Value for Money in Government

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Value for Money in Government: Australia

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BETTER POLICIES FOR BETTER LIVES

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Foreword

This report is published as part of the OECD *Value for Money in Government* series. This project, launched in 2008 on the initiative of the Dutch government, aims to identify new developments in the organisation of central government that are leading to better value for money: better services at lower costs for the taxpayers.

The first report in the *Value for Money in Government* series was published in 2010 under the title: *Public Administration after "New Public Management"*. The title of this first report expressed an important feature of many new developments in OECD countries: a certain re-orientation of the reform trends of the 1980s and 1990s in the direction of a more consistent division of tasks between levels of government, more vertical integration (better use of executive and professional expertise in policy development), more horizontal integration (process sharing among executive agencies, merging of agencies, sharing of support services), stricter standards of operational management, and separating the financing of agencies from the steering and control of outputs.

The *Value for Money in Government* series includes a number of country assessments. Such assessments evaluate the organisation of one country's central government in the light of recent trends and developments in other countries taking part in the study.

Country assessments have been published for the Netherlands (May 2010) and Denmark (March 2011). The current report is the third country assessment in the series. Country assessments for Norway and Sweden will be published later in 2012.

The OECD Value for Money study is supervised by an advisory committee consisting of countries that have pledged to provide data: Australia, Austria, Canada, Denmark, Finland, France, Ireland, the Netherlands, New Zealand, Norway, Spain, Sweden, and the United Kingdom. Data were collected from these countries through three questionnaires in 2009 and 2010.

The Australian assessment was prepared by an OECD team consisting of Dirk Kraan (lead, Budgeting and Public Expenditures Division, Public Governance and Territorial Development Directorate), Ian Hawkesworth (Budgeting and Public Expenditures Division, Public Governance and Territorial Development Directorate), Rex Deighton-Smith (consultant), and Joanne Kelly (consultant and professor at the Australia/New Zealand School of Government). Statistical assistance was provided by Emmanuel Job (OECD Secretariat).

The OECD team undertook a mission to Canberra from 30 November to 4 December 2009. The team met with numerous senior Australian officials from various departments and discussed institutional arrangements in the four major areas of government activity: policy development, policy execution, support services, and administrative supervision and regulation. The team expresses its gratitude for the time these interlocutors made available to answer questions and provide insights on the background of the Australian public administration. The views put forward by the Australian officials during these meetings inspired many ideas advanced in this report.

The team wishes to express gratitude to the many colleagues of the Public Governance and Territorial Development Directorate who provided comments on earlier versions of the report, helped to collect data, and provided expertise on particular aspects of the Australian public administration.

Finally, the team wishes to thank Arthur Camilleri of the Australian Department of Finance and Deregulation who co-ordinated the contacts with the OECD team. Mr. Camilleri has over a period of more than two years taken care of efficient communication with a large group of Australian officials, spread over many departments, who provided information and expertise on the many aspects of public administration covered by this report. Without his dedication and support, the report could not have been produced.

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The Value for Money in Government study

This report presents the results of the assessment of the organisation of the central government of Australia. This report is part of a series of similar assessments that will be carried out for the OECD Value for Money in Government study, which is a multi-annual project that aims to identify reforms currently undertaken or planned in OECD countries that are interesting from the point of view of value for money. The study looks at reforms that are aimed at improving the quality of services (more value) and efficiency (less money) in central government.

This assessment is based on an inventory of some 70 reforms and reform trends concerning the organisation of central government currently undertaken or planned in OECD countries. These reforms and reform trends will be presented in the final report of the *Value for Money in Government* study.

Information for the OECD Value for Money in Government study has been provided by the 13 OECD countries that are taking part in the project. These countries are: Australia, Austria, Canada, Denmark, Finland, France, Ireland, the Netherlands, New Zealand, Norway, Spain, Sweden, and the United Kingdom.

Benchmarks for Australia

The size of general government employment (including states and local government) is very low in Australia compared to the other countries participating in the Value for Money project. This is probably due to the large and consistent privatisation and outsourcing efforts in recent decades. This has led to small government employment and large efficiency gains. In this respect, Australia is an example for the other Value for Money countries.

The share of employment in the Australian federal government (the Commonwealth) in general government is substantially below average, which shows that Australia is a fairly decentralised country. Obviously this is mostly due to the fact that Australia is a federal country with a strong sub-sector of state government.

As far as the Commonwealth government is concerned, Australia has a relatively large employment in the core ministries as compared to the arm's-length and independent agencies, compared to the other countries participating in the Value for Money project. Australia also has relatively large employment in the activities of policy development, supervisory/regulatory activities, and support services. This suggests that there are still opportunities in Australia for efficiency gains in "back-office" activities that are not immediately related to service delivery.

From an expenditure perspective, Australia also belongs to the most decentralised countries of the Value for Money in Government study, with a sub-national share of general government expenditures of more than 45%.

State government in Australia is, for a large part, dependent on Commonwealth grants. The share of own tax revenue of Australian states is substantially below the average of the Value for Money countries. The own tax share of Australian local government is close to average among Value for Money countries.

Previous reforms in Australia

Since 1974, four periods of reform can be distinguished in Australia. The years 1974-1987 were the years the Coombs Report was implemented with an emphasis on devolution, accountability of line managers, and performance. Under the Financial Management Improvement Project reforms, departmental budgets were restructured. Detailed line items were collapsed into an "administrative budget" for each department and there was a progressive loosening of the standards of operational management throughout the 1980s. In the early 1980s, the Ministry of Finance[1] established a system of rolling multi-annual estimates which became the starting points of budget deliberations.

In budgets from the mid-1980s, there was increased emphasis (varying from time to time) on identifying priorities and in budgeting from the top down, although bottom-up decision making remained common and at times predominate. The formal medium-term expenditure framework (the forward estimates) and a more effective Cabinet committee process for identifying priorities and promoting fiscal discipline were launched, and there emerged a strong practice (which remains today) of seeking offsetting savings for new initiatives, a process considered to encourage internal priority setting by individual ministers and their departments. The reforms aimed to increase the focus on performance and results, originally starting with programme budgeting and a formal system of programme evaluations. This focus was the *quid pro quo* for increased flexibility.

In the period 1996-2009, reforms focused on the process of outcome budgeting based on the accruals costs of services. This led to a further devolution of operational management to line ministers. Important steps were the Charter of Budget Honesty requiring the government to provide better information on the costs and results of its policies and the introduction of the outcome-based budget classification in the 1999/2000 budget. Accrual budgeting had to provide the tools for systematic "market testing" of all government activity (service delivery but also support services and even policy development).

In recent years, the Australian government has begun to reconsider the direction of reforms intended to create a devolved and decentralised system of public administration. In particular, there has been a reversal in elements of the accrual outcome budgeting process, in the devolved industrial relations arrangement, and the trend to outsource key elements of programme delivery. There is also a trend toward more horizontal and vertical integration which gathered further impetus in March 2010 when the government published *Ahead of the Game – Blueprint for the Reform of Australian Government Administration*. This document sets out ten areas of reform designed to "transform the Australian Public Service into a strategic, forward-looking organisation, with an intrinsic culture of evaluation and innovation".

Current trends in public administration

Arguably, Australia had, in the 1990s, gone further than any other Value for Money country in the implementation of New Public Management reforms. This implies that it currently benefits more than other countries from the positive results of these reforms, but that it also experiences more than other countries certain unexpected negative consequences of them. Australia has to change more in this respect than other Value for Money countries. Most of the recommendations put forward in this assessment have to do with removing unintended consequences of New Public Management reforms.

In many OECD countries, new trends have arisen partly to rebalance New Public Management reforms and partly driven by other developments, for instance in ICT. Current trends aimed at better quality of services and cost savings include:

- a more consistent division of tasks between levels of government;
- vertical integration: better use of executive and professional expertise in policy development;
- horizontal integration: process sharing among agencies and the merging of agencies; sharing of support services or the merging of support service units;
- stricter standards of operational management;
- separation of financing of agencies from steering and control of outputs.

