

Public Accounts Committee

Parliament of New South Wales

**Report on Year-End Spending in
Government Departments and Selected
Authorities**

Report Number 20

March 1986

1985-86

Parliament of New South Wales

Public Accounts Committee
of the
Forty-eighth Parliament

Twentieth Report

Inquiry pursuant to section 57 (1) of the Public Finance
and Audit Act, 1983, concerning year-end spending in New South Wales Government Departments and
selected
Statutory Authorities.

(Transcripts of Evidence tabled together with this Report) March, 1986

Members of the Public Accounts Committee

The members of the Public Accounts Committee as at 1 February, 1986 were:

Mr John Aquilina, M.P., Chairman*

John Aquilina was elected Member for Blacktown in September, 1981. A high school teacher by profession, John Aquilina was a Commissioner of the Ethnic Affairs Commission for two years and the Mayor of Blacktown for four years before entering Parliament.

Mr John Murray, M.P., Vice-Chairman

John Murray, formerly a teacher, was elected Member for Drummoyne in April, 1982. An Alderman on Drummoyne Council for three terms, John Murray was Mayor of the Council for five years and served four years as Councillor on Sydney County Council. He is currently a member of the Prostitution Committee and the House Committee.

Mr Colin Fisher, M.P.

Colin Fisher was elected Member for Upper Hunter in February, 1970. Former Minister for Local Government (1975) and Minister for Lands and Forests (1976), in opposition Colin Fisher has served as National Party Spokesman on Local Government, on Planning and Environment, and on Energy.

Mr Phillip Smiles, M.P.

Phillip Smiles was elected Member for Mosman in March, 1984. A management and marketing consultant since 1974, Phillip Smiles has been involved with entrepreneurial business activities since his teens. Since entering Parliament he has been actively interested in the areas of small business, emergency services, welfare and financial analysis,

Dr Andrew Refshauge, M.P.**

Andrew Refshauge was elected as Member for Marrickville in October, 1983. He previously practised as a Medical Practitioner with the Aboriginal Medical Service and was a past President of the Doctors' Reform Society. He is currently a fellow of the Senate of the University of Sydney.

* Mr John Aquilina was appointed Minister for Natural Resources, and resigned from the Committee, on 5 February, 1986. Mr John Murray was elected as Chairman of the Committee on 20 February, 1986. Mr Allan Walsh, Member for Maitland, was appointed to the Committee on 20 February, 1986.

** Dr Andrew Refshauge was elected Vice-Chairman on 20 February, 1986.



Secretariat

Frank Sartor, B.E., B.Comm.(Hons.), Director

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Chairman's Foreword

This report arises from the Committee's concern that the incidence of higher levels of spending by government departments at the end of each financial year may result in wasteful expenditure and unwise purchases.

The Committee has established beyond any doubt that the level of expenditure in the last two months of the financial year is disproportionately higher than for other periods. There are several reasons for this pattern of spending, not the least of which are the efforts made by departments to make full use of their funding allocations. The Committee is convinced that the lapsing of funding appropriations at 30 June each year provides the major inducement to departmental managers to embark on the annual June "spend-up".

While it is more difficult to establish beyond question that wasteful spending has occurred, the Committee believes that given the typical nature and timing of many June purchases, there are strong grounds for believing that, in many cases, low priority items are being purchased, that purchases are unplanned and that departments are not getting value for money. It is these latter aspects which were of greatest concern to the Committee rather than the mere concentration of expenditure towards year end. The Committee does not expect spending to be even throughout the year, but it does expect it to be properly planned.

In the course of this inquiry the Committee discovered that some departments adopted the practice of drawing cheques prior to 30 June and holding such cheques in safes until services have been performed and goods delivered. The practice is used as a means of drawing on a funding allocation at the end of the financial year when indeed the payment should be met from the following year's allocation. An entire chapter of this Report is devoted to coverage of this practice-which represents a breach of the Public Finance and Audit Act.

The Committee considers that no good purpose would be served by pursuing the officers who have committed the breaches. I might add that such breaches do not represent an attempt to defraud, but rather an attempt to make maximum use of budget allocations. The Committee has referred the matter to the Treasurer for appropriate action.

It will be noted from reading this Report that some departments received more attention than others. It should be stressed that these departments are not the only ones which engage in such practices. Due to time and other constraints the Committee was unable to cover in detail the financial operations of all departments. I acknowledge that a number of departments mentioned in this report showed willingness to assist the Committee.

I believe that this inquiry into year end spending will provide a valuable forum for discussion of budgetary issues and am hopeful the inquiry will provide the impetus for measures to enhance efficiency and effectiveness in the New South Wales public sector.

I know that the Treasurer, the Honourable Ken Booth, M.P., shares the Committee's concern about accelerated spending by government departments at year end and has already taken the steps to tackle the problem. On behalf of the Committee I would like to thank the Treasurer for the support he has given during this inquiry.

I also wish to express the Committee's appreciation for the excellent work done by Sue Chapple, Ken Dixon, Bob Pritchard and the permanent members of staff. The Committee also appreciates the support given by the former Secretary of Treasury, Mr. Norm Oakes and the Auditor-General, Mr Ken Robson.

This inquiry was undertaken and conducted under the able chairmanship of my predecessor Mr John Aquilina. The inquiry has proved to be extremely worthwhile and is indicative of the Committee's outstanding

performance under his chairmanship. On behalf of the members and staff of the Committee I would like to thank Mr Aquilina and wish him every success in his new role as Minister for Natural Resources.

Chairman

20 February, 1986.

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1 SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Introduction

1.1. This report arises from the Committee's concern that the incidence of higher levels of spending by government departments at the end of each financial year may result in wasteful expenditure and unwise purchases.

1.2. Following the announcement of the inquiry on 28th April, 1985, questionnaires were sent to all government departments and selected authorities requesting details of monthly expenditure for the years 1982/83, 1983/84 and 1984/85. In addition public hearings were held in September and November, 1985 involving some 15 departments and authorities.

Focus of Inquiry

1.3. While it is acknowledged that expenditure by government departments takes many forms, the Committee decided to concentrate its review on stores, furniture and equipment items. In focussing on this area, the Committee considered that if wasteful and hurried year end spending was a feature of departmental expenditure programs, it was more likely to be occurring on a 'large scale on stores and equipment items where there is scope for a good deal of discretionary expenditure.

Spending Patterns

1.4. Having carefully reviewed the information supplied both orally and in writing by departments, the Committee has established beyond any doubt that the level of expenditure in the last two months of the financial year is disproportionately higher than for other periods..

Year-End Spending or Year-End..Spend-up?

1.5. The Committee considers a "spend-uP" to involve decisions to incur expenditure either:

- (a) on items that were unnecessary or not next in order of departmental spending priorities; or
- (b) with unjustified haste in the planning or execution stages.

Therefore, evidence of year-end spend-ups may concern either the timing or the nature of purchases.

1.6. In assessing whether departments embarked on a "spend-up" as such it is important to note that a disproportionate level of spending towards the end of the year does not necessarily indicate waste or bad management practices. It is recognised that budget predictions are always subject to error and consequently it may be appropriate for departments to hold back spending on more flexible items, such as stores and equipment, in the early part of each financial year. In some departments it is reasonable to expect a surge in spending in the later part of each year, e.g. the final quarter. However, if this surge shows up spending on items in an unplanned way or with unjustified haste (e.g. orders being placed in last two weeks of the year) in the actual purchase of goods, then it is likely that such spending is undesirable.

1.7. From information obtained by the Committee, it is clear that many of the items purchased at year end were ordered and paid for in great haste in what appears to have been an unplanned manner. Such spending may therefore have been wasteful and not have represented value for money. The Committee considers that it strains credulity to view the purchase of large numbers of items such as typewriters, refrigerators, personal computers, televisions and ergonomic furniture in the last few weeks of the year as anything other than a spend-up

1.8. In order to reduce the incidence of year-end spend-ups, the Committee recommends that:

- departmental heads regularly review purchasing practices within their departments to ensure purchases are made economically;
- the Treasurer issue directions to departmental heads to ensure that purchases are made in accordance with departmental priorities and carried out without undue haste;
- a regulation be gazetted pursuant to the Annual Reports (Departments) Act to provide the following:

(i) department heads to include a signed statement in their annual reports that all expenditure for the financial year was made with due consideration to economy and in accordance with the Public Finance and Audit Act;

(ii) department heads to publish in their annual reports, in graphical form, monthly spending for stores and equipment purchases;

- department heads take steps to ensure that management information systems are put in place which ensure proper planning, monitoring and controlling of expenditure and which assist in eliminating wasteful year-end spending;

departments develop priority lists for stores and equipment expenditure.

Cheques in the Safe

1.9. In the course of its inquiries the Committee also detected the practice adopted by one-third of departments of drawing cheques prior to 30th June and holding such cheques in safes until services have been performed and goods delivered.

1.10. The Committee has concluded that the drawing of cheques prior to the faithful performance of service constitutes a breach of the Public Finance and Audit Act and that such a practice invites danger, particularly when cheques are actually issued to suppliers in advance of the performance of service.

1.11. Given that it is not a function of Treasury nor a primary function of the Auditor-General's Office to undertake physical inspections and the like which would automatically detect the "cheques in the safe" problem, the Committee believes that departmental managers should require internal audit staff to be alert to this practice and to the possibility of wasteful spending and inadequate financial planning. The Committee considers that the Auditor-General has a role to play in monitoring the internal controls existing in departments to ensure that they are capable of preventing a recurrence of the unacceptable practices detected by the Committee during this inquiry.

1.12. The Committee has concluded that the practice of drawing cheques prior to performance of service should cease immediately and that specific action needs to be taken to deal with the problem. The Committee believes that Treasury has a vital role to play in ensuring that accounting personnel in departments are aware of their responsibilities and would support any move by Treasury to introduce a training program in Government accounting.

1.13. In order to eliminate the cheques in the safe problem, the Committee further recommends that:-

closer contact be established between departmental finance officers and officers of the Treasury in order to ensure that finance officers are fully aware of their responsibilities in relation to year-end accounting arrangements;

departmental staff, particularly accounting personnel and others likely to be called on as certifying officers, be made aware of their responsibilities under the Public Finance and Audit Act and the Treasurer's Directions;

the Treasurer's Directions pursuant to Section 13 of the Public Finance and Audit Act be amended to provide a clearer definition of what action is constituted by the term "performance of service" and procedures generally for the processing of payments be clarified;

payment vouchers be redesigned to ensure that procedures can be easily understood and provision be made for payment vouchers to include details of how "performance of service" has been evidenced in respect of each payment, e.g. by sighting of delivery docket, work valuation, sighting of goods, confirmation of installation, etc;

departmental managers should require internal audit staff to be alert to improper practices relating to the drawing of cheques and the payment of accounts and that this aspect should be specifically included in internal audit programs;

the Auditor-General's office should monitor the internal controls existing in departments to ensure that they are capable of preventing a recurrence of the unacceptable practices detected by the Committee during this inquiry.

Reasons for Year-End Spending

1.14. The Committee concluded that many of the reasons given by departments for high year end spending could not be substantiated and that even when reasons supplied appeared to have some validity, their effect on spending patterns tended to be overstated.

1.15. In the Committee's view the major underlying cause of high year-end expenditure is the desire by departments to spend all funds appropriated before they lapse at the end of the year. The Committee concluded that this behaviour is motivated by 3 factors:-

a desire to preserve the funding base for the year;

poor management practices including excessive conservatism and a lack of proper planning and execution of budgets;

departments wishing to purchase items which are not of maximum priority.

Government Printer

1.16. Many government organisations expressed dissatisfaction with the Government Printing Office during the course of the inquiry and cited the Office as a reason for the unevenness of spending on printing items. The Committee considers these comments to be valid.

1.17. An efficiency review was conducted by the Public Service Board into the operations of the Government Printing Office in 1982 and the Committee understands that a post-audit review is scheduled to commence in the next month. The Committee concludes that inefficiencies remain in the Office and that further review action is required. Accordingly the Committee will be monitoring the performance of the Government Printing Office.

Computer Purchases

1.18. The Committee notes the concern expressed by some departments that special funding provided by the Treasurer in 1984/85 for computer acquisitions would lapse at the end of that financial year, and supports the action taken by the Treasurer to establish an account within the Special Deposits Account in order to finance the cost of large computer purchases.

1.19. The Committee believes that the establishment of this fund should assist departments to plan and control computer development and avoid both the hasty acquisition of equipment at the end of the financial year and the drawing of cheques prior to supply of goods.

Budgetary Options and Recommendations

1.20. As part of the Committee's inquiry, the effect of the present budgetary system on spending patterns was examined. The major issues raised and the Committee's conclusions follow:

Timing of the Budget

1.21. While the Commonwealth Budget continues to be brought down in August, the Committee considers that it is impracticable to discuss changing the timing of the State Budget.

The Committee strongly supports the Treasurer's introduction this year of early advice of indicative budgets to departments. The Committee considers that this move will greatly assist departments to plan and control their budgets.

Length of Budget Cycle and Forward Estimates

1.22. A number of departmental representatives advocated a longer budgetary period than the current annual cycle. The Committee supports the views expressed by the then Secretary of the Treasury, Mr. N. Oakes, who considered that a year was "...an appropriate period for the Government to account and answer to the community for its management of the State's finances". The Committee considers, however, that the annual budget cycle and accountability to Parliament on an annual basis should operate alongside an increased role for forward estimates.

Roll-over Budgets

1.23. Roll-over budgets operate on the principle that unexpended funds, or a proportion of unexpended funds, from one financial year, can be "rolled-over" and used in the following financial year.

1.24. The Committee recommends:

that Treasury examine the introduction of procedures which would allow for large specific commitments to be formally acknowledged at year-end in order that departments may be satisfied that provision has been made in the following year's Budget Estimates for such commitments.

- Treasury investigate the introduction of a roll-over budget system.

Flexibility within Budget Allocation

1.25. The Committee notes concern expressed by several departmental managers regarding insufficient flexibility given to departments to effectively manage their budget allocations. The Committee has been advised that the introduction of program budgeting has added to the problems of departments in this regard.

1.26. The Committee recognises that a good program budgeting system should allow departments to reallocate resources to areas of greatest need and priority. In this context, the Committee considers that the question of flexibility in transferring funds between items and programs requires examination.

1.27. The Committee recommends that current guidelines concerning flexibility be reviewed by Treasury during 1985/86.

Accrual Accounting

1.28. The Committee continues to support moves to introduce an appropriate form of accrual accounting for statutory authorities. With regard to departments, the Committee supports the Auditor-General's recommendation that Treasury adopt a system of including in published financial statements notes showing unpaid accounts for goods and services and accrued income at year-end.

2 INTRODUCTION

2.1. The Public Accounts Committee's inquiry into year-end spending in the public sector arose from concern that the disproportionate amounts of expenditure traditionally made at the end of each financial year might result in wasteful expenditure of government funds.

2.2. This concern was shared by the former Auditor-General who discussed the "alleged use of end of year 'spend-ups' of balances of appropriations" in his Progress Report of April, 1985. The then Auditor-General stated:

'One danger is that hastily contrived purchases might not always result in getting value for money. Subsequently my officers extracted figures on the extent of payments in May/June, 1984. A remarkably high incidence was found where, against an expectation that payments for any two months would be 17% of the year's total, the May?June period bore 50, 60, 70% (or higher) of the year's total.'

(One sixth of the total for the year is equivalent to 17%).

2.3. The problem of year-end spending is not confined to New South Wales. In the United States during the mid 1960's President Johnson issued a memorandum denouncing "opportunistic spending in the last days of the fiscal year". In the late 1970's President Carter requested heads of government organisations to curtail year-end spending and instruct their staff not to spend funds simply to stop them from lapsing.

2.4. The United States General Accounting Office (G.A.O.) prepared two reports for the United States House of Representatives in 1980 on year?end spending. The titles of the reports indicate the thrust of the G.A.O.'s arguments: "Federal Year-End Spending: Symptom of a Larger Problem"; "Government Agencies Need Effective Planning to Curb Unnecessary Year-End Spending".

2.5. To the Committee's knowledge, neither the Australian Federal Government nor any state government has previously tackled the problem of year-end spending. Budgetary reforms recently implemented or under discussion in the Commonwealth, however, have indirectly recognised the dysfunctional effects of year-end spending.

2.6. The Committee believes that its inquiry into year-end spending has provided a valuable forum for discussion of budgetary issues. The Committee is hopeful the inquiry will provide the impetus for measures to enhance efficiency and effectiveness in the New South Wales public sector.

Approach to Inquiry

2.7. The Committee publicly announced its inquiry on 28 April, 1985. Questionnaires were sent to all government departments and a number of selected authorities requesting monthly expenditures for the years 1982-83, 1983-84 and 1984-85.

2.8. Public hearings were held in September, 1985 and November, 1985. Follow-up questionnaires were sent both to departments which had given evidence at the hearings and to those which were not called to give evidence, requesting further details on expenditure matters.

2.9. The Committee also met with officials of the Commonwealth Department of Finance to discuss recent and foreshadowed budgetary reforms at a federal level. Due to the nature of the inquiry, the Committee was assisted by an Officer of each of the State Treasury and the Auditor-General's Office.

2.10. The Committee was encouraged by the attitudes of the central agencies in conducting the inquiry. In particular, the Committee is appreciative of the continued support and assistance of the Treasurer, the Auditor-General and their respective administrative units.

Terms of Reference

2.11. This inquiry arose from comments made by the Auditor-General at page 21 of his 1983-84 Report and at page 8 of his April 1985 Progress Report to Parliament. The Committee resolved to hold its own inquiry pursuant to Section 57 of the Public Finance and Audit Act.

2.12. Terms of Reference set by the Committee for the inquiry were:

- (i) to examine the patterns of expenditure of government departments and authorities that rely on annual budget appropriations to determine whether there is any evidence of unjustified year-end spending.
- (ii) to examine the implications of existing expenditure patterns on efficiency.
- (iii) to recommend changes to improve efficiency and reduce wasteful spending within the context of existing government policy.

3 BUDGET SYSTEM - AN OVERVIEW

3.1. In order to place the incidence of high year end spending in its proper context, it is appropriate to briefly describe the operations of the N.S.W. Parliamentary Appropriation system.

The Major Accounts

3.2. Moneys collected and expended by the N.S.W. Government are dealt with through two major accounts:-

the Consolidated Fund

the Special Deposits Account

3.3. The Special Deposits Account contains in excess of 200 sub-accounts consisting of:-

- Commonwealth payments accounts
- Departmental working accounts

Statutory bodies accounts

Statutory funds accounts

3.4. Payments made from the Special Deposits Account are not subject to Parliamentary appropriation as the ability to spend from the Account is governed by the purpose for which each sub-account is established. Hence, Parliament does not "appropriate" moneys from the Special Deposits Account as part of the "budget process" and any funds held in the Account at the close of the financial year remain available for expenditure in subsequent years.

3.7 It is pointed out however that any payments made from the Special Deposits Accounts are subject to the same processing controls which apply to Consolidated Fund payments. In this regard, payments from the Special Deposits Account must be made in a manner consistent with standard government accounting practices as laid down in the Public Finance and Audit Act and Treasurer's Directions. A statement of Special Deposits Account transactions appears in the Treasurer's Public Accounts each year while the operations of the Account are examined and reported on by the Auditor-General in his Annual Report to Parliament.

3.5. All State revenues, apart from those which are credited to special accounts within the Special Deposits Account, are paid into the Consolidated Fund. Payments from the Consolidated Fund are authorised by Parliament each year under an Appropriation Act or under special Acts which permanently appropriate funds for the purposes specified in those Acts. The Committee's inquiry into year-end spending is concerned mainly with the operations of the Consolidated Fund as it is from this funding source that departments have the opportunity to benefit from increasing the rate of expenditure at year-end.

3.6. Expenditure from the Consolidated Fund can vary significantly in nature and traditionally has been classed as being of either a recurrent or capital nature. In general, recurrent expenditure relates to the normal operating expenses of government departments (e.g. salaries, stores, motor vehicle expenses, plant and equipment, etc) while capital expenditure normally relates to major spending on construction works such as the building of a school or hospital. This distinction between recurrent and capital expenditure is not completely clear as there are many instances of capital type expenditure being met from funds provided on the recurrent side of the Budget.

3.7. It is important to note that the transactions on the Consolidated Fund do not give the full picture of Government financial operations. Certain Commonwealth advances and capital grants, most notably for education, roads and housing, do not pass through the Consolidated Fund, while borrowings by Statutory Authorities and municipal, shire and county councils are also excluded. Indeed, the transactions of the Government's business and trading undertakings are largely accounted for by means of funds outside the Consolidated Fund.

The Budget Process

3.8. The Budget Estimates of receipts and payments of the Consolidated Fund are popularly referred to as the "Budget".

3.9. Until recent years, a quite rigid timetable existed for the preparation of the State's Budget. The various steps in the preparation process were well defined and were generally carried out at the same time each year.

3.10. With the many changes which have taken place in recent years in the State's financial administration, the timing of preparation of the Recurrent Estimates and Capital Works Program has also been subject to variation. Briefly, the entire process has been brought forward and whereas in former years preparation of the budget took place over a period of a few months from say, April to August, the preparation period now commences as early as January.

