Results-Oriented Management: Australian Public Sector Financial Management, Accounting, and Budgeting Reform in the 1980s*

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THE NECESSITY FOR REFORM

The 1980s have seen an unprecedented series of financial management, accounting, and budgetary reforms in the Australian federal public sector. The rationale for these reforms, their progress to date, and the challenges they pose for the future are addressed in this chapter to provide some insights into the "results or performance-oriented" management approach adopted by the Federal Government. Significant economic reform has also been pursued in Australia during this period and, in a very real sense, it has been linked closely with the financial management and budgetary initiatives of the Government. This nexus is best seen by describing the circumstances that brought about the reform process.

The real impetus for affirmative policy action has been the increasing economic difficulties faced by Australia since the late 1970s, and the realization by the newly elected Hawke Labor Government in March 1983 that macroeconomic policy solutions and fundamental change at the microeconomic level were essential if Australia was to continue to be a modern, developed nation into the next century. Historically, Australia's relatively high standard of living was built upon heavy reliance on the production of agricultural staples and, since the 1960s, a seemingly endless demand by the world for its minerals. However, declining terms of trade for these

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outputs, the international recession of the early 1980s, and a lack of attention to structural efficiencies combined to bring about the most serious economic situation in Australia since the Second World War.

In response to these difficulties economic policy over the past few years has focused on achieving a sustained reduction in the excessive terms of trade imbalance that emerged as a result of the international collapse in commodity prices in the previous decade. This situation had a particularly harsh impact on Australia, as a commodity exporter, to the extent that in 1985/86 its current account deficit was over $A 14.8 billion, or 6.3 percent of gross domestic product (GDP), compared with 3.8 percent two years earlier-a level that was both unacceptable and unsustainable.[1] The Government's response to this problem has been to adjust the goals of policy to achieve marked reductions in the current account deficit while maintaining an acceptable level of economic activity and resource utilization within the economy. That approach has borne fruit. The 1987/88 current account deficit was $A 11.9 billion, or a little over 4 percent of GDP.[2] The economy's basic susceptibility to overseas economic forces remains strong, however, and the Government's policy stance acknowledges that substantial further progress is required in this area.

Within this overall macroeconomic policy framework the Government has recognized the crucial necessity for public sector spending restraint to help correct the trade imbalance. Accordingly, it has very substantially tightened fiscal policy to the extent that in August 1988 the Government announced an estimated budget surplus of $A 5.5 billion or 1.7 percent of GDP for the 1988/89 fiscal year.[3] This surplus contrasted dramatically with a federal budget deficit of $A 8 billion or 4.3 percent of GDP in 1983/84.[4] The significance of this turnaround was stressed by the Australian Treasurer, Mr. Keating, in 1988 when he stated that "the real measure of the worth of this surplus is that it includes the combined borrowings of all state and local government authorities and all public

[1] Australian Government, *Budget Statements 1988189* (Canberra: Government Publishing Service, August 1988), pp. 22-23.

[2] ibid., p. 23.

[3] Ibid., p. 3.

[4] Australian Government, *Budget Statements 1984185* (Canberra: Government Publishing Service, August 1984), p. 367.

sector enterprises ... and means that in 1988-89 the net public sector borrowing requirement will be zero."[5]

Microeconomic policy action since 1983 has included

- removal of inappropriate regulations in the financial sector, floating of the Australian dollar, and simultaneous abolition of exchange control regulations;
- relaxation of many interest rate controls;
- opening up the banking system to foreign competition;
- removing most foreign investment controls; and
- reducing protection for industry.

The Government is also pursuing structural adjustment across industries by further examining protection, regulation, taxation, labor market operations, and other potential impediments to economic efficiency, such as outmoded port facilities and practices.

In its own backyard the Government set about facing the challenge of doing more with less through a concerted attempt to change the philosophy of public sector management. Previously, the ethos of Australian public administration tended to be characterized as focusing primarily on compliance with rules and procedures designed to control and limit departmental use of resources rather than being concerned with results. The deficiencies of this traditional approach commonly encountered included

- little need to consider the purpose or objective of spending;
- accountability was more closely related to control of expenditure against detailed appropriations than to results achieved from expenditure;
- more concern with analyzing changes from previous periods than with making forward projections and planning ahead; and
- no ready capability for determining the full cost of specific programs.

The financial management and budgetary reforms currently being pursued are designed specifically to address these deficiencies. Indeed, the Government was elected on a platform that placed high

[5] Treasurer of the Commonwealth of Australia, Budget Speech 1988/89 (Canberra: Government Publishing Service, August 1988), p. 4.

priority on reforming government administration. In its policy paper of early 1983 [6] the Government promised, in part, to set up a task force to study reform of the financial management and budgetary systems. On assuming office, it established that task force, and in late 1983 and early 1984 White Papers were released setting out government intentions in this area.[7]

The major focus of the Government's reform package has been the Financial Management Improvement Program (FMIP), which was started in April 1984 to promote and encourage efficient and effective resource management in federal government administration.[8] A notable attribute of this comprehensive approach is that it is based on an attempt to diagnose in a systematic fashion the nature of financial management problems. This approach contrasts with the pre-existing view that new bureaucratic procedures can of themselves bring about the required improvements, and it recognizes that a move in the direction of improved financial management must involve a change in attitudes -toward a performance-oriented management approach-instead of the predominantly pre-existing focus on input and control.

The results of a 1984 survey[9] of senior Australian federal public

[6] Australian Labor Party, *Labor and the Quality of Government* (Canberra, February 1983).

[7] Minister for Finance, *Reforming the Australian Public service* (Canberra: Government Publishing Service, December 1983); and Minister for Finance, *Budget Reform (Canberra:* Government Publishing Service, April 1984).

