

1: AUSTRALIA *Geoff Dixon, Geoff Dixon & Associates, Canberra*

Overview

The sequence of reforms

Australian public sector reforms at the national level occurred in two phases. The first phase (in the second half of the 1980s) focused on achieving **increased financial flexibility** for program agencies and the introduction of a **results focus**. The second phase (in the 1990s) sought to extend this flexibility to **human resource management**, and provided also for measurement of full costs through **accrual budgeting**, and for the introduction of more **market-oriented modes of operation**.

Phase 1 of the reforms was triggered by the 1983 Labor Government's desire to introduce an expensive social reform agenda without putting additional pressure on the budget deficit. This meant cutting programs inherited from the previous Government in order to make room for the new spending measures.

However the new Government had little confidence in the capacity or the willingness of the federal public service of that time to advise on or implement the desired restructuring of public spending. Even before winning the election, the new incoming Government had announced a reform strategy for the public service.

Phase 1 of the reforms was intended to shift the focus of the bureaucracy from the routine renewal and disbursement of budget appropriations, which in the past had been largely unchanged from year to year, towards the results being achieved from these 'entrenched' expenditures (results which were hitherto largely unknown) and towards ways of spending budget funds better.

Phase 1 of the reforms therefore involved providing for increased **financial flexibility** for government departments, a more certain operating environment for government departments through the introduction of **rolling forward estimates based budgeting**, and an increased focus on **identifying program objectives** and **reporting program outcomes**.

This altered the focus of the annual budget preparation from the financing of existing government programs to the improvement of those programs. Successive annual budgets in the mid 1980s introduced large numbers of savings measures in parallel with new spending measures. These greatly improved the compositional and operational efficiency of the budget. They also enabled new spending measures to be introduced consistent with meeting an onerous deficit reduction target imposed in the context of the collapse in world commodity prices in the mid 1980s.

Phase 2 of the public sector reforms was intended particularly to achieve increased efficiency in the delivery of government goods and services through the introduction of

commercial principles. These included **contestable contracts**, more **flexible personnel management**, and **service delivery agreements** based on the full resource cost of providing the service (determined on **accrual accounting** principles).

Reformers' concerns

For the previous hundred years, Australia's public service had operated in an environment of regulation, central controls, wage complexity and a culture focused on rights and entitlements. Substantial improvements in financial flexibility had been made in the first phase of reforms leading up to the mid 1990s. However, when the Liberal government came to power in 1996, it was confronted by an Australian Public Service (APS) that still displayed major legislative and procedural inflexibilities.

The costs of many government processes were high because a culture of rules and regulation had developed as a result of dependence on outdated and overly prescriptive and centralized legislative frameworks. Those managers in the APS who were working to find innovative solutions to improving performance were hamstrung by these formalized requirements.

The findings of three whole-of-government benchmarking projects illustrate this point. The public service tested itself against best practice organizations in the private sector, and in state and overseas governments, to assess how it was performing. The benchmarking projects examined human resource management practices, leadership, and financial management. The findings revealed a number of deficiencies. For example it cost almost \$28 million a year to administer selection processes in the APS, which represented a unit cost three times higher than private sector best practice, and the focus of APS managers was on process not results. In addition APS leaders rated poorly in terms of how they communicated, the level of trust they exhibited, and their overall strategic management ability. Less than half of the core Commonwealth agencies knew their full product or service costs, and professional financial skills were not valued.

These benchmarking projects showed that as regards efficiency and quality of management the Commonwealth agencies lagged behind practice in some other government jurisdictions, and even further behind the best of private sector practice.

One of the key aims of the Government which came to office in 1996 was to reduce the burden of regulation on business and the community. Legislative regulation and administrative processes were known to impose significant costs. The Small Business Deregulation Task Force established by the Government in 1996 found that:

'(S)mall business feels besieged by Government demands, and the psychological impact of the burden (of regulation) cannot be over-estimated'.

Government accordingly began introducing measures to reduce or simplify regulation. Deregulation was claimed to lead to significant benefits for consumers : in the financial sector, deregulation led to consumers enjoying lower prices and more services; in

telecommunications productivity increased, service quality improved, and prices fell; and airlines' ticket prices were substantially reduced.