In this light, the OECD Secretariat has formulated recommendations for the Australian government based on reforms that are being pursued in the most advanced countries in each area of reform. The reforms apply for a large part to the broad reform trends mentioned above, but not exclusively. The reforms include:

- Policy development:
  1. Stricter rules with regard to ministerial advisors.
  2. A more consistent division of roles and responsibilities between levels of government.
  3. Integration of executive and professional expertise in policy development.
  4. Development of the Parliamentary Budget Office.
- Policy execution:
  5. Process sharing among agencies and the merging of agencies.
- Support services and operational management:
  6. Service sharing among agencies.
  7. Strengthening the spending review procedure.
  8. Strengthening ICT management.
- Supervisory/regulatory activities:
  9. Improving risk management in supervisory and regulatory activities.
- Organisation of government:
  10. Separation of budgeting from output steering in agencies.

The recommendations are the following:

Reform 1: Stricter rules with regard to ministerial advisors

- The Australian government may wish to consider the scope of potential benefits from adoption of the conclusions/suggestions in the OECD publication *Ministerial Advisors: Role, Influence and Management* (2011), while giving recognition to Australia's existing rules and practices about ministerial responsibility and the Code of Conduct for Ministerial Staff.
- The Australian government may wish to consider the merits of the Canadian Federal Accountability Act as a model for a wider range of transparency and accountability measures for ministerial advisors.

Reform 2: A more consistent division of roles and responsibilities between levels of government

- The Australian government may consider a more consistent division of tasks in the area of concurrent powers, by demarcating domains of service provision in which the states are the primary responsible layer of government from domains in which the Commonwealth government is the primary responsible layer of government. Such a division of tasks should be prepared by an external advisory group that takes a whole-of-government approach.
- The Australian government may consider further reform of the financial relations between the Commonwealth and the states aiming at: *i)* National partnership (NP) payments, insofar as they are not time limited, to be rolled into national specific purpose payments (NSPPs); *ii)* ending the earmarked character of NSPPs and eventual integration of NSPPs into general revenue assistance; *iii)* reforming the revenue-sharing arrangement between the Commonwealth and the states by adding more taxes to the shared revenue base. Time-limited NPs can be allowed to expire once payment has ceased. Merging an ongoing NP payment into an NSPP with a more generous indexation factor needs to be offset by savings under the Australian government's budget rules. Financial sanctions on performance results should be avoided for NP payments, as for NSPPs.

Reform 3: Integration of executive and professional expertise in policy development

- The Australian government may wish to consider undertaking an evaluation of the effectiveness of its 2011 reform initiatives aimed at improving implementation and delivery capability within the Australian Public Service, after a period of experience under the arrangements from those initiatives, in order to consider the scope for further reform.

Reform 4: Development of the Parliamentary Budget Office

- The Australian government may wish to consider whether, after a few years' experience, it will be useful to perform a thorough evaluation of the current set-up of the Parliamentary Budget Office as chosen in Australia, in comparison with the set-up chosen in other OECD countries.

Reform 5: Process sharing among agencies and merging of agencies

- The Australian government may consider taking further steps to reduce the number of executive and statutory agencies through amalgamation and avoid creating new agencies without rationalisation of existing agencies involved in lower priority activities of the government.
- The Australian government may consider taking further steps in the governance reform of statutory agencies that are administered by governing boards and replace these boards with single chief executives.
- The process towards further horizontal integration in Australia should be strengthened with a particular focus on the permanent performance dialogue between the agency and the relevant ministry.

Reform 6: Service sharing among agencies

- The Australian government may consider promoting shared service arrangements among agencies and ministries, particularly in the areas of financial management, human resource management, and ICT management. For that purpose, it may be useful to stipulate that agencies make more use of the central support units of the ministries, and to create shared service centres that provide services to more ministries and agencies of ministries.

- To stimulate service sharing, financial incentives should be created for agencies to make use either of the central support units of the ministries or of the shared service centres. Financial incentives could take the form of *ad hoc* downsizing targets aimed specifically at support services next to the application of the efficiency dividend cuts.

Reform 7: Strengthening the spending review procedure

- The Australian government may consider institutionalising strategic reviews as part of the budget process, rather than as separate advice for the Minister of Finance (thus eliminating the conceptual difference with comprehensive spending reviews). To this end, strategic reviews could be linked more closely to the government's procedure of budget preparation and be more explicitly aimed at development of savings options.
- The Australian government may consider selecting the subjects of strategic reviews as part of the strategic phase of the budget process. Strategic reviews need not be conducted every year but can be organised according to a biennial or quadrennial cycle along the British or Dutch lines.
- The Australian government may consider establishing a regulatory framework for programme evaluation as a tool for line ministers to assess and improve programme effectiveness and efficiency. Such a framework should provide guarantees for quality and objectivity such as rules for the participation of external experts, supervision by a steering group, publication of the terms of reference and the report.

Reform 8: Strengthening ICT management

- The Australian government may consider taking further steps in the development of a strategic, long-term view on the organisation of ICT support, possibly to be integrated in the future whole-of-government ICT strategies currently being finalised or as additional options to be taken into account in the decision-making process on this document. In particular, the authorities may consider the following steps:
  - Making a more rigorous split between ICT support on the one hand and the management of ICT systems on the other. ICT systems should be located in the units that are responsible for the primary process that they serve. Only the systems that can

be considered as belonging to the primary process of the ICT support units themselves (citizen and business portals, Intranets, help desks, information retrieval, office automation) should be managed by the ICT support units themselves.

- Emphasising more clearly than is currently the case that *ex ante* evaluation should always lead to an unambiguous conclusion on whether a proposed ICT project leads to savings in the medium term against the baseline of current policy. The business case proposed by the responsible minister and checked by *ex ante* evaluation should be explicit about costs and savings, year by year, for a period covering the medium term. Possibly this check could be made part of the ICT Two Pass Review. ICT projects that lead to savings can be decided by the responsible minister in virtue of her/his portfolio budget responsibility. ICT projects that do not lead to savings should only be decided in the annual budget process after trade-off with other new spending initiatives possibly in other portfolios.
- Promoting more co-operation among ministries and agencies. The Australian government has already taken steps in the sharing of ICT support services among ministries and agencies. This initiative should be pursued with vigour, while the opportunity for additional steps should be explored. More co-operation in the sphere of primary process of de-central ICT support units of ministries and agencies (Intranets, help desks, information retrieval, office automation, advice on procurement of hardware and software, development) is still possible (see also Reform 6). The recommendations provided under Reform 10 for the steering and the control of multi-client agencies are relevant in this respect.

Reform 9: Improving risk management in supervisory and regulatory activities

- Given the innovative choice for the “acceptable risk” approach in regulatory development, leading itself to substantial efficiency gains, the Australian government may consider expanding guidance whether in the RIA handbook, on the website or in guidance on a case-by-case basis on its application in separate cases.
- As to supervision and enforcement, the Australian government should consider requiring more explicitly from every supervisory and enforcement authority a risk-based enforcement approach, to be laid down in a public document.

Reform 10: Separation of budgeting from output steering in agencies

- In recent years, Australia has amended the appropriations framework, moving away from agency outputs to focus more on outcomes and programmes. As part of its broader review of the financial management framework, Australia continues to review appropriations with the intention of simplifying arrangements to facilitate better decision making by both government and Parliament. The Australian government may consider taking further steps in this direction and stepping up its reform effort, focusing the line items more on programmes and on the operational costs of the core ministries and the agencies, rather than on outcomes. Such a reform will restore the role of the appropriations laws as the main vehicle for political decision making about the budget.