[8] Many countries, particularly in the Organization for Economic Cooperation and Development, have embarked or are embarking on similar programs. All share the twin concerns of improving financial management practices and controlling public spending, with considerable emphasis on accountability and performance. The United States is undertaking numerous initiatives under its joint Financial Management Improvement Program (JFMIP). Canada instituted its Increased Ministerial Authority and Accountability (IMAA) in 1986, and in the United Kingdom the Financial Management Initiative (FMI), launched in 1982, consolidated and revitalized efforts to improve financial management begun in the 1960s. Within Australia, all the states and the Northern Territory have also moved to improve public sector administration. While none have put in place as comprehensive a scheme as the FMIP, some have made more progress in certain areas. For example, in New South Wales particular emphasis has been placed on performance evaluation, with all departments being required to have a five-year rolling program aimed at improving program effectiveness and efficiency.

[9] Department of Finance and Public Service Board (PSB), *Financial Management Improvement Program Diagnostic Study* (Canberra: Government Publishing Service, February 1984).

servants illustrated the magnitude of the problem that the FMIP set out to try to address. This survey revealed that 94 percent of managers questioned on financial management practice perceived it as basically spending the total amount appropriated or controlling expenditure against the legal appropriation limit. In short, the previous budgetary and financial management system reflected an emphasis on the stewardship and control of resource inputs and a lack of orientation toward output or performance. Budgets were about spending money rather than achieving the political, social, or economic objectives of particular government programs.

The FMIP, which is being coordinated by the Department of Finance-the central agency responsible for overseeing the Commonwealth's financial administration, and, more specifically, for financial management and expenditure review and control activities-covers a multiplicity of measures that operate in three broad areas:

- introducing systems techniques that enable management in departments and agencies to focus on results;
- improving the budgetary and regulatory environment by reviewing unnecessary constraints imposed on public sector managers; and
- improving the standards, skills, and practices of resource management on a service-wide basis.

MANAGING FOR RESULTS

Developing a system of "managing for results" has been a key thrust of the FMIP. It can be characterized as providing the tools that will enable departments and agencies to take advantage of the changing environment. Four separate elements of this approach may be identified:

- corporate management;
- program management and organization design;
- management information; and
- program evaluation.

Corporate Management

Corporate management deals with primary management issues that are fundamental to the effective performance of the organization. It establishes the basic rationale for the organization and its broad direction of development and provides the strategic focus for the three other elements of managing for results. The central concerns addressed in the corporate management approach are

- the determination of the broad mission, goals, and strategy;
- the establishment of a program structure based on the corporate goals and objectives;
- the setting of priorities and the determination of resource allocations among programs; and
- the development of the overall management and staff communications framework.

The results-oriented role for managers in the public sector is intended to mirror that of profit-seeking managers in the private sector, although there is a recognition within the FMIP that the former are required to take into account other important objectives such as equity, equality, access, justice, probity, and security. Many techniques similar to those used in the private sector have been and are being introduced to public sector management, but these are often adapted to accommodate the above-mentioned social objectives. Some of these techniques are addressed later in the chapter.

Typically, corporate management starts at the portfolio level. Major changes to the machinery of Federal Government introduced in July 1987 reduced the number of departments from 28 to 18, organized into 16 Cabinet portfolios. The objective of these changes was to provide ministers and departments with the opportunity, and the responsibility, to concentrate on their priorities and the effectiveness of programs, and to decide how best to meet objectives. The changes also allow ministers and departmental managers to allocate and reallocate resources with significantly less central scrutiny than existed in the past. The move to a "portfolio approach" to management is addressed in more detail in a later section.

Most departments have established some kind of "board of management" on an executive decision-making and planning-group basis to examine issues across the portfolio. But this applies solely to the departmental elements. Where statutory authorities are included within a portfolio, they usually operate with a high degree of independence from the departmental head. In some cases, regular executive-level meetings are held to discuss issues affecting all elements within the portfolio, including statutory authorities. Furthermore, most departments have developed a corporate plan and annual reporting frameworks as a major element of corporate management. The extent to which management authority is devolved to those responsible for service delivery in a department or agency is a crucial element of corporate management style. Devolution of management authority from central agencies, like the Department of Finance, to departments has been a central principle of the FMIP. It is equally important for management authority to be devolved within departments and agencies; if managers are to be accountable, they have to have the maximum flexibility to manage their resources.

Results from an FMIP survey concluded in 1988 suggest that substantial devolution is occurring both to and within departments.[10] All departments with significant regional representation indicated, for example, that control over staffing levels and administrative expenditure had been devolved to state director or lower. There were also indications that devolution was being limited in some departments by two factors. One is the scarcity of resource management skills. The other is the unwillingness of some line managers to assume resource management responsibilities, which, in turn, may be at least to some extent a carryover from the traditional administration model, in which resource management was seen as being primarily the role of "management services" units. Time, training, and a willingness to change attitudes will be necessary for these inhibitions to be removed. The Department of Finance aims to play a catalytic role in this change to the corporate management ethos by monitoring overall progress, helping to develop key elements of the management process, and assisting in the communication of experience between agencies.

[10] Department of Finance, 1988 *FMIP Report* (Canberra: Government Publishing Service, December 1988), p. 38.

Program Management and Organization Design

Program management and organization structure interact closely in management to achieve corporate goals. As such, they are discussed together in this section. Program management seeks to focus attention on results and the achievement of objectives within identified government policies, corporate priorities, and resource levels. It could be said to be an approach to planning, budgeting, implementation, and evaluation that is structured with the focus on results and resource consciousness throughout the process. Managing by programs has introduced a number of useful disciplines, including the requirement to define policy aims and objectives, establish program structures, and determine appropriate performance measures. Although not without cost, these processes have proved beneficial by encouraging agencies to think through what they are trying to achieve, and the best way of getting there. Put another way, they have encouraged a more strategic focus on the structure of the organization, and, particularly, the decision-making process rather than the operational aspects that seem to have taken up so much time in the past.

