriation bills are supported by portfolio budget statements prepared by portfolio Ministers. The portfolio budget statements contain details of the estimated payments under each of the annual appropriation bills and other legislation providing appropriations. They also contain details of estimated receipts from other sources, including taxation, customs, excise and receipts from fees and charges collected by entities.

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

More information on appropriations is provided on the Department of Finance and Administration web site at:

http://www.finance.gov.au/budgetgroup/Cash_and_Appropriation_Managem/appropriation_bills.html.

## STRUCTURE OF APPROPRIATIONS

The annual appropriation bills propose the payment of specified amounts by entities in achieving the Government's outcomes. Except in two types of situations, the Minister for Finance and Administration (Finance Minister) has a discretion to issue out of the CRF an amount no greater than what is provided for in the appropriation acts. Entities do not have an automatic right to these funds.

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

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

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

### *Appropriation Bill (No. 1)*

Appropriation Bill (No. 1) 2006-2007 provides for matters that are considered to be the ordinary annual services of the Government and hence cannot be amended by the Senate under section 53 of the Constitution.

In Appropriation Bill (No. 1) 2006-2007, amounts are appropriated according to whether they are departmental or administered. Departmental outputs involve expenses over which an entity has control.[2] They are the ordinary operating costs of Government entities. Expenses typically included in Departmental outputs include:

- salaries;
- accruing employee entitlements; and
- operational expenses including depreciation.

Departmental outputs are appropriated as a single amount for each entity. The single appropriation represents the cost of all the outputs that the entity plans to deliver. Appropriation Bill (No. 1) 2006-2007 shows a split of that amount across outcomes. The split is notional, providing an indication of the departmental resources that will be required to achieve entity outcomes.

Administered expenses are those administered by the entity on behalf of the Government. They are normally related to activities governed by eligibility rules and conditions established by the Government or Parliament such as grants, subsidies and benefit payments. Entities have no discretion over how administered expenses are spent. Administered expenses are appropriated separately for outcomes (i.e. the split across outcomes is not notional), specifying precisely how much can be expended on each outcome. The appropriation amount represents the total estimated expense for the administered outcome for 2006-07.

The detail on appropriations in Appropriation Bill (No. 1) 2006-2007 is set out in Schedule 1 to the Bill.

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

### *Appropriation Bill (No. 2)*

As explained above, Appropriation Bill (No. 2) 2006-2007 provides appropriations for matters that are not proposed for the ordinary annual services of Government. It covers both administered expenses (grants to the states, payments to the territories and local Government and new administered expenses) and 'non-operating' costs.

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

- '*equity injections*', which are provided to entities to, for example, enable investment in new capacity to produce departmental outputs when normal cash flows are insufficient;

- '*loans*', which are provided to entities by Government when an investment to produce future departmental outputs is expected to result in a direct return such as an efficiency saving (these are generally not formal loans established in contracts);

- '*previous years' outputs*' appropriations, which provide funding to replenish appropriations used to deliver departmental outputs in a previous year. This can occur, for example, when a decision is made to implement a new activity after the date for inclusion in the additional appropriation bills. Such activities are funded initially from existing appropriations which are then replenished by the *previous years' outputs* appropriation; and

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

Schedule 1 to Appropriation Bill (No. 2) 2006-2007 confers on the ministers named, power to determine:

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

- the amounts and timing of those payments.

The detail on appropriations in Appropriation Bill (No. 2) 2006-2007 is set out in Schedule 2 to the Bill.

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

The Appropriation (Parliamentary Departments) Bill (No. 1) 2006-2007 contains appropriations for all the departmental outputs, administered expenses and non-operating costs of the three parliamentary departments.

### *Annual appropriations generally*

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

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

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

Appropriations for administered expenses are subject to a determination by the Finance Minister on the amounts to be issued. The effect of that determination is to prevent any part of the appropriation that has not been expensed in the year from being issued from the CRF. By convention the Finance Minister issues determinations in relation to administered expenses appropriations following the completion of each financial year. Unlike the reduction determinations for departmental outputs or non-operating costs discussed above, the determinations for administered expenses do not reduce the appropriation. Rather, they are a declaration by the Finance Minister of the maximum amount that may be issued for the respective items. The effect of the determination is that administered expense appropriations that have not been expensed in a year cannot be spent in later years.