- The Australian government may consider separating more clearly budgeting for agencies from the steering of their outputs (through setting targets and monitoring results). Budgeting is a task of the parent ministry to which the agency belongs. This should be established unambiguously, which may require new legislation. If necessary, financial directorates of portfolio ministries should be strengthened to make this possible. If an agency is financed by more ministries, financing shares should be agreed among the ministries concerned before the agency budget is agreed.

- Budgeting should take place on the basis of robust rules, based on fixed and variable costs and need indicators (capacity budgeting). Since in a non-market environment output costs are the input costs needed to produce them, agencies should be required to provide transparent information on the input mix and the input costs that allow the parent minister to assess efficiency. The Ministry of Finance should play a supportive role in the improvement of cost information about the agencies and always be represented in budget negotiations with agencies.

- Steering and control of the agency output is essential, but output targets and realisations should be set, monitored and evaluated in a performance dialogue running throughout the year. This task should be fulfilled by the line minister(s) who is (are) responsible for the executive policy of the agency. The line ministers should be supported in this task by the divisions responsible for the development of the policies that the agencies are tasked to execute.

Survey of the reforms

Table 0.1 provides an overview of quality improvement and potential savings of the ten priority reforms discussed in this report. Savings are characterised in relation to current operational costs of the units concerned. Savings could not be quantified by the OECD Secretariat but are estimated as moderate or large in the light of available information. A moderate saving (less than 20% of large units) can be larger than a large (more than 20%) saving on small units.

Table 0.1. **Survey of value for money effects**

	Reform	Quality improvement in administration	Quality improvement in service delivery	Savings
Reform 1	Stricter rules with regard to ministerial advisors	X		–
Reform 2	A more consistent division of roles and responsibilities between levels of government	X		Moderate (less co-ordination and administration)
Reform 3	Integration of executive and professional expertise in policy development	X	X	–
Reform 4	Development of the Parliamentary Budget Office	X		–
Reform 5	Process sharing among agencies and merging of agencies	X	X	Moderate (less duplication)
Reform 6	Service sharing among agencies	X		Moderate (less duplication)
Reform 7	Strengthening the spending review procedure	X		Moderate (more and better savings options)
Reform 8	Strengthening ICT management	X	X	Moderate (less duplication, more emphasis on savings target)
Reform 9	Improving risk management in supervisory and regulatory activities	X		Large (better focus on risk can simplify regulation and reduce enforcement activities)
Reform 10	Separation of budgeting from output steering in agencies	X	X	Unknown but potentially large (less bureaucracy around output measurement in the financing and steering of agencies)

Note

1. In this assessment, the term "Ministry of Finance" will be used for the Australian Department of Finance and Deregulation. Similarly the term "ministry" will be used for any other Australian department.

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Chapter 1

Introduction to the "value for money" review of Australia

This chapter describes the background for the OECD study on Value for Money in Government and the methodology for collecting and analysing information for this report on Australia.

The Value for Money study

This report presents the results of the assessment of the organisation of the Commonwealth government (federal government) of Australia. It is part of a series of similar assessments that will be carried out for the OECD Value for Money in Government study, which is a multi-annual project that aims to identify reforms and plans for reform currently undertaken or planned in OECD countries that are interesting from the point of view of value for money. The study looks at reforms that are aimed at improving the quality of services (more value) and efficiency (less money) in central government.[1]

This assessment is based on the inventory of some 70 reforms and reform trends concerning the central government currently undertaken or planned in OECD countries. These reforms and reform trends will be presented in the final report of the Value for Money in Government study: *Building on Basics* (OECD, forthcoming).

Sources of information

In order to collect information, the OECD Secretariat has gone on fact-finding missions to countries for which country assessments will be published. Thus far these countries are: Australia, Austria, Denmark, the Netherlands, Norway, and Sweden. Furthermore, three questionnaires were sent to eight additional countries that offered to provide information for this study. These countries include: Canada, Finland, France, Ireland, New Zealand, Norway, Spain and the United Kingdom. Furthermore, information has also been collected from OECD databases as well as those of other international organisations.

Quantitative data on employment are drawn from the OECD *Public Finance and Employment Database* (PFED). To date, this database covers 16 European countries. As far as the countries of the Value for Money study are concerned, the PFED does not cover Australia, Canada, France, Ireland or New Zealand.[2] For Australia, data have been taken from the *Australian Public Service Statistical Bulletin* (Australian Public Service Commission, 2009). In addition, data have been provided to the OECD about administrative employment (the snapshots of the public administration) by most of the countries participating in the Value for Money project.[3]

Variety of institutions, common language

In spite of having features in common, such as representative democracy, rule of law, market economy and broad public social security arrangements, the variety of the public administration institutions in OECD countries is large. This variety is the result of centuries of historical development, geographical circumstances, national values and political traditions. As a consequence, the vocabulary that is used for describing the administrative institutions is different between countries. Any term in one national vocabulary may have a different meaning or connotation in the vocabulary of another country. Examples include such elementary terms as agency, ministry, service delivery, administration, civil service, etc.

Therefore, a comparative description can only begin after a common language has been established. Such a common language will surely be at odds with the national ways of speaking about institutional arrangements. This study uses existing terms, but gives them new meanings, while alerting the readers that these meanings do not coincide with those of the national vocabulary. When necessary, the terminology is explained in the text. In addition, it is summarised in the glossary.

Building on basics

During the 1980s and 1990s, the organisation of government was profoundly influenced in all of the countries participating in the Value for Money study by New Public Management philosophy. Some countries went further than others in reforming their governments along these lines. Australia is among the countries that have gone the furthest, next to New Zealand and the United Kingdom. This implies that it currently benefits more than other countries from the positive results of these reforms, but that it also currently experiences more than other countries certain unanticipated negative consequences of these reforms. Australia has to change more in this respect than other Value for Money countries.

However, new trends cannot simply be described as back to basics. They are also driven by new developments, for instance in information and communication technologies (ICT). Current trends include:

- a more consistent division of tasks between levels of government;
- vertical integration: better use of executive and professional expertise in policy development;
- horizontal integration: process sharing among executive agencies; merging of executive agencies; sharing support services;

- stricter standards of operational management;
- separating the financing of agencies from the steering and the control of outputs (through setting targets and monitoring results).

Some of these trends have to do with the development of ICT, which open new opportunities for improvement of service quality and ease of communication with the government, and with more tailor-made service provision to citizens and business. In this light, the current developments in public administration are presented in the Value for Money in Government study under the heading of “Building on Basics”.

Contents of the assessment

Chapter 2 provides facts and quantitative benchmarks on the Australian Commonwealth government compared to other countries. Chapter 3 briefly reviews the reforms concerning the organisation of the Commonwealth government that have been undertaken over the last decades in Australia. Chapter 4 focuses on ten areas of reform that are interesting for Australia in view of what other countries have achieved or are planning to carry out. The ten reforms selected are by no means the only reforms identified in the Value for Money study that are relevant for Australia. The present country assessment addresses the ten reforms that were considered the most interesting for Australia. Chapter 4 concludes with a survey of the effects on the quality of services and potential savings. Since the amount of the savings is dependent on factors that the OECD Secretariat is unable to estimate, savings are characterised in qualitative terms.

Notes

1. Apart from country assessment, the OECD Value for Money study will produce comparative reports that are not focused on particular countries. A first comparative report *Public Administration after "New Public Management"* was completed in 2010 (OECD, 2010). This report focuses on four themes, namely: sharing of support services, steering and control of agencies, automatic productivity cuts, and spending review procedures. In addition, the report contains a quantitative part that looks at the size of employment in central government and the determining factors of size, such as part-time employment, decentralisation, outsourcing and the pattern of spending.
2. The PFED is based on other international databases, in particular the *Laborsta database* of the ILO and the *Eurostat database* of the EU. Eurostat does not collect data for non-European countries (Australia, Canada, New Zealand) and for some European countries the Eurostat data are not complete or not yet released (France, Ireland). The PFED is partly based on estimation methods that will be refined over time.
3. Thus far not by France, Ireland, New Zealand, Sweden or the United Kingdom; see OECD (2010).