Organization design is essentially concerned with dividing the work and responsibilities of an organization as coherently as possible to obtain the best performance from individuals and the organization as a whole. Once an organization has worked out its goals, strategy, and program structure, the interest essentially centers on ensuring that the organization design brings these aspects to life in departmental management by:

- translating the program structure into roles and responsibilities for people within the organization;
- establishing effective channels of communication and decision making; and
- devolving authority and accountability to managers.

Departments and agencies have been encouraged, first, to develop program structures around strategic objectives, and then to decide on the appropriate relationship between program and organization structure. Many have chosen to rearrange their organization structures to fit program structures more closely. The FMIP survey mentioned above indicated that most departments and agencies had undertaken at least minor organizational adjustments to this end. About half of those surveyed stated that changes in their organizations had been “significant” -and six had undertaken a major organizational review to align organization more closely with program structure. For many departments, however, separation of program and organization structure is unavoidable, and the survey provided evidence of this fact: A high proportion of departments and agencies indicated that much divergence existed between programs and organization at one or more levels in the hierarchy.

The introduction of Program Management and Budgeting (PMB) in late 1985 has been an integral part of this aspect of the FMIP. The move to PMB, which has now been adopted in all departments and budget-dependent agencies, reflects the importance of outcomes in contemporary corporate management thinking of the public service. It also provides a commonly accepted information framework that enables all those involved in the public expenditure process to assess program effectiveness and decide where resources could be better allocated. Essential to that framework is the setting of program goals for managers at all levels against which to assess and improve performance and therefore to provide value for money for program beneficiaries and taxpayers alike.

In a recent seminar series on PMB organized by the Department of Finance, most of the participants were from areas involving programs other than corporate services. The discussion indicated a large amount of acceptance of FMIP/PMB principles and the benefits of a results-oriented perspective. Departments and agencies should be able through PMB to improve both corporate management and accountability to Parliament.

PMB has also been instrumental in ensuring that the Government’s social programs achieve their objectives efficiently. By having relevant information about program objectives and performance the Government has been able to contain budget outlays by targeting the most needy and then directing programs toward them, and by improving efficiency by avoiding the distortions associated with having loosely defined or loosely administered social programs. Program objectives and performance measures are being increasingly used as the basis for deliberations by parliamentary review committees. The committees are asking for clear statements of what managers are trying to achieve with the funds allocated and for evidence of program effectiveness.

Management Information

The emphasis on managing for results has significant implications for the information needs of both internal and external users. In turn, changes in those information needs imply a requirement to change the existing management information systems. For example, managers at all levels need better internal information on the costs and outputs of programs to assist in resource allocation decisions. Moreover, the Parliament and the taxpayers want external reports to contain information about the effectiveness and efficiency of government operations.

The main centralized information systems operated by the Department of Finance are the Finance Ledger System, the Budget Management System, the Payroll System, and the Staff Monitoring System. Each of these computer systems has been developed to provide comprehensive accounts, payroll processing, aggregate monitoring, and control that encompasses the Department of Finance's Central Office, its eight mainland regional offices, and overseas regional offices in London and Washington, all of which are linked on line. A number of overseas public sector experts have recognized that these systems provide good service.[11] Although further development of them will continue, it has been recognized that departmental program managers require more detailed and flexible reporting facilities than they can provide. Therefore, the development of most management information systems is being undertaken on a decentralized basis to create systems that will meet the needs of individual managers as well as the statutory reporting requirements of the central systems.

Major issues currently being addressed by various departments and agencies (including the Department of Finance) in developing information systems tailored to individual needs are

- developing common standards;
- encouraging economy of effort linking resource usage and performance; and
- integrating different types of management information.

[11] See, for example, the comments of Charles A. Bowsher, the U.S. Comptroller General, and Maurice C. Mould, former Senior Financial Adviser at the World Bank, in Public *Fund* Digest II, Vol. 1 (1987), pp. 43 and 83, respectively.

A brief description of the effort being put into the development of specific performance measures-the second issue above-should suffice to demonstrate the results-oriented requirements of management information under FMIP.

As part of FMIP all departments and agencies are required to develop performance measures of both effectiveness and efficiency and report to Parliament on program performance in any or all of three forms: Budget Explanatory Notes, Annual Reports, and Corporate Plans. However, because of the time spent to date focusing on outcome-oriented objectives, the development of performance information has lagged somewhat, although some useful work has been done. Recent hearings of the Senate Estimates Committee indicate that published performance information does not yet provide an adequate basis for the kind of accountability required under FMIP. The Department of Finance continues to work with program managers in departments and agencies to develop more meaningful performance indicators to meet these requirements.

In parallel with the moves to encourage greater emphasis on performance or managing for results in departments while freeing them from unnecessary detailed central controls, similar initiatives are now being applied to Government Business Enterprises (GBEs) such as Telecom, Australia Post, Overseas Telecommunications Commis-sion, AUSSAT, Australian National Line, the Commonwealth Bank, Australian Airlines, and Qantas.

Stemming from concerns of the Government expressed in a June 1986 Policy Discussion Paper[12] that a greater emphasis on performance by GBEs was needed, and from concerns of the management of these enterprises about excessive government controls on their operations, the Government released a Policy Information Paper in October 1987 that had, as a central element, the setting of financial performance targets for each GBE.[13] These financial targets will recognize the particular circumstances of each enterprise, including any community service obligations. Other

[12] Department of Finance, *Statutory Authorities and Government Business Enterprises: Proposed Policy Guidelines* (Canberra: Government Publishing Service, June 1986).

[13] Minister for Finance, *Policy Guidelines* for *Commonwealth Statutory Authorities and Government Business Enterprises* (Canberra: Government Publishing Service, October 1987).

operational targets relevant to the efficiency of operations are to be established within the framework of GBE strategic corporate plans. The accountability of these enterprises will be enhanced by an improved flow of information to ministers and by reporting of performance against goals, including financial and operational targets, in annual reports to Parliament. Reflecting this change, the 1989 Autumn Sittings of Parliament will be considering an amendment to the Audit Act-the legislation that sets out the basic rules of government accounting-that strengthens the ability of the Auditor General's Department to conduct performance audits of GBEs.