3.11. The following indicative timetable, which is based on the timing of preparation of the 1985/86 Budget, could be used as a general guide:-

Jan/Feb	Submission to Treasury of draft Capital Works Programs. Review by Treasury and preparation of recommendations to Ministerial Capital Works Committee.
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- Feb Submission to Treasury of "forward recurrent estimates" of expenditure and receipts.
- Review by Treasury.
- May . Determination of indicative recurrent allocations. Formal advice issued to Ministers with request for confirmation that recurrent allocations will allow activities to be carried out at existing levels.
- June Series of discussions between Treasurer, Premier and Ministers to consider recurrent allocations.
· Formal advice to Ministers of draft capital allocations.
- July Review of Capital Programs in the light of actual expenditures for the preceding financial year and expected Commonwealth funding.
- Aug Final determination of Capital Programs after reference to Ministerial Capital Works Committee where necessary.
- Review of Draft Recurrent Estimates by Treasury,
Formal advice to Ministers of final capital and recurrent allocations.
- Sept Preparation and printing of Budget Documents to be tabled in Parliament.
- Presentation of Budget.

How are Budget Estimates Determined?

3.12. The Committee understands that the methods used to determine the general level of departmental budget allocations are based on:

- draft departmental estimates prepared by Departments submitted by Ministers;
- Treasury assessment of departmental requirements;
- the policies and priorities of the Government of the day;
- the total level of funds available to the Government;
- the needs of the community;
- and a range of other social and economic factors which have a bearing on the Government's finances.

3.13. In respect of individual expenditure items, the Committee can be somewhat more specific in indicating the methods used to determine funding allocations. For example, the Committee understands that the approach of the Treasury in determining an allocation for a department's "stores" item would be to:

- ascertain the level of carry over commitments from the previous financial year;
- examine the department's draft estimates to assess the reasonableness of the extent of purchases which the department wishes to make during the year;
- have particular regard to any major acquisition which may have distorted the previous year's expenditure on stores;

have particular regard to any major acquisition proposed for the financial year under review;

make provision for the effects of cost escalation;

allow for any growth or contraction in the activities of the department concerned.

3.14. It is a popular assertion that the method adopted by Treasury for determining budget estimates is to merely add a factor, say 10 per cent, to the expenditure levels of the previous year. The Committee does not believe that Treasury adopts this practice although in respect of certain expenditure items, the level of allocations ultimately determined may increase by regular increments from one year to the next hence giving this impression.

Advice of Allocations

3.15. It has normally been the practice for the Treasurer to advise Ministers of their recurrent and capital expenditure allocations in mid to late August by means of an "allocation letter". It is upon receipt of this letter that Ministers are first made aware of their spending limits for the year and can plan expenditure accordingly.

3.16. However, for the 1985/86 financial year, Ministers received advice of indicative allocations as early as May 1985, an action by the Treasurer which the Committee understands was appreciated by Ministers and their departments. For the first time, therefore, departments were in a position to plan their expenditure programs for a full twelve months with the knowledge of the amounts they were to be allocated in the September Budget.

3.17. The Government allocates moneys from the Consolidated Fund by means of an annual "Appropriation Act", appropriations from which lapse on 30th June of each year. The "Appropriation

Bill" is normally tabled in the Parliament in September "and usually becomes law about November". Hence for the first 5 months of each financial year, the Government operates under "supply" conditions.

Supply

3.18. The "supply" conditions for the first three months of the financial year (July, August, September) are laid down in Section 25 of the Public Finance and Audit Act, 1983. The provisions of this Section of the Act allow the Treasurer to pay sums from the Consolidated Fund for the first three months of the financial year prior to an Act being passed appropriating money out of the Fund.

3.19. This authority limits spending to the levels of the previous year in that expenditure cannot exceed the equivalent of one quarter of the previous year's appropriation adjusted by a cost escalation factor based on movements in the Consumer Price Index. Where expenditure in the previous financial year was lower than the rate authorised in the Appropriation Act, payments under the supply authority are not permitted to exceed the lower rate.

3.20. As the "supply" arrangements laid down in the Public Finance and Audit Act remain in force only until 30th September, it is necessary for the Government to introduce separate legislation, in the form of a Supply Act, which is proclaimed prior to the end of September so as to make provision for expenditure by the Government in the months of October and November or later if necessary.

Lapsing of Appropriations

3.21. Once the annual Appropriation Bill has been assented to by the Governor (usually in late November), the Government has legal endorsement of the allocations announced in the Budget. The appropriations contained in the Appropriation Act apply from 1

July to 30 June of any given year and lapse at the expiration of each financial year. That is to say that any funds unspent by departments as at 30th June are not carried forward for expenditure in the following year.

3.22. In order to correct some misunderstanding on the matter of parliamentary allocations, it is important to mention that under the present appropriation system, departments do not actually receive cash from the Treasury to meet their operating expenses. Rather, it is a matter of departments drawing against an account held by Treasury on their behalf up to the limit of their appropriations. Under these arrangements, amounts unspent from appropriations are recorded as such in the Treasurer's Public Accounts but there is no physical handing back of cash by departments to a central agency.

Budget Presentation-

3.23. The traditional method of budget presentation has been a line item approach whereby departments are allocated funds according to line items classified under three broad categories namely:

- Salaries and payments in the nature of salary (A items)

- Maintenance and Working Expenses (B items)

- Other Services (C items)

3.24. As the major part of this inquiry has been concerned with expenditure from the "Maintenance and Working Expenses" items (particularly "B4 Stores"), it may be of value for the reader to be aware of the types of expenditure item which comprise this category. A typical group of items is given below:-

Maintenance and Working Expenses

B1. SUBSIDIARY STAFF CHARGES-

Workers' Compensation Insurance

Meal Allowances

B2. EXPENSES IN CONNECTION WITH BUILDINGS-

Rent, Rates, etc.

Maintenance, Alterations, Additions and Renewals

B3. SUBSISTENCE AND TRANSPORT EXPENSES-

Travelling, Removal and Subsistence Expenses

Motor Vehicles, etc. - Running Costs, Maintenance, Hire and Insurance

Freight, Cartage and Packing

B4. GENERAL EXPENSES-

Books, Periodicals and Papers

Fees for Services Rendered

Postal and Telephone Expenses

Gas and Electricity Printing

Advertising and Publicity

Stores, Provisions, Furniture, Equipment, Minor Plant,

etc. (including Maintenance and Repairs)

Other Insurance

Minor expenses not elsewhere included

3.25. The item structure for 1985/86 has been extended in conjunction with the phased introduction of program budgeting and the development of the Budgetary Accounting System. The new item structure is as follows:-

A - Salaries and Payments in the Nature of Salary

B - Maintenance and Working Expenses

C - Plant and Equipment

D - Grants and Subsidies

E - Other Services

3.26. This report is based on the three-tiered line item approach as expenditure details furnished by departments were based on the former item structure. However, any conclusions by the Committee in regard to high year-end spending should have equal relevance to program budgeting and to the new item structure developed for use under the Budgetary Accounting System.

Supplementary Funding Allocations

3.27. It is not uncommon for Ministers and their departments to apply to the Treasurer during a financial year for additional funds to supplement budget allocations. The reasons given for such applications can range from simply the inadequacy of an existing allocation to the need to fund a new Government initiative.

3.28. The provisions of the annual Appropriation Act give the Treasurer authority to vary the apportionment of funds authorised by the parliament. Any additional funding is normally provided to a Minister subject to offsetting savings being achieved elsewhere within that Minister's allocation. Alternatively, the additional funds may be provided from the Treasurer's Advance Account or as a payment to be accounted for under Section 22 of the Public Finance and Audit Act. This Section deals with the Treasurer's authority to permit additional sums to be paid from the Consolidated Fund in anticipation of appropriation by Parliament. Section 22 payments are retrospectively appropriated by Parliament as part of the next year's budget.

3.29. Until recent years, departments were required to seek the Treasurer's approval for supplementary funds on an individual item basis even when the additional funding requirement was of a very minor nature. Now that departments have been given increased responsibility in the area of budget management and control, a greater degree of flexibility exists in departments for reallocating financial resources from one item to another.

3.30. At present, with one or two exceptions (rent, worker's compensation insurance), departments are permitted to transfer funds between "Maintenance and Working Expenses" items. This has had a profound effect in limiting the number of supplementation requests directed to Treasury. Transfers between line item categories eg "A" to "B" are not permitted.

3.31. The Committee understands that the Treasurer has yet to finalise the flexibility arrangements for program budgeting but that it is likely that there will be a relaxation of some of the restrictions which presently exist, particularly in relation to the transfer of funds between programs and the reallocation of funds within programs.

4 SPENDING PATTERNS IN THE PUBLIC SECTOR

Areas of Spending of Relevance to this Inquiry

4.1. The area of maintenance and working expenses constituted the main field for the Committee's inquiry. As can be seen from the table below it represents less than 10% of annual recurrent expenditure and is equivalent to roughly a quarter of the salary payments.

	1982-83		1983-84		1984-85	
	\$M	%	\$M	%	\$M	%
Salaries & payments in the nature of salary (A Items)	2,549	40.4	2,739	39.4	2,953	39.3
Maintenance and working expenses (B Items)	546	8.7	615	8.8	678	9.0
Other Services (C Items)	<u>3,206</u>	<u>50.9</u>	<u>3,601</u>	<u>51.8</u>	<u>3,880</u>	<u>51.7</u>
	<u>6,301</u>	<u>100.0</u>	<u>6,955</u>	<u>100.0</u>	<u>7,511</u>	<u>100.0</u>

4.2. The major components of recurrent expenditure do not all behave in the same way. Salaries are subject to constraints imposed by the Public Service Board and the Treasury, while salary increases are outside the control of the Departments. In the Committee's view, spending patterns in this area were not considered relevant to its inquiry. As a rule it can be expected that expenditure on salaries will gradually rise over the course of the year.

4.3. Other expenditure comprises what is known as "C" items. These include grants and subsidies, plant and equipment and other items which were specifically listed in the budget papers under the "line item" system. They also include quite large items, such as money for the Hospital Fund, which are transferred to the Special Deposits Account. Many of the "C" items are specific to particular departments and do not lend themselves to service-wide comparisons. While the Committee looked at the expenditure rates for some of the more common items, the bulk of the items in this category were not considered in any great depth.

Theoretical Spending patterns

4.4. With some notable exceptions, e.g. periodic payments, the rate of spending by departments on "B" items could be expected to be the same for each month of the financial year. This would result in each month's expenditure being roundly 8.3% of the total allocation to that department for the year.

4.5. In practice, there are factors which work against the theory. For example total expenditure may -

be less than the allocation; or

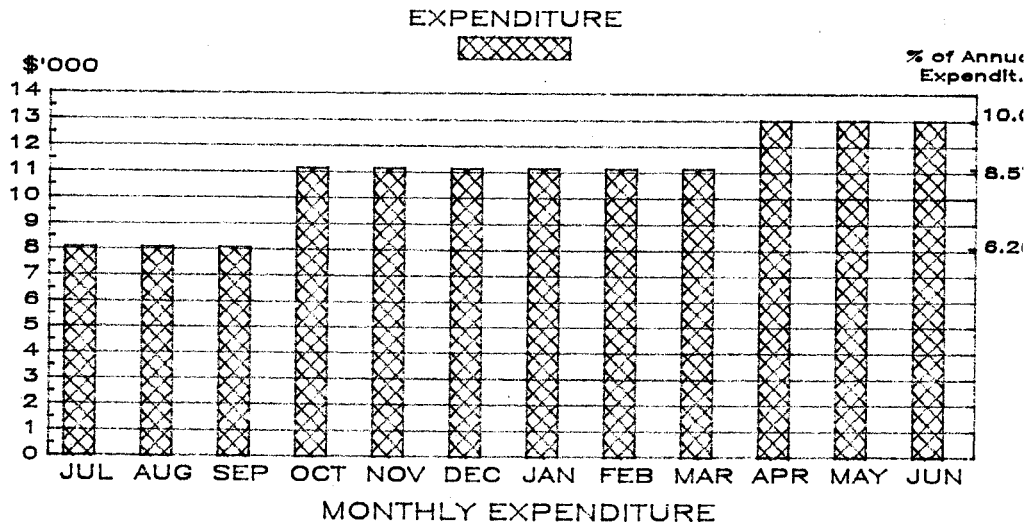
· exceed the allocation (requiring the Treasurer to approve supplementation of the allocation).

For the purposes of this inquiry it was decided to base the theoretical monthly percentage rate on the total actual expenditure rather than the allocation. While this is more realistic, it does introduce an element of chance in that the total actual expenditure for the year cannot, of course, be determined until year-end.

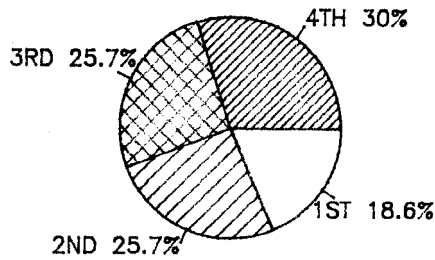
4.6. During the "supply" period i.e. July to September prior to the budget being introduced, it is likely that, the theoretical monthly rate of expenditure will not be exceeded, due to legislative restrictions. If the allocation is higher than the

TABLE 4.1

THEORETICAL SPENDING PATTERNS
(b) For expenditure 30% higher than in the previous year



QUARTERLY EXPENDITURE



ASSUMPTIONS:

1. Expenditure \$100,000 in previous year \$130,000 this year.
2. Movement in C.P.I. 3rd quarter previous year 6% higher than for 3rd quarter a year earlier.
3. Supply period 1st quarter only.
4. Contingency sum of 5% of total expenditure for year. Due to 30% increase in total expenditure, the 5% saving was achieved in 1st quarter. The contingency sum was spent in the 4th quarter.

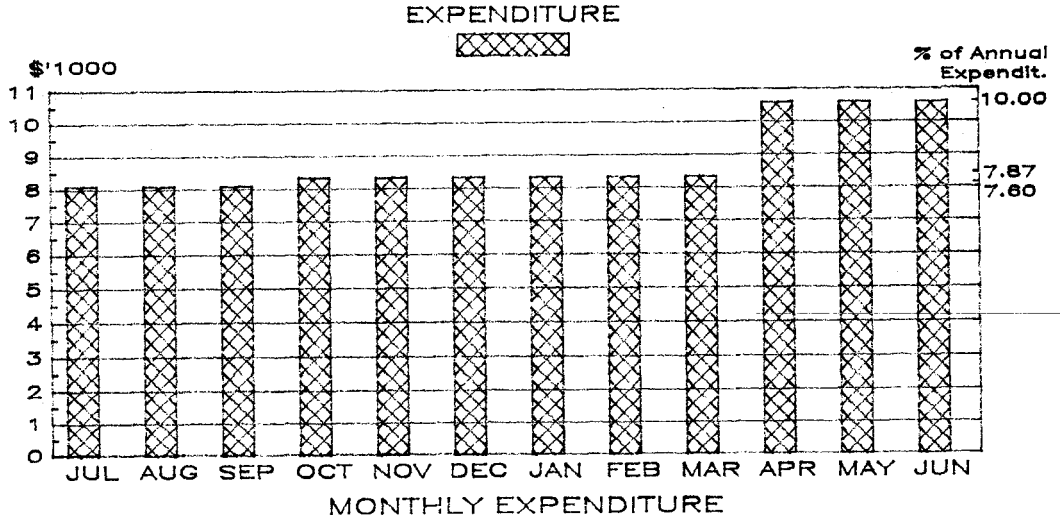
NOTE:

The above is an average spending pattern over all departments that would, prima facie, be expected based on the simple assumptions given

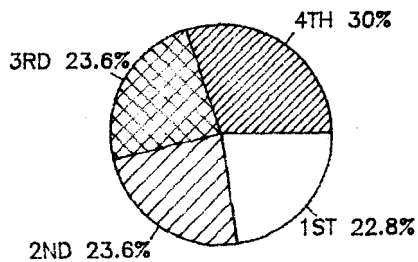
It is recognised that in practice there is often good cause for the spending pattern of individual departments to vary from this.

TABLE 4.1 THEORETICAL SPENDING PATTERNS

(a) For a 6% movement in the C.P.I.



QUARTERLY EXPENDITURE



ASSUMPTIONS:

1. Expenditure \$100,000 in previous year \$106,000 this year.
2. Movement in C,P.I. 3rd quarter previous year 6% higher than for 3rd quarter a year earlier.
3. Supply period 1st quarter only.
4. Contingency sum of 5% of total expenditure for year set aside during July to March, and spent during 4th quarter.

NOTE:

The above is an average spending pattern over all departments that would, prima facie, be expected based on the simple assumptions given.

It is recognised that in practice there is often good cause for the spending pattern of individual departments to vary from this.

expenditure for the previous year, then it might be expected that the expenditure rate for the final nine months of the year will be higher than 8.3% per month due to restrained spending in the "supply" period. In those departments which have notionally set aside a contingency sum, the spending rate could be expected to remain low until such time as it is considered safe to start spending from the contingency sum.

4.7. Table 4.1 shows how the theoretical spending pattern, either for total expenditure or for a particular "B" item, would appear (assuming the total expenditure for the year was equal to the allocation) if:

(a) the total expenditure for the year was higher than the previous year by the movement in the CPI calculated for the supply period; and

(b) the total expenditure for the year was 30% higher than that for the previous year.

4.8. It should be noted that the profiles shown in Table 4.1 will vary depending on the assumptions used. Alternative assumptions could include a longer supply period, a deferment of the use of the contingency sum to May or June, and the non-use of the contingency sum approach. The theoretical spending patterns shown are average spending patterns over all departments that would, prima facie, be expected based on the simple assumptions given.

4.9. It is recognised that in practice there is often good cause for the spending patterns of individual departments to vary from these. One important example of this is those departments in which "B" items are a relatively small proportion of the department's total budget and represent the area of greatest flexibility in the department's spending. Because all budget projections are subject to error it may be appropriate for such departments to not spend their allocation for "B" items early in the year so as to provide a buffer in the event of overruns in other items. For such departments it

may be reasonable to expect to see a surge in spending in the late part of the year, say the last quarter, at rates greater than 6-10% per month.

Non-Discretionary Factors that may Effect the Theoretical Spending Pattern

4.10. There are a number of factors, apart from uncertainty as to the final expenditure total, which make it unlikely that the theoretical model could be achieved with any mathematical accuracy in practice.

4.11. Obvious factors affecting the spending pattern are the length of the supply period and the period over which the contingency sum is spent. Others include: fixed costs; periodic payments; Treasury Transfers; journal transfers; and the date of recording transactions. Many of these factors will occur throughout the year. However, they assume greater importance in June when departments put their financial affairs in order.

4.12. The incidence of fixed costs and periodic payments tends to distort month by month comparisons and such items were not considered in detail by the Committee. Fixed costs include expenses such as rent. Periodic payments include electricity, telephone, insurance premiums, motor vehicle registrations, etc.

4.13. The Treasury Transfer System may also affect spending patterns. Each month the Premiers Department (for advertising), the Government Printer (for printing) and the Government Supply Department (for stores) make a bulk claim on the Treasury for goods and services supplied to departments. The Treasury maintains a control account for each government department. After debiting the control account with the total of expenditure incurred by the department, the department is advised of the details of debited expenditure. The department then records these payments in its financial records. While this is a sensible practice, it can distort the monthly expenditure picture. For example, printing done in February might be taken into the Treasury records in March and appear

in the department's record in April. There were also instances of monthly claims being batched together, with claims for two or three months being processed by the client department in one month. It was noted that supplier departments try to clear the decks at the end of each financial year. It was common for June expenditure to include Treasury Transfers for both May and June and for there to be little such expenditure in July.

4.14. Another random distorting factor is the use of journal transfers, particularly in departments which are regionalised. Expenditure may be charged to one account, either through error or because a detailed dissection has not been made. Subsequently the department processes a journal transfer to allocate the expenditure to the correct account. The incidence of such transfers is usually heaviest in June as part of a clean-up process. A notable instance of this practice was the Health Department, Administration Fund, whose expenditure on B4 stores in June, 1985, was recorded as minus \$11,763. When the distorting effect of journal transfers was taken into account, however, actual expenditure on stores for that month was \$330,000.

4.15. In considering monthly expenditures by departments, the Committee found it necessary to rely on the figures recorded by each department in their own accounts. Thus, a Treasury Transfer is counted in the month in which it was recorded by the department, payments by a department are included in the month in which that cheque was drawn and credits are deducted from the month in which they were processed by the department. These will not necessarily be the same months in which they are recorded in the Treasury Ledgers.

4.16. The date on which expenditure was authorised or committed or an order issued has no bearing on the month in which the cheque is drawn. In some cases the processes involved may take many months. In other cases a payment may be authorised, the order issued, the goods supplied and the cheque drawn all on the same day.

Actual Spending Patterns

4.17. The table below shows the overall amounts and percentages expended on the B4 stores item by all public sector government departments for the past three years.

