



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

Streamlined Budget Process Policy Principles

Agency Guide

November 2018



Streamlined Budget Process

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Objective

This guide stipulates the policy principles surrounding the implementation of the Streamlined Budget Process (SBP) for eligible agencies. The application of the SBP for each year is communicated to agencies as part of the annual budget process (in Treasury's Budget Circular). Further information on the SBP can be obtained from the relevant 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. As such, these policy principles are subject to change.

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

Streamlined Budget Process

Background

The intent of the Streamlined Budget Process (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 is supported by offering eligible agencies incentives each year to minimise their call on ERC's time during the normal Budget process. In the lead up to the 2019-20 Budget, the ERC agreed to extend potential eligibility to all agencies except WA Health, the Departments of Education, Communities, and Justice, and the Western Australia Police Force.

Overview of Annual Process

Agency SBP eligibility is assessed by Treasury and considered by the ERC 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 thus 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.

Subject to ERC agreement each year, agencies participating in the SBP will receive the following incentives:

- an increase to the agency's service appropriation of 1% (Treasury may make adjustments for some expenditure funded by 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 be applied only to 'once-off' expenses); and
- exemption from the Budget year impacts of some (or all) new whole-of-government Budget repair measures (at ERC's discretion).

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 any time 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.

Note: ERC has approved that 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

- The SBP is potentially open to all general government agencies except WA Health, the Departments of Education, Communities, and Justice, and the Western Australia Police Force.
- A general government agency will be eligible for the SBP if it:
 - has ‘access’ to the annual Budget process (i.e. it is funded directly by service appropriation); and
 - passes Treasury financial risk assessment tests.
- Only stand-alone agencies are eligible for SBP. Statutory authorities operating within a larger department (regardless of whether it is funded directly through service appropriation), or sub-agencies, are unable to apply independently for SBP, and can only participate if the ‘parent’ agency chooses to opt-in.

‘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; and
 - ERC approves its inclusion in the SBP as part of the relevant Budget process.

Incentive Arrangements

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

- Incentive funding can be allocated to any recurrent cost centre by the SBP agency, including salaries. However, the funding cannot be allocated to capital projects/programs. Where salaries increase through application of incentive funding, the agency salaries cap (plus associated superannuation and other employee on-costs) can increase in the Budget year only to a maximum equivalent to the 1% additional appropriation provided. In addition, incentive funding:
 - cannot be allocated to expenses that create ongoing commitments and must be committed to expenditure in the Budget year. This includes allocation of the funding to support staff costs;
 - will not be utilised to create ongoing expenditure obligations (in recognition of its finite nature); and
 - will have an expense allocation attached to the funding request.
- In-scope agencies are generally not subject to new whole-of-government Budget repair measures (i.e. those implemented in the relevant Budget/Mid-year Review). However, exemption for 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 decisions' and or other movement (commonly referred to as 'parameter driven' change)) that increases net debt over the Budget and forward estimates period being raised at any time 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 fully funded submissions, such as submissions funded by Commonwealth Government contributions or other external funding.

¹ For example, if an agency was in scope of the SBP in 2017-18 and raised a funding request as part of the 2018-19 Budget process, although that request would be raised in the 2017-18 year (e.g. January 2018) it does not affect the agency's 2017-18 SBP status, unless that bid increases net debt in 2017-18 (the current Budget year).