Complementing this greater emphasis on performance and accountability, the Government indicated a willingness to reduce various controls on the enterprises. These changes will be introduced on a case-by-case basis with a reform package to be negotiated separately for each GBE. The Department of Finance has been directly involved in negotiating these individual packages. In its May 1988 Economic Statement the Government announced details of the reshaping of the transport and communications GBEs in accordance with negotiated packages, providing for more emphasis on performance and enhanced accountability, coupled with modifications to or removals of various strategic and operating controls.[14]

Program Evaluation

The final, and critical, element of managing for results is program evaluation. It is the link between what has been and is being done and what should be done. Recognizing the importance of evaluation, the Government now requires agencies to plan for evaluation and to include "sunset clauses" and evaluation strategies in all new policy proposals.

The first departmental evaluation plans were lodged with the Department of Finance in December 1987. They were of variable quality, with a number of departments requesting assistance in formulating them. In March 1988 the Department of Finance established an Evaluation Task Force to work with and assist departments in evaluation and to identify and promulgate "best practices." The prime objective of the Task Force is to develop a

[14] Minister for Finance, Economic Statement, May 1988 (Canberra: Government Publishing Service, May 25, 1988), p. 18.

strategy to enhance evaluation in the federal public sector and to assist and encourage departments to pursue evaluation for their own management and priority-setting purposes.

The introduction of such plans requires agencies to plan their evaluation and review processes on a more systematic and objective footing. The emphasis is not so much on a substantial increase in evaluation activity but more on ensuring that such activity is planned and targeted by departments and external evaluators to best effect. In 1988-89 all departments will have addressed the structural elements of PMB for the first time, that is, program structure, performance indicators, and evaluation plans. It now remains to ensure that PMB achieves its objectives and does not simply become a process-oriented and bureaucratic system like some of its predecessors in other countries. In this regard, the Department of Finance has sought to work closely with departments by providing more information and training on the principles and techniques of evaluation. A Handbook and an FMIP Evaluation Training Module were published in 1987.[15] The development of a comprehensive evaluation approach will certainly require a sustained effort by managers at all levels of public sector administration.

A general FMIP/PMB model developed in the Department of Finance to illustrate the links between these two reforms is shown in Chart 1. It depicts the way in which the various elements of the FMIP interrelate and highlights the integral role that the development of the program structure plays in achieving the improved resource management objectives of PMB and FMIP.

In concluding this section it is useful to consider the progress made so far with the overall system of managing for results. In 1988 a questionnaire was sent to each of the 18 departments and to 13 agencies within the Federal Government. It was designed to provide an overview of progress in a way that was broadly comparable to the "snapshots" of progress shown in the 1986 FMIP Report.[16] Chart 2, which encompasses results from all the departments and 3 of the agencies surveyed, shows that while considerable progress has been made since 1986 -particularly with organization design and

[15] Department of Finance, Evaluating Government Programs: A *Handbook (Canberra*Government Publishing Service, May 1987).

[16] Department of Finance and Public Service Board, *FMIP* Report (Canberra: Government Publishing Service, June 1986).

