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**Chair**

**Mr. Tom Lukiwski**



## Standing Committee on Government Operations and Estimates

Tuesday, May 31, 2016

• (1820)

[English]

**The Chair (Mr. Tom Lukiwski (Moose Jaw—Lake Centre—Lanigan, CPC)):** Colleagues, I'd like to call this meeting to order.

I'm not sure if our guests in Australia can hear me.

**Mr. Stein Helgeby (Deputy Secretary, Governance & APS Transformation, Australian Department of Finance, Australian Government):** Yes, we can.

**The Chair:** Thank you very much. Let me introduce myself. My name is Tom Lukiwski. I'm the chair of this committee. It's the Standing Committee on Government Operations and Estimates.

We thank you very much for your participation. I understand, gentlemen, that it's about 8:20 a.m. Australian time. Is that correct?

**Mr. Stein Helgeby:** That is right.

**The Chair:** I hope you have plenty of caffeine with you. I'm very pleased to see you with us, all alert and ready to take questions.

I understand, if my information is correct, Mr. Helgeby, that you have an opening statement. Would you please, sir, introduce the colleagues you have with you and then provide us with your opening statement? Then we'll go into a round of questioning. We have approximately one hour for our visitation.

Sir, the floor is yours.

**Mr. Stein Helgeby:** Cheers. Thank you very much.

My name is Stein Helgeby. I am deputy secretary of governance and transformation in the Department of Finance. I can elaborate on that role a little later if you're interested.

With me is Alan Greenslade, the first assistant secretary, whose responsibilities include the preparation of the government's financial statements and a whole range of other things as well. Also with me is Lembit Suur, who is the first assistant secretary in the department and is responsible for our reform program.

I do wish to make an opening statement, Chair, if you're ready for that.

**The Chair:** Please do so.

**Mr. Stein Helgeby:** First of all, thank you for the opportunity to present to the committee today on the Public Governance, Performance and Accountability Act and related topics. We refer to the act as the "PGPA Act", and I'll do that for ease of reference throughout.

The PGPA Act came into effect on July 1, 2014, but it represents the third significant wave of reform in our framework since the 1980s. I can elaborate more on that a bit later. The unique part of this wave is that the PGPA Act consolidates in a single piece of legislation all of the governance, performance, and accountability requirements that apply to the key areas of government activity, and it sets out a regulatory framework for national government and for the entities which comprise it.

In terms of the budget process, the PGPA Act requires "accountable authorities"—and accountable authorities are either boards or individuals, the chief executives—to prepare budget estimates in accordance with any direction issued by the finance secretary, who is the non-parliamentary head of the finance department. It doesn't, however, address specific requirements for the budget process or the parliamentary estimates process in any given year. These sorts of issues are covered in separate legislation by the Standing Orders of our Parliament, particularly of our Senate.

In the case of legislation, there's another piece of legislation that is important here, the Charter of Budget Honesty Act 1998, which in many ways is part of the second wave of broad reforms that I talked about earlier. Then, annually, we supplement that with budget process operational rules, which cabinet approves each year and which govern the operation of the budget in any given year.

The PGPA Act drew on earlier reform attempts, including two separate pieces of legislation that covered, on the one hand, departments of state and similar activities, and on the other hand, companies and other statutory bodies. It brought all those things together into a common framework.

We also took the opportunity—and government took the opportunity—to introduce new elements and requirements, not just to replicate what was already there. In particular, the act creates positive duties on all officials. An official in our context is now defined as anyone from the head of a department to an army reservist and they are covered by this framework, so there are positive duties on all officials and the heads of all public sector organizations in terms of how resources are managed.

The act has provisions that strengthen the focus on risk, on co-operation, and on performance and accountability. It's an act that goes to the questions of budgeting and resource management, but it goes to those things in the context of governance more broadly.

There are five key principles of the act. I'll briefly refer to those.

The first is that government should act and operate as a coherent whole. The second is that a uniform and consistent set of duties should apply to all resources handled by any Commonwealth entity. The third is that public sector performance goes beyond the financial to the non-financial. The fourth is that to improve performance you need to engage constructively with risk. The fifth is that the financial framework for which we are responsible, including the rules and supporting policy, should support the requirements of the government and the Parliament to discharge their responsibilities.

A key element we've been working on lately is the performance aspect of this framework. We introduced two new elements through that set of reforms: corporate plans, which are forward-looking documents for entities, and annual performance statements, which are intended to strengthen the focus on performance that entities provide. Together, they are meant to be read as the start point, and subsequently, in reporting against the annual performance statements, the end point of a full cycle.

• (1825)

A key element in our thinking is to see the management of the public sector as a cycle, from planning and resourcing to implementation and evaluation. Historically, we've been good at some of those things, but not at others. We're trying to use these reforms to get good at all of them.

We've also been working on a range of other things that are still to be worked through in terms of this third wave of reform. I'll briefly describe those.