Table - Actual Spending Patterns

	1982-83		1983-84		1984-85	
	\$M	%	\$M	%	\$M	%
July	6.30	7.2	4.84	4.7	5.16	4.6
August	5.27	6.0	6.83	6.6	7.54	6.7
September	6.26	7.2	7.07	6.8	7.38	6.6
October	8.49	9.7	6.51	6.3	10.87	9.7
November	7.34	8.4	8.40	8.1	9.04	8.1
December	5.27	6.0	6.30	6.2	7.53	6.7
January	4.14	4.7	5.41	5.3	6.99	6.2
February	6.69	7.7	6.63	6.4	6.79	6.0
March	6.50	7.4	9.90	9.6	11.35	10.1
April	6.43	7.4	7.11	6.9	9.05	8.1
May	9.39	10.7	12.22	11.8	12.30	11.0
June	<u>15.41</u>	<u>17.6</u>	<u>22.16</u>	<u>21.4</u>	<u>18.23</u>	<u>16.2</u>
	<u>87.48</u>	<u>100.0</u>	<u>103.37</u>	<u>100.0</u>	<u>112.23</u>	<u>100.0</u>

The above figures do not include a small number of bodies whose administrative arrangements have changed over the period surveyed. It is not considered that their omission would materially affect the results shown.

4.18. Table 4.2 illustrates the May/June expenditure patterns on Sites by departments whose expenditure was examined at the Committee's public hearings. The theoretical spending rate for May/June would be roundly 17%, using a straight line approach or 20% if one of the models discussed earlier in this chapter (using a 5% contingency sum approach) is used. In most cases the theoretical rate was exceeded, in one case being as high as 87.4%.

4.19. Caution must be exercised in interpreting this table without reference to the monetary value. High percentage rates may relate to low monetary amounts and vice versa. For example,

Table 4.2

Nay/June Expenditure Patterns For Departments
whose expenditure was examined at public hearings

ALL FIGURES IN \$'000s									
	1982-1983			1983-1984			1984-1985		
	Annual Exp.	May/June \$	%	Annual Exp.	May/June \$	%	Annual Exp.	May/June \$	%
Education - Head Office	845	519	61.5	1,001	393	39.3	1,965	1,239	63.1
Primary	12,918	3,539	27.4	13,466	4,758	35.3	12,929	3,045	23.6
Secondary	11,160	<u>3,699</u>	<u>33.1</u>	12,399	4,957	<u>40.0</u>	<u>11,758</u>	3,305	<u>28.1</u>
Combined	24,923	7,757	31.1	26,866	10,108	37.6	26,652	7,589	28.5
Forestry Commission	286	74	25.8	301	97	32.1	468	211	45.1
Government - Courier	23	4	16.0	58	43	73.8	53	30	57.6
Supply	1,239	378	30.5	1,344	346	25.7	1,154	279	24.2
Cleaning	304	<u>147</u>	<u>48.4</u>	1,065	161	<u>15.1</u>	<u>1,096</u>	290	<u>26.4</u>
Combined	1,565	529	33.8	2,467	549	22.3	2,303	599	26.0
Health - Administration Fund	1,221	331	27.1	1,527	360	23.6	1,586	175	11.0
Miscellaneous boards	15	9	58.1	17	6	35.8	76	66	87.4
Dental Health	452	<u>151</u>	<u>33.4</u>	505	161	<u>31.8</u>	<u>595</u>	237	<u>39.7</u>
Combined	1,688	491	29.1	2,049	527	25.7	2,257	478	21.2
Industrial Devel. & Decentralization	59	35	59.2	117	53	44.9	133	63	47.2
Lands - Crown Lands Office	797	40/+	50.7	887	352	39.7	708	126	17.8
Land Titles Office	841	487	57.9	793	410	51.7	1,284	838	65.3
Western Land Commission	14	4	28.6	45	34	75.6	71	52	73.2
Central Mapping Authority	846	go	10.6	952	216	22.7	1,156	294	25.4
Central Services Division	99	66	<u>66.7</u>	265	131	<u>49.4</u>	<u>246</u>	172	<u>69.6</u>
Combined	2,597	1,051	40.5	2,942	1,143	38.9	3,465	1,482	42.8
Mineral Resources, Department of	399	169	42.4	475	153	32.2	477	169	35.4
Police Department	8,849	1,766	20.0	10,622	5,071	47.7	12,118	3,504	28.9
Public Service Board	1,246	416	33.4	1,492	570	38.2	1,989	1,041	52.4
Public Works Department	1,681	730	43.4	2,063	802	38.9	2,497	679	27.2

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the 87.4% expenditure in May-June 1985 for Health -Miscellaneous Boards referred to expenditure of \$66,000. In contrast, the May-June 1985 expenditure of the Health -Administration Fund of \$175,000 represented only 11% of the year's expenditure. Another factor that should be considered is that "expenditure" might include a number of journal transfers adjusting prior months expenditure.

4.20. A good illustration of an initially restrained pattern is the expenditure on Stores under Education - Head Office (Table 4.3). In 1984-85 expenditure for the first three months period was 9.5% (expected 25%) and the first five months period 16% (expected 41.7%). After a slight surge in December, expenditure continued to be restrained until June when it soared to 60% for that month. Similar, but less dramatic, patterns had been experienced in the two preceeding years.

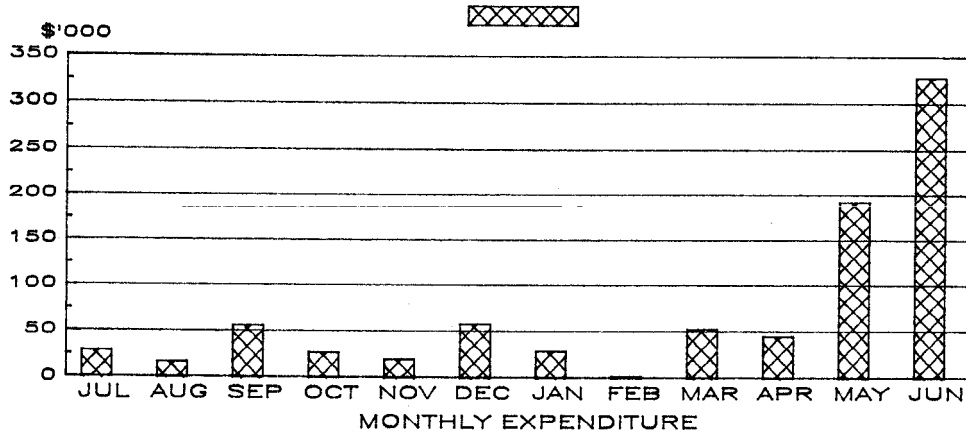
4.21. The Director-General of Education explained in a letter to the Committee that the expenditure on Head Office Stores in June, 1985 (\$1,177,645) comprised \$217,256 transferred to adjust incorrect postings earlier in the year and \$960,389 to cover purchases ordered in the last six months of the financial year.

4.22. He further advised that:

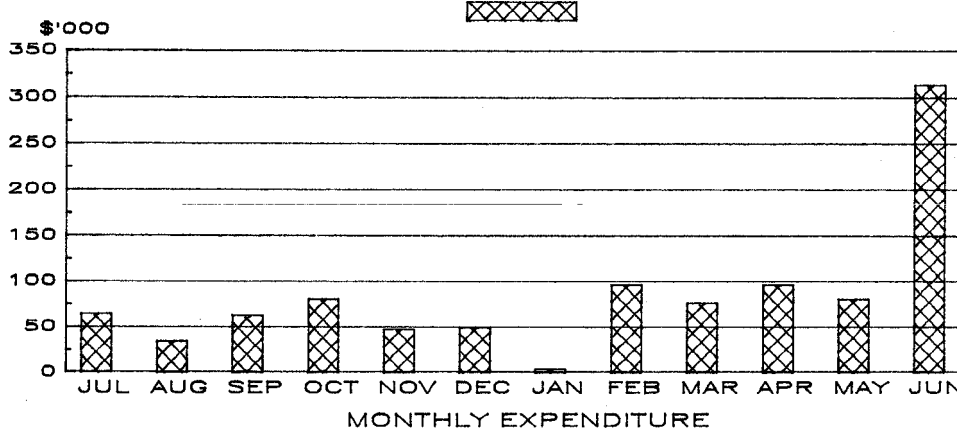
"For the years under review, the Treasurer indicated apart from specified exceptions, the Department would not be supplemented for expenditure over-runs on "Maintenance and Working Expenses" items. This, in accordance with sound financial practices, requires departments to set aside a contingency amount at the beginning of a financial year to meet unforeseen demands which may emerge during the year. If no unforeseen demands emerge, these funds are released late in the year in accordance with predetermined plans".

TABLE 4.3: EDUCATION DEPT. — HEAD OFFICE
B4. STORES EXPENDITURE

1982-83 EXPENDITURE



1983-84 EXPENDITURE



1984-85 EXPENDITURE

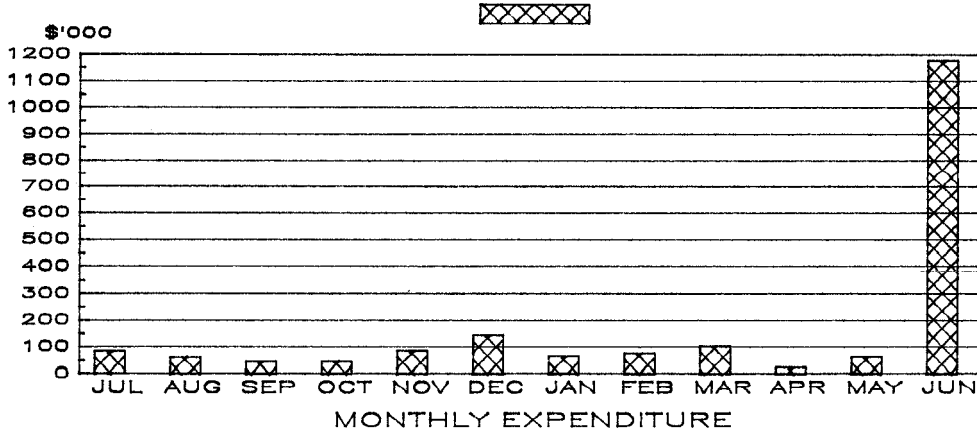
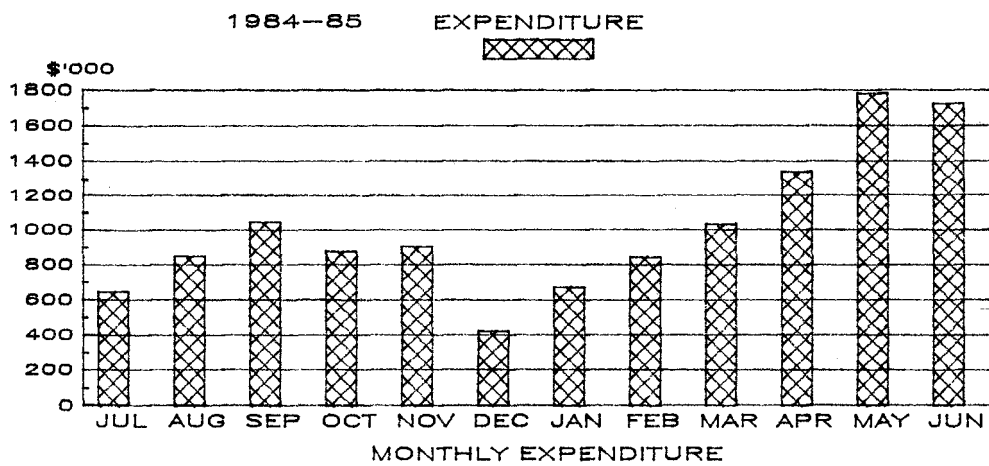
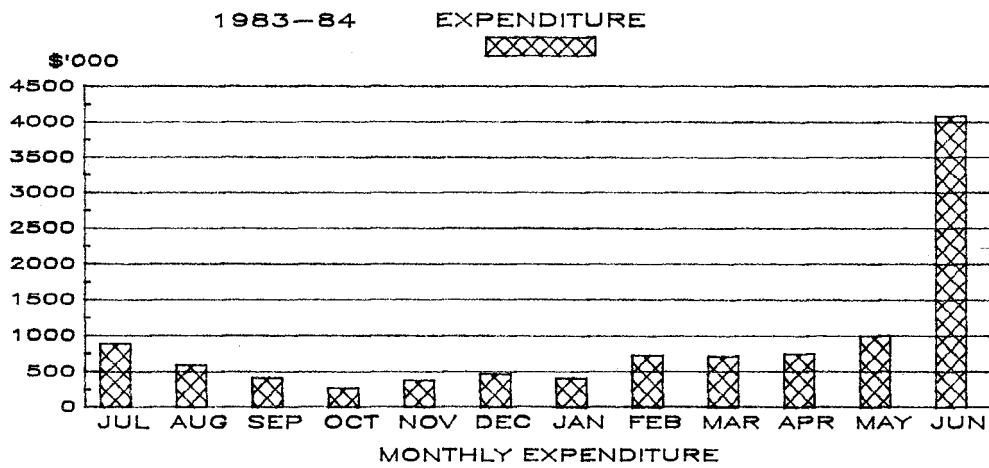
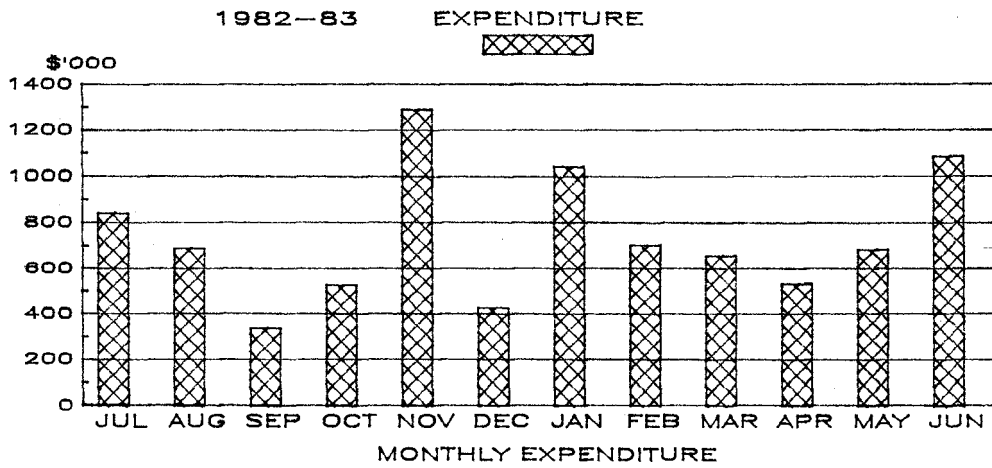


TABLE 4.4: POLICE DEPARTMENT
B4. STORES EXPENDITURE



However, expenditure on Stores for 1984-85 did exceed the Budget allocation of \$1.2M (by \$760,599). A major factor in this higher expenditure seems to be related to computer purchases.

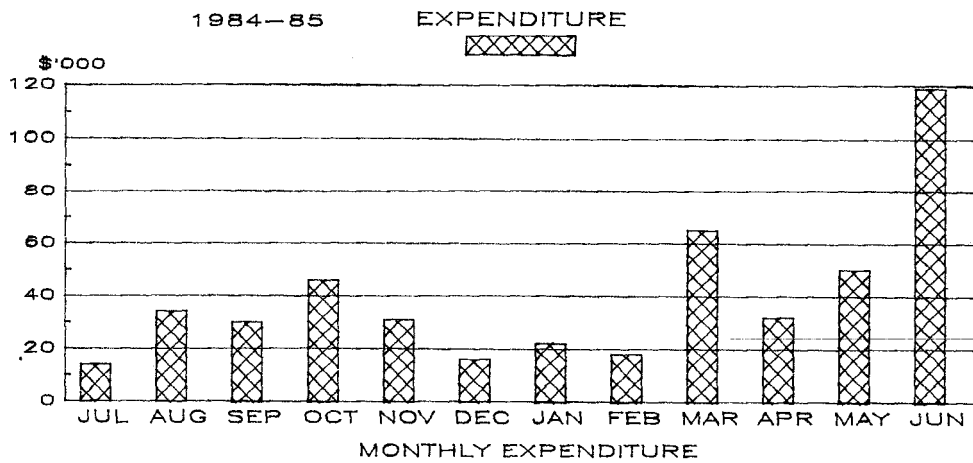
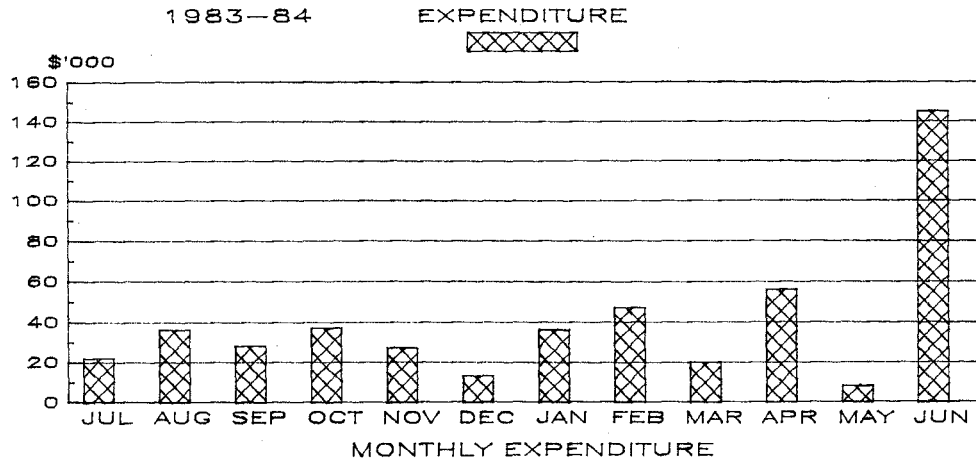
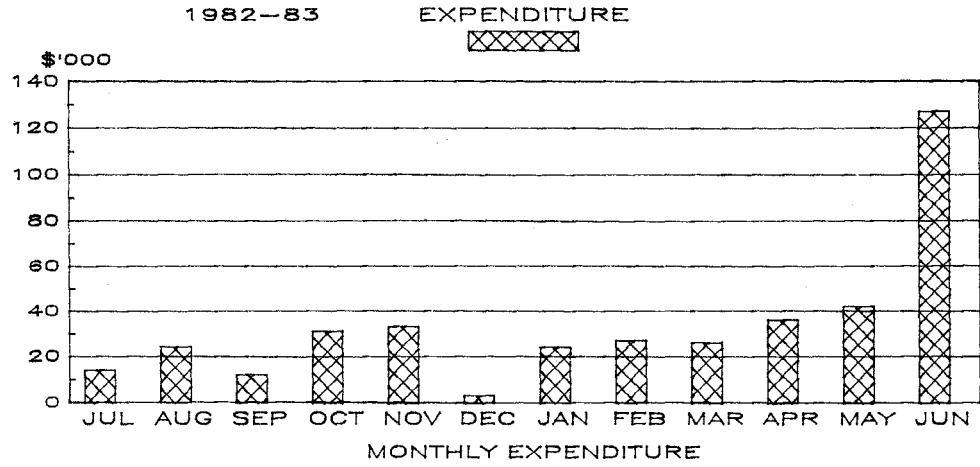
4.23. The pattern of expenditure on Stores by the Police Department has varied considerably from year to year over the last three years. As can be seen from Table 4.4 the profile for 1982-83 was one of peaks and troughs, ending the year on an upward curve. However, in 1983-84 expenditure started on a downward curve, bottomed in October and remained relatively stable until January. After a roundly 80% rise in February it remained around that level until May and then showed a dramatic surge in June. In 1984-85 a more regular pattern of peaks and troughs occurred. After bottoming in December there was a steady rise until May and a slight decrease in June.

4.24. The Committee was informed that 1982-83 was the first year in which the Police Department had been required to stay within their budget allocation and that the stores allocation of \$9.7M had been underspent by \$0.9M.

4.25. In respect of 1983-84 it was stated by departmental officers that there was a deliberate policy of restraining expenditure until such time as they could gauge the success of efforts to control overtime costs. By February/March, 1984, it was obvious that substantial savings had accumulated and the Minister's approval was sought to expend those savings. This was received in April/May, 1984. The larger items of stores expenditure in June 1984, appear to have been uniforms and equipment. In 1983-84 the Police Department's total allocation was underspent by \$8.6M and \$0.58M of this under, pending was in respect of stores.

4.26. During 1984-85 stores expenditure for each of the first three quarters was under 25% of the total stores expenditure. However, it is noted that stores expenditure exceeded the allocation by \$1.1M, a sum equal to almost two-thirds of the June expenditure on stores.

TABLE 4.5: DEPARTMENT OF MINERAL RESOURCES
B4. STORES EXPENDITURE



4.27. The Department of Mineral Resources (Table 4.5) and the Public Works Department (Table 4.6) are two examples of organisations which set aside a contingency sum and adopt a conservative approach during the first eleven months of the year. In each case the heaviest expenditure is made during June.

4.28. Mineral Resources cited long lead times for certain of its specialised projects as a factor. It also tended to stock up on consumables in June in order to carry it through the following supply period.