Chart 1. A General FMIP/PMB Implementation Model

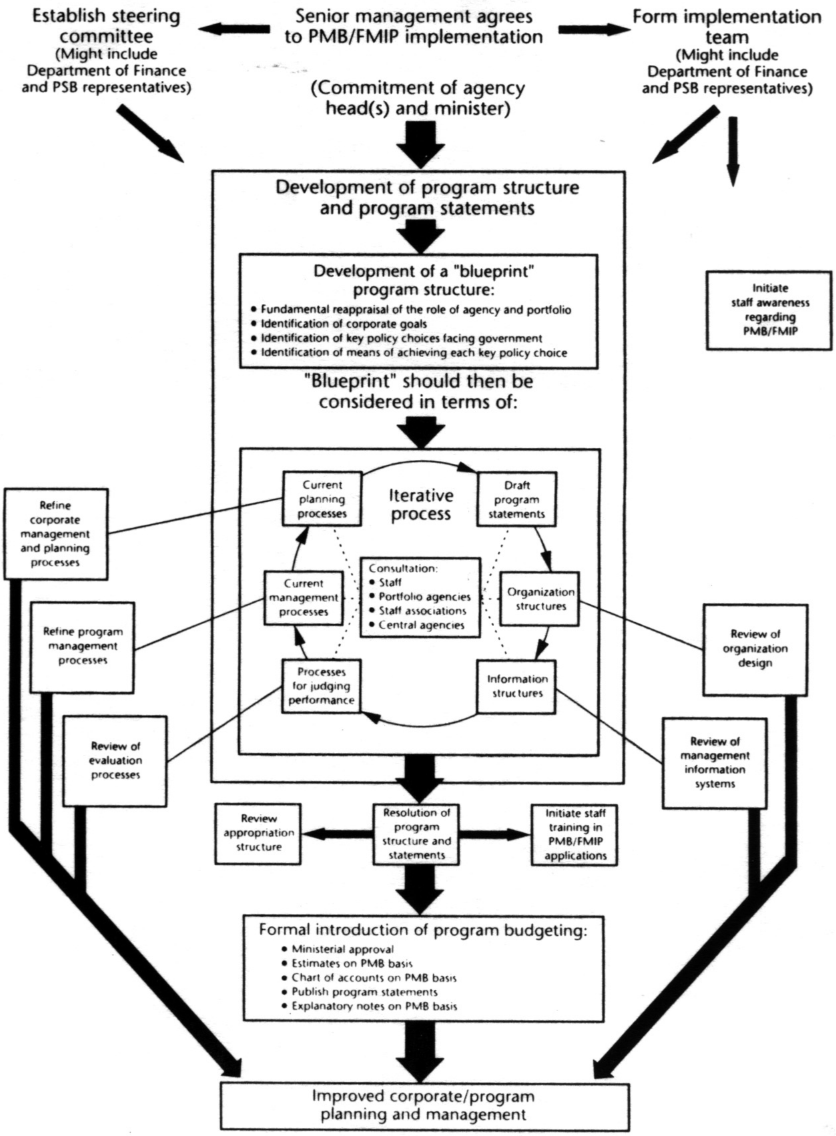
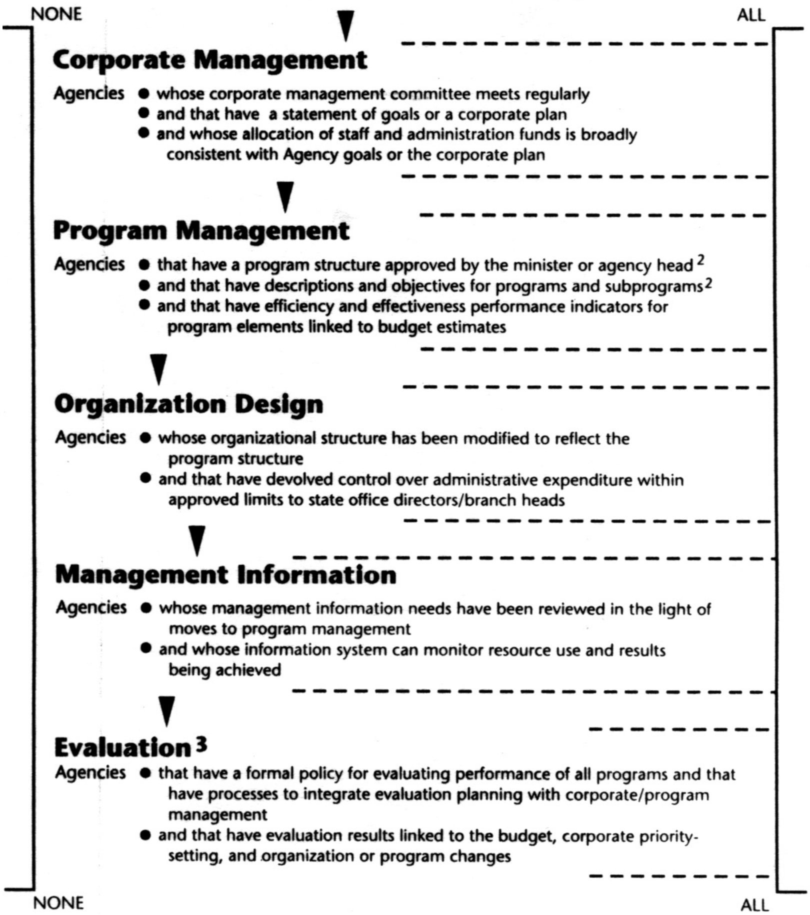


Chart 2. Managing for Results: A “Snapshot” Based on Key Indicators’



▼ Indicates status reported in 1986.
Indicates the proportion of departments and agencies that have achieved the specified key indicators

[1] 1988 survey of 18 departments and 3 agencies (the Australian Bureau of Statistics, Customs Service, and Taxation Office).
[2] These elements have been adopted in all departments and agencies.
[3] There is now a formal government requirement that all departments and agencies plan for the periodic evaluation of their programs.

evaluation-management information and program management still require more attention. Also, it is clear that a good deal of work is still required before all those organizations surveyed have implemented each element of the system.

IMPROVEMENTS IN BUDGETARY AND REGULATORY ENVIRONMENT

Changing the budgetary and regulatory environment is the second key element of the FMIP. It is a critical part of ensuring its success. The reforms already mentioned are placing more demands on management to be accountable for the results of their programs, and yet the budgetary and regulatory environment in which they have been operating tended to revolve around inputs to programs and compliance with rules and procedures. Clearly, some changes needed to be made.

The Appropriation Process

In addressing the budgetary and regulatory problems the Government has moved away from rigid centralized control of departmental resources to a system that allows departmental managers substantial freedom to allocate resources and to adapt to changing priorities.

The Running Costs System, introduced in September 1986, is a package of measures that embodies the freeing of centralized controls in concert with the introduction of a new accountability for program managers. It provides a method of encompassing in a single appropriation the full current costs of an agency in providing the government services for which it is responsible. It essentially covers all government spending other than transfer payments, grants, or loans.

The package included such other reforms as the consolidation of appropriations for administrative expenses, which, in some cases, reduced the number of appropriation items from more than 20 to 1-making detailed decisions on what to spend, for example, on travel or computer services of consultants entirely the prerogative of departmental management. At the same time, staff budgeting controls have been simplified, with salary control replacing numbers (average staffing level) as the dominant control. Also, under the new arrangements the capacity exists to carry over up to 2 percent of unused administrative operational provisions from one year to another, thereby allowing managers to take expenditure decisions in a more rational environment. In the 1988/89 budget a further extension of this new arrangement was introduced whereby departments were allowed a borrowing of only one year-again with the same overall 2 percent limit-against the following year's appropriation.

Overlapping the appropriation process is the recent introduction of cash limits on administrative items so that "letting the managers manage" through consolidation of appropriations has been disciplined by the setting of overall limits and the provision of greater certainty-thus "requiring the managers to manage" without supplementation except for a small number of specified items.