We're working on our appropriations basis and how we provide resources to entities. We think we have a very complex appropriations framework, and we think there's, at the very least, a job to do to simplify and streamline appropriations. We're working on cash management—how cash is treated in our system—and in particular on ensuring that the legitimate interests of government in a whole-of-government approach to cash management are given force.

We're working on joining up, which is really about how entities and organizations in the public sector connect with each other. We find that there are no problems or issues in our policy areas these days that can reasonably and effectively be best managed within a silo. In fact, all of them require cross-entity, cross-program, and cross-jurisdiction co-operation, and our systems really haven't been designed to facilitate that.

We call our approach “differential regulation”, which is to say that if risk is fundamental to how we should think about government and how it works, then risk needs to be differentiated. Some aspects of public management are riskier than others. Some organizations have a different risk profile than others. Our regulations need to recognize that.

Very importantly, on the performance framework, as I've mentioned, given that we are a national government and have organizations spread across the country, we need to get better at providing information and guidance in a way that people can take advantage of, because we recognize that the success of any reform program is dependent on people's ability to work within the context that is provided.

I might leave it at that as the opening statement. I'm happy to go to questions.

**The Chair:** Thank you very much, sir.

As you know, our study is on the budget and the estimates processes in an attempt to try to better align those processes. We will engage in a series of questions.

We have approximately 50 to 55 minutes left. The first round of questions will start at seven minutes. We'll go down to five minutes after that, and our first questioner will be from the government side.

Madam Ratansi, please. You have seven minutes.

**Ms. Yasmin Ratansi (Don Valley East, Lib.):** Thank you for being awake, gentlemen, and for helping us out here. We are quite engaged in the study of matching the estimates to the budget process. We have spoken to our Auditor General and to our CPAs.

Here's what I would like to know. You did three rounds of consultation—or this is your third wave—and I'd like to know what your Charter of Budget Honesty Act is. That's number one.

Number two, what are the challenges you faced when you tried to match the estimates and the budget process?

Number three, I understand that you were on an accrual accounting basis, or that you moved to accrual accounting, and you're back to cash. If I am incorrect, correct me.

Thank you.

• (1830)

**Mr. Stein Helgeby:** Thank you.

There were a few questions there. Please remind me if I forget one of them.

**Ms. Yasmin Ratansi:** I will.

**Mr. Stein Helgeby:** The Charter of Budget Honesty Act is a piece of legislation passed in the 1990s that sets out the expectations that Parliament has about what documents will be provided, who will produce them and on what basis they will be provided.

For example, they specify—and this is relevant to the fact that we're now in a “caretaker” period here—that 10 days after the issuing of the writs for an election, the secretaries of the Department of Treasury and the Department of Finance will produce an economic statement and a fiscal statement, and they specify how budgets will be produced, in a very high-level sense, and ex-post reporting. For example, it is specified that we will have an annual consolidated financial statement for the whole of government and also monthly financial statements. It's a piece of legislation that does not have any punitive measures to it, but it is a statement, in many ways, of Parliament's expectations in this area.

It was introduced as part of the same wave of reform that introduced accruals to our budgeting system. Around that time—I call that the second wave—we also revised the financial legislation. The financial legislation was changed, the Charter of Budget Honesty Act was put in place, and the accruals framework was put into place.

We have an accruals framework. We sometimes hear that we've moved from an accruals framework, and we struggle to recognize ourselves in that. We produce a full set of accrual financial statements for every document we produce. We have an operating statement, a balance sheet, and a cash flow statement. We have the notes that go with that, all produced on an accrual basis.

What people are sometimes talking about is the relationship between that accrual information and the appropriation framework. We did include, in the late 1990s, reforms in terms of appropriations on a full accrual basis to agencies. That's just the departmental funding, if you like; that's the bit that helps government to run. That's not programs. That included, for example, funding for depreciation, which is an accrual concept.

As we've gone through, our experience is that some of these elements haven't really met their full intent. The inclusion of depreciation in agency financing was a key area. We've decided to centralize that, effectively, and to manage it through a normal allocation process of government. That means people only get appropriated each year for the cash they require in order to meet their capital needs.

We still retain accrual appropriations as far as they relate to, for example, leave liabilities, which is also an accrual concept, but depreciation is not included in our system anymore. I think that is the main departure from the accrual appropriation framework.

I would still say that we run accrual appropriations.

**Mr. Lembit Suur (First Assistant Secretary, Governance and Public Management, Australian Government):** I might state in relation to the Charter of Budget Honesty Act that it includes provisions about accuracy of information published by the government in its budget documentation.

These aren't fiscal targets, but they're accuracy targets, if you like, for the information published by the executive, and there are variation tolerances in relation to the forward estimates, budget years, and so on. This is a feature that isn't typical in budget-related legislation internationally, but it nevertheless is a feature of ours.

• (1835)

**Ms. Yasmin Ratansi:** My question, then, is in terms of the alignment between the estimates and the budgets. What challenges have you faced?