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Chapter 2

Benchmarking employment, expenditures and revenues in Australia's public administration

This chapter describes basic features of the Australian Commonwealth government, including quantitative data on employment, expenditures and revenues.

Basic features

Australia is a very large country in terms of territorial size, in fact a continent, but of intermediate size in terms of population and GDP. Australia is a federal country. The Australian Constitution defines the federal legislative powers of the Commonwealth (federal) Parliament, most of which are concurrent with the powers of the states. Also, the states retain legislative powers over matters not specifically listed in the Constitution (other than a small list of exclusive powers of the Commonwealth). In the areas of concurrent power, the Constitution provides for Commonwealth laws to prevail over state laws in the event of any inconsistencies.

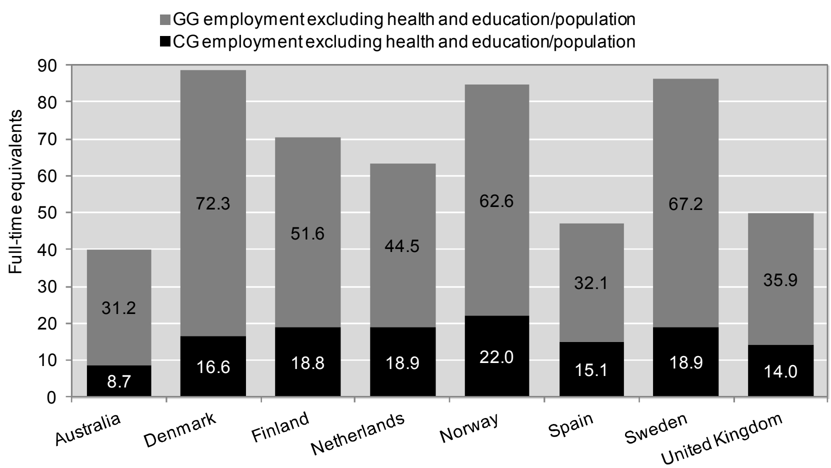
A large number of local governments (564) operate under the 6 states and the Northern Territory. The Australian Capital Territory government administers both local and state government functions. The federal level of government, the Commonwealth, has a bicameral Parliament, with strong Westminster political traditions. The lower house of Parliament, the House of Representatives, has 150 members, each representing a separate electoral division. Members are elected using the full preferential voting system, which differs from a "first past the post" system when no candidate receives an absolute majority. It bolsters a strong two-party system and generally results in governments with strong backing in the House; the current situation of a minority government is unusual. The upper house, the Senate, is directly elected from each of the 6 states and 2 territories, with each state holding 12 seats and the 2 territories holding 2 seats. State senators are elected for six-year terms and territory senators for three-year terms. The Senate is elected using a proportional representation system, leading to the representation of some smaller parties and independents, next to the two main parties.

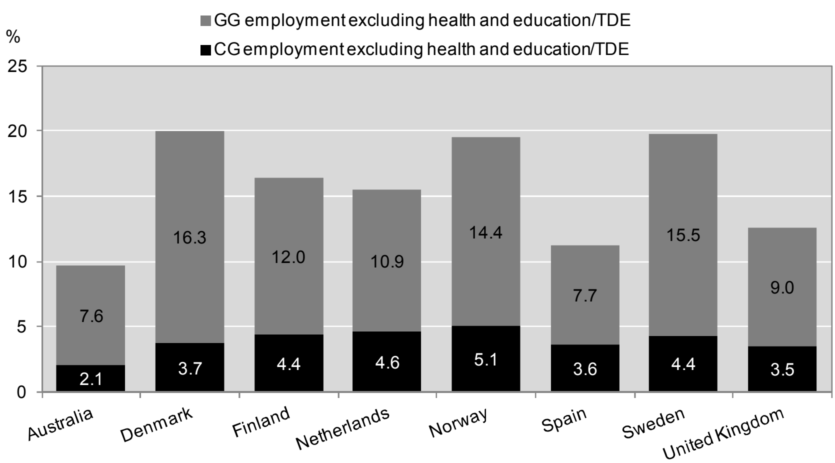
General government employment

The size of government employment can only be compared between countries by excluding health and education. This is because there are very different ways of organising health and education in the Value for Money countries. For instance, in the Nordic countries, Spain and the United Kingdom, health is entirely inside the government sector; in the Netherlands it is entirely in the corporate sector. Educational establishments that are privately owned and controlled are in most countries in the corporate sector but they constitute widely diverging shares of total employment in education. In this light, a sensible comparison can only be made by leaving health and education aside. Figure 2.1 presents total Commonwealth employment in full-time equivalents (FTE) excluding health and education per 1 000 inhabitants and as a percent of domestic employment. Total government employment includes both administrative activities and service delivery. The sub-sector of social security has been merged with the Australian government in this figure as well as in the following tables of this chapter.

Figure 2.1. **Employment in general and federal government excluding health and education relative to population and domestic employment**

FTE per 1 000 inhabitants and % of domestic employment in FTE, 2006





Notes: Data for Australia are for 2008. Data for the Netherlands are for 2004. TDE: total domestic employment. FTE: full-time equivalent. GG: general government. CG: central (federal) government.

Sources: OECD *Public Finance and Expenditure Database* (PFED); *Laborsta database;* Australian Public Service Commission.

Table 2.1. **Basic statistics of Australia**[1]

Land and population	
Area (1 000 km²)	7 692
Agricultural area (2008)	4 173
Population (in thousands)	21 244.4
Inhabitants (per km²)	2.8
Employment (in thousands) (2010)	11 170.4
of which: agriculture	328.8
Production	
Gross domestic product (AUD billions) (2008)	1 051.1
Gross domestic product per head (AUD thousands)	50.0
General government finance	
Total expenditures (% of GDP)	36.3
Total revenues (% of GDP)	30.4
Deficit (ESA '95[2]) (% of GDP)	5.9
Public net debt (% of GDP)	1.8
Central government finance	
Total expenditures (% of GDP)	26.3
Total revenues (% of GDP)	22.7
Deficit (ESA '95[2]) (% of GDP)	4.1
Public debt (% of GDP)	3.3
Politics	
Composition of the House of Representatives (elections 2010)	150
of which: Australian Labor Party	72
Total coalition (Liberal Party of Australia, Liberal National Party of Queensland, Country Liberals [Northern Territory] and The Nationals)	73
The Australian Greens	1
Independents	4

1. Public finance data: fiscal year 2009-2010; other data are for 2009 unless otherwise indicated. 2. ESA95 is the *European System of Accounts* (see Eurostat, 1996).

Sources: OECD National Accounts and *OECD Labour Force Statistics*, OECD Publishing, Paris; Australian Bureau of Statistics.

It appears that Australia has very low employment in general government (including states and local government), in fact the lowest of all of the Value for Money countries for which data are available. This is probably due to the large and consistent privatisation and outsourcing efforts of the last decades. This has led to a small government and large efficiency gains. In this respect, Australia is an example for the other Value for Money countries.

Table 2.2 shows the distribution of employment in the Value for Money countries by level of government.

Table 2.2. **Employment in general government excluding health and education by level of government**

% of total general government in FTE, 2006

	Australia	Denmark	Finland	Netherlands	Norway	Spain	Sweden	United Kingdom	Average
Central government	27.8	23.0	36.5	42.5	35.2	47.1	28.2	39.1	34.9
State government	n.a.					15.0			1.9 (15.0)
Local government	n.a.	77.0	63.5	57.4	64.8	37.8	71.8	60.9	54.2 (61.9)
General government	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Notes: Data for Australia are for 2008. Data for the Netherlands are for 2004. Averages are calculated by setting unavailable data at zero. The number in parentheses is the true average for the countries for which data are available.