Regulatory Improvements

With a view to simplifying and clarifying the detailed body of regulations concerning public sector financial management issued by the Department of Finance, several interdepartmental teams have been reviewing the Finance Directions. Many of the changes recommended have already been implemented, including the charging for goods and services provided between departments and agencies with the object of making the "user pay." It is expected that this initiative will result in a more "correct" level of demand for government goods and services, and, consequently, a more efficient allocation of resources. At the same time it will ensure that the full costs of government activities are taken into account in decisions about the relative priorities of different programs and activities. Two examples illustrate recent moves in this area. The first relates to a decision by the Government in July 1988 that endorsed a range of measures to allow the Australian Property Group of the Department of Administrative Services to operate in a more commercial manner. Among the more important of these measures was that departments and agencies would have to pay market-based prices for services including rent, utilities, and property services in owned, as well as leased, accommodation. The second example was the decision by the Government to move to full-cost charging for capital works and maintenance services based on commercial fee scales for all agencies.

Reforms of the Budget Process[17]

Significant changes in the budgetary processes, for which the Department of Finance has prime responsibility, have taken place since the publication of the White Paper on budget reform in 1984.[18] They aimed at improving resource allocation procedures and encouraging results-oriented management. Specifically, the budget reforms were designed to improve the overall efficiency of the public sector by, on the one hand:

- providing greater autonomy for ministers and departmental managers to set their own priorities within an environment of tight fiscal limits set by the Government;
- reducing the Department of Finance's involvement in the minutiae of departmental resource issues; and
- providing greater stability for medium-term planning by departments;

but, on the other hand by

- expanding the concerns of both the Department of Finance and the departments with program effectiveness and efficiency and accountability;
- maintaining the Department of Finance's responsibility for aggregate expenditure control; and
- increasing its responsibility to probe vigorously where additional funds are sought.

The introduction of PMB, the requirement of departments to include program evaluation strategies in the new policy proposals, and the running cost system are all examples of budget reform addressed under previous headings. Several others of significance warrant mention.

[17] This section does not provide a detailed account of the Australian federal budgeting system. An excellent and still current description can be found in Organization for Economic Cooperation and Development, The Control and Management *of* Government *Expenditure (Paris:* OECD Publications Service, 1987), pp. 55-62.
[18] Department of Finance, *Budget Reform* (Canberra: Government Publishing Service, April 1984).

Forward Estimates

From the mid- 1970s until 1983 an internal Department of Finance report on the forward estimates of budget outlays had been prepared, usually in February, for use by senior Cabinet ministers. This report provided projections of likely costs of current expenditure programs in the absence of policy change and a general indication of likely expenditure trends as a basis for informed discussion of public expenditure patterns and priorities. In 1976 the forward estimates were integrated into the budget cycle, and in practice, the presentation of the forward estimates report to the Government signaled the beginning of the annual budget deliberation process with the forward estimates for the first year evolving into the budget estimates as the budget review and formulation process took place in the ensuing months.

In March 1983, the newly elected Government published the forward estimates.[19] The report, covering the fiscal years 1983/84-1985/86, provided the first comprehensive view ever published of estimated budget outlays for ongoing programs for a period of three years ahead. In April 1984, the Government indicated its intention to continue to publish and develop the forward estimates to assist parliamentary and public scrutiny and debate of budgetary matters.[20] To this end the reports since 1984 have included detailed sensitivity analysis aimed at giving an approximate assessment of the variations in the three-year forward estimates that would result if, for example, the general level of prices or economic activity varied from the levels underlying the estimates. This new addition was included to aid Cabinet ministers further in their early deliberations on the shape of the forthcoming budget. Following on from this, in 1984, the Government pledged to make future forward estimates reports more program oriented, in line with its move to introduce PMB.

The timing of the publication of the forward estimates was changed in 1985 so that they could be more clearly associated with the budget just submitted. More particularly, the forward estimates

[19] Department of Finance, Report on the *Forward Estimates of Budget Outlays* (Canberra: Government Publishing Service, March 1983).

[20] Department of Finance, *Budget Reform* (Canberra: Government Publishing Service, April 1984), pp. 10-11.

published in December 1986 were based on the out-year estimates collected with estimates for the 1986/87 budget, thereby tightening the link between the budget and forward estimates. This process has been formalized further since then, and the forward estimates are now used as the basis for formulating the following year's budget-subject to savings and other new policy decisions, and changes to economic and other parameters-and also for keeping tight control over future spending. This upgrading of the role of the forward estimates for use as a firm baseline upon which to consider resource allocation decisions has assisted the Government in taking a medium-term view of budget formulation by causing attention to be paid to the implications for future years of current decisions on new policy and savings. The net result is that more stable program funding is possible, which has provided ministers and program managers with greater certainty about forward funding levels. At the same time it has also required them to manage funding commitments over a period of time on the understanding that the forward estimates would represent a ceiling on available future funds.

The forward estimates also strengthen the linkage between budgeting and corporate planning. In disclosing the shape of future budget outlays, the forward estimates provide a firmer basis for strategic corporate planning by departments. Also, decisions in the annual budget context increasingly reflect a medium-term perspective and are based on a concern with results in the longer term rather than in the short term. Strategic corporate planning undertaken by departments should contribute to, and benefit from, this forward view of the world.

Portfolio Approach

Moves to facilitate a greater emphasis on a “portfolio” approach to resource allocation decisions and savings exercises were taken in 1987/88. These efforts were helped considerably by the government changes referred to previously that brought together many complementary program areas under one portfolio. Portfolios have increasingly been given the opportunity to identify how they would achieve target reductions in outlays involving relatively noncontroversial policy changes, and minor programs within the portfolio, and how they might fund high-priority, new policy proposals through offsetting savings. The Department of Finance actively supports this approach, recognizing that individual portfolios are in the best position to assess their own priorities, to evaluate their programs, and to identify the scope and need for change. Portfolio budgeting is already working well in effecting restraint in portfolio outlays and in modest resource reallocations while reducing the demands on Cabinet time. Major resource allocation decisions, however, inevitably interact with overall budget priorities, targets, and strategies. The scope for devolution is therefore more limited, but portfolio ministerial authority is enhanced by the setting of realistic and credible resourcing targets and by the capacity of portfolios to carry out sound evaluations of the effectiveness of their programs.