I was looking at your timing. In the timing you utilize, your fiscal year is July 1 to June 30. I looked at your process about cabinet submissions and the ministers' input, etc., and then there is an expenditure review committee. When you do your budget and your annual appropriations—one is in April, one is in May—are they both on an accrual basis? I know you told me that for the appropriation framework you do not now fund for depreciation on an accrual basis. Is this true?

**Mr. Stein Helgeby:** Yes. We do not fund depreciation on an accrual basis. We do fund the cash requirements in any given year through the appropriations system.

When you talk about “alignment”, I would use the language “integrated”. Our appropriations and our estimates are fully integrated, that is, we produce one set of documents, all of which get released at budget time, which for us is traditionally the start of May. We release a set of documents that covers the full forward estimates period—the four-year period—and the treasurer, in our case, introduces the annual appropriation bills, which cover the coming financial year.

The numbers in the appropriation bills are fully derived from the accrual statements and fully derived from the forward estimates system, so I would say that we are integrated, rather than aligned. Thirty years ago that wasn't the case, but it has been for some time here.

**The Chair:** Thank you, sir.

Mr. McCauley, please, for seven minutes.

**Mr. Kelly McCauley (Edmonton West, CPC):** Gentlemen, thank you for joining us today. We appreciate it.

From our briefing notes that we've received, we understand from feedback on the Australian way that there were some issues about transparency with the accrual system, with perhaps ministers hoarding money, accruing it, and then spending it without proper oversight. Is that correct or accurate?

**Mr. Stein Helgeby:** Let's differentiate the two types of appropriations we run here: annual appropriations and standing appropriations. Standing appropriations are the things that cover, for example, personal benefits, those with the programs. They do not go through the annual budget cycle, but they are recorded in the annual

**Mr. Kelly McCauley:** Some of them....

**Mr. Stein Helgeby:** Yes. In terms of the annual appropriations, which is how we fund departments, the issue I referred to before about depreciation was a case where we found that agencies were appropriated for depreciation, yet when it came to the point where people had to replace the asset which the depreciation was intended to replace, the money had been used in other ways. That was one of the prompts to removing depreciation from the accrual appropriation framework.

**Mr. Lembit Suur:** To give some examples of the other ways in which the money was used, the accumulated cash reserves from depreciation funding were used to do things such as funding pay increases. They were used for operating expenses. They were used to upgrade fit-outs out of cycle.

Having a lot of cash sitting out with individual agencies wasn't an effective form of cash management. One way in which we have reasserted some degree of central control over the total pool of cash held by the national government is by funding capital expenses on an as-needed basis.

• (1840)

**Mr. Stein Helgeby:** That change was made four or five years ago now, I think.

**Mr. Lembit Suur:** Yes.

**Mr. Stein Helgeby:** It is the most significant change we've made to the accrual appropriation framework. Since then, capital needs have been met through the normal budget and appropriation process. People still get the cash, but they have to make the case to government.

**Mr. Kelly McCauley:** So changing the way the depreciation was done has pretty much cleared up that issue?

**Mr. Stein Helgeby:** Yes.

**Mr. Kelly McCauley:** Perfect.

**Mr. Stein Helgeby:** We still have leave liabilities, for example, accrued and appropriated for. To start with, those are much smaller amounts, but we haven't seen any problems of the same sort that we saw with depreciation.

**Mr. Lembit Suur:** We've also introduced a system whereby we lapse old appropriation bills. The appropriation bills going back three or more years are now automatically lapsed, so people's capacity to draw down cash from old appropriation authorities issued by the Parliament has been limited as well. That also goes to regulating the amount of cash that's held in the system.

**Mr. Kelly McCauley:** Excellent. You gentlemen have it together.

How big an issue was it with regard to senators, public servants, and so on getting used to a new system like this? To a lot of us coming from the outside world, the accrual system is much more common, but I was reading, again in our briefing notes, that switching over caused quite a difficulty in understanding the papers and the budgets, etc.

**Mr. Stein Helgeby:** Yes. The—

**Mr. Kelly McCauley:** Has that been mostly solved through training or is it still an ongoing issue?

**Mr. Stein Helgeby:** I would say that there are always issues to do with understanding complex financial statements. There are people who are very comfortable with seeing a set of financial statements, seeing notes to them, and working their way through them. There are others who come with a background that makes them perhaps more familiar with a cash flow statement, but not so familiar with a balance sheet, for example.

We always have those issues, but it was a very big transition to go from a full cash-based approach with no balance sheet in the 1997-98 budget to a full set of financial statements with a proper balance sheet in the 1999-2000 budget. The extent of the change—system, people, understanding—can't be underestimated or otherwise neglected.

We find that on the whole tend ministers to be more comfortable talking about cash, because in one sense it's an easier concept to use in a quick reference mode. It's harder to talk about debt, for example, and net debt, or assets and liabilities, or to talk about revenue versus expenses. It's harder to talk about those things, so much of the public debate, if you like, is still focused on the cash version of our numbers, which are produced as part of our statements, but the analysis often goes down into the accrual numbers.