Sources: OECD *Public Finance and Expenditure Database* (PFED), *Laborsta database*, Australian Public Service Commission.

The share of employment in the Australian Commonwealth government is substantially below average (27.8% versus 34.9% on average), which shows that Australia is a fairly decentralised country from the perspective of general government employment.

More information about the distribution of employment over public organisations is available from the "snapshots of the public administration" provided by participating countries. Snapshots have been provided by 7 of the 13 Value for Money countries. The snapshots only contain administrative employment, not service delivery. Administrative employment excludes: the military, the police, staff of penitentiary institutions, other collective service delivery (for instance units for construction or management of transport infrastructure), all non-profit institutions classified inside central government in the national accounts, all educational institutions, health providers and other institutions involved in individual service delivery (cultural services, social services, etc.).[1] The snapshots make it possible to distinguish between employment in core ministries, arm's-length agencies, and independent agencies. An agency is defined as a unit of a ministry with a separate financial administration. An arm's-length agency is defined as an agency for which the minister is responsible as far as executive policy is concerned (not necessarily for handling of individual cases). An independent agency is an agency for which the minister is not responsible as far as policy execution is concerned (neither for handling of individual cases nor for executive policy). Table 2.3 shows the distribution of central government employment in these three kinds of organisations. The difference between the totals of administrative employment shown in Table 2.3 and the totals of central government employment excluding health and education as shown in Table 2.2 are due to service delivery employment.[2]

Table 2.3. **Federal government administrative employment by type of organisation**

% of total administrative central government employment in FTE, 2009

	Australia	Austria	Denmark	Finland	Netherlands	Norway	Spain	Average
Core ministries	42.0	29.7	6.2	10.4	43.2	8.7	36.1	25.2
Arm's-length agencies	58.0	47.3	80.5	80.8	21.7	86.8	63.3	62.6
Independent agencies	0	23.0	13.3	8.7	35.1	4.5	0.6	12.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Country responses to a questionnaire sent in January 2010.

Within the Commonwealth general government sector, there are several categories of agencies outside the ministries (departments of state). With the exception of the High Court of Australia, there are essentially two groupings: agencies established under the Financial Management and Accountability Act 1997 and bodies established under the Commonwealth Authorities and Companies Act 1997. Within these two groupings there are many types of entities, and the legislation or documentation establishing each entity determines its degree of autonomy. Agencies are also grouped in portfolios under a department of state. Australia has reported that all agencies should be considered as "arm's-length agencies" in the sense of the "snapshot of the public administration", implying that the minister remains responsible for executive policy. In view of the survey results presented in Table 2.3, it is possible that countries have interpreted the criterion of "independence" in different ways. While interpreting this table, it may therefore be appropriate to focus attention on the total of agency employment versus core ministry employment. It then transpires that the Australian Commonwealth government has relatively large employment in core ministries (42.0% versus 23.9% on average) and relatively low in agencies (58.0% versus 76.1% on average).

The snapshots also allow comparisons of the division of employment over the four activities of government (policy development, administrative policy execution, regulatory/supervisory activities, and support services). Table 2.4 shows the resulting picture. It should be emphasised that in spite of detailed guidelines, countries reported several problems in the distribution of employment over the four activities of government.

Table 2.4. **Administrative employment in central government by government activity**

% of total central government in FTE, 2009

	Australia	Austria	Canada	Denmark	Finland	Netherlands	Norway	Spain	Average
Policy development	18.5	15.0	n.a.	5.1	8.5	8.2	9.0	18.9	10.4 (11.9)
Administrative policy execution	31.5	48.7	n.a	88.9	68.5	78.7	57.4	70.5	55.5 (63.5)
Regulatory/ supervisory activities	17.0	13.8	9.1	4.9	7.0	6.0	27.5	0.5	10.7
Support services	33.0	22.5	18.3	1.1	16.1	7.0	6.1	10.0	14.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Notes: Averages are calculated by setting unavailable data at zero. The number in parentheses is the true average for the countries for which data are available.

Source: Country responses to a questionnaire sent in January 2010.

Although the numbers of Table 2.4 must be taken with a grain of salt, it appears that Australia has relatively large employment in the policy development area (18.5% versus 11.6% on average). Similarly, supervisory/regulatory activities and support service units also seem to be relatively large in size (17.0% versus 10.9% on average, respectively 33.0% versus 14.1% on average). The numbers are based on reporting by national administrations according to strict guidelines from the OECD Secretariat. It may nevertheless be the case that Australia has reported certain staff engaged in policy development but also involved in overseeing implementation in a different way than other countries. In addition, the reported numbers may be due to the fact that the Australian Commonwealth has outsourced or decentralised a relatively high proportion of its executive activities. Given that the total general government employment in Australia is very low, this would imply that there is little reason for concern about the reported numbers. The OECD Secretariat is making efforts to further improve the quality of the snapshots. In spite of these caveats, the current picture suggests that there is still room in Australia to realise efficiency gains in typical "back-office" activities.

Countries also provided information on support service employment by kind of support service. The resulting picture is provided in Table 2.5.

Table 2.5 is also of questionable reliability due to the absence of and sometimes poor quality of data. Nevertheless, it is interesting to note that the distribution of employment in support services in Australia is close to the average distribution (assuming that "other corporate" employment covers mainly the services for which no recent data were available).

General government expenditures

Obviously, employment is not the only indicator for the size of government. Expenditures are equally important. Expenditures include all operational expenditure (including compensation of employment) as well as all programme expenditure (social benefits, transfers to sub-national government, public contributions and subsidies to the corporate sector, and most investment). Table 2.6 presents general government expenditures by sub-sector and for general government as a whole as a percent of general government expenditure. Note that the sum of the sub-sectors exceeds general government expenditure as a consequence of transfers between sub-sectors. The right indicators for the rates of centralisation are the expenditure shares of state and local government and not the expenditure share of central government (that typically includes large transfer payments to the states and the local governments).[3]

Table 2.6 shows that Australia, Denmark, Spain and Sweden have the largest expenditure shares for sub-national government (states and local governments taken together), all above 45%. Denmark and Sweden are very decentralised countries with all health, education and a large part of social services at the municipal level. Australia and Spain are federal countries with large state sectors that are lacking in unitary countries. Austria is also a federal country but with a much smaller state sector resulting in total sub-national expenditure below 35%. The other Nordic countries (Finland and Norway) and the Netherlands are also rather decentralised in terms of expenditures (sub-national expenditure shares between 25% and 30%). All other unitary countries are more centralised (sub-national shares below 25%).

Table 2.5. **Central government employment in support services**

Absolute and % of total central government support services in FTE, 2009

	Australia		Austria		Canada		Denmark		Finland		Netherlands[1]		Norway		Spain		Average (%)[2]
	abs	%	abs	%	abs	%	abs	%	abs	%	abs	%	abs	%	abs	%	
Finance	7 706	22.5	1 082	16.5	4 700	9.4	350	48.5	1 720	20.1	993.0	12.0	364	12.2	4 402	16.8	19.8
HR and organisation	5 071	14.8	1 118	17.1	9 800	19.5	111	15.4	1 810	21.2	2 738.8	33.2	75	2.5	4 013	15.3	17.4
Information and ICT	10 674	31.1	1 834	28.0	19 700	39.2	171	23.7	2 080	24.3	1 190.8	14.4	1 264	42.4	6 384	24.3	28.5
Internal audit	n.a.	n.a.	142	2.2	700	1.4	n.a.	n.a.	60	0.7	853.6	10.3	n.a.	n.a.	n.a.	n.a.	18 (3.7)
Procurement	n.a.	n.a.	204	3.1	3 200	6.4	n.a.	n.a.	280	3.3	0.0	0.0	58	1.9	n.a.	n.a.	18 (2.9)
Communication	n.a.	n.a.	261	4.0	3 600	7.2	n.a.	n.a.	1 000	11.7	965.6	11.7	225	7.6	n.a.	n.a.	5.3 (8.4)
Accommodation, real estate and facilities	n.a.	n.a.	1 900	29.0	8 000	15.9	90	12.5	1 600	18.7	1 508.1	18.3	992	33.3	11 425	43.6	21.4 (24.5)
Other corporate	10 850	31.6	n.a.	n.a.	500	1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4.1 (16.3)
Total	34 301	100.0	6 541	100.0	50 200	100.0	722	100.0	8 550	100.0	8 250	100.0	2 978	100.0	26 224	100.0	100.0

1. Data for the Netherlands from 2006.

2. Averages are calculated by setting unavailable data at zero. The number in parentheses is the true average for the countries for which data are available.