Integrating Staff Controls

Since 1984 staff budget controls have been progressively integrated with finance controls. Most staff control functions were devolved to departments while the Department of Finance assumed responsibility for the aggregate control of staff numbers. The money appropriation is now the primary form of aggregate control, thereby ensuring that the staffing implications are reflected when ministerial program proposals are put forward for consideration.

Incentives for Efficiency and Effectiveness

Creating an environment that has built-in incentives for efficiency and effectiveness as one of its hallmarks presents numerous difficulties, not least because of the difficulties inherent in evaluating performance in many public services. However, unless improved performance is rewarded and poor performance is penalized, there is no doubt that the efforts described earlier will result in a less than optimal outcome. Some measures that have been introduced to date have already been discussed in other contexts, including the devolution of authority in the appropriation process. Other measures include

- the introduction of the efficiency dividend under which departments for the period 1987/88-1~89/90 have their running costs appropriation reduced by 1.25 percent per annum in real terms on the grounds that improvements in management and technology should yield gains in efficiency, some of which should be returned to general revenue;

- under arrangements currently being put in place some budget dependent organizations will be allowed to retain a share of new revenues; while a fully articulated policy has not yet been finalized, some arrangements already exist that allow agencies to share in receipts from the sale of underutilized assets.

IMPROVEMENTS IN STANDARDS, SKILLS, AND PRACTICES

Addressing deficiencies in the standards, skills, and practices of resource management represents the third element of the FMIP. Considerable progress has been made in this area over the past six years.

Cash Management

Traditionally, policies on credit and debit facilities and the annual patterns of expenditure by public sector bodies have received low levels of attention. It is now recognized that effective cash management has a direct and beneficial effect on the level of government borrowings and thus on budget outlays, including public sector debt interest. Key elements are that all revenues should be channeled into the public account as quickly as possible and that disbursement of funds to agencies should not be made unnecessarily in advance of need.

A number of specific initiatives-which have realized savings in the hundreds of millions of dollars-have been taken in line with the overall policy on cash management, including:

- fine-tuning of estimated cash flows and a backup overdraft facility with the Reserve (that is, central) Bank to facilitate lower average cash holdings and, consequently, lower levels of government borrowing;
- negotiation of commercial rates of interest on Reserve Bank accounts;
- increasing the facilities for electronic funds transfer both into and out of the Public Account, the Commonwealth's major account domiciled with the Reserve Bank; and

- active intervention by the Department of Finance's overseas regional offices to reduce cash balances in overseas bank accounts to an efficient operating level.

Improved Accounts Processing

As part of the structural and environmental changes brought about through the reform process the Government embarked on an extensive program of efficiency scrutinies to analyze critically selected areas of government operation. Under the leadership of a prominent senior private sector executive, the Efficiency Scrutiny Unit was established in 1986 to undertake this review. The scrutiny process has had a useful impact on the public service in raising the profile of efficiency improvement and in helping to foster an acceptance of more radical or innovative approaches to management. In short, it has helped focus attention on performance.

One of these reviews, the Efficiency Scrutiny on the Processing of Accounts, was established to examine all aspects of the processing of government accounts with the object of ensuring that the efficiency of processing is maximized and that payment is made by the due date. Equal regard was given to the objectives of ensuring that the best commercial practices were part of the procedures and that consideration was given to public accountability, legislative and procedural implications, risk management, and cash management.

An important recommendation from the scrutiny, agreed to by the Government, was that departments use corporate credit cards whenever possible to pay for goods and services. The Commonwealth contract for the Commonwealth Corporate Credit Card, with Australia's largest retail bank, began in November 1987 and runs for two years. It is, in essence, a period contract under which a department may seek specially designed "Mastercard" credit cards to be issued to authorized persons to purchase, and/or pay for, goods and services on its behalf. It is a true corporate credit card, and liability for the charges incurred on it is intended to rest with the department, not the individual cardholder. Adequate controls have been put in place to prevent, or at least minimize, fraud, and a monitoring system has been introduced and is working well. Use of the card is expected to ensure that the Commonwealth's payments to suppliers are discharged promptly, and, in addition, it should reduce the number of claims-particularly small ones-because they will be consolidated on a single monthly account and therefore reduce check issues.

Risk Management

The adoption of the central recommendations of the processing of accounts scrutiny represents a radical , but sensible, approach to risk management. It has meant moving from a regime of risk avoidance at any cost-where dollars may have been spent to save cents-to one of balancing the administrative costs of checking claims for payment against the potential for fraud or overpayment arising from the reduction in checks. As a result of a major review of fraud against the Commonwealth the recent Government has required all departments to carry out risk assessments and to prepare fraud control plans. A risk management approach is an important aspect of the preparation of these plans.

While the Department of Finance is strongly committed to promoting a risk management approach to public sector financial practices, this does not mean that “anything goes.” In making judgments about risk, and in tailoring controls and checks to the degree of risk involved, managers are held accountable for these decisions, which will be reflected in the extent to which there are errors or breaches of probity, and which need to be evaluated in the light of the additional efficiencies or savings achieved by a lower degree of checking. Risk management does not mean, however, that such errors or breaches are considered likely. It is designed to keep them at an acceptable level rather than to incur what may be the substantial costs of avoiding them totally.

Asset Management

A major emerging issue is that of promoting improved asset management. The proper treatment of assets is a widely recognized problem of government financial management. Cash-based accounting is used by all departments and many budget-dependent agencies. Under this system the cost is taken into account when the money is spent (as a full charge in that year’s budget). Asset registers are maintained, but for most noncommercial organizations of government only historical values are recorded. When assets are sold all revenues are paid into consolidated revenue. This system means that managers have relatively poor information and very little incentive to use existing assets efficiently.