**Mr. Lembit Suur:** To give an example, when accrual budgeting was first introduced, the primary measure of the state of the budget was fiscal balance, and that remained the measure for about three years, I think.

Is that right, Stein?

**Mr. Stein Helgeby:** Yes.

**Mr. Lembit Suur:** Then the government returned to talking about the budget balance in cash terms, because that was an easier number to explain, so even though we have modified accrual budgeting, the primary measure of the budget is a cash measure. I think it's fair to say—

**The Chair:** Thank you. I'm sorry, gentlemen. I'm going to have to interrupt there. Perhaps in the second round of questioning we can get back to the conclusion of your explanation, but we do have a bit of a condensed timeline to work with tonight.

I'll go to you, Mr. Weir, for seven minutes, please, for your questions.

**Mr. Erin Weir (Regina—Lewvan, NDP):** Thanks very much for joining our committee.

I think that one of the key differences between the Canadian and Australian systems is of course that in Canada the main estimates come out at a different time than the budget does, whereas in Australia they're more synchronized.

In Canada, we also have three rounds of supplementary estimates. I'm wondering if you could speak to how many different supply periods there are in Australia? Do you have anything like supplementary estimates?

• (1845)

**Mr. Stein Helgeby:** I might say a few things on this, and Mr. Greenslade may want to add to that.

We have our main estimates in May. Traditionally, halfway through the year we will make adjustments through what are called "supplementary estimates", and they come with their own appropriation bills. If we need to, we will also introduce other adjusting bills toward the end of the year, including, for example, in May. We don't do it every year, but that's a typical pattern.

I'll ask Mr. Greenslade if he wants to add to that.

**Mr. Alan Greenslade (First Assistant Secretary, Financial Analysis, Reporting and Management, Australian Government):** I think that's right. Essentially there are two main phases, and there's one additional facility that government has. The finance minister can make an advance in exceptional circumstances where there's a need for expenditure that hasn't been foreseen. That's capped, but there is also that facility.

**Mr. Erin Weir:** Has that number of supply periods been consistent over time or was it changed fairly dramatically through the process you've described?

**Mr. Stein Helgeby:** I think it's been fairly consistent, to be honest.

**Mr. Alan Greenslade:** The timing can alter slightly because it's linked to an economic update, so if economic circumstances change, it might move by a month or so either way, but essentially it's around the mid-year reassessment of estimates and of any additional expenditure requirements.

**Mr. Erin Weir:** Another issue that our committee has been seized with is the question of cash versus accrual accounting. The more I hear, the more it sounds to me as though the Australian system is actually fairly similar to the Canadian system in that respect. Our annual budget and consolidated financial statements are on an accrual basis, but our spending estimates are on a cash basis, with maybe some allowance for accrual concepts.

It sounds as though that's essentially where Australia stands, with a kind of an accrual budget but with the individual appropriations expressing more a cash concept. Is that right? If it is right, are you aware of other countries that would provide all of their departmental estimates or appropriations on an accrual basis?

**Mr. Alan Greenslade:** I think broadly you have it right. I would emphasize Mr. Helgeby's point earlier on, which was that essentially we have an integrated system. Everything is run on an accruals basis, and cash is derived from that, so it's not as if we're running cash in any way separately. It comes out of the same estimates, the same process.

There are other countries that operate similarly. I think New Zealand certainly does. The United Kingdom also has a broadly similar approach. So there are some, but I think you're right, in that a lot of other countries do seem to struggle with the connection between accrual reporting and not quite getting to accrual budgeting. Australia has been fortunate since quite some time ago because of the series of reforms whereby they were basically integrated. We see no real difference between the process we go through when we're preparing an accrual budget and when we report. We're actually running the same technical processes. We're running our same central budget management system, which pulls together all this information.

**Mr. Erin Weir:** Yes. It seems that some are very keen on moving to full accrual accounting, but it sounds as though the Australian experience was to actually take a bit of a step back from that, at least as far as the departmental appropriations were concerned.

**Mr. Stein Helgeby:** If I may, I'll make a comment on that. I think our experience is that the value of accruals and accrual concepts is in the depth it gives to financial statements and the possibilities it opens up for financial analysis.

If I can take one very stark example, prior to going to an accrual basis, we would not have had a clear understanding of the liability attached to our public sector superannuation arrangements, which back in those days were in a fully defined benefit scheme. We now measure and value those things. Two things have happened on the back of that information, which could not have happened, I think, without that information.

The first is that we've moved systematically to close our defined benefit scheme, to manage the liability by effectively putting a lid on it. The second is that, back in the middle of the last decade, the government of the day put in place a future fund, which is effectively an accumulation of surpluses put into a special fund in order to fund the liability. It's sometimes characterized as a sovereign wealth fund, but it's actually more limited than that. Now, would government have taken such big steps on such big issues if they hadn't had some confidence that they understood what the numbers were, and if they hadn't had confidence that they were really tackling the right issue in the right way? My suspicion is no.