Source: Country responses to a questionnaire sent in 2010.

Table 2.6. **General government expenditures by sub-sector**

% of general government expenditure, 2007

	Australia[1]	Austria	Denmark	Finland	France	Ireland	Netherlands	New Zealand	Norway	Spain	Sweden	United Kingdom	Average[2]
Central government	72.0	88.0	75.8	80.8	87.9	91.4	95.2	89.3	79.2	67.7	65.3	91.5	82.0
State government	40.7	17.8								38.0			8.0 (32.1)
Local government	6.2	15.3	63.1	40.7	21.5	19.7	34.1	10.7	32.5	16.9	46.6	29.1	28.0
General government	100	100	100	100	100	100	100	100	100	100	100	100	100

1. Data for Australia are for fiscal year 2007-2008.

2. There are two other federal countries (Austria and Spain) in this group. For the calculation of the averages, employment in state government is set to zero for the other countries. The true average for the federal countries is provided in parentheses.

Sources: OECD *Public Finance and Expenditure Database* (PFED); Australian Bureau of Statistics.

General government revenues

Table 2.7 provides a picture of the sources of finance of the sub-sectors of general government in the Value for Money countries. In particular, it shows the share of own tax revenue in total revenue and thus the degree to which sub-national governments are dependent on grants from the central government and fees for services.

Table 2.7 shows that state government in Australia is for a large part dependent on Commonwealth grants. The share of own tax revenue of Australian states is about 16% below the average for the four federal countries (29.1% versus 41.4% on average). The own tax share of Australian local government is closer to average (35.5% versus 40.2% on average).

Table 2.7. **Own tax revenue as share of total revenue by sub-sector of general government**

% of total revenue, 2008

	Australia[1]	Austria	Denmark	Finland	France	Ireland	Netherlands	New Zealand[2]	Norway	Spain	Sweden	United Kingdom	Average[3]
Central government	93.2	83.8	85.3	75.1	92.6	93.2	84.9	84.6	72.2	91.7	85.2	94.8	86.4
State government	29.1	42.8								52.3			10.4 (41.4
Local government	35.5	66.0	37.5	47.0	45.8	13.5	10.7	53.4	41.8	49.5	66.9	14.9	40.2

1. Data for Australia are for fiscal year 2008-2009.
2. Data for New Zealand are for 2007.
3. There are two other federal countries (Austria and Spain) in this group. For the calculation of the averages, employment in state government is set to zero for the other countries. The true average for the federal countries is provided in parentheses.

Sources: OECD *Public Finance and Expenditure Database* (PFED); Australian Bureau of Statistics.

Notes

1. Administrative employment also excludes the Parliament and its staff, the head of state and her/his staff, the Supreme Audit Institution and its staff, and the judicial branch and its staff (the public prosecutors and their staff are not part of the judicial branch and thus included in the snapshots).
2. In addition, the differences are due to some administrative employment in health and education that are also excluded from Table 2.1.
3. The expenditure share of the states includes transfers to local government, but in the case of Australia these transfers are not high and do not substantially change the picture.

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Chapter 3

Overview of previous public administration reforms in Australia

This chapter discusses the four periods of reform that can be distinguished in Australia. These periods can be characterised as those of: i) *devolution, accountability and performance (1974-1987);* ii) *emergence of top-down budgeting (1987-1996);* iii) *the contract state (1996-2009); and* iv) *toward strategic government (2009 to present).*

The Coombs vision: devolution, accountability and performance (1974-1987)

Public administration reform in Australia is typically dated to 1974 when the government created a Royal Commission into Australian Government Administration (RCAGA). The Coombs Report (as it became known) was published in 1976 and set the foundation for reforming the culture and practice of public administration in Australia and continued to influence changes for the next three decades (Shergold, 2006). Among other things, the report introduced a philosophy that emphasised letting managers manage their own resources.

Freedom to manage personnel was achieved when the Public Service Board was abolished and responsibility for human resource management, within broad human resources policy guidance, devolved to individual agencies. More central controls were maintained over the employment of members of the Senior Executive Service (SES) and the overarching industrial relations framework continued to be negotiated centrally until the mid-1990s.

Under the Financial Management Improvement Project reforms, departmental budgets were restructured. Detailed line items were collapsed into an "administrative budget" for each department, and there was a progressive loosening of the standards of operational management throughout the 1980s and 1990s. By the end of the 1980s, each organisational entity had received a budget for recurrent running costs (operating budget) with progressively fewer controls over how this budget was to be managed. Draw-down and carry-forward provisions were introduced in an attempt to overcome the end of year spend up and encourage longer term operational planning within ministries. Later, commencing 1987-1988, the Australian government applied an annual efficiency dividend (across the board cut) of 1.25% to the operating budgets of all ministries and agencies. This reform proceeded from the logic that the reforms allowed managers to reallocate their operating budget to achieve considerable efficiencies. Clawing back 1.25% of the operating budget forced managers to keep looking for efficiencies, and allowed managers achieving efficiency improvements above 1.25% to retain the additional savings. This proved to be a controversial reform and although it has survived numerous assaults, it continues to be debated into the current period, particularly because of recent measures to increase it temporarily to achieve budget savings (an increase in the efficiency dividend, from 1.5% to 4%, applies for 2012-2013 only).

In the 1980s, the Ministry of Finance established a system of rolling forward estimates which became the starting points for budget negotiations. Typically, the forward estimates were updated annually in discussions between ministries. The forward estimates were published for the first time in 1983 separately after the annual budget. The radical change of the 1989-1990 Budget was that the Australian government published the forward estimates in the budget for the first time. The updates took place on the basis of current law and did not include any policy change. This reform shifted the focus of budget negotiations from ongoing to new programmes.

Emergence of top-down budgeting (1987-1996)

In 1987, Australia introduced a system of portfolio management and budgeting which allocated responsibility for maintaining fiscal discipline and key budgetary decisions to the Cabinet, while providing individual ministers with the autonomy to decide the spending "mix" within specific portfolio areas, included decisions on allocation and reallocation.[1] This shifted the focus of budgetary negotiations to portfolio clusters. Ministers were required to make the budgetary trade-offs necessary to allow for new spending programmes while achieving compensatory savings (known as offsets). The system of rolling forward estimates provided a firm basis from which all budgetary negotiations proceeded.

A medium-term expenditure framework (the forward estimates) and a more effective Cabinet Committee process for identifying priorities and promoting fiscal discipline were launched. The reforms aimed to increase the focus on performance and results, originally starting with programme budgeting and a formal system of programme evaluations. This focus was the *quid pro quo* for increased flexibility.

The contract state: accrual outcome budgeting (1996-2009)

Election of a conservative government in 1996 reinvigorated the reform agenda. Together the Public Service Act (1999) and Financial Management and Accountability Act (1997) formally enacted the devolution of managerial authority and clearly allocated all accountability for operational management and delivery of outcomes with the chief executive officer of each individual government agency. In addition, the government liberalised the industrial relations framework, which led to more flexibility in human resource management (contracting and wage setting).