Several measures are being taken to overcome these problems:

- commercial and quasi-commercial agencies of government are required or are being encouraged to prepare their financial accounts on an accruals basis and to use current costs for asset valuation;
- guidelines on departmental financial statements for inclusion in annual reports require statements of assets and liabilities valued on a current cost basis; and
- sale of surplus assets is being encouraged in certain cases by allowing a share of the revenue to be applied to an agreed development plan.

This action is intended to ensure that managers are aware of the value of assets under their charge, are accountable for these assets, and have some incentive to utilize them as efficiently and effectively as possible.

Procurement Practices

Following a recent review of procurement in the Commonwealth by the Efficiency Scrutiny team, the Government decided to reduce central control over procurement activities. The review team recommended that departments establish their own procedures and take responsibility for cost-effective purchasing within service-wide guidelines. The system itself had become process bound and oriented toward risk avoidance. The recommended changes are a move toward a performance orientation with scope for flexibility, initiative, and judgment.

Training

The changes to the procurement practices just outlined point to the obvious need to provide training in good purchasing practice. Indeed, one of the consequences of these many changes to our management practices has been a strong need for training in resource management skills throughout the public service. This need has been met partly through the Department of Finance organizing hundreds of sessions, courses, seminars, and workshops and preparing FMIP training modules and developing resource management training packages for departments, with their assistance. Furthermore, program management seminars have recently been run by the Department of Finance to give senior managers the opportunity to discuss their experience in implementing PMB.

Uniform Accounting Practices

While the moves to annual reporting and evaluation plans have improved the availability of information to Parliament and the public for both budgetary decision making and for satisfying accountability requirements, they have not overcome all the problems. For example, the absence of uniform accounting practices across all public sector reporting entities makes it difficult to make comparisons of financial performance. There are also problems in some of the traditional public sector accounting practices, such as the reliance on cash accounting in the budgeting system. Some progress has recently been made from within the public sector (for example, asset management).

Assistance with these perceived problems has also come from the private sector in recent years. The two professional accounting bodies in Australia-the Australian Society of Accountants and the Institute of Chartered Accountants-established the Public Sector Accounting Standards Board (PSASB) in 1983 to

- parallel the activities of the Accounting Standards Board of the private sector in developing standards for the Public sector; and
- provide a means for coordinated development of consistent public sector financial reporting.

The PSASB has been quite active since it was established. It has introduced several accounting exposure drafts on a wide variety of issues relevant to public sector financial reporting, including:

- objectives of financial reporting;
- accounting for the revaluation of noncurrent assets;
- accounting for leases; and
- accounting for construction contracts.

In addition, since December 1985 the PSASB (in conjunction with the Accounting Standards Board) has issued several Accounting Guidance Releases, which are designed to provide guidance on certain financial reporting issues.

Other issues that are currently being examined include

- compliance reporting in the public sector;
- application of existing statements of accounting standards to the public sector;
- auditing in the public sector;
- financial statement audits in the public sector; and
- regularity auditing in the public sector.

It is to be hoped that these changes will greatly improve the consistency and standard of reporting to ensure all users of public sector reports are provided with both meaningful and useful information.

FUTURE DIRECTIONS

Significant progress has been made in Australian federal public sector financial management and budget reform over the past six years. Senior managers no longer see resource management as largely a matter of adhering to budgetary limits, and questions of budget and performance are no longer regarded as matters for corporate services group accountants. In general, program managers are now results oriented and accept responsibility for cost-effective management. Nevertheless, the most recent report on the FMIP indicates clearly that, despite the considerable strides since its inception, the reform task has just begun. It points out that the major task is to see that the reforms deliver at the departmental working level.[21]

In this respect the Department of Finance has two key roles. One is to ensure that the budget and financial system continues to facilitate change and that the Government's requirements for timely, consistent, and relevant information for decision making are met. The

[21] Department of Finance, 1988 *FMIP Report* (Canberra: Government Publishing Service, December 1988), p. 83.

other is to act as both a catalyst and a conduit for efficient and effective practices and procedures that will not only support the overall system but also enable managers to manage. In this context, the Department will be working closely with agencies to refine the development of performance measures, of both a quantitative and qualitative nature, which individual managers will not only use for their own purposes but through which they will also be prepared to be accountable to ministers and the Parliament. Such measures will be essential for program evaluations as a basis for the economy, efficiency, and effectiveness of the Government's programs. Also, they will be needed to determine if the programs continue to be appropriate to changing circumstances. Judgment is going to play a large part in this process, but the aim is to achieve informed judgment that will facilitate the setting of priorities and the allocation of resources. One of the key challenges still to be addressed is the development of performance information and associated targets and benchmarks, which can serve the needs of parliamentary scrutiny, government decision making, and departmental management. Initially, at least, these challenges seem certain to be directed toward the organization rather than the individual, but there has also been serious discussion on the need to provide individual incentives such as performance pay, and some moves in this direction may be forthcoming in the future. Similarly, continuing skills development through appropriate training programs will be required. Individual departments ultimately have responsibility for resource management training, but central agencies, particularly the Department of Finance, will continue to play a coordinating role and provide key skills to assist in the design and implementation of departmental programs. There is also an obvious necessity for further development of management information systems-in both the central bodies and the departments and agencies-and in this connection the immediate future will no doubt continue to be affected by the advance of technology.

Accrual accounting methodology will be adopted increasingly into the various businesslike activities of government and in modified form for departments and budget-dependent agencies, though it is not likely to be introduced into the budget. There will be greater concern with cash management as well as asset management, including the valuation of our assets. Where applicable, there will be concern with appropriate rates of return and the question of community service obligations and financial risk. Finally, developments overseas in public sector accounting, financial management, and budgeting will continue to be monitored closely so that good practice from outside the Commonwealth can be evaluated, modified where necessary, and introduced where appropiate.

Underlying all these future directions is the general acceptance of the need for a continuation of a performance / results - oriented management style that concentrates on output and outcome rather than just on resource inputs and spending within parliamentary appropiations.