I think the value is in that: what it adds to analysis. Pragmatically, I think, appropriations for departments are simply about what is the most sensible way by which you get resources to the right place so that people can deliver programs, in such a way that Parliament is happy that it has discharged its responsibilities of ensuring that monies are only taken from consolidated revenue against a proper appropriation.

• (1850)

**The Chair:** Thank you, gentlemen.

Mr. Whalen, please, for seven minutes.

**Mr. Nick Whalen (St. John's East, Lib.):** Thank you for joining us.

If I may, I'm going to focus a bit on the process by which Australia has integrated the timing for the budgets and the estimates with respect to the fiscal year commencement, which I guess for you guys is on July 1, and also on the types of reports that might go to Parliament to be debated in Parliament. What type of disclosure is given only to cabinet versus perhaps what is more broadly disseminated?

My understanding is that around October of the previous year is the time when the prime minister would write to the different representatives and ministries and ask for proposals. Are the letters from the prime minister to the ministries, and the reply letters from the ministries to the prime minister, open public documents, and are they debated in your Parliament?

**Mr. Stein Helgeby:** No. This is one aspect of the budget process where governments change and processes change. Some people would run a process exactly as you describe, but at other times in our history, there would be different kinds of arrangements in place. None of those processes would be public processes. They are all within the executive government.

**Mr. Nick Whalen:** Another document that our analysts have referred us to in preparing for tonight's meeting is the "green brief". I guess this is a costing document prepared by the Department of Finance on the new proposals. Is this again a secret document in cabinet or is this a document that would be available to be scrutinized and debated in Parliament?

**Mr. Stein Helgeby:** Again, it's a document within the executive government.

Essentially, as individual ministers develop proposals that then come to a cabinet committee for consideration, the finance department takes the lead if it's a spending thing, producing a green brief, which is two things in one. It's a summary of the proposals and it's a commentary on the proposals with recommendations, which are usually agreed to, but not always, among the three central agencies—the finance and treasury departments and the prime minister—but Finance takes the running on preparing those things.

That document goes into a cabinet committee. It is used as the agenda for cabinet consideration, or for cabinet committee consideration, but it is never intended for public consumption. It is part of the deliberative process of cabinet.

**Mr. Nick Whalen:** Is there any type of a parliamentary budget office that, later in the process, after the budget has been tabled, would provide its own costing that could be compared against the green brief?

**Mr. Stein Helgeby:** We do have a Parliamentary Budget Office. It has its own legislation. It has responsibilities for preparing costings. It can prepare costings on behalf of non-government parties, for example, and has a particular role during an election campaign—we're in a caretaker period now—but they would typically not be commentaries on the green brief. They would be independently prepared costings, usually drawing on information and models provided by the Department of Finance and other agencies.

• (1855)

**Mr. Lembit Suur:** One point to make is that the outcome of any cabinet decision about individual budget measures is published as part of the budget documentation, so the result of the green brief, if you like, as reflected in the government decision, is a matter of public record. Individual measures are published in budget papers. There are also portfolio budget statements that accompany the budget papers. They show individual measures and the performance measures that are attached to them so Parliament can judge the success of any new program or any new spending.

What is a matter of internal government record, if you like, is the information that's produced for deliberative processes, but the outcome of those deliberative processes is a matter of public record, with a fair degree of granularity.

**Mr. Nick Whalen:** The budget is tabled in early May. The information that's fed into the green brief presumably is found in the various estimates and reporting documents that accompany the budget.

**Mr. Stein Helgeby:** Yes. Typically, the life cycle is as follows: ministerial submission, green brief, and measure, as we call it, which is a decision. It gets published in the budget papers and is reflected in other documents, such as the portfolio budget statements, as we call them, and in corporate plans, etc.

**Mr. Nick Whalen:** Could you describe a little more the types of documents that are tabled at that time in terms of the forward-looking costing information that's available to parliamentarians for review prior to voting on the budget?

**Mr. Stein Helgeby:** In addition to the budget speech, we have four main budget papers, which are papers issued by the treasurer and the finance minister. They go through the strategy and the economic position, and they present the financial information and a whole range of things. For example, there are things that go to relationships between the Commonwealth and the states. Also, they present all the measures and the measures' descriptions. They are the main budget documents.

Then there are the portfolio budget statements, as Mr. Suur described. They are for each portfolio and they go into more detail about things that have impacted that portfolio.

Those are the key six.

**Mr. Nick Whalen:** Thank you.

In an election year like the one you're currently in, would there be an opportunity for budget process operational rules to be tabled immediately upon the election and to have an abridged process for a quick budget? Or would you have to wait to follow the same process as normally exists?