A new framework of fiscal responsibility was adopted in 1998 when the Charter of Budget Honesty ("the Charter") was enacted by the Australian Parliament. The Charter requires the government to publish:

- fiscal strategy statements at least annually, based on principles of sound fiscal management, against which the government's conduct of fiscal policy can be evaluated;
- an economic and fiscal outlook report with each budget, including extensive risk assessments and sensitivity analysis, a mid-year economic and fiscal outlook report, a detailed tax expenditures statement, and a final budget outcome report each year; and
- intergenerational reports at least every five years that assess the long-term sustainability of Australian government policy over 40-year periods. The Charter also requires the Secretaries of Treasury and Finance to publish an economic and fiscal update within ten days of the issue of writs for a general election, and provides for Treasury and Finance to cost election commitments submitted by the major political parties during election periods.

The process of budget reform was continued with the introduction of accrual outcome budgeting in the 1999/2000 budget. Accrual accounting had existed for some time to improve the information provided on the government's asset base. The next stage was accrual budgeting to ensure that the "price" of delivering government programmes could be fully costed and therefore benchmarked in a contestable market (Kelly, 2001).

The introduction of outcome budgeting redefined the appropriation structure from programmes to outcomes. In a bid to ensure that managerial flexibilities were not lost, ministries retained the responsibility for defining outcomes. This led to a large variety of practices and substantial problems of comparing results over time and across government (Blöndal et al., 2008; Mackay, 2011).

At the same time, a new phase of administrative reforms was driven by more market-based ideologies. There was a renewed push to privatise government assets. In most instances, the government did not vacate the policy area but moved from being direct provider to a market regulator. There was also a concerted effort to increase administrative efficiencies by outsourcing administrative services, including human resource management and recruiting, cleaning and travel arrangements. Colloquially known as the "phone book test" after one official quipped that if a service was in the yellow pages it should not be delivered by government. This saw contractual arrangements become increasingly used and therefore required clearer articulation of the services required. There was also a move to introduce more contestability in the areas of policy development.

Finally, intergovernmental relations were reformed with the introduction of a goods and services tax (GST) in July 2000. As Australian state governments do not have the constitutional power to levy broad-based consumption taxes, all of the GST revenue is provided to them by the federal government as general purpose grants. For the states, this new arrangement replaced their most inefficient indirect taxes, over which they had control, and previous indexed general purpose grants from the federal government. Overall, the reform aimed to give the states a more robust and efficient source of untied revenue to fund their expenditure responsibilities. However, simultaneously vertical fiscal imbalance was increased further and the Commonwealth government placed financial and input controls on specific purpose funding arrangements across an expanded economic and social policy domain. The relationship between these two levels of government became more complex.

Toward strategic government: ahead of the game (2009 to present)

In recent years, the Australian government has begun to reconsider the direction of reforms intended to create a devolved and decentralised system of public administration. In particular, there has been a reversal in elements of the accrual outcome budgeting process, in the devolved industrial relations arrangement, and the trend to outsource key elements of programme delivery. Efforts are also under way to establish shared services units in core administrative activities, to build whole-of-government project teams and policy development capacity, and to re-invigorate the role of central agencies in undertaking "sector-wide" activities including expenditure review, regulatory review, and executive training. This trend toward more horizontal and vertical integration gathered further impetus in March 2010 when the government published *Ahead of the Game – Blueprint for the Reform of Australian Government Administration*. This document sets out nine areas of reform designed to "transform the Australian Public Service into a strategic, forward-looking organisation, with an intrinsic culture of evaluation and innovation".

Note

1. Porfolio management and budgeting reduced the number of ministries from 28 to 18, and clustered all ministries and agencies together in 19 portfolios. A senior portfolio minister "retains control over strategic direction and the allocation of resources" within each portfolio, but responsibility for specific programme areas are assigned to as many as four non-portfolio ministers within each portfolio. Generally speaking, only senior portfolio ministers sit in Cabinet and on Cabinet committees; and they are responsible for presenting the portfolio budget submission to the Expenditure Review Committee of Cabinet. For assessments of this arrangement by practitioners and academics see Weller et al. (1993).

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Chapter 4

Reform priorities and recommendations for value for money in Australia's government

This chapter presents ten reforms or reform trends that are particularly interesting for Australia. Nine of these reforms focus on the various tasks of government: policy development, policy execution, support services and administrative supervision and regulation. The tenth reform focuses on the steering of agencies.

Ten priorities for reform

This chapter presents ten reforms or reform trends from the list of 70 to be presented in *Building on Basics* that in the view of the OECD Secretariat are particularly interesting for Australia. Each section will conclude with recommendations to the Australian government. Indications of potential quality improvements and savings will be provided in the final section.

The reforms are organised by types of activities (in accordance with the classification underlying the snapshot of the public administration).[1] Nine of the ten reforms focus on the various forms of government activity:

- Policy development:
  1. Stricter rules with regard to ministerial advisors.
  2. A more consistent division of roles and responsibilities between levels of government.
  3. Integration of executive and professional expertise in policy development.
  4. Development of the Parliamentary Budget Office.
- Policy execution:
  5. Process sharing among agencies and merging of agencies.
- Support services and operational management:
  6. Service sharing among agencies.
  7. Strengthening the spending review procedure.
  8. Strengthening ICT management.
- Supervisory/regulatory activities:
  9. Improving risk management in supervisory and regulatory activities.

One reform focuses on the organisation of government:

- Organisation of government:
  10. Separation of budgeting from output steering in agencies.

The next sections of this chapter focus on each separate reform.

Reform 1: Stricter rules with regard to ministerial advisors

The Westminster model

Australia has traditionally adopted a model of an impartial, professional civil service serving the government of the day based on Westminster traditions. Historically, the model has not involved the employment of ministerial advisors from outside the civil service by ministers. However, in line with current practice in many OECD countries, the Australian Commonwealth government now employs a substantial number of ministerial advisors. In all countries where this change has occurred, it has given rise to a range of concerns regarding its consistency with the traditional model and implications for good governance.

Successive Australian governments have recognised aspects of these concerns and responded to them with a number of initiatives, some of which have positioned Australia as a leader in terms of the practices of OECD countries in this area. However, benchmarking current Australian practice against the results of recent OECD research suggests some areas in which consideration could be given to the adoption of initiatives found in a number of other member countries.

Ministerial advisors

The numbers and prominence of political staff have expanded substantially in many OECD countries and have given rise to a range of concerns in relation to their roles, accountability and relations with the civil service. Reflecting the increasing interest in this area, the OECD surveyed a range of OECD member countries and published a major report *Ministerial Advisors: Role, Influence and Management* in 2011. This report incorporates data from 27 member countries. This, and some other recent work, allows a comparative perspective on the use of political advisors to be taken and the current Australian position to be benchmarked against the experience of other OECD countries.

Definitions of ministerial advisors differ widely between countries. Although there is no single definition, it appears from the mentioned OECD study that there are commonalities in their employment status, especially the procedure of appointment and term that is linked to the minister. In almost all countries, the appointment of ministerial advisors is political (defined as a purely discretionary decision of the minister) or hybrid (which means that the appointment is the result of an administrative process although the final decision is political). The definition of ministerial advisors excludes departmental liaison officers (DLOs) working in ministers' offices. For the Australian government, DLOs are apolitical bureaucrats employed under the

Public Service Act who assist with administrative matters and liaise between ministers' offices and their departments. Ministerial advisors are employed under the Members of Parliament (Staff) Act 1984 (MOP(S) Act). The Australian government introduced annual reporting on staff employed under the MOP(S) Act in 2008 to improve transparency and accountability. The relevant category for analysing changes in ministerial staff numbers is "government personal employees" employed by the Prime Minister, a minister or a parliamentary secretary (this category comprises executive assistants, office managers and secretarial/administrative staff as well as advisors).