Institutional starting points

Constitution/political system

Federal government

The Australian federation has a three-tier system of government based on the Westminster system:

- At the national level the Legislature (the House of Representatives and the Senate), the Executive Government, and the Judiciary are, under the Constitution, responsible for matters of national interest as defined in the Constitution;
- At the State and Territory level a Legislature, Executive Government and Judiciary are, under the relevant statutes, responsible for other matters; and
- At the city, town, municipal and shire level there are approximately 900 local government bodies that are the responsibility of the state governments.

Australia is an independent nation but retains (purely ceremonial) constitutional links with Queen Elizabeth II. In addition to the Queen, there is a Governor-General and six State Governors. Under the Constitution, the Governor-General's powers and duties include summoning, proroguing and dissolving Parliament, assenting to Bills, appointing Ministers, setting up Departments of State and appointing judges. By convention, however, the Governor-General acts only on the advice of Ministers in virtually all matters and the appointee to the office is selected on the advice of the Government. The six State Governors perform similar roles in their States.

The powers of the Federal Parliament are laid down in a written Constitution. State Parliaments are subject to the provisions of this as well as to the provisions of their own State Constitutions. The Australian Constitution can be changed only by a majority of voters in at least four of the six States, as well as an overall national majority of voters. Power to change State Constitutions lies with the State Parliaments and in most states requires endorsement by the people voting at referendums. Broadly, the division of powers between the Federal and State Parliaments follows the American model of federalism. Powers exercised by the Federal Parliament and Government are specified, leaving all other unspecified powers to the States. A Federal law overrides any State law not consistent with it.

The Federal Parliament is bicameral, having two chambers: the House of Representatives (Lower House) and the Senate (Upper House). The Constitution requires membership of the Australian House of Representatives to be, as nearly as practicable, twice that of the Senate. Elections for the House of Representatives are held at least every three years. The Senate has an equal number of members - 12 - from each State, although it operates on party lines rather than representing State interests. A Government need not command a majority in the Senate. A system of Cabinet or "responsible" government based on the

British Westminster tradition is practiced. The party or coalition of parties commanding a majority in the House of Representatives becomes the government and provide the ministers (including the Prime Minister), all of whom must be members of the Parliament. The Minister remains collectively responsible to the Parliament, and through it to the electors, for Government actions. If the Government ceases to command a House of Representatives majority, it is obliged either to go to an election or resign.

Under the Westminster system the Government is empowered by Parliament to make and administer policies. The basis of Parliamentary control of the Government is Parliamentary approval of the annual budget (together with supplementary budget estimates later in the fiscal year). While the lower house always passes appropriation bills while the Government has a majority, they are subject to sometimes intense scrutiny by estimates committees of the Senate.

State and local governments

All State Parliaments except Queensland are bicameral, with two Houses of Parliament. Under the federal Constitution, State Governments are responsible for powers not administered by the Federal Government. These include education, transport, law enforcement, health services and agriculture.

The powers of local government vary from State to State and are the responsibility of State Governments under the relevant legislation. In general they include town planning, construction and maintenance of local roads, water, sewerage and drainage systems, supervision of building, administration of weights and measures and other regulations, and the development and maintenance of community facilities.

Some local government bodies operate public business undertakings such as transport systems or gas and electricity reticulation. The powers of local government normally derive from legislation enacted by their State parliaments and their operations usually are subject to supervision by a department of their State Government. Finance for their undertakings is obtained through property rates and from the Federal and State Governments.

Structure of Government

The Prime Minister and other Ministers are appointed from the parties that control a majority in the House of Representatives. The Prime Minister decides on the division of responsibilities between Ministers, and allocates portfolios. Ministers are given specific powers and functions under legislation, as well as the broad power to oversee the running of government Departments and agencies.

The Prime Minister chairs the Cabinet, which is a forum for collective decision-making by senior Ministers and the key policy-making agency of the Federal Government. The convention of collective responsibility of Cabinet for all decisions of the government prevents individual ministers or the prime minister from acting without the support of

their ministerial colleagues. Where necessary, legal effect is given to decisions of the Executive by the Executive Council, a formal body presided over by the Governor-General and usually attended by two or three Ministers of State, although all Ministers and Parliamentary Secretaries are members. Similar procedures of Cabinet decision-making are followed by Australia's State Governments.