**Mr. Stein Helgeby:** The process is always at the discretion of the government of the day, so it could choose to design the process quite differently. In fact—

**The Chair:** Thank you.

Gentlemen, we will be going to five-minute rounds now for questions and answers.

Mr. Blaney.

**Hon. Steven Blaney (Bellechasse—Les Etchemins—Lévis, CPC):** *Bonjour.* Thank you so much for sharing your experience with us.

My question relates to the transparency and accountability you face when you shift from one accounting method to the other. I would like to hear from you how you were able to deal with the questions concerning the reserve funds that built up in departmental accounts, which, it was said, were used at the discretion of the ministers. Is this accounting method having an impact on transparency and accountability? If so, how were you able to ensure there was a proper review by parliamentarians and the public in general?

**Mr. Stein Helgeby:** That's a very good question. Thank you.

To give some sense of it, in each budget there are the four budget papers, which, if it makes any sense, would look very wide in terms of stacking them side to side, so maybe 1,000 pages across the budget papers, plus maybe 5,000 pages of portfolio budget statements. In many ways, I think, we've seen a rapid increase in the volume of information, presented in different ways, that is made available to the public and the Parliament.

I think the problem everyone has in the system now is how to really look through the volume to look to those things that really matter. I think the process we're going through at the moment in our third wave is really about trying to tighten up relevance and get a clearer connection between bits of information. In many ways we've had information, but not the ability to follow through to say that this is what government intended, this is what Parliament approved, this is what happened, and this is the impact. We haven't been able to follow that through.

Our shift now is not so much to add to the volume of material, although that continues to happen for other reasons, but to really tighten up the relationships between different types of information to make it more useful to Parliament and to the people.

• (1900)

**Hon. Steven Blaney:** Yes, too much information is like no information, in many ways.

Tell me, how did you overcome, or is it still an issue, this executive power for ministers.... You mentioned this a little earlier when my colleague asked about some funds where the depreciation was spent. Do ministers have a bigger margin to manoeuvre with this accounting method than with the previous one?

**Mr. Stein Helgeby:** I would say no, particularly once the depreciation was taken out of the appropriations. In essence, we don't see large volumes or large numbers in accumulated funds sitting around the place.

I should also flag that we manage cash centrally on a daily basis. Mr. Greenslade's area sweeps cash out of all the bank accounts every day and allocates cash the next day according to projected needs. We don't leave money sitting around in people's bank accounts. We keep a tight eye on it.

**Hon. Steven Blaney:** Please go ahead, Mr. Suur.

**Mr. Lembit Suur:** I just wanted to add that there is another control in the system, which is the level of appropriation that is granted by the Parliament for a given year. Parliament makes money available, but it also sets an appropriation limit that takes account of funding that a government entity might derive from other sources, such as, for example, charging for its services and things like that.

When that funding level is reached, a minister has to come to the finance minister to seek the finance minister's agreement to running what's called an "operating loss". The finance minister has to agree to any expenditure over and above the cap that Parliament has set.

**The Chair:** Thank you very much.

Next on my list I have Madam Murray.

Welcome to our committee. You have five minutes, please.

**Ms. Joyce Murray (Vancouver Quadra, Lib.):** Thank you very much. I appreciate the opportunity to ask our guests a couple of questions.

You mentioned that something new is performance statements as part of budgeting and reporting. Our system has that in terms of reporting on plans and priorities, and then the departmental performance reports. I think they were considered by a previous parliamentary study to be a lot of information that doesn't have a lot of high value, so I'm interested in your approach to following through to make information more usable for Parliament. What are your ways of connecting the dollars to the programs and the priorities of the ministries? Could you talk a bit about that?

Second, I want to ask about the appropriations vote structure. I guess in our system it's called "input-based". The input is dollars for capital, which is a vote. If the input is dollars for operations, that's a vote for a ministry. There is also advice from that previous parliamentary committee to consider changing the vote structure to give parliamentarians more control over program activities, so the vote approvals, appropriations, may be by program or purpose as opposed to the broader categories of the input of the funds. I'd like to know what the Australian mechanism is for the actual votes for appropriations.

• (1905)

**Mr. Stein Helgeby:** I'll make some brief comments on that, and then maybe Mr. Suur can handle the first part of the question, briefly as well.

Under annual appropriations, we run appropriations for ordinary annual services, which basically means anything that's pre-existing, that is a normal part of keeping things ticking over, such as salaries and these sorts of things, and then we run another type of annual appropriation that covers new outcomes or other kinds of one-offs and these sorts of things. We make the split that way.

In each case our appropriations are divided by portfolio, by agency, and by outcome. This means that Parliament can always see what is the purpose, expressed in terms of an outcome, to which it is appropriating.

We have recently had a lot of High Court interest in our appropriations system, and we are finding that the requirements on specificity in our appropriations and in how Parliament approves appropriations are evolving. The High Court interpretations effectively are putting a lot more weight on legislation or legislative-type authority that specifies purposes and that sits outside the appropriations but is referred to in the appropriations. We are evolving in that respect, but in essence, Parliament sees the outcome to which an appropriation is being made in all of our bills.

