



Government of **Western Australia**
Department of **Treasury**

Streamlined Budget Process Policy Principles

Agency Guide

April 2017



Streamlined Budget Process

© Government of Western Australia 2017

Contents

Objective	1
Streamlined Budget Process	2
Background.....	2
Overview of Annual Process	2
Streamlined Budget Process Policy Principles	4
Agency Eligibility Criteria.....	4
‘In Scope’ Agencies	4
Incentives.....	4
Funding Requests.....	5
Recoup of Incentives.....	5
2017-18 Budget Process – Indicative Guide Only.....	7
Process Map.....	7
September to April	8
May - June	9
Ongoing Monitoring.....	10

Objective

This guide stipulates the policy principles surrounding the implementation of the Streamlined Budget Process (SBP) for general government agencies. The application of the SBP for each annual 'process' will be communicated as part of the relevant budget process. Further information on the SBP can be sought from the relevant Department of Treasury (Treasury) agency analyst.

The SBP will be implemented through the administrative arrangements surrounding the annual Budget process, which are coordinated by Treasury and annually agreed by Cabinet and as such these policy principles are subject to change.

Agencies deemed 'eligible' for the SBP will be advised through the annual Budget Circular.

Streamlined Budget Process

Background

The intent of the SBP is to focus the Expenditure Review Committee (ERC) and Cabinet throughout the Budget process on considerations that materially impact the State's finances.

This will be achieved by offering a number of agencies – those with total operating expenditure under a Cabinet agreed financial threshold – incentives each year to not participate in the normal Budget process.

Overview of Annual Process

Agency SBP eligibility will be assessed by Treasury prior to the release of the annual Budget Circular.

Participation in the SBP is voluntary and SBP eligible agencies can choose not to opt-in and gain access to the normal Budget process by following the standard practice (as detailed in the annual Budget Circular) for submitting a 'Budget bid' (Budget time 'funding request').

Agencies will be deemed to have opted-in to the SBP in a Budget year where they are firstly assessed as eligible by Treasury, provide Ministerial sign-off on agency participation and do not raise a Budget time funding request.

Agencies participating in the SBP will receive (subject to ERC agreement) the incentives of:

- an increase to the agency's service appropriation of 1% (Treasury may make adjustments for some expenditure funded via service appropriation (e.g. depreciation and amortisation)), in the Budget year (financial incentive);
- autonomy in how this increase in funding is allocated to recurrent expenses in the Budget year (although the allocation must be approved by Treasury and the relevant Minister as part of the Budget process, expended in the Budget year and on 'once-off' expenses); and
- exemption from the Budget year impacts of new whole-of-government corrective measures (corrective measure incentive).

Agencies' retention of the incentives is conditional on the agency not submitting a funding request (i.e. a request that increases net debt across the Budget and forward estimates period) at anytime during the relevant Budget process and then the Budget year. Some specific processes will be excluded from this requirement with advice circulated by Treasury as required.

Agencies participating in the SBP that subsequently raise a funding request during the Budget process or Budget year will be required to return all incentives received as part of the SBP. **This occurs irrespective of whether the request is approved or not** – consistent with the intent of the SBP to reduce the volume of funding requests. Any deviation from this rule requires an ERC decision, which must be sought by the relevant Minister.

Streamlined Budget Process Policy Principles

Agency Eligibility Criteria

- A general government agency will be eligible for the SBP if it:
 - has annual recurrent expenditure (controlled) of less than \$100 million in the relevant Budget year (based on the previous year's Budget first forward estimate);
 - has 'access' to the annual Budget process (i.e. it is funded directly via service appropriation); and
 - passes Treasury financial risk assessment tests.

The 2017 eligibility criteria has been extended to reflect the particular circumstances affecting many agencies including a number of eligible agencies currently participating in the Agency Expenditure Reviews (AER) process and due to the 2017 Election. The additional eligibility criteria include:

- AER savings must be achieved by agencies participating in reviews; and
- Election Commitment funding does not impact an agencies SBP eligibility status.

'In Scope' Agencies

- An agency is in scope of the SBP (i.e. has opted in to the SBP), if:
 - it first satisfies the agency eligibility criteria (as assessed by Treasury);
 - the relevant Minister provides a signed certification to participate in the SBP;
 - it does not raise a Budget time funding request (as defined below) as part of the relevant Budget process (this excludes Royalties for Regions funding submissions); and
 - ERC approves its inclusion in the SBP as part of the relevant Budget process.

Incentives

- In scope agencies, as part of the relevant Budget process will receive 1% additional service appropriation (Treasury may make adjustments for some expenditure funded via service appropriation (e.g. depreciation and amortisation)), based on the most recent published data (usually the previous year's Mid-year Review first forward estimate).

- Incentive funding can be allocated to any recurrent cost centre (i.e. the funding cannot be allocated to capital projects/programs). This includes salaries, however the CPI salaries cap can increase in the Budget year only to a maximum of the 1% additional appropriation provided.
 - Incentive funding cannot be allocated to expenses that create ongoing commitments and must be committed to expenditure in the Budget year.
- In-scope agencies are generally not subject to new whole-of-government corrective measures (i.e. those implemented in the relevant Budget/Mid-year Review) however each individual measure is subject to a decision of the ERC.