Policy advice and the implementation and administration of core Federal Government programs are undertaken by the APS, and six State and two Territory Public Services. A Minister of State is accountable to Parliament for each department's functions and activities. Under the Minister is the head of a department. At the federal level he/she is appointed by the prime minister and is responsible to the minister in charge of the department. In the Federal and State Governments there are three broad categories of government institution: those serving directly the respective Parliaments; Departments of State for whose operations, in all respects, individual Ministers are responsible to their Parliament; and others including statutory agencies, corporations, tribunals and commissions. At the Federal level there are fifteen departments of state.

Public servants are apolitical, providing objective advice on alternative policy options and their consequences.

At the federal level a group of senior public servants has been identified as a senior executive service (SES). This is a mobile cadre of senior executives who have broad management expertise, shared public sector values, and broad experience of discharging public service responsibilities. The purpose of the SES is to prevent the management of individual departments from becoming 'in-grown' and to promote policy coordination between departments.

Central agencies and reform management

The Expenditure Review Committee of Cabinet (ERC) is responsible for budget preparation. It reviews new spending *and savings* proposals by individual portfolios in considerable detail. In the case of savings proposals it fine-tunes the proposals to minimize adverse political fall-out. The principle of collective cabinet responsibility ensures a high level of contestability of new spending proposals - ministers have every incentive to test the spending proposals of their colleagues in order to maximize the pool of uncommitted budget funds available for their own proposals.

For the same reason there is pressure on individual ministers to come up with savings options in their portfolio.

In Phase 1 of the reforms the Cabinet Office played a key role in enforcing the rule that portfolios could not lodge new *spending* proposals for ERC consideration unless they also lodged portfolio *savings* proposals (to the level specified in the annual budget circular). In enforcing this, the Cabinet Office received strong backing from the Prime Minister's Office (to overrule special pleading by portfolio ministers that there were no

savings options available in their portfolio). ERC decided which (if any) of the savings options from each portfolio were include in the budget.

The introduction of rolling forward estimates based budgeting ensured that ERC discussion focuses only on *new policy* measures, and not on the level of funding for existing policies. Funding levels for existing programs are already contained in the forward estimates approved in previous budget cycles. This provides the *baseline budget* for the policy review process, which is the main task of the budget preparation cycle. Cabinet discussions therefore focus almost entirely on policy changes to the baseline budget. This enables ministers to spend considerable time on refining policy settings.

Resulting spending and savings decisions are entered into the forward estimates and become part of the baseline for subsequent budget preparation rounds.

Politicization

The top echelon of the federal public service is to some degree politicized. Thus when the Liberal Government was elected in 1996 one third of departmental secretaries were replaced. Below this level the APS is largely depoliticized. Senior staffing adjustments consequent on a change of government extend down only one or at most two levels within government departments.

Under the Westminster model (which broadly underlies the Australian system of government) public servants are responsible to ministers, ministers are responsible to Parliament, and Parliament is responsible to the people. In reality, however, Chief Executive Officers (CEOs) of departments are now employed on the basis of performance contracts, and take substantial personal responsibility for the performance of their department.

It should also be noted that Australian officials are technically public servants (who are responsible to the elected government) rather than civil servants (who are responsible to a monarch or head of state). Under the constitution the Australian Governor General formally appoints the government following an election and public servants are responsible to that government, rather than to the Governor General.

Reform activities

Summary

Phase 1 of the Australian reforms at the federal level consisted of five major changes:

1. Identification of **program objectives and outcomes** by each federal department. This involved a) preparation of annual reports of achievements against those objectives by each department and b) introduction of a requirement for all programs to be formally evaluated on a five year rolling basis, with the evaluation program being prepared in consultation with the Department of Finance and each program evaluation being forwarded to the Minister of Finance.