There can be situations where entities require extra funding for urgent and unforeseen expenditure for which there is insufficient appropriation. In such cases, Appropriation Bill (No. 1) 2006-2007 and Appropriation Bill (No. 2) 2006-2007 each contain a clause entitled 'Advance to the Finance Minister' (AFM), which enables the Finance Minister to provide urgent additional funding. The AFM provision in Appropriation Bill (No. 1) 2006-2007 is limited to a maximum of $175 million and in Appropriation Bill (No. 2) 2006-2007 is limited to $215 million. Details on each amount issued under the AFM are provided to Parliament through the requirements of the *Legislative Instruments Act 2003*. An AFM provision is typically also included in each successive annual appropriation Bill. Those provisions have the effect of enabling certain amounts issued under the previous Acts to be ignored, thus resetting the maximum amounts that may be issued.

Appropriation (Parliamentary Departments) Bill (No. 1) 2006-2007 also contains a clause corresponding to the AFM provided in the other two bills. Called the Advance to the Presiding Officer, the total that may be issued is limited according to the parliamentary department concerned.

Appropriation items in Appropriation Bill (No. 1) 2006-2007 may be increased where agreements under s 31 of the FMA Act are entered into between the Finance Minister and the Minister responsible for the item. Section 31 agreements are mostly of a departmental nature and allow agencies to retain and spend receipts that would not otherwise be supported by an appropriation. Section 10 of Appropriation Bill (No. 1) 2006-2007 provides that relevant items may be increased by the amount of the related receipts. Receipts can include moneys from cost recovered activities and the sale of minor assets.

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

Section 32 of the FMA Act gives the Finance Minister the power to transfer appropriations from one agency to another where, for any reason, a function of one agency becomes the function of another. The Actual Available Appropriation shows the impact of those transfers rather than the amounts that were originally appropriated.

## THE AGENCY RESOURCING TABLE

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

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

Receipts from independent sources include moneys received that:

- may be spent by agencies through agreements under section 31 of the FMA Act;
- are credited to special accounts; and
- bodies subject to the *Commonwealth Authorities and Companies Act 1997*, may spend in accordance with their enabling legislation or Ministerial agreement.

Note that, because some entities provide funding to others, the total amounts in the Agency Resourcing table cannot be used to calculate the total resourcing at the whole of Government level. Similarly, transactions between entities while shown in financial statements, are not reflected in the Commonwealth's consolidated financial statements. This treatment is in accordance with section 5 of the annual appropriation bills, which states that notional transactions between agencies are treated as 'spending' the appropriation, even though the amounts do not leave the CRF.

## THE GOODS AND SERVICES TAX

Australian Government entities generally pay and collect Goods and Services Tax (GST) on the same basis as other Australian entities. They may also 'recover' GST from the Australian Taxation Office. The amounts of appropriation shown in the three budget appropriation bills for 2006-2007 do not include an allowance for recoverable GST. The appropriations shown therefore represent the net amount that Parliament is being asked to allocate to particular purposes. This aligns with the accounting treatment of expenses and assets and the presentation of budget estimates.

In section 30A of the FMA Act, Parliament has provided that the original appropriation be increased by the recoverable GST on payments by FMA agencies from all appropriations limited by amount. Section 30A operates by increasing existing limited appropriations by the GST qualifying amount incurred by an FMA agency. In relation to the annual appropriation acts, section 30A has the effect of increasing an appropriation by the amount of the GST qualifying amount arising from acquisitions in respect of the appropriation. As a result, there is sufficient appropriation for payments under an appropriation item provided that the amount of those payments, less the amount of recoverable GST, can be met from the initial amount shown against the item in the appropriation Acts.