4.29. In 1982-83 and 1983-84 the Public Works Department's monthly expenditure rate during the first eleven months only occasionally exceeded the expected notional rate. However, the June expenditure rates were 36.6% and 31.8% respectively. In 1984-85 the monthly rates were, in the main, higher than in the previous two years while the June expenditure rate fell to 18.6%. A feature of the June expenditure rate in each of the three years was that each time the reasons given included purchases of computers.

4.30. The Department of Agriculture (Table 4.7) was not called upon to give evidence before the Committee. It has been included to show that the general expenditure pattern of departments not called to the public hearings is not dissimilar to those which were called. A comment made by the Department, which would probably be echoed by others, was:-

"It is common for the Department to have to chase contractors and suppliers for delivery and the final accounts for goods and services ordered months in advance. In addition, it is not uncommon for the Department to purchase costly items of scientific and other equipment which are required from overseas or after tenders have been let nationally. It is normal for tenders for such equipment to be called for after the Department's allocations under the State Budget are known which result in deliveries and payments at the latter end of the financial year".

TABLE 4.6:

PUBLIC WORKS DEPARTMENT
B4. STORES EXPENDITURE

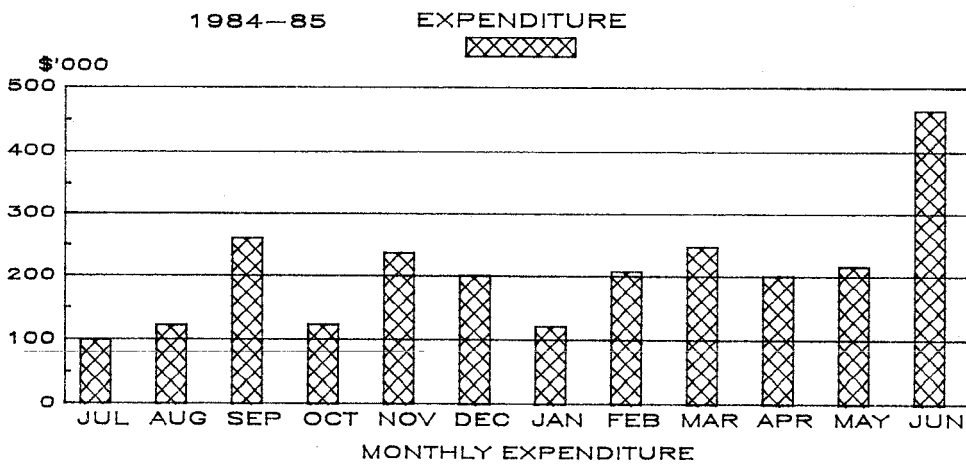
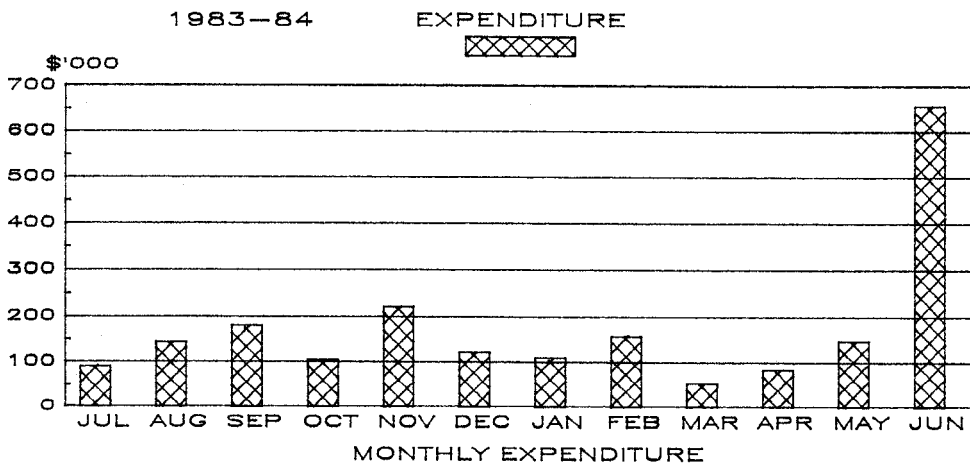
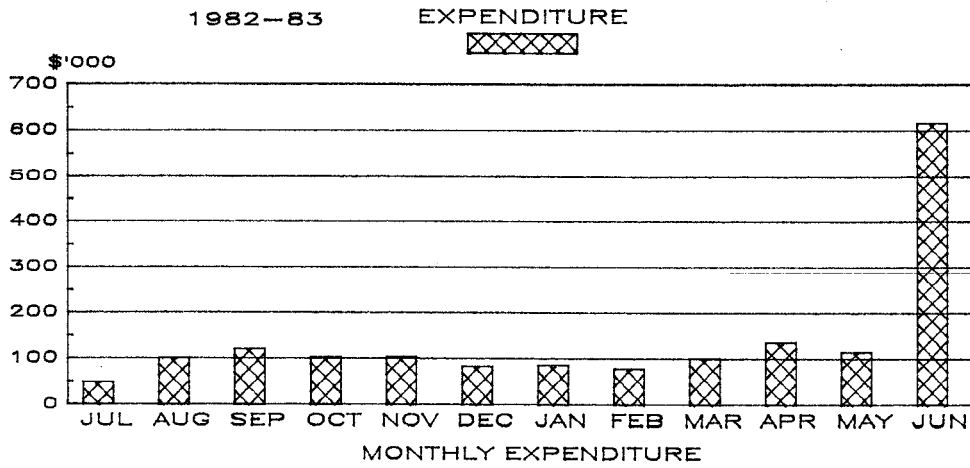
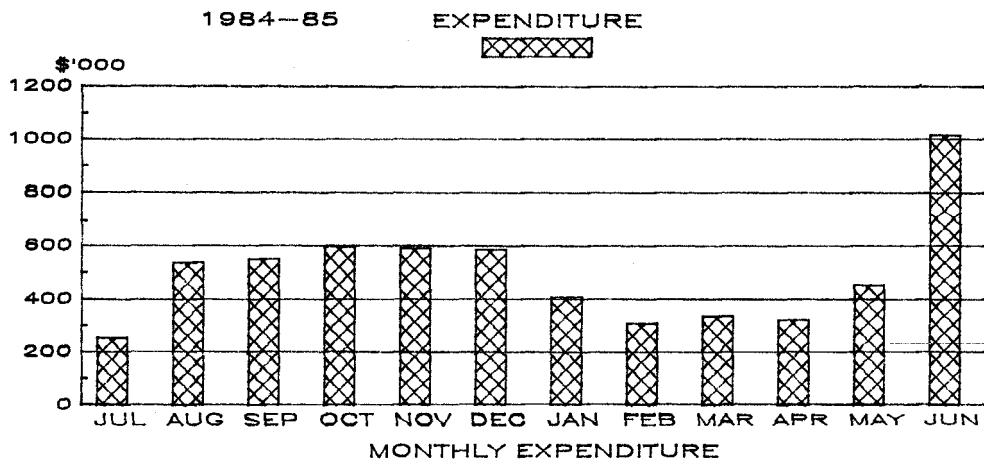
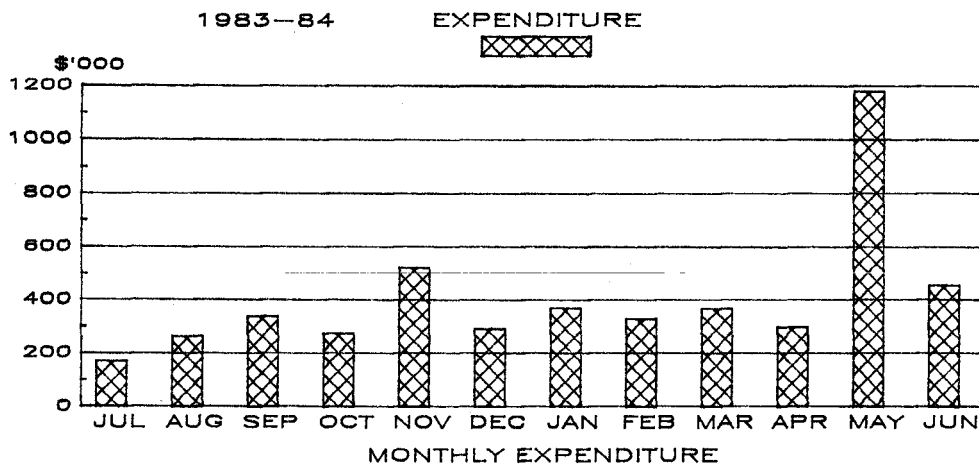
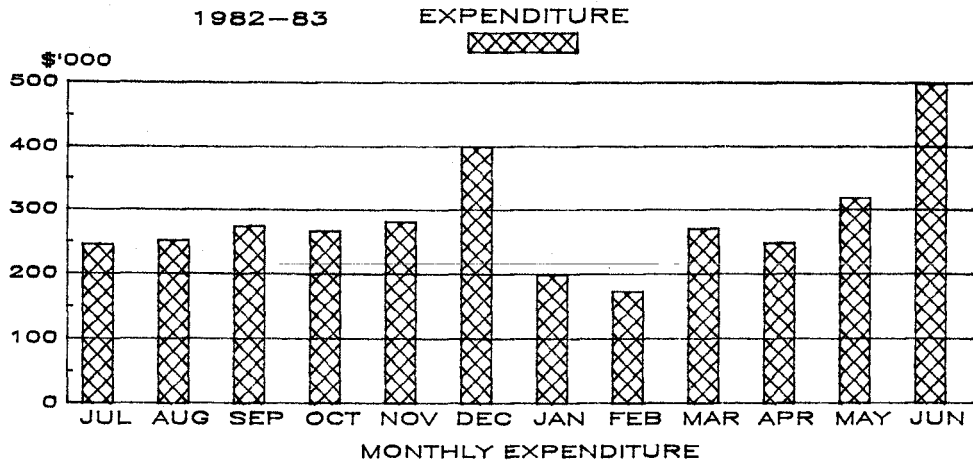


TABLE 4.7:

DEPARTMENT OF AGRICULTURE
B4. STORES EXPENDITURE



Conclusions

4.31. While it might be thought that in a simple form monthly spending patterns should be one-twelfth (8.3%) of yearly expenditure, based on the Committee's theoretical pattern, spending in the range of 6%-10% per month would be more likely to be expected. In addition the effect of using a contingency sum approach is that spending during each month of the last quarter is likely to be around 10%. Higher spending rates may be expected if planned, for the reason given in Paragraph 4.9, in which case the surge would be expected to occur over several months, not just the last month.

4.32. In practice, however, departmental expenditure rarely conforms to the theoretical model. The theoretical spending rate for May/June was exceeded by almost all departments, in one case being four times the theoretical rate.

4.33. The Committee concludes that spending at the end of the financial year is at a much higher rate than during the rest of the year and at a significantly higher rate than predicted by the theoretical model.

5 YEAR-END SPENDING OR YEAR-END SPEND UP?

5.1. As discussed in Chapter 4, the rate of spending by departments in May and June should theoretically not be substantially different from expenditure levels in other months of the year. (Refer Table 4.1)

5.2. As Chapter 4 details, however, the Committee has found a disproportionately higher level of expenditure by departments in the last two months of the year than in earlier months.

5.3. The Committee considers a "spend?up" to involve decisions to incur expenditure either :

(a) on items that were unnecessary or not next in order of Departmental spending priorities; or

(b) with unjustified haste in the planning or execution stages.

Therefore, evidence of year?end spend?ups concerns both timing and nature of purchases.

5.4. In order to establish whether spend?ups have occurred, an analysis of the incidence of both spending commitments and actual expenditure is necessary.

Where expenditure was incurred (i.e. when orders are placed and a spending commitment has been made) late in the financial year, particularly in the last two weeks of the financial year, this was likely to indicate a last minute rush to spend unused funds.

5.5. The Committee does not consider that high spending at year?end on its own constitutes a "spend?up". The Committee also does not view all spending at the end of the year as necessarily undesirable.

5.6. There can be advantages in deferring the release of government funds for expenditure purposes until late in the financial year. Any cash balances held by the Government are invested by Treasury and the interest earnings from such investments are an important source of government revenue, The deferment of expenditure bolsters the Government's cash position and provides scope for increased interest earnings. On the other hand the delayed purchase of items has a cost in terms of efficiency forgone.

5.7. The Committee also accepts that there is little to be gained by individual departments in terms of interest earnings as departments themselves do not receive interest on the unspent balance of their allocations.

Information Obtained from Departments

5.8. The Committee requested details of stores and equipment items ordered and paid for during the last two weeks of June 1985 from the majority of departments which appeared at hearings and from departments which were not called to give evidence. The Committee restricted its examination to stores and equipment items as its analysis of expenditure patterns had shown that these items showed the greatest tendency to surge disproportionately at year-end. Information sought was also limited to items over a certain amount; in most cases \$1,000 but in the case of some larger departments \$5,000.

5.9. In response to the Committee's request, the following organisations claimed that they had no items in the specified category which had been incurred and paid for during the last two weeks of June 1985:

Commissioner for Motor Transport

Department of Agriculture

Department of Consumer Affairs

Department of Co-operative Societies Department of Corrective Services

Department of Environment and Planning

Department of Industrial Relations

Government Supply Department

Housing Commission of New South Wales

N.S.W. State Lotteries

State Electoral Office

State Pollution Control Commission

Valuer General's Department

5.10. The Department of Technical and Further Education responded to the Committee's question with the following cautious statement:

"There is no evidence to suggest that ordering and payment for major stores items occurred in the last two weeks of June 1985".

5.11. In contrast to the above organisations, a number of other departments indicated that expenditure on stores items had been incurred and cheques drawn during the last two weeks of June, 1985. The following examples have been selected to show the types and range of expenditure which fall into this category.

Police. Department

5.12. Tables 5.1 and 5.2 show a comparison between Police Department stores expenditure in June 1984 and June 1985. The tables have been restricted to items over \$1,000 which were both ordered and paid for during the June month.

5.13. In 1984 this category comprised items totalling almost \$1 million with the majority being ordered in the last working week of the 1983-84 financial year. In contrast, 1985 expenditure was restricted to a little over \$17,000, with items ordered in the first half of June.

5.14. The Police Department provided the Committee with a list of the allocations of items such as T.V.s, microwave ovens, photocopiers and video units purchased in June 1984. At the Committee's hearings, the Secretary, Police Department was asked to explain the acquisition of large numbers of such items. The Committee's question and the Secretary's explanation follow:

Q: In the matter of stores we often hear of matters that would deserve inquiry. One of the things we have heard is that the Police Department purchased a large number of microwave ovens and television sets in June 1984. First, was that true? If so, was the purchase necessary and are they used sufficiently to warrant that purchase? Where are they located?

A. I have no doubt there would have been some expenditure on these items. The police have a considerable list of these sorts of facilities they lack at police stations. The Police Association is continually active through its journal and in letters to the Minister in getting us to provide adequate facilities for the police who, until recent years, were housed in atrocious conditions and who had the least of cafeteria facilities available. It must be borne in mind that these facilities, such as microwave ovens, are not known to me in statistical detail but my

Table 5.1

POLICE DEPARTMENTStores Items Ordered and Paid for in June, 1984

Date Ordered	Item	\$
5.6.84	14 Radio paging services	1,890
5.6.84 - 24.6.84	56 Photocopiers	123,356
6.6.84 - 20.6.84	70 Typewriters	35,124
6.6.84	ECG recorder	1,675
7.6.84	1 Kroy keyboard	3,945
7.6.84	Kroy lettering system	4,686
12.6.84	11.B.M. computer & accessories	13,707
13.6.84	8 Cameras	7,776
14.6.84	4 Safes	1,828
18.6.84	Autoclave and accessories	2,740
18.6.84	25 Car washing machines	18,757
18.6.84	4 Facit printers	2,620
18.6.84	4 Mono VDUs	9,836
20.6.94	12 Microwave ovens	4,272
20.6.84	59 Colour V.C.R.'s	58,606
20.6.84	1 Microfilm unit	2,090
20.6.84	2 Discs	2,750
21.6.84	10 Bookcases	1,688
21.6.84	10 Office screens	1,300
21.6.84	10 Cupboards, 24 Lockers	2,364
21.6.84	6 Refrigerators	1,608
21.6.84	4 Air-conditioning units	3,323
21.6.84	6 Technical drawing tables	1,560
21.6.84	40 Packet dictating machines	2,876
21.6.84	49 Colour T.V.'s	26,637

Table 5.1

(Cont)

Stores Items Ordered and Paid for in June, 1984

(Continued)

Date Ordered	Item	\$
21.6.84 - 22.6.84	3 Burroughs computers (including maintenance)	89,910
22.6,84	1Casette copier	2,054
22.6.84	6 V.C.R.ts	2,400
22.6.84	1 I.B.M. computer	8,998
22.6.84	20 Urns	2,096
22.6.84	1 Graphic line printer	1,905
22.6.84	3 Microfilmers	116,949
22.6,84	Microfilmer and film duplicator	36,540
22.6.84	2 I.B.M. computers	21,388
22.6.84	1 I.B.M. computer	10,694
22.6.84	76 Facit printers	49,780
22.6.84	Satellite work station & accessories	14,213
22.6.84	7 Microimage terminals/retrievals	111,293
25.6.84	I Defibrillator	3,795
25.6.84	50 Modules for transceivers	45,000
25,6.84	25 Transceivers	49,909
25.6.84	Recording equipment	6,990
25.6.84	Burroughs computer & accessories	33,226
25,6.84 - 26,6,84	2 Time 5500computers	31,054
26.6.84	2 I.B.M, computers	19,462
		994,670

colleagues might later be able to provide that information. The police are working for twenty-four hours a day for seven days a week. There are no cafeteria facilities available during certain of those hours. We have an obligation to provide facilities that will provide them with adequate meals during those times. It is also one of the terms and conditions of their employment.

Q. For them all to occur in June, or a large number, would suggest that there had been some money left which was then used for those purchases?

A. It is not a top priority. Although it is highly desirable, top priorities must be met first. We have to give priorities to our expenditure and if there is money available other priority items must be bought. I make no apology for that.

5.15. The Committee does not find the Police Department's explanation as to why the amount of nearly \$1 million was committed and spent on stores items in June 1984 satisfactory. While such items may be needed by the Police Department the Committee cannot accept the argument that all 56 photocopiers, 70 typewriters, 49 colour T.V.s, 12 microwave ovens and an array of computer and other equipment represented careful, planned purchases, based on needs for 1984.

5.16. The Committee notes that spending in this category in June 1985 was very low, in marked contrast to the previous year. The change appears to have been due to positive steps taken by the Minister for Police and senior departmental management to control and plan purchases so that there was an even flow of essential acquisitions throughout the year instead of a splurge, of doubtful necessity, at the end of the year. While concluding that a spend-up occurred in June 1984, the Committee welcomes the steps taken subsequently to reduce hasty expenditure.

Table 5.2

POLICE DEPARTMENTStores Items Ordered and Paid for in June, 1985

Date Ordered	Item	\$
4.6.85	3 Electronic typewriters	3,585
4.6.85	1 3/4" VCR	1,250
4.6.85	T.V. camera	1,250
4.6.85	1 Monochrome monitor & video printer	1,297
14.6.85	1 Video camera	3,857
not given	1 Personal computer	4,882
		16,121

Table 5.3

DEPARTMENT OF LANDSStores Items Ordered and Cheques Drawn in Last 2 Weeks of June, 1985

Date of Order	Description of Goods	Amount \$	Date Cheque Drawn	Date items Delivered
17.6.85	Typewriter with external disk storage	1,786	21.6.85	24.6.85
18.6.85	Addlisting machine	79	21.6.85	19.6.85
20.6.85	Oxyvivor breathing medical apparatus	1,072	24.6.85	25.6.85
21.5.85	Microfiche unit	361	20.6.85	24.6.85
21.6.85	2 Micro-Image terminals	26,952	25.6.85	26.5.85
21.5.85	Card to card duplication	79,750	25.6.85	23.7.85
21.6.85	Microfilm aperture card mounting system	18,000	25.6.85	3.10.85
21.6.85	Photocopier	5,973	27.6.85	4.7.85
21.6.85	2 Door filing cabinet	377	24.6.85	12.8.85
24.6.85	7 Chairs	742	25.6.85	21.0.85
		135,072		

Department of Lands

5.17. The Department of Lands presents a further example of a department which incurred expenditure on a number of stores items in the last 2 weeks of the financial year and drew cheques for these items before June 30. A list of items is shown in Table 5.3.

5.18. During a hearing before the Committee, the Lands Department provided the following reason for the high stores expenditure at year-end in the Land Titles Office:-

"The Land Titles Office has a policy regarding its consumer stores, which are very heavy. Towards the end of the financial year, for a couple of sound reasons, it is not wise to buy in January what you can buy in June if it is going to cost Treasury money. Also, towards the end of the year, there is a better appreciation within the department as to the financial position".

5.19. The table also indicates that the majority of the items were delivered after cheques had been drawn. This aspect of year-end spending is discussed in detail in Chapter 6.

Forestry Commission

5.20. The Forestry Commission ordered and paid for 19 modems and 18 personal computers in the last two weeks of the 1985 financial year. Details are shown on Table 5.4. The Commission indicated that Treasury approval was granted on 6th June, 1985 for supplementation to purchase the microcomputers and modems. Orders were then placed on 20 June 1985, goods delivered on 21 June 1985, and cheques drawn on 24 June 1985.