2. **Increased operational flexibility for departments.** This was achieved by progressively combining the line item details in departmental budgets. This enabled departments to use budget funds in the most cost-effective manner and avoided 'end of year spend-ups' in the former narrow budget categories. This was accompanied by provisions for carry-over and bring-forward of budget funds between budget years, and an efficiency dividend of 1.25% of running costs per annum that forced agencies to put the new flexibilities to good effect.
3. The introduction of **rolling forward estimates based budgeting.** This involved preparation of forward estimates of the cost of each program, which became the starting point for preparing each year's budget for that program. As a result, budget preparation focused on policy improvement rather than the re-negotiation of funding levels for each program. Successive budgets in the second half of the 1980s introduced large numbers of savings options that improved the targeting of programs and freed up funds for new policy measures and for the reduction of the budget deficit.
4. The introduction of **commercial operating principles** within the public sector. This involved three key steps:
 - establishment of prices for goods and services supplied by public agencies: these prices reflected the real cost of resources used in their production and ensured that decisions to consume government goods and services were sensitive to the resource cost of supplying the good/service;
 - re-direction of budgetary appropriations from the agencies supplying the service to the agencies consuming the service (the supplying agencies were no longer directly funded from the budget but indirectly via payments for the service from the consuming agency); this involved an element of deregulation since the supplying agencies were no longer responsible for regulating the use of the services; and
 - the removal of restrictions on public sector agencies purchasing inputs from private rather public sector suppliers or selling outputs to the private as well as to the public sectors.
5. A **reduction in the number of federal departments** from 27 to 16 in 1987. This reduction was intended to allow greater flexibility in resource allocation due to the larger management units that were created. A program of asset sales and privatization accompanied this.

Phase 2 of the reforms consisted of four further sets of changes

1. Introduction of new public service legislation to provide departments with greater freedom in **human resource management** to match the financial freedoms progressively accorded agencies since the 1980s.
2. Further incorporation of a **results focus in budgeting** through the basing of the budgets on outputs, together with increased accountability for heads of departments for the delivery of these outputs.
3. Further **outsourcing**, the creation of **arms length service provider agencies** and continuation of the **privatization** program.
4. Introduction of **accrual budgeting**, in order to ensure that pricing and use of public sector outputs reflected the full resources used.

Reforms to the organizational structure of government

Given the importance of Parliament in oversight of the administration of the public service, a separate statutory regime is provided for the departments that service the Parliament. This is in order to protect their independence.

Where public sector service organizations required an arms length relationship with a federal department, an executive agency was created. The transfer of government services to the private sector through privatization, commercialization, corporatization, or outsourcing allowed market conditions and consumer choice to influence service delivery. For services that are contestable, market mechanisms are likely to generate competitive pressures for improved delivery and reduced costs; and lead to increased demand and pressure for better services from service users/clients.

In September, 1997, the Prime Minister launched Centrelink, a "one-stop shop" integrating customer access to government services previously provided across a number of portfolios, and described it as "probably the biggest single reform undertaken in the area of service delivery during the past 50 years." The establishment of Centrelink was designed to secure the separation of policy from service delivery.

The principles underlying the establishment of Centrelink were:

- to improve customer service and access;
- to enable quicker decision making; and
- to support achievement of greater value for money by linking client services previously provided by different agencies.

In practice, the scope of Centrelink's business activities is determined by the strategic partnership arrangements it can establish with government policy agencies. Centrelink is unique in that it is not funded under the federal budget through appropriations. Its operating funds are derived entirely through those government agencies that purchase its services. Centrelink currently delivers payments and services for five Commonwealth departments, the Australian Taxation Office, and State Government Housing Authorities. Services range from income support and employment services to family and veterans' payments.

The Commonwealth Ombudsman reported a 23 percent reduction in complaints from citizens in March 1998, compared to the previous year, which suggests that the organization is achieving its desired outcomes. In the first two years of its operation it was expected to return savings to government of \$97.5 million (Australian), and \$141.5 million (Australian) each year thereafter.

In contrast to most other countries, Centrelink is not part of the Department of Social Security, but is a statutory authority created within the Social Security portfolio, and accountable directly to the Minister for Social Security. Similar agencies in other countries are established within a "parent" department (PUMA 1998a).

Cutting back the programs undertaken by government

For most of the last 15 years Australian Federal governments have followed two objectives: a **favorable financial balance** (in order to diminish debt); and **smaller government** (to allow more room for private sector growth). Over both phases of reform there has been extensive outsourcing to the private sector of services previously provided 'in house'. The Liberal Government elected in 1996 was particularly committed to the introduction of market sector mechanisms, including outsourcing, and the restriction of government activity to its strategic public purpose.

In the seven years, from August 1990 to August 1997, the total Australian workforce has expanded by 342,000, while public sector employment has declined by 257,000. This has occurred across all levels of government, with the Commonwealth leading the way with a reduction of 29%.

Over the same period, State government employment, by far the largest sector, has dropped by 11% and local government by 7%. Some of this reduction has occurred as governments have increasingly commercialized, completely or partly privatized, or outsourced functions that are either commercial by nature, or not the core business of government.