Funding Requests

- An eligible agency will receive the incentives when no funding request is raised throughout the relevant Budget process.
- An eligible agency will keep the incentives when no funding request is raised throughout the relevant Budget year.
- A funding request is defined as:

any request (including 'policy' and 'parameter') that increases net debt over the Budget and forward estimates period being raised at anytime throughout the Budget process and then Budget year. This excludes funding requests raised as part of the following year's Budget process, except where they increase net debt in the current Budget year¹. Any deviation from this policy principle, as part of specific processes will be communicated as a part of that process by Treasury. Any further deviation from this policy principle will require an ERC submission by the relevant Minister to seek an exemption.

This excludes all Royalties for Regions and fully funded Commonwealth Government submissions.

Recoup of Incentives

- An in scope agency's appropriation incentive will be refunded to the Consolidated Account and corrective measures retrospectively applied if a funding request is raised in the relevant Budget year or a 'late' Budget bid raised as part of the Budget process (as defined above). This process will be automated by Treasury on the agency's behalf.
- **Submission of a funding request or late Budget bid provides for the application of penalties, *not its approval.***

¹ For example, if an agency was in scope of the SBP in 2016-17 and raised a funding request as part of the 2017-18 Budget process, although that request would be raised in the 2016-17 year (e.g. May 2016) it does not affect the agency's 2016-17 SBP status, unless that bid increases net debt in 2016-17 (the current Budget year).

Streamlined Budget Process

- A funding request is submitted:

at the discretion of Treasury, this includes but is not limited to: parameter and policy adjustments raised in the Strategic Information Management System (SIMS); Treasury receipt of a ministerially endorsed letter; ERC or Cabinet submissions; a Budget, Mid-year Review or supplementary funding request, which will increase net debt across the Budget and forward estimates period.

Any deviation from this policy principle requires a ministerially endorsed submission to ERC seeking an exemption.

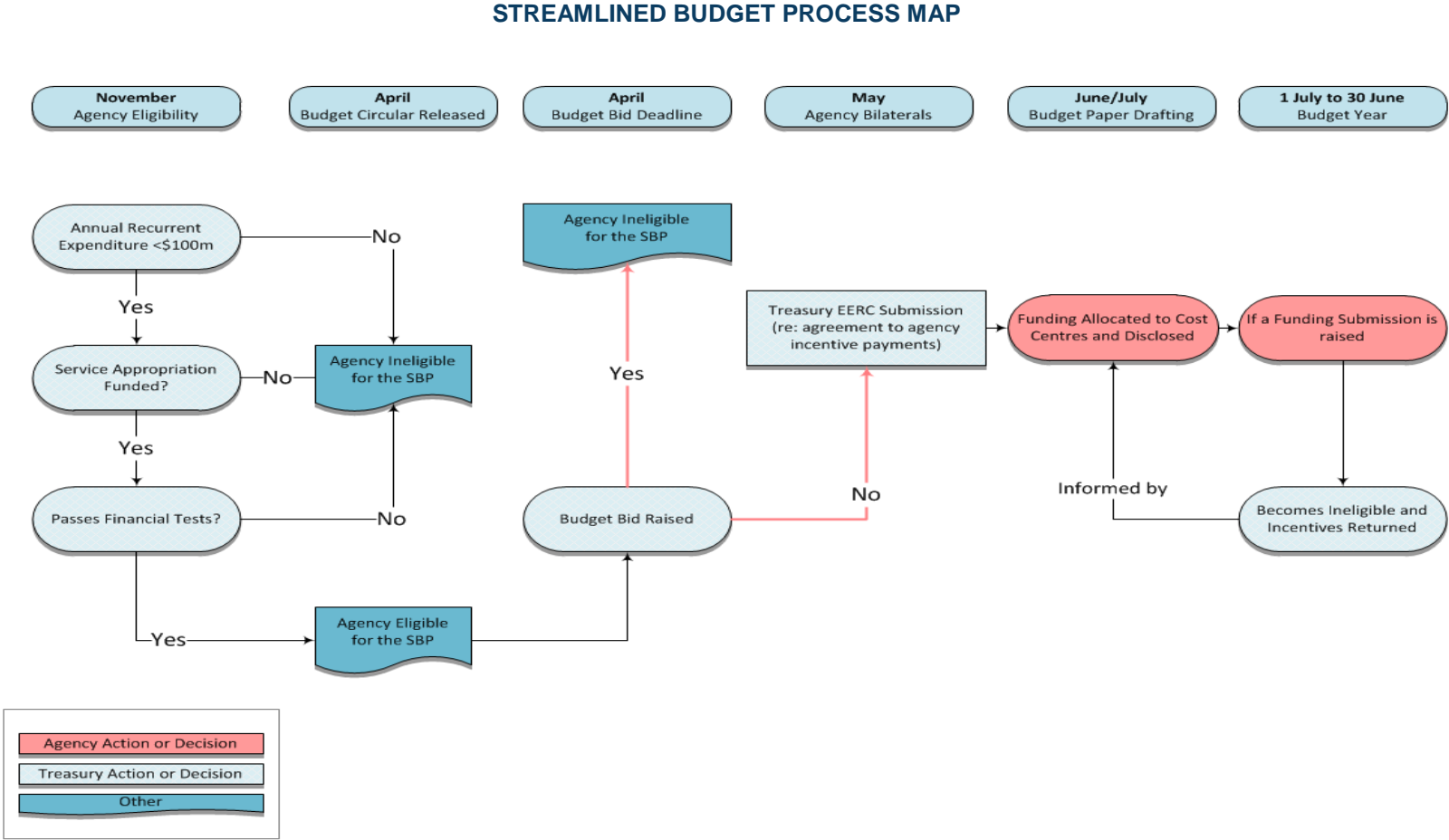
Royalties for Regions funded and Commonwealth Government funded submissions are excluded.