I might just ask Mr. Suur to talk briefly about the performance side.

**Mr. Lembit Suur:** I might just make the point that our outcomes are pitched at a pretty high level, so in the case of about 85% of them, each entity that gets appropriated has only one outcome that covers all of its purposes.

Underneath the outcome, we usually, in mainstream government, appropriate for two streams of money. One is called “departmental” and the other is called “administered”. The departmental is for ordinary operational costs of entities, and that money doesn't lapse at the end of a budget year but continues on to the next year. Administrative monies are monies that are usually applied externally or paid externally. Those appropriations lapse at the end of each year.

Our appropriation structure is outcomes, departmental and administered, but sitting underneath the outcomes are programs, and the budget papers show how much of the money appropriated to a particular outcome will be applied to particular programs. In relation to—

**The Chair:** Thank you very much. I'm sorry, sir, our time is up on that, but perhaps another questioner will be able to recover your answer.

Mr. McCauley, we have five minutes for you. Go ahead, please.

**Mr. Kelly McCauley:** You can go ahead and finish your answer to the previous question.

**Mr. Lembit Suur:** In relation to performance information, we have been in close consultation with our Joint Committee of Public Accounts and Audit over the last two years in developing a new performance framework for the Australian government and in trying to improve the quality of performance information that is provided to the Parliament as part of the estimates process and through annual reports.

I think it's fair to say that our Parliament is dissatisfied with the overall quality of performance information produced by the system. It wants more clarity, a better performance story, and a better idea of how public monies are being spent.

Frankly, we have struggled with providing that as a system. We have a new set of reforms that are designed to improve the quality of performance information, and to give better clarity around what is done with public money and what is achieved with public money. That will be contained in the annual performance statement, which is a new artifact in our system, if you like, which Dr. Helgeby referred to previously.

• (1910)

**The Chair:** You have about three minutes, Mr. McCauley.

**Mr. Kelly McCauley:** What's involved in these reforms? Do you believe they will make Parliament happy?

**Mr. Stein Helgeby:** The task of making Parliament happy is always evolving.

**Some hon. members:** Oh, oh!

**Mr. Stein Helgeby:** The reforms are trying to build on the PGPA. The PGPA says it's important to focus on performance and it's important to focus on risk and all of these sorts of things.

What we're doing is taking each of the key elements and building those out. We started by building out the performance side of it. We've had for 30 years various cuts of performance information, and the reforms we're making now are about recognizing the gaps, if you like, and recognizing the limitations of what we've done. We went, if I can—

**Mr. Kelly McCauley:** Can I interrupt? Who's coming up with the reforms? Is it back-office folks? Is it Parliament? Is it a bipartisan committee?

**Mr. Stein Helgeby:** The origin of this wave in many ways is bipartisan. It started under a government back in 2010. It was passed through Parliament after a change of government. We've had several years of parliamentary committees looking at all of those things.

It's really a combination of recognizing the dissatisfactions that Parliament has, the complexities that we see from inside the system, and the weaknesses that the audits and other types of scrutiny have revealed. In many ways, it's navigating a path where there are different interests being brought together on the reform process, where governments of, in our case, both political persuasions have seen there's something to do here, and where Parliaments have encouraged us to do things even though they might differ on the detail.

**Mr. Lembit Suur:** In our reform process, we've consulted very widely. We've spoken to our state governments, peak organizations, and the business community and major businesses. We've spoken to and consulted with academe. We've worked with our Auditor General's office. We've worked with all Commonwealth government entities to try to come up with a scheme that not only satisfies all of the players but is likely to make a difference to the way in which we work.

The Parliament has been an important partner through that, especially through the Joint Committee of Public Accounts and Audit. We would have conversations with them every two to three months about some aspects of the reforms.

**The Chair:** Thank you very much.

Before we go to our next intervenor, Mr. Greenslade, I understand that you may have to leave in the next moment or two.

**Mr. Alan Greenslade:** Yes, in about five minutes.

**The Chair:** We have eight minutes left for questions.

**Mr. Alan Greenslade:** Well, I can probably hang on for the eight minutes, Mr. Chair.

**The Chair:** All right. Thank you so much for that.

Madame Ratansi, please, for five minutes.

**Ms. Yasmin Ratansi:** Thank you again.

Following up on what Mr. McCauley asked you, in 2008 Australia undertook “Operation Sunlight”, out of which there were 45 recommendations. Ten were implemented, 21 were rejected, and then there are others at play. We all want to ensure that when public money is being spent there is clarity, so I need to ask you a question on the reports you provide Parliament. How simple are they to read for a non-accounting person? Even accountants have fun reading those reports, and they have to go through their debits and credits and trying to mix things up...

Number two, what sort of transparency or level of disclosure do you provide in the reports? What is allowed and what is not allowed in terms of what the government may make decisions on?