In 1990 public employment in the APS comprised about 2.4% of the total workforce. By 1997, that figure had fallen to 1.9%. The underlying size of the APS after the impact of transferring functions out of the APS has fallen from 156,654 in 1987 to 126,390 at the end of 1997. The APS has reduced in size by almost 12% between June 1996 and December 1997.

However staff cuts have not been cheap – a reduction of 23,000 jobs at the Federal level in the four years since mid 1995 cost more than US\$300 million in redundancy packages.

Civil service and personnel reforms

Public sector reforms since the mid 1980s have progressively reduced centralized controls over program agencies in financial, and subsequently human resource, management.

Within agencies, HRM incentives were initially based on performance contracts and bonuses (with mixed success). This was superseded under the recent purchaser-provider arrangements by agreements with agencies to provide defined levels of outputs and services. Contracts with CEOs are seen as particularly important in ensuring good performance, achieved through clearly pinpointing responsibility with the CEO for under-performance in relation to these agreements.

Under Phase 1 of the reforms large numbers of budget lines for different categories of operating costs were combined. Financial devolution has avoided end of year 'spend-

ups' in narrow budget categories and encouraged a sense of pro-active and results-focused resource management.

Under Phase 2 of the reforms the general emphasis was on allowing agencies freedom to manage. Service wide approaches are confined to codes of conduct and accountability for observing them rather than prescriptive rules about employment conditions or financial management. HRM reforms have replaced inflexible HRM rules by a simpler and more direct relationship between employer and employee. This reflects the circumstances of each government agency and the realities of the Australian labor market, rather than APS wide norms of a previous era.

The aim of Phase 2 of the reforms was to give departmental secretaries increased freedom to manage their staff and their programs, while increasing their accountability to their minister. Ministers are in turn accountable to their Cabinet colleagues under the principle of collective Cabinet responsibility, and to Parliament for the use made of the funds appropriated by Parliament. Departmental secretaries are also required to provide an annual report to their minister for presentation to Parliament.

In 1998 a number of reforms to the public service legislation were introduced. These included:

- establishing a new set of APS values;
- establishing a new code of conduct, a breach of which will be grounds for misconduct proceedings;
- a scheme for the protection from victimization and discrimination of public servants who "blow the whistle";
- allowing agencies to choose the source from which they select their entry-level recruits;
- adopting a policy that all APS vacancies may be accessed persons outside the public service, provided they satisfy citizenship, health, security and other requirements – unless an agency determines that on the grounds of costs and operational efficiency the vacancy should be restricted to APS applicants only; and
- devolving to agencies the power to determine the qualifications or other conditions to be satisfied for appointment, promotion or transfer.

The legal requirements for proper financial management by Executive Government are set out in the *Auditor-General Act 1997*, the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997* (these three acts replaced the *Audit Act 1901*). This legislation outlines: the appointment, powers and duties of the Auditor-General; the specific financial responsibilities of Secretaries (Chief Executive Officers) of government departments and heads of Commonwealth statutory authorities and Commonwealth-owned companies; the duties of accounting officers; and auditing and inspecting. These are supplemented by the *Public Service Act 1999*.

The new Public Service Act ensures that all employment decisions are exercised without patronage or favoritism. This is backed up by directions to departmental secretaries from the Public Service Commissioner.

Under the Public Service Act 1999 the **Public Service Commissioner** is required to report annually to Parliament on the State of the Service, including an evaluation of the extent to which agencies have incorporated the APS Values and the adequacy of their systems and procedures for ensuring compliance with the Code of Conduct. The report includes trends in the size and composition of the public service, and an evaluation of the extent to which the service has maintained the standards of public administration.

Statutory responsibilities of the Public Service Commissioner include:

- an involvement in various employment decisions relating to Senior Executive Service (SES) staff;
 - implementation of machinery of government changes;
 - conducting inquiries, evaluations and reviews of human resource management practices;
 - investigation of whistle-blowing disclosures by public servants.
 - promoting and upholding the merit principle;
 - developing human resource management policies and practices in recruitment, selection, mobility, conduct, performance, redeployment and retirement;
 - fostering leadership; and
 - promoting and reporting on workplace diversity in the APS.
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- The **Merit Protection Commissioner** occupies an independent office established under the Public Service Act 1999 and located with the Public Service and Merit Protection Commission (PSMPC). The Merit Protection Commissioner has a key role within the APS in providing independent external review of actions affecting individual APS employees. This role supports the policy of the Australian Government that APS agencies should achieve and maintain workplaces that encourage productive and harmonious working environments. It also supports the specific legislative obligation of agency heads, included within the APS Values, to provide a fair system for review of decisions for APS employees. The Merit Protection Commissioner also plays an important role in supporting adherence to other APS Values and the APS Code of Conduct.