Table 5.4

FORESTRY COMMISSIONStores Items Incurred and Paid for in June, 1985

Date Ordered	Item	\$
4.6.85	Photocopier	3,070
5.6.85	Canon mini sorter	733
20.6.85	19 Modess	26,106
21.6.85	18 Personal computers	111,995
		141,904

Table 5.5

DEPARTMENT OF YOUTH & COMMUNITY SERVICESMajor Stores Items Ordered and Cheques Drawn In Last 2 Weeks of June 1985

Date of Order	Item	I \$
18.6.85	* 4 Air Conditioners	2,380
18.6.85	2 Cars	14,718
20.6.85	*55 Bicycles	10,750
21.6.85	*20 BMX Bicycles	2,755
21.6.85	*28 Personal Computers	3,973
24.6.85	*Word Processor	25,045
27.6.85	VHS Recorder and T.V.	2,892
27.6.85	Washers and Dryers	2,617
27.6.85	Refrigerators	<u>8,119</u>
	TOTAL	74,249

Department of Youth and Community Services

5.21. Table 5.5 lists a number of major stores and equipment items for which expenditure was incurred and paid during the last two weeks of June 1985. The items have been compiled from a number of different lists supplied by the Department and may not be conclusive.

The Department noted that the computer plotter was subject to supplementation approval from the Treasurer.

With regard to purchases marked *, the Department stated:-

"The above purchases represent no more than a continuation of existing replacement and renewal programmes".

Department of Finance

5.22. The Department of Finance ordered and paid for goods worth \$19,056 during the last two weeks of June 1985. The items were a refrigerator, photocopier and three cash register machines. The Department stated that the cash registers were second-hand machines purchased as emergency back-up and the refrigerator was to "service staff needs". Details are provided on Table 5.6.

Department of Education

5.23. Table 5.7 shows details of Department of Education, Head Office expenditure on major stores items, in June 1985. Major items ordered and paid for within June 1985 totalled \$81,157. Ergonomic furniture accounted for \$26,318 of this total.

Corporate Affairs Commission

5.24. The Corporate Affairs Commission ordered major stores items amounting to over \$133,000 during the last two weeks of June 1985. (Table 5.8)

Table 5.6

DEPARTMENT OF FINANCEStores Items Ordered and Paid for in last two weeks of June, 1985

Date Ordered	Item	\$
18.6.85	Refrigerator	691
18.6.85	1 Photocopier	7,265
25.6.85	3 Cash registers	11,100
		19,056

Table 5.7

DEPARTMENT OF EDUCATION - HEAD OFFICE* Major Stores Items Ordered and Paid for in June, 1985

Date Ordered	Item	\$
5.6.85	Ergonomic typist chairs	2,900
5.6.85	Ergonomic typist desks	6,966
5.6.85	SFC various	2,492
5.6.85	PWD various	5,408
5.6.85	8 Ergonomic tables	3,800
6.6.85	3 Conference tables	2,534
13.6.85	2 Photocopiers	5,030
13.6.85	3 x 22 Light diffusers	2,970
13.6.85	Ergonomic furniture	3,072
13.6.85	Ergonomic furniture	6,499
13.6.85	Ergonomic furniture	2,081
13.6.85	School furniture complex	2,492
14.6.85	Lockers etc.	3,091
18.6.85	7 MVPCA systems	6,604
18.6.85	85 Tables and wing units	24,218
		81,157

Only Consumables and Furniture in Excess of \$2,000 and Equipment purchases in excess of \$5,000 included.

The Commission advised the Committee that tenders were first called for both the Diazo duplicators and the telex interface in November 1984.

5.25. In the case of the duplicators the tendering process resulted in a successful tender in May, 1985. In the case of the telex equipment, the Department, after unsuccessful negotiation with the State Contracts Control Board, purchased the equipment on an emergency basis, under the Public Service (Stores and Services) Regulation in June 1985. The Commission provided the following details to the Committee:

"Tenders were first called in early November, 1984. These were assessed and a recommendation forwarded to the State Contracts Control Board on 8th March, 1985. On 3rd April 1985, Government Supply Department advised that the recommendation was not acceptable. The Commission forwarded a request on the 7th May, 1985 to purchase without tender to State Contracts Control Board. As no satisfactory response was forthcoming the Commission took the decision to purchase this equipment on an emergency basis under Clause 41 of the Public Service (Stores and Services) Regulation in June, 1985".

5.26. The purchases of the matrix printer and word processor were also made by the Commission under the emergency purchases regulation. The Commission gave the following explanation for this action:

"Both equipment items were purchased in addition to existing word processing equipment to enable the Securities & Accounting Division and Legal Division of the Commission to cope with the volume of extra work generated in these areas.. The problem of volume only became apparent in February, 1985 and normal tendering procedures were not considered appropriate and a letter forwarded to the State Contracts Control Board requesting urgent purchase without tender on 29th March 1985. As again no satisfactory response was forthcoming the Commission again

took the decision to purchase this equipment on an emergency basis under Clause 41 of the Public Service (Stores & Services) Regulation in June, 1985. It might be noted that these items supplement existing facilities and therefore compatibility is essential".

5.27. The film cleaner also struck problems and delays in the tendering process. According to the Commission:

"The equipment purchased is for use in the camera room to clean all residue from processed film in order to improve its archival qualities. Tenders were called late November, 1984. The only suitable tender was received late in February 1985 and a recommendation was immediately forwarded to State Contracts Control Board. Approval to purchase was received on 12th June, 1985."

5.28. The Committee recognises that the above purchases by the Corporate Affairs Commission, although only ordered in June, had been planned and processes set in motion for their purchase earlier in the financial year. The Committee views with concern, however, the use of the emergency purchases regulation to ensure that expenditure was made by the end of the 1984-85 financial year. Clause 41 of the Regulation states that "in any case of extreme emergency" purchases may be made outside the procedures provided for in the Regulation. Clause 41(4) further states:-

"Nothing in this clause authorises the purchase of stores or the provision of services -

(a) at a price that is not reasonable or proper;

(b) in excess of those necessary to meet the immediate needs of any emergency; or

Major Stores Items Ordered and Cheques Drawn in the last two weeks of June, 1985

CORPORATE AFFAIRS COMMISSION Table 5.8

Date Ordered	Item	\$
12.6.85	Film Cleaner	3,995
12.6.85	Telex interface	18,494
13.6.85	Word processor	15,747
15.6.85	Matrix printer	6,103
18.6.85	2 Diazo duplicaters	89,000
		133,339

ATTORNEY GENERAL'S DEPARTMENT Table 5.9

Date Ordered	Item	\$
19.6.85	Typewriters	20,970
21.6.85	Microcomputer	7,408
25.6.85	Business processor	29,745
		58,123

DEPARTMENT OF SPORT AND RECREATION Table 5,10

Date Ordered	Item	\$
17.6.85	4 Stoves (radiant hotplate)	1,458
18.6.85	Photocopier and accessories	3,819
18.6.85	Facsimile machine	3,900

9,177

(c) otherwise than in accordance with the procedures provided for by this Regulation in any case where any approval under this Regulation can be obtained in sufficient time to meet the Departmental need.

The Committee questions whether the Corporate Affairs Commission's use of Clause 41 satisfied the conditions of "extreme emergency" and subsection 4.

A further aspect of these purchases was the fact that for the duplicators and film cleaner, cheques were drawn prior to receipt of the items. This aspect is discussed further in Chapter 6.

Attorney-Generals Department

5.29. Expenditure items incurred and paid for at year-end by the Attorney General's Department are listed on Table 5.9. As the table indicates, items totalling \$58,123 were ordered and cheques drawn during the last two weeks of June 1985.

5.30. The Department has advised the Committee that approval to acquire the equipment had been given in May 1985 and that orders were placed after Government Supply Department approval was received.

5.31. The Department has also advised that cheques were drawn for these items prior to delivery of goods. The Committee's concern over this aspect of the purchases is discussed in Chapter 6.

Department of Sport and Recreation

5.32. The Department of Sport and Recreation ordered and purchased a number of stores items at the end of June 1985. (See Table 5.10). The Department notes that the facsimile machine was ordered on 18 June, 1985 after approval was received from Government Supply Department on 13 June, 1985.

Spending or Spend-up?

5.33. The Committee considers that a number of the specific departmental examples discussed earlier in this chapter represent legitimate expenditure at year-end. In the Committee's view where items were ordered or sent to tender earlier in the financial year, but expenditure not recorded until June, no spend-up occurred. While other aspects of these purchases, such as holding cheques in safes or use of emergency purchasing regulations are of concern to the Committee, the Committee does not believe that this category of expenditure is necessarily hasty or wasteful.

5.34. Many incidences have been identified where goods were ordered late in the year and expenditure recorded against the June accounts. This evidence of hasty commitment and expenditure of funds leads the Committee to the conclusion that many of these purchases were hurried, possibly wasteful and may not have represented value for money.

5.35. A major area of concern to the Committee during the Inquiry has been the large number of off-the-shelf items which appear to have been hastily acquired at year-end. The Committee's concern is that the purchases appear unplanned, may not have been of a high priority, may not have resulted in purchase of the more economical item available and may, in part, have only been made in order to spend-up remaining funds before the lapse of appropriations on June 30.

5.36. The Committee considers that it strains credulity to view the purchase of large numbers of such items by some departments at year-end as anything other than a "spend-up".

5.37. Based on the examples of items purchased by departments in June of the last financial year and the fact that many of these items were ordered and paid for in the latter part of June leads to the conclusion that much of the late year spending illustrated in this chapter is unjustified and hence constitutes a "spend-up".

Although millions of dollars are

spent by departments on maintenance and working expenses in June of each financial year, the Committee has been unable to quantify how much of this money constitutes a "spend?up". The Committee believes, however, that the funds involved are significant.

Recommendations

5.38.

The Committee recommends that:

departmental heads regularly review purchasing practices within their departments to ensure purchases are made economically;

the Treasurer issue directions to departmental heads to ensure that purchases are made in accordance with departmental priorities and carried out without undue haste;

a regulation be gazetted pursuant to the Annual Reports (Departments) Act to provide the following:

(i) Department heads to include a signed statement in their annual reports that all expenditure for the financial year was made with due consideration to economy and in accordance with the Public Finance and Audit Act.

(ii) Department heads to publish in their annual reports in graphical form, monthly spending for stores and equipment purchases;

department heads take steps to ensure that management information systems are put in place which ensure proper planning, monitoring and controlling of expenditure and which assist in eliminating wasteful year-end spending;

departments develop priority lists for stores and equipment expenditure.

6 CHEQUES IN THE SAFE

6.1. The previous chapter analysed the commitment and expenditure of funds at year end and concluded that expenditure by some departments constituted an unnecessary "spend?up" of funds. An additional feature of the year?end expenditure surge is the practice adopted by some departments of artificially boosting annual expenditure by drawing on their funding allocations for goods which have yet to be delivered and services which have yet to be performed.

6.2. The Committee has learned that over the years, there has been "talk" among public servants of the practice of holding cheques in departmental safes at year?end as a means of artificially boosting departmental expenditure. Indeed, the talk has not been restricted to the use of safes but to desk drawers, filing cabinets and any other location considered secure enough for the safekeeping of a departmental cheque.

6.3. The Committee has established beyond doubt that this practice does occur and indeed on a surprisingly wide scale. But why does it happen and what are the benefits to be gained? To understand this, it is necessary to briefly describe in simple terms the payment process which exists in Government departments.

6.4. Under the Government's cash accounting system, payment of an account is considered to take place upon the drawing of a cheque. When a cheque is drawn on a departmental drawing account, the department requests Treasury to recoup the drawing account to the extent of the value of the cheque. The drawing account operates on an overdraft basis and the object of Treasury recoupment action is to restore the balance of the account to zero. However, it is possible for such accounts to be in credit from time to time because of the effect of unrepresented cheques.

6.5. When the Treasury recoups a departmental drawing account, a charge is made against that department's budget allocation to the value of cheques drawn. As this charge against the allocation is arranged at the time of recoupment and not at the time of presentation of a cheque for payment, the charge is made irrespective of the date upon which the cheque is presented for payment at the bank.

6.6. In other words a department can draw a cheque prior to 30th June for the payment of goods so that a charge is brought against the current year's budget allocation despite the fact that the cheque has not been issued to the supplier or presented for payment.

6.7. Some departments appear to perceive that there are certain advantages to be gained from drawing cheques at the close of the year prior to the satisfactory performance of the service to which the payment relates.

6.8. The Committee understands the main advantages to be the following:

Departments are seen to be making maximum use of their funding allocations.

Lesser expenditure demands will be placed on the following year's allocation.

The expenditure base to be used as a starting point for the following financial year will be boosted and thereby increase the possibility of funding levels being maintained or increased,

6.9. The Committee has found instances of the following practices which may be attributed to the perceptions outlined above:

Cheques drawn prior to 30 June being held in a safe or drawer pending delivery of goods or services by a supplier in the following financial year.

Cheques being drawn and issued to suppliers prior to 30 June in advance of the delivery of goods or services, i.e. a prepayment for goods and services takes place.

Work valuations in respect of progress payments to contractors being overstated with the result that cheques are drawn and issued to contractors prior to 30 June for work which will not be completed until the following financial year.

Work valuations in respect of progress payments to contractors being assessed prior to 30 June for a particular date in the new financial year, i.e. post dated valuations - cheques are then drawn prior to 30 June and held by departments until the date shown on the work valuation has been reached.

6.10. The Committee considers that the above approaches are not warranted and believes that each circumstance represents a breach of the provisions of the Public Finance and Audit Act. The Committee also considers that the above represent dangerous practices particularly when cheques are actually issued to suppliers prior to the satisfactory performance of service.

Legal Requirements

6.11. Section 13 of the Public Finance and Audit Act provides that an account should not be paid "otherwise than in accordance with the Treasurer's directions". Treasurer's Directions 190.01 and 190.02 provide that certifying officers may be held personally responsible for the correctness of all claims bearing their signatures and that "the correctness of every account, in regard to the faithful performance of service, rates of charge and computations and, castings shall be certified on the account".

6.12. The Committee sought the views of the Auditor General and the Secretary of the Treasury on the acceptability of the above practices. In general terms, the Auditor General and the

Secretary of the Treasury agree that a breach of the Public Finance and Audit Act occurs where it has been certified that goods or services have been received and this is not the case. In this regard, the Auditor General stated that:-

"Generally speaking, I would have to say that a breach of Section 13(b) of the Public Finance and Audit Act has occurred because despite the certification there has been no actual performance of service in terms of Treasurer's Directions".

6.13. The former Secretary of the Treasury, Mr Oakes commented that:-

"It is considered that a breach of the Public Finance and Audit Act occurs where it has been certified that goods or services have been received and this is not the case. To do so at year end indicates an attempt to circumvent the principles of Parliamentary appropriation but the breach is of the certification procedures".

6.14. Notwithstanding that, in respect of the above practices, it would appear that a breach of the legislation has occurred, the Auditor General has suggested that there could be mitigating circumstances in some instances:-

cheques drawn in anticipation of settlement of land purchases that are not completed as anticipated;

cheques drawn to pay for goods ordered COD and delivery not effected;

cheques drawn when payment is required with the lodgement of the order and the order is not lodged.

6.15. Mr Oakes also indicated that there were certain situations where Treasury has agreed to exemption from the stringent application of all conditions to indicate performance of service. Mr Oakes cited the example of payments being made for

goods delivered direct to schools without documentary evidence from the school that delivery had taken place. It was explained to the Committee that the decision to follow this practice was taken to minimise delays in payment to suppliers but is conditional upon proper subsequent checking taking place.

6.16. Treasury also drew attention to the fact that for most officer training courses, it is a condition of the contract that payment be made in advance. Treasury explained that in these cases, approval by an officer authorised to incur expenditure for attendance at a training course could be accepted by a certifying officer for performance of service purposes.

6.17. The Committee wishes to point out that while breaches of the legislation appear to have occurred, there is no evidence of any intent to defraud. It is the view of the Committee that these practices represent an earnest, although ill-advised, attempt to take advantage of unspent allocations.

To what Extent does the Practice Occur?

6.18. Many departments have admitted to the Committee that cheques were held in the safe at year-end. The Treasury has advised the Committee that its own inquiry into this practice showed that of 45 departments contacted, 15 reported that cheques had been drawn prior to delivery of goods or services. It appears to the Committee that in some departments this is now a regular practice developed over the years to boost annual expenditure and to compensate for inadequate financial management practices during the year.

6.19. While instances of cheques being issued to suppliers in advance of receipt of goods and services appear to have occurred to a lesser extent, the Committee is greatly concerned of the possible effects of such a practice.

6.20. The Auditor General and the Secretary of the Treasury have also expressed their concern. The Auditor General made the following statement:-

"In normal circumstances, I would have to say that, yes, this practice is more serious than the holding of cheques pending performance of service. I take this view because the department has lost possession and control of the cheque and consequently could find it more difficult to enforce satisfaction of service".

6.21. The former Secretary of the Treasury, Mr Oakes stated that:-

"In terms of following correct procedures this practice is of equal seriousness. However in terms of practicality it is worse in that the cash actually flows out of the government system".

6.22. It would seem that in the case of most departments concerned, senior management has been unaware of these practices. Indeed there have been instances of departmental representatives stating categorically at Public Accounts Committee hearings that it did not happen in their departments only to have to report that after further investigations carried out by their departments at the request of the Committee, specific instances of the practice had in fact been detected.

How the Practices were Detected by the Committee

6.23. The Committee initially became aware of the practice by including the following simple question in a questionnaire issued to those departments which had not been called to attend a formal hearing:?

"Did the Department make any advance payments in May/June 19857 (i.e. payments made prior to receipt of goods and/or invoice). If yes, could the Committee have details of these payments?"

Departmental responses to this question included the following comments:-

6.24. Corporate Affairs Commission

"The Commission did not make advance payment in May/June 1985 (or at any other time) for any goods prior to receipt of such goods. However, goods were ordered and cheques drawn for goods received early in 1985/86. Expenditure for these goods was charged against the financial year 1984/85, and payment made only upon receipt of the goods."

This comment refers to some 22 payments totalling in excess of \$148,000 including a cheque for \$89,040 for equipment not delivered until 2nd October, 1985. The following details were supplied by the Commission:-

<u>Payee</u>	<u>Amount</u> \$
Interior Modular Products	8,245
Sturdy Components	280
Sturdy Components	318
Contact Computer Supplies	129
Microsystems Micrographics	15,600
3M	4,907
3M	4,907
3M	4,907
Namco	595
Contact Computer Supplies	2,604
Contact Computer Supplies	94
Specialty Enterprises	25
Pongrass Industries	390
Kodak	355
Kodak	580
Kodak	728
Contact Computer Supplies	886
Kodak	3,995
Kodak	8,400
C.C.H. Australia	288
Kodak	89,040
Unicla Australia	1,160
	<u>148,433</u>

The Commission added:-

"It can be seen from the nature of goods ordered (majority B409 Minor Stores) only items essential for the operation of the Commission were purchased. At the time the Commission was aware of the suggested allocation for the financial year 1985/86 and the constraints to be required. To this end the Commission considered the purchase of these goods in 1984/85 to be prudent in view of the controls exercised by the Commission in 1984/85 to obtain savings and the intended economies to be practised generally in 1985/86."

6.25. Attorney General's Department

"Instance of cheques being drawn and held for anticipated delivery of major equipment did occur but were for items high in the priority of the Department's development plan. Failure to do such would most likely lead to a funds allocation in 1985/86 only sufficient to cover these items and those items in the next order of priority being set-back by a further year."

The Department identified the following instances:-

Item	Amount \$	Date Ordered	Date Paid	Date Received
Typewriters (screen type)	20,970	19/6/85	28/6/85	9/8/85
Micro- computer	7,408	21/6/85	25/6/85	19/7/85
Business Processor	29,745	26/6/85	28/6/85	22/7/85

6.26. Department of Local Government

"The Department made one advance payment in June, 1985 for the purchase of computer equipment. Some of the equipment had not arrived by the 25th June (last day of payments for the year) so verbal advice was sought as to the expected date of delivery. The advice revealed that the equipment was to arrive before the end of the financial year so a cheque was drawn on the understanding that it would not be sent until everything had been received. The equipment was received on 1st July, 1985 and the cheque subsequently issued."

6.27. Department of Environment and Planning

"The Department made advance payments for the purchase of two motor vehicles at a cost of \$12,600. The vehicles were ordered on 21 May, 1985. Payment was necessary in 1984/85, due to the inability of carrying forward unspent funds. The vehicles replaced had travelled in excess of 40,000 kilometres and were over two years old and were on the replacement program for 1984/85. Delivery was expected in early July."

6.28. The Committee considered that the question concerning advance payments could not be guaranteed to draw a direct response from all departments as to instances of cheques being held in the safe at year end. The Committee decided to request several departments to supply details of un-presented cheques drawn in May and June, 1985 which had still not been presented at 31st July and 31st August, 1985. The Committee also sought information concerning the date of issue of such cheques to suppliers.