Number three, as you know, we always face problems when monies lapse in a program or a budget. People like to use those monies; they really go into a spending frenzy. How do you ensure that doesn't happen?

Thank you.

**Mr. Stein Helgeby:** Very briefly, the information is too dense. I don't think the information is presented in a way that is simple enough. That's one of our challenges. We have a lot of stuff there that is cut so many different ways. People still struggle, and Parliament tells us they struggle, with finding what they're after. I think that's an ongoing challenge for us. One of the thoughts we have is that maybe we should embrace the digital age to make it easier for material to be discoverable in a way that Parliament and others want.

We prepare all our financial statements and all our financial material on an accounting standards basis, so we are governed by an independent set of standards set outside our requirements. That puts constraints on what governments do and can do. That's a key part of our system.

In terms of...? Sorry.

•(1915)

**Mr. Lembit Suur:** It's about controlling the drawdown, the spending frenzy.

**Mr. Stein Helgeby:** Yes. On controlling the drawdown, we find that the controls that Mr. Suur and Mr. Greenslade have talked about are effective at the aggregate level. We have the appropriations that lapse, and we have this requirement that you need to apply to run an operating loss. We have a daily sweeping of cash to make sure that cash isn't just sitting there for people to use. These things work at the aggregate level.

We still find a pattern of activity over the course of the year that still peaks a bit towards the end of the financial year, but largely it reflects the fact that people are cautious in the first half of the year. It's not that they're blowing the budget in the last couple of months; it's that they are being very careful in the first six months and then finding that they don't need to be as careful but rather that they have to play catch-up in the last few months. We still get some peak in spending activity towards the end of the financial year.

**Mr. Lembit Suur:** Ms. Ratansi, I might make the point that because our departmental appropriations don't lapse, the incentive to try to push that money out the door at the end of the year has disappeared. People know that they can carry over amounts from one year to the next in relation to their operating expenses.

**Mr. Stein Helgeby:** Yes, subject to the approval of the Minister for Finance.

**Ms. Yasmin Ratansi:** I have a quick question then. The thing I was talking about in terms of transparency is the level of disclosure that the government makes. The Department of Finance may decide not to make that transparency...I mean, when you have disclosure. The Auditor General does not review the financial statements of the government. It always does program reviews or reviews of what monies have been sent to the programs. How does it work in yours?

**Mr. Stein Helgeby:** Our Auditor General does review and audit our consolidated financial statements each year. That's a whole-of-government document. That covers not just the budget-funded parts of government, it covers all the non-budget parts of government as well. That's a fully audited document. We have a lot of fun, as you would, in any audit process any given year.

I think it is a key assurance mechanism in our system that the Auditor General goes down to that level and not just into programs.

**The Chair:** Thank you very much.

Our final three-minute intervention will come from Mr. Weir.

**Mr. Erin Weir:** Thanks again.

A difference between the Australian and Canadian budgetary process is the role of the Senate. You have an elected Senate that enjoys a high degree of democratic legitimacy. The Canadian Senate does not enjoy the same legitimacy. Some of us believe it should be abolished. Even those of us who want to keep it and reform it I don't think would advocate that it should play a major role in our budgetary process.

For the sake of comparison, I wonder if you could explain what role the Australian Senate plays in your system.

**Mr. Stein Helgeby:** The Senate formally has a power to reject some of our annual appropriation bills. That's obviously an extreme situation. It only happened once, in 1975, when it caused a constitutional crisis. But that power exists. It also has the ability to modify some others. On the whole, the primary role of the Senate is a scrutiny role. We all enjoy, as officials, turning up three times a year to be intensively grilled on our particular topics by Senate committees.

At budget time, the Senate sits in committee form for two weeks, going through everything that's in the budget, or everything they want to take an interest in. They do that again toward the end of the year, about November, and they do it again in February. They have a very strong role in scrutiny. Effectively, that is the Senate being able to ask questions of officials directly. While representative ministers are there, very often the attention is in the direct interrogation or the direct questioning by Senators of individual bureaucrats about what they are up to.

That's a very strong role, and it is one that has long standing in our system.

•(1920)

**Mr. Alan Greenslade:** I might just add that we talked earlier about the volume of budget documentation, but that is one area where the Senate has a process where all the detailed budget information that's put out is actually referred to by Senators in their questioning. They go through this budget documentation in detail and can ask some very specific questions.

**The Chair:** I think this is an appropriate time to end with complimentary words about someone's Senate, at least.

**Voices:** Oh, oh!

**The Chair:** We do appreciate all the time you've taken this early in the morning to come forward and share your testimony with us.

Thank you again. Have a great Australian morning.

**A voice:** Thank you. Have a good evening.

**The Chair:** Colleagues, just before we leave, for the benefit of the members of the subcommittee, we could not get a spot in the Centre Block tomorrow, but we do have room 306 in this building from 3:30 to 4:30. Okay?

We are adjourned.

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