The Merit Protection Commissioner's functions are not limited to the APS. On a fee-for-service basis, the Merit Protection Commissioner may perform a wide range of employment-related functions, including for State and Territory departments and authorities, local government bodies, private corporations and bodies and for Commonwealth authorities whose employees are not engaged under the Public Service Act.

The 1997 Public Service Act extended certain flexible workplace arrangements prevailing in the private sector to the public sector. Under Phase 2 of the reforms government departments and agencies can individually determine pay in accordance with market considerations and the circumstances of their individual agencies. However service level contracts specify the level of budget funding to be made available.

The Public Service Act includes a code of conduct for public servants, protection of 'whistle blowers' and enhanced transparency through reports of the Public Service Commissioner. The code of conduct is contained in the public service legislation and is therefore enforceable by law. The Public Service Commissioner monitors the extent to which agencies support the code of conduct in the public service legislation and issues guidelines on service wide values and codes of conduct. However this is a facilitative rather than a regulatory role. The *Financial Management and Accountability Act 1997* provides the legal framework for maintaining ethical standards in budget execution.

Budget process changes

Budget reform in Australia can be divided into two phases. **Phase 1** relates to the introduction of a **performance focus**, increased **management flexibility** for program agencies and **rolling forward estimates based budgeting**. **Phase 2** relates to the **contracting out** of service delivery, greater freedom for departments in **human resource management**, identification of **budget outputs** and the introduction of **accrual budgeting**.

Under Phase 1 reforms performance budgeting was introduced, based on the regular publication of performance indicators for each program, together with associated program objectives. This was supplemented by regular set piece evaluations of each significant program. The resulting information on program outcomes formed the basis of saving and spending options in subsequent budget rounds.

Intensive policy review over a series of annual budgets in the late 1980s and the 1990s led to great improvements in the composition of the budget. Major improvements in operational efficiency were also secured through imposing an annual efficiency dividend on each portfolio together with an annual requirement to produce portfolio savings options.

By the mid 1980s not only had much of the social agenda been introduced, but also the budget deficit had been turned around to a sizeable surplus. This involved cutting poorly targeted or inappropriate programs in order to make room for new spending priorities. It reflected a change in agency focus under the reforms from narrow funding issues to the core objectives of programs and more cost-effective way of achieving these objectives.

The scale of this structural adjustment in public spending attracted international attention.

Phase 2 of the reforms occurred from the mid 1990s. This was driven by the Liberal Government's desire to increase the operational efficiency of the Federal bureaucracy by further exposing it to commercial principles and pressures. It also reflected the failure under Phase 1 of the reforms to relinquish centralized staffing controls as rapidly as centralized financial controls (the Public Service Act of the time prescribed detailed rules for staff management which were increasingly out of sympathy with the flexibility with which departments could use budget funds).

Whereas the first round of reform focused primarily on the composition of government spending, the second round focused on operational efficiency of public service provision. This involved further privatization and outsourcing, further staff cuts, the introduction of accrual accounting and further devolution of financial and staffing management to departmental heads.

The aim of the latter is to give more freedom to departments in managing inputs, while ensuring control through increased accountability of the heads of departments (the role of which becomes closer to that of a private sector chief executive officer) and an enhanced facilitation role for the Public Service Commissioner.

In particular, the 1999–2000 Budget represented a major shift in the way the Government budgets and manages its resources. For the first time the budget was explicitly based on program agency outputs and accrual accounting principles, in conjunction with service delivery contracts for program agencies. The accrual framework also places outcomes and outputs — or results and deliverables — at the center of how agencies plan, budget, manage and report. Under the accrual framework, agencies are resourced for the price of their outputs. The agency output price includes full costs, such as depreciation and employee leave entitlements, and also reflects its cost to government of capital.

Agencies are also now responsible for developing and maintaining their own forward estimates of program costs. However, the Department of Finance and Administration (DOFA) retains responsibility for quality assurance in relation to the accuracy of these estimates and advising Government on an agency's performance against its outcomes. The new framework enables the Government to link the full cost of its outputs to planned outcomes. It also exposes the Government to a greater degree of public scrutiny and accountability.