6.29. The Public Works Department identified numerous instances involving the Government Architect's Branch, Civil Engineering Division and Building Construction and Maintenance Branch whereby cheques drawn prior to 30th

June, 1985 had been withheld by the department for varying periods. Various reasons were given by the department including:-

cheques and files being mislaid;

- estimated value of work at 30th June not reaching valuations;
- post, dating of work valuations;
- inability of contractor to meet contract conditions;
- disputes between department and contractors over contract variations.

6.30. The Director of Public Works gave the following written explanation for the late presentation of cheques:

"Overall, the inquiries were directed to cheques totalling \$2.2 million which included \$0.22 million for cases where the payees delayed presentation. It was also established that \$0.8 million related to Special Deposits Account operations which had no effect on budgetary allocations,

There was only one instance involving a cheque drawn for the supply of equipment or service relating to the Department's B4 Stores item, that being for \$3,723, of which the stores item share was \$2,523, for a replacement photocopier. The bulk of cases involving the holding of cheques arose in respect to building and engineering construction and maintenance projects whereby the cheques had been drawn on the basis of the estimated value of work expected to be completed or for equipment and components promised for supply by 30th June, 1985 but where weather conditions, partial or non-delivery, the need to correct minor faults and other factors, including officer judgement,' resulted in the estimates being not

fully achieved. There were, however, four instances where valuations were postdated beyond the end of the financial year.

While the budgetary effect has been relatively insignificant, it is a matter of concern that there have been instances of cheques being drawn but not issued prior to the end of the financial year, contrary to the standard accounting requirements and to the corporate intentions of the Department, as embodied in end of year instructions issued by the Chief Accountant. I will take steps to ensure that certifying officers and officers responsible for the issuing of valuations and their supervisors are fully apprised of their shortcomings in the cases in question"

6.31. Among the many cheques listed by the Department as having been drawn in June, 1985 but not issued until the next financial year were the following:?

Payee	Amount
Interior Modular Products	8,245
Sturdy Components	280
Sturdy Components	318
Contact Computer Supplies	129
Microsystems Micrographics	15,600
3M	4,907
3M	4,907
3M	4,907
Namco	595
Contact Computer Supplies	2,604
Contact Computer Supplies	94
Specialty Enterprises	25
Pongrass Industries	390
Kodak	355
Kodak	580
Kodak	728
Contact Computer Supplies	886
Kodak	3,995
Kodak	8,400
C.C.H. Australia	288
Kodak	89,040
Unicla Australia	<u>1,160</u>
	148,433

B.C. & M. Branch

<u>Payee</u>	<u>Amount</u>	<u>Date Cheque</u>
	\$	<u>Despatched</u>
Permasteel Pty. Ltd.	34,053	29.7.85
J. & F. Fuller	1,480	26.7.85
G.L. & A. Hanchard	7,450	6.8.85
Les Green Plumbing	7,282	9.10.85
Raymac Joinery	11,395	23.8.85
Les Green Plumbing	2,680	4.9.85
P.A. & A.M. Brown	1,567	25.9.85
Smith Plumbing	8,800	8.8.85
J. & F. Fuller	4,800	30.7.85
J.F. & C.G. Tilston	2,327	31.7.85
Bestobell	4,650	23.9.85
Masons Joinery	4,172	19.8.85
J. & L. Ettles	10,163	2.8.85
Spectrum Homemaker	4,903	25.9.85
Bathurst Tile Centre	3,610	2.8.85
N. Cashen	9,000	5.7.85
J. & L. Etties	8,293	6.8.85
Wrystat Pty Ltd	9,856	26.8.85
Smith Plumbing	10,000	25.9.85
J. & P. Painting	9,449	15.7.85
J. & P. Painting	9,787	12.8.85
J. & P. Painting	13,532	31.7.85
J. & P. Painting	15,486	31.7.85
J. & P. Painting	45,211	12.8.85
J. & P. Painting	2,303	15.7.85
J. & P. Painting	741	22.7.85
J. & P. Painting	7,726	7.8.85
J. & P. Painting	2,499	22.7.85
J. & P. Painting	2,748	14.8.85
J. & P. Painting	6,739	13.10.85
Kevin Rodgers	2,508	18.9.85
Kevin Rodgers	<u>9,706</u>	26.7.85
	TOTAL	274,916

Civil Engineering Division and District Offices

<u>Payee</u>	<u>Amount</u>	<u>Date Cheque</u>
	\$	<u>Despatched</u>
Batman and Crewe	104,156	22/8/85
P. Ward Civil Engineers	40,629	6/8/85
Tubemakers Aust Pty Ltd	199,325	4/8/85
James Hardy Co. Pty Ltd	135,023	21/8/85
Camdel Constructions	118,933	21/8/85
James Hardy Co. Pty Ltd	65,226	16/8/85
P. Ward Civil Engineers	40,486	6/8/85
Unisearch Ltd	4,850	28/7/85
John Church Pty Ltd	5,000	26/7/85
All Pipe Engineering	3,000	16/8/85
Leads Electrical Pty Ltd	31,527	8/8/85
Illawarra County Council	<u>4,500</u>	18/10/85
TOTAL	<u>752,655</u>	

Management Services

<u>Payee</u>	<u>Amount</u>	<u>Date Cheque</u>
	\$	<u>Despatched</u>
ABE Copiers Pty Ltd	3,723	15/7/85

*It might be noted that the despatch date is not necessarily the date of delivery of items purchased. However, for the most part it can be assumed that their timing would more or less coincide.

6.32. The Public Works Department also outlined the circumstances which led to the payment on 26th June, 1985 of an amount of \$1,006,467 for Computer Aided Drafting Equipment prior to the equipment being installed in the Department. The payment was made from funds specifically provided by the Treasurer in 1984/85 for computer acquisitions and the Committee was

concerned that the payment appeared to have been made before satisfactory "performance of service" had been achieved. The Director of Public Works stated:-

"The contract required all equipment to be delivered by 25/6/85. The contractor effected delivery on 22/6/85, and the goods were held in store, as provided for in the contract, until site preparation by the Department was completed.

The minimum terms of payment under the contract were:

60% on delivery

25% on installation

15% on satisfactory acceptance tests

These terms were not intended to reflect the Contractor's true costs for the various phases of the contract. They had been adopted to provide a strong motivation for the Contractor to speedily complete installation and commissioning after delivery had been effected. However, when the Department was not able to make the installation sites available to the Contractor by 25/6/85 it would have been quite unreasonable for the Department not to have paid close to the true value of the equipment delivered.

It is Departmental policy and normal commercial practice to pay the contractor the value of unfixed equipment, This is covered by Cl,SC-11 of the standard specifications of contracts, The actual amount paid in the case in question had regard to the standard provisions; that is a deduction was made to the extent of the estimated real cost of commissioning acceptance tests (that is 3% not 15%) for equipment available in terms of the contract.

It should be noted that the Department has protected its interests by obtaining from the Contractor unconditional bank guarantees in favour of the Department for each phase of each separable part. These are being released progressively to the contractor as the Superintendent is satisfied that the relevant stages of work have been completed".

6.33. The Department has advised that installation did not commence until 17th July, 1985 while it was not until 26th August, 1985 that acceptance testing commenced. Despite the Director's comments concerning the Department's inability to make installation sites available to the contractor by 25th June 1985, the Committee is not convinced that it was necessary for the Department to pay for virtually the full cost of the equipment on 25th June, 1985.

Office of Special Employment

6.34. The Public Works Department draws cheques on behalf of the Office of Special Employment. Twenty-two cheques totalling \$1.55 million drawn for the Office in 1984-85 were found to be unrepresented at 31 July or 31 August 1985. Most of the funds involved payments to local government bodies.

6.35. The Office of Special Employment provided the Committee with explanations for the late presentation of these cheques. Cheques representing \$1.52 million were advance payments to Councils under the Community Employment Program. The Office stated that delays occurred in forwarding the cheques as the Office was awaiting receipt of formal agreements from Councils regarding sponsorship of the programs. Cheques worth \$92,296 were cancelled as agreement was not received. Cheques for the balance of the funds were held, in some cases until 14 August, 1985, until agreements arrived.

6.36. The Committee is concerned at the long delay between the drawing of cheques and despatch to payees. The Committee considers that in the circumstances outlined by the Office, cheques should have been cancelled and new cheques drawn when sponsorship was finalised.

6.37. The Lands Department, apart from confirming at a hearing that it was not uncommon for cheques to be held in the safe at year end, later identified some 13 instances of cheques being drawn in June 1985 for major items of equipment which were not

. delivered until 1985/86. The 13 items involved expenditure of the order of \$270,000. The Secretary, Department of Lands made the following written comment:-

"You will see that some 13 cheques were drawn before

goods were received. The officers of my Department who appeared before the Committee were unaware of this when they gave evidence. I have investigated the thirteen cases to see what went wrong. It was only the detailed investigation of your request which revealed the problem. The Financial Controller had given strict instructions that no account was to be paid unless delivery of goods had been signed for on the voucher. Unfortunately officers responsible for purchasing the goods believed that as the items had all been ordered, delivery promised in June and budgeted for in 1984/85 that they were able to sign for "performance of service". This was a genuine misconception of their powers". (emphasis added)

6.38. Details of the 13 cheques have been supplied by the Department:

<u>Date Cheque Drawn</u>	<u>Date Items Delivered</u>	<u>Amount \$</u>	<u>Payee of goods</u>	<u>Description</u>
14.6.85	14.7.85-5.11.85	38,918	Kodak	Ektamate Paper
20.6.85	14.8.85	2,066	Sturdy Components	19 chairs
20.6.85	27.8.85	11,349	Interior Modular Products	24 computer workstations
20.6.85	16.9.85	3,798	Pongrass Industries	10 tables
20.6.85	1.7.85	2,511	ABE Group	Photocopier
20.6.85	29.7.85	3,799	Sturdy Components	14 chairs
20.6.85	18.7.85	6,416	Sturdy Components	76 chairs
20.6.85	18.9.85	2,796	Thrifty Furnishings	Curtains
24.6.85	31.7.85	2,510	MDS Systems Compiler	Cobol Language
25.6.85	July/Aug 85	92,000	NEC Aust.	Facsimile machine
25.6.85	23.7.85	79,750	3M	Card duplicator
28.6.85	4.7.85	5,973	Remington	Photocopier
25.6.85	3.10.85	18,000	3M	Microfilm system
		<u>269,886</u>		

6.39. In response to the Committee's written request for advice on the number of cheques held in the departmental safe at 30th June, 1985, the Department of Youth and Community Services responded in the following terms:-

"It is not the usual practice to hold cheques in the Departmental safe for more than about two days and there are no records kept as a matter of course relating to the number held in the safe at any one time.

The month of June however, presents particular financial control problems which require special monitoring arrangements to ensure that available funds are not exceeded.

As you are aware there is a system of "Treasury Transfers" which operates in this State. This system allows other Government Departments e.g. Public Works, Government Supply and Government Printer direct access to this Department's funds. The system does not allow the paying Department to certify that funds are available prior to the charge being made. It generally inhibits expenditure control and creates special monitoring problems in June. In this respect and by way of example, it is usual for the Government Printer to make a final charge for the financial year in mid to late June. This cost must be met from the Department's allocation. Although attempts have been made to holdover such charges to ensure that only twelve months costs are brought to account in the financial year.

Treasury advice is that those costs must be allowed. Not knowing the extent of the charge until this time, creates considerable difficulty in both the monitoring process and scheduling of cheque drawing. It is simply not possible to draw all cheques in the period available between the date of the Treasury Transfers and the last day of the financial year. For this reason cheques are drawn earlier than normal and held pending determination of the impact of all Treasury Transfers on the Department's allocation.

In addition, the Department operates some 180 paying centres and whilst special arrangements are made to ensure all expenditure from these centres is brought to account as early as possible in June, some urgent payments arise which must be allowed.

As a precaution against overexpenditure during such a volatile month it has been the practice during June to hold all cheques drawn until the result of Treasury Transfers and urgent Regional payments are known. This allows those cheques to be repaid to vote if necessary.

The process adopted is simply one of caution and results solely from other Departments having direct access to this Departments funds and a slow, outdated, decentralised and totally manual accounting system."(emphasis added)

6.40. The Department of Youth and Community Services also explained the circumstances which led to the holding of a series of cheques drawn on the Department's Public Moneys Account at year end for the acquisition of computer equipment and accessories. This follows the Department's decision to transfer an amount of \$1 million on 25 June, 1985 from the departmental drawing account to the Public Moneys Account. This sum was then used to support the drawing of cheques from the Public Moneys Account for a variety of purposes and the unused balance of the \$1 million was later recredited to the drawing account.

6.41. Briefly, the computer purchases were to be made from additional funds provided by the Treasurer on the basis that the Department was required to achieve offsetting savings to the maximum extent possible from within its overall 1984/85 recurrent allocation..

6.42. The Department stated:-

"In an attempt to ensure that all expenditure was brought to account against the special supplementations which were provided by the Treasurer, special arrangements were made with all suppliers to gain delivery of the equipment before 30th June. The early close off of accounts which prevent expenditure from being recouped after 25 June presented particular problems in this respect since Burroughs Limited had promised to deliver the remainder of all equipment on 26 June. Other suppliers also promised that deliveries would be made before 30th June.

At the time of transferring the necessary funds to the Public Moneys Account there was no indication that the equipment would not be delivered. It was not until after the cheques had been drawn and expenditure recouped to the Drawing Account as a charge to the 1984/85 Financial Year that it was clear all deliveries would not be received. In addition, on checking the delivery dockets, invoices and actual equipment delivered it was discovered that numerous errors had been made by the supplier. As a result the Finance Manager issued instructions that no cheques should be released to any suppliers until a complete report had been prepared on the status of all orders and associated deliveries. This instruction had the effect of ensuring that no payments were made until satisfactory completion by all suppliers had been achieved."

6.43. The circumstances outlined above by the Department of Youth and Community Services clearly show how a department has drawn on its 1984/86 allocation {or goods which were not delivered until the following financial year. The reasons given by the Department for holding on to all June cheques bring into question the worth of certifying on payment vouchers that "funds are available", while the Department's practice of transferring funds at year end to its Public Moneys Account would also appear to be out of step with accepted Government

Accounting arrangements. In this regard, it is the Committee's understanding that the Public Moneys Account is a form of trust fund which is not intended to be used for the normal operating transactions of a department. The Department of Youth and Community Services appears to have used its Public Moneys Account as a type of suspense account at year end in order to facilitate end year transactions.

6.44. In questioning departmental representatives on this practice, the Committee was advised that it was necessary for the Department to use the Public Moneys Account due to the imposition by the Treasury of a cut-off date for drawing account transactions of three clear working days prior to June 30. Treasury representatives have advised however that these arrangements are flexible and subject to variation according to departmental requirements, and that there would appear to be no real justification for the Department to go to such lengths in order to process end year transactions.

6.45. The Committee recommends that the accounting procedures adopted by the Department of Youth and Community Services to process year-end transactions be examined by the Treasury.

6.46. In response to the Committee's request for information on unrepresented cheques, the Department of Health identified 69 cheques drawn in advance.

6.47. The Department identified 3 cheques which were drawn in advance of attendance by departmental officers at seminars but given the extent of information supplied by the Department, the Committee is not in a position to state whether it was necessary for the Department to draw such cheques in the 1984/86 financial year.

6.48. Of more serious concern to the Committee is the number of cheques identified by the Department as having been drawn in 1984/85 but not released to suppliers until the following

financial year. In this regard, the Department identified 5 cheques withheld from suppliers due mainly to unsatisfactory performance of service:

Amount	Payee	Description of goods	Reason for withholding cheque
\$ 500	Development Youth Services Association	Fees	Changes in Association policy
40,000	Koomarri Printers	Booklets	Unsatisfactory booklet covers
6,500	Nicholson & Partners	Program charges	Slow-down in work'
1,300	G. Byrne	Training Workshop	Workshop deferred
3,826	Insystems P/L		Not Stated
52,126			

6.49. The Committee considers that while the reasons given by the Department may well justify deferring payment to suppliers, they do not explain the Department's action in drawing cheques prior to the satisfactory performance of service. In any event, the Committee considers that the correct procedure in each of the above five cases would have been for the Department to cancel the cheques and to recommence the payment procedure when satisfactory performance of service had been achieved.

6.50. In respect of 19 cheques for ambulance vehicles and equipment, the Secretary, Department of Health made the following comment:-

"The remaining nineteen cheques were drawn on the basis of contractual agreements and anticipated satisfactory completion of the service by the schedule date, such a date prior to 1 July 1985. All the cheques in this category are attributable to the Directorate of Ambulance Services. I

have instructed the Directorate that such a practice is to cease with all future vouchers to be prepared on the basis of goods and/or services actually supplied in a satisfactory condition."

Details of the 19 cheques are as follows:-

Item	Payee	Amount \$	Reasons for withholding cheque
Computer Hardware	Digital Equipment Corp	20,330 10,165 3,388	Acceptance testing not complete
13 Ambulance Buses	Thiess Toyota P/L	44,845 56,055 56,056	Delivery June/ September
Fabrication and fitting out of ambulances	Clements P/L Clements P/L Auto Marine Bennet & Wood P/L CIG CIG CIG Stamford Industries Stamford Industries Traders Auto Spares	4,101 4,081 8,396 7,080 15,892 30,730 73,389 22,205 13,400 13,468	Delivery after 30 June; some faulty goods returned
Ambulance Equipment	Aline Body Builders	18,330	Delivery August
218 Ambulance Stretchers	Hawker De Havilland	98,924	Delivery 1985/86
3 Ambulance Buses	Mazda Australia	65,316	Delivery July/August
		566,151	

Also drawn in anticipation of the contractors fulfilling the terms of supply conditions on orders/contracts were 42 cheques totalling \$203,102. These cheques ranged in value from \$40 to \$26,950. The nature of the payments and reasons for withholding the cheques were not stated.

6.51. The Committee believes that the actions taken by the Department of Health, particularly in respect of the cheques drawn for the acquisition of ambulances and associated equipment, represent an attempt to "pay" for goods by 30 June to ensure that the costs were met from the 1984/85 funding allocation.

6.52. Again, the Committee is most concerned that officers of the Department have certified as to the satisfactory performance of service before the event. The Committee considers that there is an urgent need for departmental officers to be made aware of their responsibilities in this regard.

Department of Main Roads

6.53. The terms of reference for the inquiry provided for the Committee to examine the patterns of expenditure of government departments and authorities which rely on annual budget appropriations. In this regard, the Committee held public hearings involving some 15 departments and authorities.

6.54. Of the departments and authorities called to public hearings, all but one are directly dependent on the Consolidated Fund for their funds and are thereby affected by the lapsing appropriation arrangements. The one exception is the Department of Main Roads which has a number of funding sources with the major ones being Commonwealth Grants, State Motor Vehicle Registration Tax, Diesel Fuel Levies, Tollway Charges and Borrowings.

6.55. As the Department of Main Roads is not affected by lapsing appropriations from the Consolidated Fund, it would be reasonable to expect that the Department's spending pattern would not involve high spending levels at year end.

6.56. However the Committee found evidence of high late year spending in a number of areas and in particular, in respect of payments made to certain public utilities. The Department gave evidence to the effect that where utility authorities (eg the Water Board, Telecom) had not submitted accounts by year end,

action is taken by the Department to follow up and pay such accounts in order to bring to account in the financial year the costs which were incurred in that year.

6.57. Initially the Committee had difficulty obtaining answers to specific questions concerning year end payments to public utilities. Two follow-up letters were required to elicit the information from the Department that payments totalling over \$9.7 million were made to utilities without invoice, during the latter part of June 1985. These payments included \$2,809,490 to the Metropolitan Water, Sewerage and Drainage Board, \$351,068 to the Sydney County Council, \$94,698 to the Prospect County Council, \$289,904 to the Australian Gas Light Company, \$1,511,238 to the State Rail Authority and \$4,733,677 to Telecom Australia.

6.58. The Commissioner for Main Roads stated in writing to the Committee by way of explanation that "The Department, wherever possible, endeavours to pay in the year concerned for the cost of works carried out in that year". The information supplied by the Department, however, indicates that payments amounting to over \$6.2 million related to works not carried out during the 1984-85 financial year. The Committee considers such payments to be advance payments and notes such payments are both unnecessary and contrary to generally accepted accounting practice.

6.59. Since the Department of Main Roads' funding is dependent on programs which are accounted for on a yearly basis it would appear that the Department attempts to boost expenditure in order to attract funds. In addition, when Treasury determines the Department's borrowing authority each year, it examines the level of funds available, including the Department of Main Roads' internal funding position. By spending large sums of money late in the financial year the Department appears to be ensuring that its funds are low, thereby requiring higher borrowing allocations than would otherwise be necessary.

6.60. The Committee is of the view that the Department of Main Roads' does attempt to boost expenditure late in the year. The motivation for this involves not lapsing appropriations but the desire to be seen to have expended all available funds by the end of the accounting year.

Reference to Treasurer

6.61. In recognition of the seriousness of its findings in relation to advance payments and the holding of cheques in departmental safes, the Committee formally referred the matter to the Treasurer for attention so that appropriate action could be taken as soon as possible. The Auditor General was also apprised of the situation.