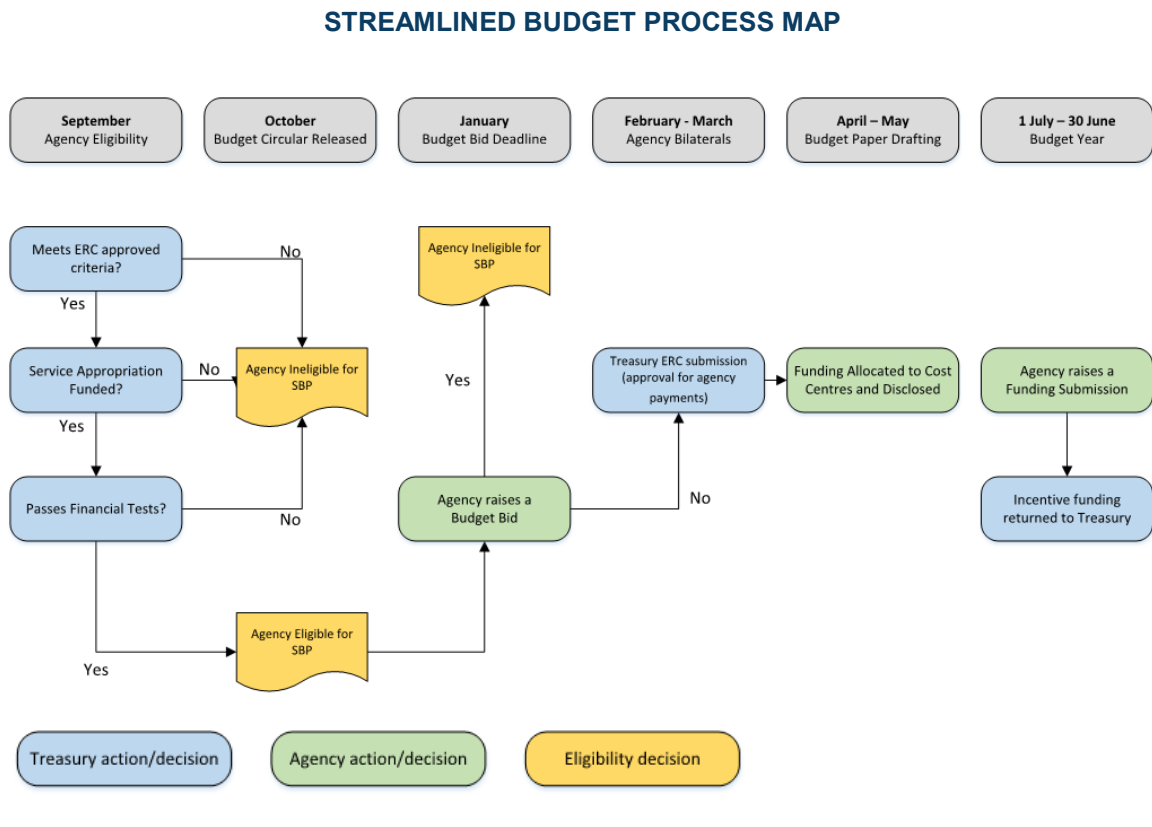
Recoup of Incentives

- An 'in-scope' agency's appropriation incentive will be refunded to the Consolidated Account and applicable Budget repair 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 applied to the agency budget by Treasury.
- **Submission of a funding request or late Budget bid provides for the application of the recoup of SBP incentives, regardless of the bid's outcome at ERC.**

Streamlined Budget Process – Indicative Guide

Process Map

Figure 1



September

Assessing Agency Eligibility

Treasury assesses agency eligibility, seeks ERC approval of agency eligibility.

Treasury will use the most recently available data to assess eligibility and an assessment of financial risk.

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

ERC consideration of agency eligibility for the SBP is included in its approval of the annual Budget process.

Calculation of the Financial Incentive

The financial incentive will be calculated at 1% of the eligible agency's service appropriation, as contained in the most recently published Mid-year Review. For example, for the 2019-20 Budget, this calculation is based on 2018-19 Mid-year Review data. However, initial estimates provided in the Budget Circular and Budget Process Cabinet Submission will make use of data from the previous Budget in non-election years (as Mid-year Review estimates will not yet be available).

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

October

Agency Eligibility

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

December - January

'In-Scope' Agencies

Agencies that have been advised through communications that they are eligible for the SBP and are not raising a Budget bid¹ (this includes parameter adjustments that increase net debt) are able 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 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 Budget adjustments where these conditions are deemed not to be met.

¹ 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.

February – March

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.

April – May

Budget Paper Production

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

Ongoing Monitoring

Budget Year

An in-scope agency is opted out of the SBP if any funding request is raised throughout the Budget year (July – June) that increases net debt across the Budget 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 a funding escalation following some other process (e.g. a wage agreement in excess of Government wages policy). These exceptions will be communicated to agencies as part of those processes. Otherwise, any deviation from this policy principle is to be sought by the Minister through ERC.

Immediately following a funding request that increases net debt across the Budget and forward estimates period being received by Treasury (including parameter and policy adjustments raised in SIMS (other than those specifically exempted), 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 any applicable Budget repair measures retrospectively applied. Treasury will notify agencies when this occurs.