The *Charter of Budget Honesty Act 1998* aims to improve the Commonwealth Government's accountability for fiscal policy formulation. The Charter requires Federal governments to release an annual fiscal strategy statement (usually with each budget) based on the principles of sound fiscal management. The statement must:

- Specify the government's long-term fiscal objectives within which shorter-term fiscal policy will be framed;
- Explain the broad strategic priorities on which the budget is or will be based; and
- Specify the key fiscal measures against which fiscal policy will be set and assessed.

The Charter also sets out the Commonwealth government's fiscal reporting requirements. The Charter provides for comprehensive economic and fiscal outlook reports at the time of each budget, at mid-year, and prior to elections. Among other things, each economic and fiscal outlook report must contain: fiscal estimates for the budget year and the following three financial years; the economic and other assumptions used in preparing those fiscal estimates; and a statement of risks that may have a material effect on the fiscal outlook. The Charter also requires that a final budget outcome report be released after the end of each financial year.

The introduction of accrual budgeting builds on the above standards of fiscal transparency and accountability. The Accrual Information Management System (AIMS) is the Commonwealth's central budgeting and reporting system. AIMS provides:

- Complete budget and forward estimates functionality, from the collection of agency data to development of budget documentation;
- Central appropriation and cash management; and
- Whole-of- government and General Government Sector (GGS) reporting of actual results.

With the implementation of AIMS, DOFA's primary responsibility has moved from the agreeing budget estimates with government agencies to the quality assurance of estimates prepared by the agencies themselves. AIMS is completely decentralized, and agencies are now responsible for the accuracy and input of their own budget estimates.

In the early 1990s, a *Uniform Presentation Framework* was agreed among the Commonwealth and all States. This requires each jurisdiction to produce a uniform set of fiscal reporting tables. In addition, the Commonwealth and States have agreed to *Uniform Public Sector Accounting Standards* that require all jurisdictions to compile a standard set of financial statements using recognized accounting standards.

Australia's fiscal framework is consistent with the principal areas of the IMF Code on Fiscal Transparency:

- Clarity of roles and responsibilities;
- Public availability of information;
- Open budget preparation, execution and reporting; and
- Independent assurances of integrity.

E-government

The Government's Online Strategy complements the outcomes/outputs budgeting framework introduced in 1999-2000. This sets a timetable for agencies to deliver information via the Internet; put services online and undertake procurement by electronic means. Recently the final components of the policy, legal, security, IT access and information frameworks have been put in place to enable the secure and private transaction of business electronically and the provision of information online which is easy to access, navigate and search.

The key elements of this new framework are:

- Government Online Strategy (2000)
- Commonwealth Electronic Procurement Implementation Strategy (2000)
- Framework for National Co-operation on Electronic Commerce in Government Procurement (1999) APCC
- Guidelines for Commonwealth Information Published in Electronic Format (1999) DOFA
- Electronic Transactions Act (1999) Privacy Act (1988) Privacy Amendment (Private Sector) Bill.

Reform outcomes

A key lesson from the reforms pursued is that a budget process that actively improves program and policy settings can generate a much greater increase in welfare than a budget process that is focused purely on compliance and financial control.

Phase 1 of the Australian reforms in the mid 1980s attracted international attention due to the **large-scale re-prioritization of spending** achieved by successive annual budget cycles. At the same time the **aggregate budget outcome was transformed from deficit to substantial surplus**.

At the level of individual program agencies, it took quite a long time for a results focus to develop. However the **constant pressure** in successive budget preparation cycles **to identify savings options** (i.e. to spend funds more cost effectively) resulted both in **better-designed programs** and **reduced levels of associated operating costs**. Taken together, these greatly increased the benefits generated by each budget dollar.

DOFA took a highly pro-active role in explaining the new management philosophies and techniques to the program agencies. Over time agencies developed strong internal resource allocation systems that enabled close scrutiny of the effectiveness of internal activities, and reallocated funds internally where effectiveness was low. Annual budgets focused much more on policy improvement : it is likely that the gains were orders of magnitude larger than those delivered by the earlier, compliance based, budget processes.