6.62. The Committee understands that the Treasurer wrote to all Ministers in 1985 to seek their cooperation in ensuring that the closest possible liaison is maintained with the Treasury and that the provisions of the Public Finance and Audit Act, the Treasurer's Directions and the requirements specified in the Treasurer's Allocation Letter are complied with in all respects. The Treasurer also indicated his concern at the possibility of end of year accelerated spending and the difficulties this can lead to from a control viewpoint.

6.63. The Committee notes that the Treasury sought advice from departments concerning any instances of cheques being held in safes at year end for transfer to payees at some later time. The Secretary to the Treasury has advised the Committee that of the 45 departments contacted , 30 stated there had been no breaches of the Public Finance and Audit Act and 15 reported that cheques had been drawn prior to receipt of goods or services.

6.64. The Committee foreshadows that the position concerning the holding of cheques at year end will be followed up in the future to ensure that the practice has been eliminated.

6.65. The Committee acknowledges that it is not a function of Treasury to ensure, by means of physical inspections and the like, that departments abstain from the practice of holding cheques in the safe at year-end. The Committee also acknowledges that the Treasurer and his departmental officers have established an up to date and comprehensive reporting system for departments to follow and that adherence by departments to the Treasurer's Directions and the provisions of the Public Finance and Audit Act would have prevented the practice occurring. The Committee believes that the role of the Treasury does not extend to a policing function which would automatically detect such illegal practices.

6.66. The Committee also acknowledges that it is not a primary role of the Auditor-General's Office to undertake physical inspections which would automatically detect the "cheques in the safe" problem. The Committee believes that departmental managers should require internal audit staff to be alert to this practice and to the possibility of wasteful spending and inadequate financial planning.

6.67. The Committee considers that the Auditor-General has a role to play in monitoring the internal controls existing in departments to ensure that they are capable of preventing a recurrence of the unacceptable practices detected by the Committee.

Recommendations

6.68. The Committee considers that the practice of drawing cheques prior to "performance of service" should cease immediately. While adoption of the recommendations contained in Chapter 8 should go a long way towards eliminating the need for this, further specific action needs to be taken to deal with the problem. In this regard Treasury has a vital role to play in ensuring that accounting personnel in departments are aware of their responsibilities and the Committee would support any move by Treasury to introduce a training program in Government accounting.

The Committee recommends that:

- closer contact be established between departmental finance

officers and officers of the Treasury in order to ensure that finance officers are fully aware of their responsibilities in relation to year-end accounting arrangements;

- departmental staff, particularly accounting personnel and others likely to be called on as certifying officers, be made aware of their responsibilities under the Public Finance and Audit Act and the Treasurer's Directions;

- the Treasurer's Directions pursuant to Section 13 of the Public Finance and Audit Act be amended to provide a clearer definition of what action is constituted by the term "performance of service" and procedures generally for the processing of payments be clarified;

- payment vouchers be redesigned to ensure that procedures can be easily understood and provision be made for payment vouchers to include details of how "performance of service" has been evidenced in respect of each payment e.g. by sighting of delivery docket, work valuation, sighting of goods, confirmation of installation, etc.

- departmental managers should require internal audit staff to be alert to improper practices relating to the drawing of cheques and the payment of accounts and that this aspect should be specifically included in internal audit programs.

- the Auditor-General's Office should monitor the internal controls existing in departments to ensure that they are capable of preventing a recurrence of the unacceptable practices detected by the Committee during this inquiry.

7 REASONS FOR YEAR-END SPENDING

7.1. The year-end spending surge which the Committee's inquiry has documented have been attributed to a number of factors. Many of these factors were raised by departments and authorities in response to the Public Accounts Committee's questionnaire or at public hearings.

Reasons given by Departments for High Year-End Expenditure

7.2. Reasons given by government organisations for the high level of spending which occurs at the end of each financial year can be summarised as follows:

Budgetary Cycle

7.3. The annual appropriation of recurrent and capital expenditure lapses on 30 June each year. Until the budget is passed, usually in November, expenditure is authorised under the Supply provisions of the Public Finance and Audit Act until 30 September and thereafter by individual Supply Acts. These provisions are discussed in Chapter 4.

7.4. Until the 1985-86 budget, Ministers were usually notified by letter of their budget allocations late in August. For the 1985-86 year, advance notification was given on 1st May, 1985 of proposed recurrent allocations and on 20 June, 1985 of proposed capital allocations.

7.5. Departments argue that the formal notification of budgets between August to November effectively means that they are working on a nine month rather than twelve month year in carrying out their expenditure programme. They also argue that the restrictions of the supply period, when expenditure cannot exceed one-quarter of the previous year's expenditure in real terms, means that a disproportionate amount of

spending occurs during the last nine months of the year. The following comments made to the Committee are representative of the views of many departmental managers:

"The restrictions on expenditure during the supply period and the lack of early advice of budget allocations means that substantial expenditure commitments cannot be made until the second quarter of the financial year."

Department of Lands

"The placement of orders cannot commence until the budget allocations are known", usually in early September"

Government Supply Department

"Budget allocations are not known until September/October of each year, making it extremely difficult for the Department to adequately plan its expenditure. During the "supply" period, expenditure had to be contained resulting in disproportional expenditure during the remaining 9 months".

Police Department

"If you are not told until November what your allocation is for the year you really have only seven months in which to undertake the special projects that you have identified as the ones you wish to pursue"

Public Service Board

7.6. Notwithstanding the comments made by departmental representatives concerning restrictions on expenditure during the supply period and the late advice of allocations, the Committee considers that departments tend to place too much emphasis on these factors as reasons for high year end spending.

7.7. The Committee is of the view that the expenditure restrictions imposed under "Supply" should not greatly inhibit the ability of departments to place orders and commit expenditure during the first few months of the year, Furthermore, the Treasurer has the authority to "supplement" the amount of funds available under "Supply" and has exercised this authority on many occasions in the past when applications have been made by departments.

7.8. Notwithstanding claims by departments that they are not aware of their budget allocation, the Committee believes that all departments would be aware of their budget allocation upon receipt of the Treasurer's allocation letter which is prior to the introduction of the Appropriation Bill in September of each year. In addition, despite the fact that they may not be aware of allocations until September it is not unreasonable to expect that departments would have a good idea of the likely level of funding for the year, particularly in respect of their maintenance and working expenses from which a good deal of discretionary expenditure is financed and from which much of the high year-end spending emerges. (In respect of capital expenditure, the Committee recognises that late advice of allocations can give rise to high levels of spending towards the end of the financial year due to the long lead times normally associated with the commencement of new capital projects.)

7.9. The Committee also considers that the argument concerning the effect of delays in advice of allocations will be tested in the 1985-86 financial year as departments were advised in May of their allocations. If this factor has a substantial effect, the Committee would expect to see a considerable drop in year-end spending for 1985-86.

Financial Conservatism

7.10. Conservatism or the prudent management of expenditure was cited by most organisations as a contributing factor in high spending at the end of the year. The following evidence given to the Committee during hearings is representative of these views:

"With the requirement now placed on all Departments operating on the Consolidated Fund to remain within annual budget allocations, prudent management dictates that sufficient funds be held in reserve in the earlier part of each financial year to meet any unbudgeted expenditures. This is normally achieved by scaling down operations to perform only those which are essential during the Supply period, with normal activities gradually being undertaken in the latter part of the year, should the reserve funds not be required".

Department of Mineral Resources

"These items which are controllable are printing, stores and travel and it is therefore expenditure on these items which is held back during the early part of the year to finance any emergency or any unforeseen expenditure... It is therefore necessary to husband a certain amount of resources in the first half of the year to cover contingencies."

Department of Industrial Development and Decentralisation.

7.11. The Committee does not doubt that departments in the main adopt a degree of conservatism in managing their budget allocations and that the setting aside of funds in a reserve is a byproduct of such conservatism.

7.12. It is recognised that in practice there is often good cause for the spending patterns of individual departments to increase towards year-end. One important example of this is those departments in which "B" items are a relatively small

.proportion of the department's total budget and represent the area of greatest flexibility in the department's spending. Because all budget projections are subject to error it may be appropriate for such departments to not spend their allocation for "B" items early in the year so as to provide a buffer in the event of overruns in other items. For such departments it may be reasonable to expect to see a surge in spending in the late part of the year.

7.13. If such a policy were followed this increased expenditure would be expected to occur over a number of months towards the end of the year, not all in the last month. Evidence received by the Committee shows that many of the items purchased at year end were authorised, ordered, delivered, and paid for in the last two weeks. This suggests that the purchases were not the result of a deliberate management policy to maintain a contingency sum throughout most of the year and spend it only when it became clear that the department's budget ceiling would not be exceeded.

7.14. The Committee does not consider that this factor explains the bulk of the year-end surge in spending by departments. Excessive conservatism may be used as an excuse by departments not to put time and effort into effectively managing their budgets. This practice may therefore represent lack of management control.

7.15. It is the Committee's view that good management should include advance decisions on what expenditure will be required during the year to meet departmental objectives. While emergency requirements must be allowed for, these should not become the overriding factor in budgetary planning and execution.

7.16. The Committee is hopeful that the establishment of program budgeting throughout the public service will give departmental managers a clearer perspective on their organisation's objectives and priorities and enhance planning mechanisms within departments.

Supplementations

7.17. Difficulties experienced by some Departments with regard to supplementation and uncertainty as to whether or not supplementation will be forthcoming, also seemed to contribute to the conservative approach to spending. To quote the Department of Industrial Development and Decentralisation:

"Within the context of the annual budgeting cycle there is no certainty that supplementation will be made available by Treasury to meet unforeseen necessary expenditure or cost increases."

7.18. Evidence given by another Department (Mineral Resources) is perhaps revealing.

"We did in fact receive advice in reply to a request for supplementation after the budget year. That does not assist greatly."

7.19. The Department of Lands gave evidence to the Committee concerning problems the department had experienced with supplementations. The transcript reads as follows:

Q."But you would consult with Treasury, would you not?" A. "I do not take that to be the same as saying the money would be available. I shall give a couple of examples. A moment ago Mr Wilson mentioned the computer input equipment at CMA last year. The money was made available in the last financial year and due solely to the process of going through tendering it could not be received and paid for in the last year. That was no reflection on the Central Mapping Authority at all. When they had authority to go ahead and buy, they went into the Treasury and said, "The 30th June is coming, our appropriation has lapsed, may we have funds to go ahead and buy?" Treasury said, "We will tell you when the appropriation allocation comes

out." When the allocation letter came out it just said, "No funds separately for this matter: you can buy it out of your own Central Mapping Authority Funds."

7.20. The Secretary of the Treasury Mr Norm Oakes provided Treasury's viewpoint in evidence before the Committee:

"In the past two or three years the Treasurer has said in the allocation letter that he would not consider supplementing votes or programmes except in the most exceptional circumstances. That means the departments and the Ministers should be planning their programmes basically on the assumption that there will be no supplementation".

7.21. It is the view of the Committee that supplementation should not have any real bearing on spending patterns. Mr. Oakes has confirmed that supplementation is now considered only in exceptional circumstances and as a result, the Committee considers that, in the main, it should not be a factor in high year-end spending.

7.22. As a rider, however, the Committee considers that where the Treasurer approves of supplementary funds late in the year involving significant additional expenditure (e.g. funding for a new computer system which had not earlier been provided for in the Budget) then such expenditure could distort the pattern of spending during the year.

Seasonal Factors

7.23. Some departments cited seasonal factors as influencing spending patterns and contributing to high year-end expenditure.. Examples given to the Committee included bush-fire prevention and scrub rehabilitation schemes which get underway in autumn, road building in the first half of a calendar year and the school year coinciding with the calendar year rather than the financial year.

7.24. The Committee agrees that such factors can have a minor influence on the incidence of high year-end spending by some departments.

Delays in Tendering and Supply of Goods

7.25. Delays due to the tendering process, and problems with timely supply of goods were stated to affect spending patterns by most departments.

7.26. Many departments which gave evidence before the Committee viewed stores and equipment items as "controllable" expenses; as opposed to an item such as salaries. As such, there was a professed tendency to leave expenditure on the controllable items until later in the financial year.

7.27. Departments also felt that tender action for major equipment could not be commenced until the funds had been allocated, that is when the supply period was over in approximately November. This, combined with the time consuming nature of the tendering process tended to see expenditure on major equipment bunched up at the end of the year.

7.28. The Committee cannot accept without qualification that tendering processes cannot begin until allocations are known. The 'supply' arrangements and the knowledge gained by experience of the likely level of allocations should enable departments to go to tender early in the financial year for most acquisitions.

7.29. The Committee considers however that in the case of a single major item where funds need to be specifically nominated in the Budget Estimates, there may be a need to await formal Treasury advice.

7.30. The long lead time associated with some purchases, particularly those made overseas, was cited as a difficulty by many departments.

7.31. In the light of the evidence given by the former Secretary of the Treasury, delays in ordering from overseas should not be a significant factor. Mr. Oakes said:

"There are procedures that have been long in existence where Departments can approach the Treasury to obtain the Treasurer's approval for pre-commitment, This has been in force for several years and we actually encourage this practice at the Treasury".

7.32. As well as expressing dissatisfaction with delays in the tendering process, a number of organisations also suggested that the State Contracts Control Board was slow and unresponsive to their needs. Some departments appear to have by-passed the tendering process by having recourse to purchase of equipment on an emergency basis under Clause 41 of the Public Service (Stores & Services) Regulation.

7.33. The following comment by a department reinforces the Committee's view of the rush by government departments to spend money by the end of the year.

"You get caught in a queue at the end of the year with everyone else before the Tender Board".

7.34. The Committee recognises that delays in tendering and supply, when taken in conjunction with the apparent conservatism practiced by many organisations which leads to orders being placed relatively late in the financial year, can explain to some extent the disproportionately high level of spending on goods which occurs at year-end. The Committee does not accept, however, that this need necessarily be so. The Committee considers that departments should begin the tendering process earlier in the year and so avoid the bank-up of work at the State Contracts Control Board late in the financial year,

7.35. The Committee also wishes to make it clear that not all stores and equipment items are subject to the tender process. The Committee understands that most acquisitions are purchased "ex stock", "off the shelf" or as part of an overall Government contract and that it is only the larger and more specialised items which would be subject to tender arrangements. Indeed, the Committee understands that it is possible to acquire some of the larger items, including computers, without going through the tender process by purchasing equipment under an existing contract. This tends to lessen the weight of the argument that the tender process causes undue difficulties in the management of departmental finances.

Late Invoicing

7.36. Late receipt of invoices from agencies such as the Government Supply Department, Government Printer and Premier's Department (for advertising) was cited by most departments as an explanation of high year end spending in certain expenditure categories. Numerous examples were provided to the Committee where long delays occurred between the supply of goods and invoicing or debiting through the Treasury Transfer System.

7.37. While the Committee does not accept that late invoicing is a major contributing factor to high year-end spending, it is true that some Government organisations adopt the practice of issuing invoices for several months' work in June in order that all expenditure can be brought to account during the financial year in which it is incurred. For example, the Government Printer is likely to issue invoices and request payment (by Treasury Transfer) in June for work done in the months of May and June (up to a cut-off date late in the month). This then results in expenditure for virtually two months being brought to account in June when during the course of the year, it is likely that only one month's expenditure will be brought to account each month.

7.38. Quite apart from the steps taken by the billing agencies to intensify their recoupment action late in the financial year, the Committee is also aware that many departments adopt the practice of "chasing-up" invoices from suppliers late in the financial year to ensure that cheques can be drawn against invoices by 30 June. The Committee believes that this practice is unnecessary and that it is irresponsible for departments to arbitrarily alter the normal commercial procedures relating to the issue and processing of invoices for the sole purpose of ensuring that expenditure is brought to account by 30 June. While the Committee would not wish to suggest that departments should not be prompt in paying their bills, it is quite another thing for departments to speed up the standard bill-paying process, to the detriment of the Government's cash balance position, in order to boost expenditure levels at the end of the financial year. This concern is emphasised by unconfirmed reports of departmental officers tripping around in taxis on 30 June to pick up invoices in exchange for cheques.

Government Printer

7.39. The majority of organisations responding to the Committee's questionnaire and giving evidence, expressed dissatisfaction with the Government Printing Office, and cited the Office as a reason for the unevenness of spending on their printing items. Major areas of concern were delays in getting jobs completed, delays in receiving invoices, lack of firm quotes and differences between estimates supplied by the Government Printer and final costs.

7.40. Concern was expressed to the Committee of the difficulties these factors presented in terms of planning and controlling expenditure for printing.

7.41. Examples of variations between quotes given and actual costs were provided for the Committee. One example showed variations ranging from 34% to 119%.

7.42. The Secretary, Attorney General's Department made the following written comment to the Committee concerning the Government Printing Office:

"The Government Printing Office presents the greatest difficulty in this Department's attempt to monitor and control funds. A commitment of cost cannot be kept as a quotation of costs for a particular order cannot be supplied. Actual date of delivery cannot be given and delivery can vary greatly and can take over six months.

In some cases supplies can be received but invoices are not received for 1 to 2 months thereafter. In such uncertain circumstances responsible management of funds is extremely difficult".

7.43. The Government Printer, during a hearing before the Committee was asked to comment on the points raised by departments. In response to comments about inadequacies of the Government Printer's billing system, the Government Printer states:

"I do not think the comments are justified, however I am not prepared to say that there may not be some accumulation of billing".

7.44. In relation to the timeliness of deliveries, the transcript reads:

Q. Does the Office receive many complaints about late delivery of items?

A. In the last two years any incident of complaint has become extremely minimal. There was a time perhaps five to seven years ago when we had a difficult task in delivering work because of the technology we were using. However, in more recent times the deliveries have been one of our biggest achievements; the fact we are able to satisfy most departments. There will always be some jobs that run late however. We handle in excess of 20,000 jobs a year, most of them on an extremely short deadline. We consult with

departments frequently through our client liaison area and we advise departments in every case where they can tell us that they want a specific delivery requirement that we will do everything we can to meet it. So far as I am aware we mostly satisfy departmental needs in that way. that is a position I feel quite strongly about. We do achieve all those planned deliveries where we know what departments actually want.

7.45. The comments made by departments on problems they experience with the Government Printing Office appear to the Committee to have validity. Complaints to the Committee concerning the operations of the Government Printer were consistent across the majority of departments. Evidence was also presented to the Committee on variations of costs against quotes and delays in delivery of goods and receipt of invoices.

7.46. An efficiency review was conducted by the Public Service Board into the operations of the Government Printing Office in 1982 and a post-audit review is scheduled to commence in the next month, The Committee concludes that inefficiencies remain in the Office and that further review action is required. Accordingly the Committee will be monitoring the performance of the Government Printing Office.

Regionalisation

7.47. A number of decentralised departments cited the fact that funds expended in regional offices take additional time to be recorded in central office accounts as a reason for high year end spending. In June, these departments take action to bring to account all expenditure in local office accounts for the year, resulting in some cases in several months' expenditure being recorded in June.

7.48. The Committee does not consider this argument has a great deal of substance. For the argument to be valid, the Committee would have expected decentralised departments to have shown a

significantly higher proportion of expenditure at year-end than centralised offices. The Committee's analysis of expenditure patterns has not shown this to be the case.

Computer Purchases

7.49. In order to rationalise the provision of funds for computer acquisitions by government departments funds for 1984/85 were not provided within departmental budgets for the purchase of computer equipment. Instead allowance was made within the Treasurer's Advance Account to meet departmental computer requirements, particularly those relating to computerisation of budgetary and accounting systems.

7.50. In September 1984 the Computer Funding Priorities Committee was established to assess proposals from departments. The Committee made recommendations to the Treasurer and subsequently funds were made available from the Treasurer's Advance Account for a range of computer purchases. Funding for urgent projects was available in October 1984, with further approvals being granted in late November.

7.51. Under this arrangement departments which gained approval for the provision of funds in 1984-85 and which could not arrange ordering and delivery by the end of the financial year, would have needed to approach Treasury again for funding approval in the following financial year. It should be noted, however, that with projects which had already been recommended by the Computer Funding Priorities Committee there would be a high expectation of approval being given by Treasury.

7.52. The Committee found during its inquiry a concern within many departments that once funding had lapsed at the end of the year, it would not necessarily be approved in the following year. This uncertainty perhaps led to some departments rushing to get supply of equipment or where this could not be arranged, drawing cheques prior to delivery of goods. (See Chapter 6 for further comment on this practice.)

7.52. Treasury has informed the Committee that in 1985-86 funds for acquisitions of projects already approved by the Computer Funding Priorities Committee and a new Committee, the Computer Development Committee, (for purchases over \$100,000) have been set aside in a Special Deposits Account. Funds in this account will not lapse if not expended by 30 June 1986.

7.54. The Committee supports the establishment of this fund and believes it should assist departments to plan and control computer development and avoid both the hasty acquisition of equipment at the end of the financial year and the drawing of cheques prior to supply of goods.

Conclusions

7.55. While the Committee considers that some of the factors put forward by departments do contribute to the high amount of spending which occurs at the end of each financial year, it does not believe that they account for the bulk of the surge in spending.