- Agencies are reminded that the ERC submission template requires them to address the implications for their SBP status in any submissions to the ERC and/or any sought adjustments that increase net debt.

2017-18 Budget Process – Indicative Guide Only

Process Map

Figure 1



September to April

Assessing Agency Eligibility

Treasury will assess agency eligibility, seek ERC agreement to agency eligibility and then provide information on agency eligibility for the SBP.

Treasury will use the most recently available data to assess eligibility against the financial threshold (for the 2017-18 Budget process that will be less than \$100 million of annual recurrent expenditure (controlled)) and financial risk. Where an agency is assessed as ineligible, as it is deemed to have failed the Treasury financial risk assessment tests, the relevant Treasury agency analyst will provide information to the affected agency and it is expected corrective action will be considered through the Budget process.

Non-Budget agencies (i.e. those that do not receive service appropriation) are not eligible for the SBP.

Treasury will use the annual ERC consideration of the proposed Budget process as the forum to agree agency eligibility for the SBP.

Calculation of the Financial Incentive

The financial incentive will be calculated at 1% of the relevant agency's service appropriation, most recently published first forward estimate. In 2017, this is Mid-year Review data, however initial estimates provided in the Budget Circular and Budget Process Cabinet Submission will make use of Budget data in non-election years.

As some service appropriation funding is expended on amounts not affected by normal 'cost and demand' fluctuations the incentive will be, in some cases, manually adjusted by Treasury (for example to exclude service appropriation funded costs of depreciation and amortisation).

April

Agency Eligibility

Following ERC consideration of the SBP (including agency eligibility) agency eligibility and the quantum of each agency's incentive will be communicated, as well as other SBP related conditions/considerations.

May

In Scope Agencies

Agencies that have been advised through communications that they are eligible for the SBP, and that do not raise a Budget time funding request¹ (this includes parameter adjustments that increase net debt), are invited to opt-in to the SBP. Treasury will request Ministerial certification of an agency's decision to opt-in. Once Ministerial certification is provided agencies are considered in-scope of the SBP. Treasury will provide a report back to ERC on the in-scope agencies and SBP impact to State Finances.

Agencies must agree with their Minister the allocation of this funding to recurrent cost centres, a detailed process will be communicated with the above notification on how that agreement is formalised.

Funding cannot be allocated to expenses that create ongoing commitments and must be committed to expenditure in the Budget year. Treasury will not approve any SIMS adjustments where these conditions are deemed not to be met.

May – June

Agency Bilaterals

Treasury will continue to monitor Budget funding requests (and parameter adjustments) throughout the Budget process and adjust in-scope agencies and funding allocation as required.

July

Budget Paper Production

Funding and the funding allocation must then be disclosed in the agency's Budget Paper No. 2 Statements (for example including it in the Spending Changes table, consistent with Treasury advice).

¹ For noting: with respect to funding bids, the origin of the Budget bid does not affect the assessment of an agency's SBP status (i.e. if a Minister's Budget bid is deemed to increase net debt across the Budget and forward estimates period for an agency outside of his/her portfolio, both agencies become ineligible for the SBP. This includes situations where an agency led funding submission affects another SBP eligible agency).

Ongoing Monitoring

Budget Year

An in-scope agency is opted out of the SBP if any funding request is raised throughout the Budget year (June – July) that increases net debt across the Budget and forward estimates period, regardless of whether the request is approved or not.

There will be exceptions to this policy principle throughout the year for processes such as population, funding escalation, etc. and these exceptions will be communicated to agencies as part of those processes, otherwise any deviation from this policy principle is to be sought via the Minister through ERC.

Immediately following a funding request that increases net debt across the Budget and forward estimates period being received by Treasury (this includes parameter and policy adjustments raised in SIMS, Treasury receipt of a ministerially endorsed letter, ERC or Cabinet submissions, a Mid-year Review or supplementary funding request), any adjustment approved as part of the SBP will be reversed and corrective measures retrospectively applied. Treasury will notify agencies when this occurs.