Phase 2 of the reforms (particularly the introduction of accrual budgeting) has also received international recognition, due to the scale of the transition involved. Phase 2 has the potential to further reduce the resources required to deliver public goods and services due to the introduction of appropriate costing procedures and competitive pressures.

However, the jury is still out on the scale of the benefits. It is clear that there have been some problems in introducing accrual budgeting. It also remains to be seen whether individual departments have fully developed the skills needed to manage service contracts with arms length suppliers well enough to keep costs below levels that were achieved under Phase 1 reforms.

The thrust of Phase 1 of the public sector reforms was to make the bureaucracy more responsive to its political leaders and to refocus agencies on results. This has largely been achieved. From August 1990 to August 1997, public sector employment in Australia has declined by 257,000. The thrust of Phase 2 has been to deliver results more economically, and the changes are still bedding in.

Phase 1 of the reforms shifted the focus of the budget process from the precise level of funding of multiple budget lines for existing programs to the improved targeting of programs and broader issues of better program design. Program agencies became much more focused on the objectives of their programs and on better ways of using budget

funds so as to increase the impact, rather than on negotiating the maximum funding possible with the Department of Finance.

Elimination of the line item detail for the operating costs of each department enabled departments to use budget funds much more cost effectively and avoided 'end of year spend-ups' in the former narrow budget categories. This was reinforced by provisions for carry-over and bring-forward of budget funds between budget years, and an efficiency dividend of 1.25% of running costs p.a. that forced agencies to put the new flexibilities to good effect.

Rolling forward estimates based budgeting provided a more certain operating environment for planning program changes. It also allowed budget preparation to concentrate on policy issues rather than disputes over level of funding for programs which were often ineffectively targeted.

The results of the commercialization initiatives in Phase 1 has been far reaching, with user charging becoming the norm for relations between public sector agencies, and in supplying many services to the public.

The ability in the mid 1980s to move the budget bottom line from deficit to surplus while at the same time introducing a range of new social measures was an achievement that would not have been possible under the old, input focused, approach to preparing and executing the budget. It was directly attributable to improved compositional and operational efficiency of the budget.

This was achieved through a reduction in focus on budget process and increased attention to budget outcomes. Essentially the focus of the budget preparation was transformed from negotiating the funds required for existing programs to negotiating whether each program could be targeted better and delivered more efficiently.

Across the board cuts driven from above by macroeconomic crises were replaced by bottom up, detailed, policy proposals for savings, developed by program agencies themselves, that were examined in depth, refined and precisely targeted to achieve reductions in spending with minimum damage to the government's key results areas.

By minimizing the cost of fiscal restraint in terms of damage inflicted in program results areas the government is likely to have proceeded further with expenditure consolidation than political constraints would otherwise have allowed.

However the reform encountered problems. While some public sector agencies (such as the Department of Social Security) moved quickly to the new results focus, others took a much longer time. Moreover, in reporting on program performance it was often difficult to disentangle program outcomes from the effect of changes in the program environment. Some of the program evaluations lacked incisiveness.

A further shortcoming of Phase 1 was that the reforms were driven from the budget side. While there was some increased flexibility in human resource management (for example staff numbers were no longer a Department of Finance control point) real change awaited Phase 2 of the reforms.

Phase 2 of the reforms is building on the achievements of Phase 1. The focus under Phase 2 on program outputs as well as outcomes is tightening up some of the looseness in performance reporting under Phase 1. The freedom for each department to determine its own wages and employment policy is belatedly matching the budget flexibility introduced under Phase 1.

On the negative side it appears that contracting out of services, which is a feature of Phase 2, does not necessarily lead to lower costs. While in principle the purchase of services should make costs more visible, and competition for the contract should force costs downward, there is also a need for departments to learn new contract management skills. Where slimmed down departments do not have the time or experience to manage contracts pro actively, the cost effectiveness of programs may not be increased by arms length delivery arrangements.

It is too early to assess the value of accrual budgeting. Its purpose is partly to ensure that users of government services take the full resource costs of providing the services into account in determining their consumption levels. However if the pattern of resource use is largely unchanged after the introduction of accrual budgeting it is harder to justify the increased complexity and subjectivity of the budget process. In this regard the 'jury will be out' for a while yet.

The reduction in central control enjoyed by program agencies in Phase 2 could have resulted in waste or misuse of resources had these elements of managerial flexibility not been introduced in an environment in which program agencies were already performance focused and had already developed strong internal financial management and performance improvement skills.