7.56. The Committee considers that by far the major underlying cause of high year-end expenditure is the desire by departments to spend all funds appropriated before they lapse at the end of the year. This behaviour is motivated by 3 factors:

1. A desire to preserve the funding base for the year.
2. Poor management practices including excessive conservatism and a lack of proper planning and execution of budgets.
3. Departments wishing to purchase items which are not of maximum priority.

7.57. The Committee bases this conclusion on the evidence contained in the previous chapters giving details of year-end spend-ups and cheques held in safes. The following chapter discusses possible solutions to the dilemma departments find themselves in at the end of each financial year.

8 BUDGETARY OPTIONS AND RECOMMENDATIONS

8.1. In the public discussion on budgetary systems both in Australia and overseas a number of budgetary options have been canvassed. The majority of these were raised by departmental officers during the course of the inquiry. A brief review of the options and discussion on them follows:

The Budget Cycle

(i) Timing of the Budget

8.2. The timing of the annual budget is closely tied to the parliamentary calendar and to the Federal budget. At present the New South Wales budget is normally presented to Parliament by the Treasurer in September and given effect late in November. The Commonwealth budget is brought down in August. While consideration has recently been given at the Federal level to bringing down the Commonwealth budget earlier in the year, it is understood that a decision on this has been deferred until 1986.

8.3. In evidence before the Committee, the then Secretary to the Treasurer, Mr Norm Oakes was cautious about changing the timing of the budget.

"I see some real problems for Government in making firm policy decisions too far in advance of the commencement of the financial year".

"In the case of very volatile revenue items, in the case of the very volatile monetary markets we have at present, it can be exceedingly difficult to frame forward estimates in April, May".

8.4. In New South Wales for the first time Ministers were given early advice of their budgets for 1985-86. Preliminary budget allocations were advised in May 1985 for the 1985-86 financial year, rather than the traditional August/September period. This early advice was generally well received by departments and the Committee understands that early advice is to become standard practice.

8.5. While the Commonwealth Budget continues to be brought down in August, the Committee considers that it is impracticable to discuss changing the timing of the State Budget.

8.6. The Committee strongly supports the Treasurer's introduction this year of early advice of indicative budgets to departments. The Committee considers that this move will greatly assist departments to plan and control their budgets.

(ii) Length of budget cycle

8.7. A number of departmental officers advocated a longer budgetary period than the current annual cycle. The following comment is representative of this view:-

"A twelve-month budgetary period is ridiculous. It does not allow proper lead-up time or present the opportunity to plan. There should be at least a two-year budgetary period where planning can be examined in a meaningful way".

Department of Youth and Community Services

8.8. Another viewpoint was expressed by the then Secretary of the Treasury:?

"In my view a year is certainly an appropriate period for the Government to account and answer to the community for its management of the State's finances. If one is to have a rolling budget and so forth, what then does one do about that very important accountability, the appropriation

system? Further, on the recurrent budgeting side, because of the very dynamic situation with which governments are confronted these days, the assumptions you make about twelve months hence can be very different when you come to review 'those assumptions closer to the date on which a budget is prepared. It gets back down to accountability".

8.9. The Committee concludes that at present there is no compelling reason to change the one-year budget cycle. The Committee considers, however, that the annual budget cycle and accountability to Parliament on an annual basis should operate alongside an increased role for forward estimates.

Forward Estimates

8.10. In New South Wales, departments submit 3 year forward estimates to Treasury as part of the annual budget exercise. The estimates are not published and while they may be used as a guide for assessing budget requirements in following years, they did not appear to form the basis of budget formulation prior to 1985.

8.11. However, the Committee understands that in respect of the 1985-6 budget, departmental forward estimates were used as the basis for budget formulation. The Committee understands also that the forward estimates will again be used as the basis for the 1986-87 Budget and that departments have been advised accordingly. The Committee strongly supports the practice of making greater use of forward estimates in budget formulation.

Roll-Over Budgets

8.12. Roll-over budgets operate on the principle that unexpended funds, or a proportion of unexpended funds, from one financial year, can be "rolled over" and used in the following financial year; They provide an incentive for departmental officers not to spend hastily, and perhaps wastefully, at the end of the financial year in order to use up all allocated funds.

8.13. In contrast, under the present system of annual appropriation, funds unspent at the end of the financial year, are not available for expenditure in the following year. However, this was not always the case, as the Auditor-General, Mr K.J. Robson, reminded the Committee:-

"My understanding is that the practice of lapsing votes was introduced in part to enable timely presentation of accounts. For a time last century, votes for any year were kept open, firstly for a period of three months after the close of the year, and secondly, without restriction of time in respect of existing contracts or engagements. As a result, the Public Accounts for any one year could not be considered as closed until all appropriations lapsed or were written off or exhausted and it was claimed at the time to be a matter of difficulty to present the Public Accounts in a manner reflecting the true position of the finances of the State".

8.14. The Commonwealth Department of Finance is currently examining the introduction of roll-over budgets, where a specified proportion of unspent funds, probably in the order of 2%-3% of allocated funds, would be available for use in the following financial year.

8.15. The introduction of some sort of roll-over provision received considerable support from senior departmental managers in the course of the Committee's inquiry.

"Hopefully there will be some incentive on public servants to reduce expenditure and not to have to ensure that the money is spent, otherwise you will be penalised by receiving a cut-back in allocation the following year"

Department of Youth and Community Services

"One area of concern, though our department does not encounter it a lot, is the carry-over of large items. For example, if we were installing a switchboard, and the

installation was not completed by the end of the financial year, that money would be lost. I would like to see some sort of holding account so that if an item is carried over into the following year it could be paid for from that account".

Department of Industrial Development and Decentralisation

"It seems Gilbertian to me to send the money back to Treasury and then wait a few months to obtain approval to pay for specific items when their purchase had been properly arranged, tendered for and a proper selection made of the appropriate equipment".

Police Department

8.16. The Committee supports the views expressed by departmental managers in the course of this inquiry of the need for some type of provision to be made for items on which expenditure has been committed in one financial year, but not brought to account during that year. While the Committee understands that Treasury currently makes provision for such commitments as the first step in assessing funding requirements for the following financial year, this fact is clearly not understood by departments as the year-end spending surge and the prevalence of "cheques in the safe" indicates.

8.17. The Committee considers that a formal mechanism is needed to ensure that specific items for which commitments have been entered into are provided for in the following year's budget and do not adversely affect that budget allocation.

8.18. In addition to providing for specific commitments of expenditure, the Committee recommends that the Treasury investigate the advantages and disadvantages of introducing some form of incentive to departments not to embark on an annual "spend-up" at year end. In the Committee's view departments should not be penalised as at present, for underspending their allocations. One means of rewarding

departments and helping to prevent "spend-ups" at year-end would be to provide for the rolling-over into the following year of a percentage of unspent "B" items (i.e. maintenance and working expenses).

8.19. The Committee recommends that Treasury examine the introduction of procedures which would allow for large specific commitments to be formally acknowledged at year-end in order that departments may be satisfied that provision has been made in the following year's Budget Estimates for such commitments.

8.20. The Committee recommends that the Treasury investigate the introduction of a roll-over budget system.

Flexibility within Budget Allocations

8.21. During the transition stage prior to the full introduction of program budgeting in N.S.W., funds are allocated to some departments on a program basis and to others according to a new line item structure developed for the Budgetary Accounting System. (See 3.25)

8.22. While a certain degree of flexibility exists for departments to move funds between items, some departments have complained that the flexibility conditions do not go far enough to permit departmental management to accept full responsibility for managing their budget allocations.

"The lack of flexibility for Departments to transfer funds from one area of their budgets to another leads to time delays whilst Treasury supplementations are sought and obtained. In certain instances where supplementary funds have been sought the Department has been forced to curtail its expenditure until such time as a Treasury decision is obtained as to whether equivalent savings will or will not be required".

Minister for Mineral Resources and Energy

"One of these days, hopefully, we will get to a stage where we are given an overall allocation and we will be judged on performances in relation to that overall figure and not on these nonsensical line items, which should be there only as a monetary device".

"The central agencies control all resources and the way in which departments may deploy these resources. The system is inflexible".

Department of Youth and Community Services

8.23. The Secretary of the Treasury expressed a more cautious view concerning flexibility:

"Flexibility is required at government level as well as at department level. The Treasurer has the onerous responsibility of accounting to the Parliament and the community for the budget results achieved. After all, he is attempting to bring in a budget result in line with the strategy, which is laid out very specifically in the Budget speech so that you have to weigh increased flexibility, and the advantages and disadvantages of that to departments and the issues that may arise from the Treasury given that situation...I have always found that flexibility operates one way so far as department-land is concerned: if they are going to underspend because costs went through the roof, they should be able to get supplementation and be able to transfer as between votes; but if there is a salaries increase and the Treasurer says, "You have to meet that increase out of your overall allocation", They have all the reasons in the world why it cannot be done. It is a one-way trade."

8.24. The Department of Consumer Affairs suggested the following budgetary improvement:

"Budgetary allocation to be done on a "Top Down Basis", i.e. where Treasury allocates the total budget to the Department and then allows the Department to determine its programme priorities. This will improve the Department's accountability and responsibility".

8.25. The Commonwealth Government introduced a system of consolidation of parliamentary appropriations in 1984-85. The White Paper on Budget Reform, issued in April 1984, stated that this consolidation was

"aimed primarily at more effective funds and program management (and) will also contribute to the achievement

of overall objectives in relation to aggregate expenditure and facilitate parliamentary scrutiny of government programs and activities".

8.26. The White Paper further comments:

"Departmental administrative expenditure currently consists of up to twenty-one separate appropriation items for some departments. The procedures required to redirect expenditure from one item to another can be very cumbersome and restrict the ability of departments to respond quickly to changing circumstances and priorities during the course of the year. Thus it is not entirely a caricature of financial management in some departments to say that it is conceived as obtaining the maximum level of funds for each administrative item at budget time and, thereafter, ensuring that the amount spent from that item is as nearly as possible what is appropriated. Clearly, this situation is not helpful to the efficient and effective delivery of programs, expenditure on which accounts for some 90 per cent of government outlays, and which are the real business of government."

8.27. The implications of program budgeting for budget execution were of concern to many departmental managers. In particular, testimony was given to the Committee that a side effect of program budgeting would be to increase inflexibility within the current budget system.

"We have four programs so far as our budget is concerned. Each of these has the same line items that we previously had in the one budget. Therefore we have four times the inflexibility that we had previously".

Department of Mineral Resources

8.28. In a written submission to the Committee, the Director-General, Department of Agriculture, discussing lack of flexibility, commented:

"This situation will be exacerbated by the introduction of program budgeting where all departments will find themselves locked into fixed budgets for more than one appropriation. In the case of this Department, we will move from 6 appropriations to 17 appropriations which will greatly restrict the Department's ability to efficiently and economically manage its resources".

8.29. The Committee notes that one of the objectives of program budgeting is to increase accountability by requiring departments to account for their expenditure in terms of programs. The Committee recognises however that a good program budgeting system should allow departments to reallocate resources to areas of greatest need and priority. In this context, the Committee considers that the question of flexibility in transferring funds between items and programs acquires examination. The Committee recommends that current guidelines concerning flexibility be reviewed by Treasury during 1985/86.

Accrual Accounting

8.30. Accrual accounting also received support from departmental officers in the course of the inquiry. The Committee discussed this issue in some detail in its Seventh Report Report on the Accounting and Reporting Requirements for Statutory Authorities, June 1983. The Committee recommended in that report that accrual accounting should be required by Statutory Authorities, unless exempted by the Auditor-General.

8.31. Comments made by departmental spokespersons on the issue of accrual accounting include:

"I consider the adoption of accrual accounting to be a vital budgetary reform. The bringing to account of all expenses incurred and all revenues earned will enable management and Parliament to assess more effectively how well organisations are performing and, again, enable them to make more informed decisions on resource needs and their most efficient allocation".

Department of Lands

"I think a better method would be to put the whole public accounts on a modified accrual basis. That would call for some work at Treasury, I know, and with the departments themselves. It would mean that the programme budgeting would be running hand in hand with a modified accounting system that would bring to account, at the close of the year, materials, services, computers, equipment and so on that have been received but not paid for".

Deputy Auditor-General

8.32. The Committee continues to support moves to introduce an appropriate form of accrual accounting for statutory authorities. With regard to departments, the Committee supports the Auditor-General's recommendation that 'Treasury

adopt a system of including in published financial statements notes showing unpaid accounts for goods and services and accrued income at year end'.

8.33. The Committee notes that Regulations to the recently enacted Annual Reports Act will include the requirement that notes of unpaid accounts at year end be included in department financial statements.

8.34. The Committee considers that while the adoption of this system would not directly effect year?end spending, it would provide Parliament and the public with a better picture of the financial position at the end of the year.

APPENDIX A

DEPARTMENTS AND ORGANISATIONS SURVEYED BY THE PUBLIC
ACCOUNTS COMMITTEE

Departments - Recurrent Expenditure

Auditor-General's Office
Central Mapping Authority
Conservatorium of Music
Corporate Affairs Commission
Department of Agriculture
Department of Attorney General
Department of Co-operative Societies
Department of Consumer Affairs
Department of Corrective Services
Department of Education
Department of Environment & Planning
Department of Finance
Department of Health
Department of Industrial Development and Decentralisation
Department of Industrial Relations
Department of Lands
Department of Local Government
Department of Mineral Resources
Department of Sport and Recreation
Department of Technical and Further Education
Department of Youth and Community Services
Forestry Commission of New South Wales
Government Supply Department
Ministry of Aboriginal Affairs
Ministry of Education
Ministry of Employment
Ministry of Transport
N.S.W. State Lotteries
New South Wales Superannuation Office
Office of the Minister for Police and Emergency Services
Office of the Ombudsman
Police Department
Premier's Department
Protective Office, Supreme Court
Public Service Board of New South Wales
Public Trust Office
Public Works Department
Soil Conservation Service of. New South Wales
State Electoral Office
State Emergency Services and Civil Defence
State Pollution Control Commission
The Treasury
Valuer-General's Department
Water Resources Commission

Departments - Capital Expenditure

Department of Education

Department of Technical and Further Education

Public Works Department

Selected Statutory Authorities

Department of Main Roads

Department of Motor Transport

- Transport and Traffic Fund (recurrent only) Housing Commission of New South

Wales National Parks and Wildlife Service

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APPENDIX B

WITNESSES BEFORE PUBLIC HEARINGS

<u>Date of Meeting</u>	<u>Organisation Represented and Witnesses</u>
9 September, 1985	Government Supply Department * Mr David Ingall Director * Mr Mark Leslie Hancock Acting Chief Administrative Officer * Mr Raymond Irvin Jennings Accountant
9 September, 1985	Police Department * Mr Leo Frederick Vineburg Secretary, N.S.W. * Mr Colin Kennedy Bown Director of Finance and Properties * Mr Denis Raymond Leys Assistant Secretary, Finance
9 September, 1985	Department of Main Roads * Mr Bruce Norman Loder Commissioner for Main Roads * Mr Peter Guion Lisle Wolfe Deputy Engineer-in-Chief (Operations) * Mr Kevin Bradfield Kerr Deputy Chief Accountant
12 September, 1985	Department of Industrial Development and Decentralisation * Mr David Murray Easson Director * Mr Timothy James Campbell Rogers Chief Administrative Officer * Mr Rodney Ernest Jones Senior Administrative Officer
12 September, 1985	Department of Health * Mr Robert Donald McGregor Acting Secretary, * Mr John David Woodger Assistant Secretary, Finance * Mr Kenneth Reginald Barker Manager, Finance Division

<u>Date of Meeting</u>	<u>Organisation Represented and Witnesses</u>
12 September, 1985	Department of Education * Mr Vincent Delany Assistant Director-General (Administration) * Mr Errol Kevin Williams Director of Finance
12 September, 1985	Forestry Commission of New South Wales * Mr Roy Alan Free Deputy Commissioner * Mr Vivian William Carlow Accountant
13 September, 1985	Public Service Board of N.S.W. * Mr David Charles Moore Chairman * Dr Kevin Patrick Sheridan Member * Mr Bevan John Porter Chief Executive Officer
13 September, 1985	Department of Mineral Resources * Mr Geoffrey Rose Secretary * Mr John Charles Read Assistant Secretary * Mr Peter Robert Broadfoot Manager, Financial Services
13 September, 1985	Public Works Department * Mr Wallace Keith Pilz Director * Mr Donald John Stanton Manager, Financial Planning & Control
5 November, 1985 Services	Department of Youth and Community * Mr Heinz Heilpern Director-General * Mr Peter Dale Darren Deputy Director-General * Mr Geoffrey Robert Hudson Director - Finance and Property * Mr Ian Douglas Reddie Finance Manager * Mr Terry Marshall Acting Manager, Resource Analysis Unit

<u>Date of Meeting</u>	<u>Organisation Represented and witnesses</u>
5 November, 1985	Government Printing Office * Mr Donald West Government Printer * Mr Alan Norman Fisher Director of Administration * Mr Graham John Esler Acting Accountant
6 November, 1985	Auditor-General * Mr Kevin Thomas Fennell Deputy Auditor-General * Mr John Seedsman Systems Review Officer
6 November, 1985	The Treasury * Mr Norman Oakes Secretary & Comptroller of Accounts * Mr Donald Frederick Nicholls Assistant Secretary and Deputy Comptroller of Accounts * Mr Robert Scullion Chief Accountant
6 November, 1985	Lands Department * Mr Robert Ernest Wilson Secretary & Registrar General * Mr William Alfred Price Financial Controller * Ms. Kristine Denise Thomas Management Accountant

APPENDIX C

GLOSSARY OF TERMS

<u>Accrual accounting:</u>	(see also cash accounting) System of accounting where all revenues earned, whether received or not, and all expenses incurred, whether paid or not, are brought to account during the relevant accounting period.
<u>Annual appropriations:</u>	Acts which appropriate moneys for expenditure in relation to the Government's activities during the financial year. In N.S.W. appropriations lapse on 30 June.
<u>Appropriation:</u>	Authorisation by Parliament to expend money from the Consolidated Fund for a particular purpose.
<u>Authorisation to incur expenditure:</u>	Governed by Section 12 of the Public Finance and Audit Act which deals with approval to commit funds rather than approval for payment. Authorising officers may only incur expenditure to the limit of authorisation conferred on them.
<u>Capital expenditure:</u>	(see also recurrent expenditure) Expenditure on major items of a non-recurrent nature such as buildings, land and equipment. In recent years the distinction between capital and recurrent has become somewhat blurred, with some major items being purchased from recurrent budgets.
<u>Cash accounting:</u>	(see also accrual accounting) System of accounting used in New South Wales government departments. The system records only moneys actually received or cheques drawn during an accounting period. In practice in N.S.W. there is an element of accrual accounting through transfers to Special Deposits accounts, particularly for salaries.

<u>Certification of payment:</u>	Governed by Section 13 of the Public Finance and Audit Act and detailed in Treasurer's Directions. Certifying officers are responsible for "the correctness of every account, in regard to the faithful performance of service, rates of charge and computations and castings".
<u>Consolidated Fund:</u>	Fund from which departmental expenditures are met and into which government revenue is paid. Appropriations are made on an annual basis, lapsing on 30 June each year.
<u>Drawing accounts:</u>	Departmental bank accounts from which cheques are drawn. These accounts operate in overdraft and Treasury recoups the account for the value of cheques drawn.
<u>Indicative allocations:</u>	An early indication given by the Treasurer to Minister of the level of funds which they can expect to receive in the following financial year. These indicative allocations are subject to change in the light of factors which may emerge prior to finalisation of the budget process.
<u>Public Finance and Audit Act, 1983:</u>	The main legislation dealing with the collection, payment and recording of public moneys and the audit of the Public Accounts. The Act also sets out the functions of the Public Accounts Committee. Treasurer's directions are made pursuant to the Act.
<u>Public Moneys Account:</u>	These accounts are of a trust fund nature. Funds held in the account are normally payable to a third party and do not form part of the revenues of the State.
<u>Recurrent expenditure:</u>	(see also capital expenditure). Expenditure of an ongoing nature such as salaries, maintenance, administrative expenses.

<u>Special Deposits Account:</u>	The principal government account other than the Consolidated Fund. The Account is a number of trust funds, departmental working accounts and statutory accounts which do not lapse at the end of the financial year.
<u>Supplementation:</u>	Additional funds provided to a department to increase the Budget allocation for a particular item.
<u>Supply period:</u>	The period between 30 June each year and assent being given to the Appropriation Act, usually in November. During the period 1 July to 30 September, expenditure is authorised under the supply provisions of the Public Finance and Audit Act on the basis that expenditure is not to exceed one quarter of the amount appropriated under the previous year's Appropriation Act, with an adjustment for cost escalation. After 30 September, until the passing of the Appropriation Act, individual Supply Acts are used to extend the supply arrangements.
<u>Treasurer's Advance Account:</u>	An allocation available to meet expenses of an unforeseen nature. The Treasurer's authority in regard derives from the Annual Appropriation Act.
<u>Treasury transfer system:</u>	Accounting procedure whereby a service department charges direct to its customer department's allocation at Treasury.