It should be emphasised that a ministerial advisor is not the same as an under-minister or state secretary (in Australia such positions are called minister assisting and parliamentary secretary). Many OECD countries make it possible for the minister to be assisted by one or two politicians with equal rights to sign official government documents including draft laws to be submitted to Parliament and to appear in Parliament to defend government policy. The American "spoilage system" is closer to the idea of under-ministers than to that of political advisors, because the political officials occupy the top jobs in each ministry and are formally entitled to direct the permanent civil service.

In addition to employment status, the nature of ministerial advisors can be clarified by the reasons why they are appointed. The mentioned OECD study has investigated these reasons both among civil servants and the ministerial advisors themselves. It appears from this survey research that the reasons for appointing ministerial advisors include, in order of importance:

- responsiveness: the provision of immediate advice on pressing issues; responses to the survey from both ministerial advisors and public servants highlight this aspect;
- the provision of a strategic view in the design of policies and the proposal for new reforms, which was highlighted in particular by responses from ministerial advisors;
- media assistance: the preparation of the minister or the head of government for debates in Parliament, speeches and media interviews; this was emphasised more in the responses from public servants than those from advisors;
- the provision of a political perspective in the light of the governing party's priorities or the minister's political outlook;
- handling of relations with Parliament and with interest groups (for instance think tanks, lobbyists, business leaders, trade unions, etc.).

Ministerial staff in OECD countries

Size of ministerial staff

The increase in the use of ministerial advisors (sometimes also referred to as political advisors) has been observed in many OECD countries featuring Westminster traditions. Writing on the position of the United Kingdom, King (2003) observed that the numbers of such advisors had more than doubled in the first six years of the Blair government, but noted that "The UK is not alone in this respect. Other countries which adopted the British model of a permanent, non-partisan, impartial civil service have felt the need for political advisers, and have seen steady increases in their numbers. Australia, Canada, New Zealand and Ireland have all introduced political advisers" (King, 2003).

According to previous work for the OECD:

> Political advisors are not an entirely new phenomenon in Western Europe, but they have been adopted by an increasing number of countries in recent decades, and in countries where they are well established, their numbers have tended to increase. This has led to debate about their purpose, their relationship to ministers and to the civil service, their effectiveness, and the legal and ethical framework within which they should operate. (OECD, 2007)

However, while ministerial advisors have been introduced, or have increased substantially in number, in many OECD countries, this is not a universal trend. In several countries, the role of this group remains extremely limited and tightly circumscribed. For example, in Denmark, where a commission recently recommended that the number of ministerial advisors should not exceed two or three per minister, current practice is that most ministers have only one or two advisors, while some have none at all. Moreover, the government rejected the recommendation, preferring to retain the current, tighter limit. The situation is similar in the Netherlands (at most one advisor per minister), while Norway has managed to reduce the total number of advisors over the past ten years (OECD, 2011) and Poland, similarly, reduced advisor numbers from 82 to 46 in 2004 (OECD, 2007).

As to a selection of Westminster countries, comparable data were collected by King (2003). While King's data are now somewhat dated, they provide a detailed comparison across Westminster countries, as shown in Table 4.1.[2]

Table 4.1. **Comparative public service overview**

Country	Population (millions)	Size of the civil service	Size as a % of the population	Number of Cabinet ministers	Number of political advisors	Advisors per minister
Australia	19	121 300	0.6	30	152[1]	5.0
Canada	31	186 314	0.6	36	161[2]	4.4
Ireland	3.5	27 000	0.7	15	33[3]	2.2
New Zealand	3.8	30 600	0.8	23	106[4]	4.6
United Kingdom	59.7	463 000	0.8	23	83[5]	3.6

1. From M. Maley (2000), "Too many or too few? The increase in federal ministerial advisers 1972-1999", *Australian Journal of Public Administration*, 59(4):48-53.

2. Information obtained from Canadian ministries.

3. Data from the Institute of Public Administration, Dublin.

4. Information from *The Dominion*, Wellington, 25 April 2002.

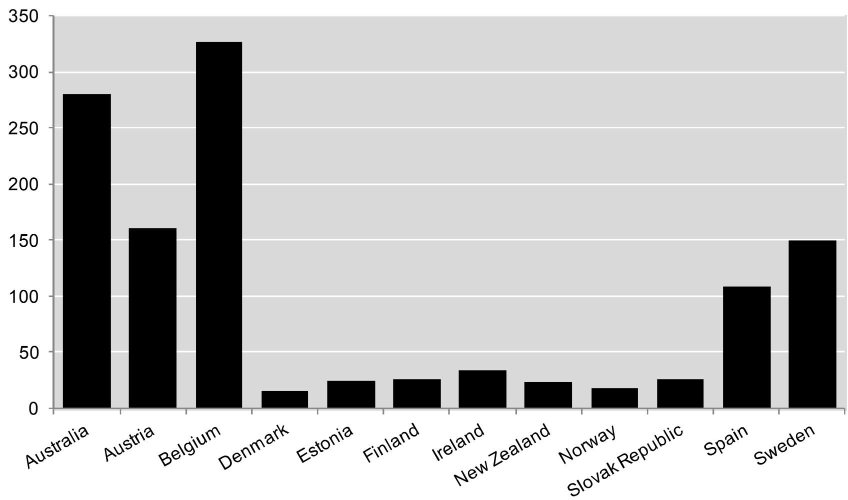
5. From *Hansard* (House of Commons) 22 January 2011, col 469W and 21 November 2001, col 340W.

Source: King, S. (2003), *Regulating the Behaviour of Ministers, Special Advisers and Civil Servants*, The Constitution Unit, University College London, *www.ucl.ac.uk/spp/publications/unit-publications/102.pdf*.

Table 4.1 shows that Australia and Canada had substantially larger numbers of ministerial advisors than the other three Westminster countries studied. Australia had slightly fewer advisors in total than Canada, but easily had the largest number per minister.

The broadest-ranging and most recent comparative data available are derived from an OECD survey conducted for the 2011 publication on ministerial advisors. Figure 4.1 reports the total number of advisors in 2010 for countries responding to the survey and also for Australia.[3] For Australia, published data for government personal employees from the "MOP(S) Act Annual Report" have been included for comparative purposes. Mexico and Turkey easily have the largest numbers of ministerial advisors, with over 1 000 being employed in each case.[4] These results have been excluded from Figure 4.1 to aid comparability among the remaining countries. The number of ministerial advisors employed by Australian government ministers was 280 at 30 June 2010 (this excludes 86 executive assistants, office managers and secretarial/administrative staff, and also excludes staff working in ministers' electorate offices). Among the 12 countries included in Figure 4.1, Australia would appear to have the second-highest number of advisors, with Belgium having more than 300 advisors and the remaining 10 countries all having fewer than 200. The Australian data in Figure 4.1 are broadly comparable with the OECD cross-country survey data, although it is possible that there are slight differences in definitions used (also between the countries of the OECD survey). Also, the international comparison with Australia is limited by the survey's lack of data for Canada and the United Kingdom which, as noted, have Westminster traditions in common with Australia. Differences in political systems and government/public administration structures may also impact on cross-country comparability, although there are not straightforward correlations in this respect (low and high numbers of advisors seem to occur in two-party as well as multi-party systems and under single-party as well as coalition governments; neither is there a straightforward relation with types of civil service systems).

Figure 4.1. **Number of ministerial advisors in selected OECD countries, 2010**



Sources: OECD (2011), *Ministerial Advisors: Role, Influence and Management*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264124936-en*; Department of Finance and Deregulation (2011), *Members of Parliament (Staff) Act 1984 Annual Report 2010-11*, Australian Government, Canberra.

The results of the 2010 survey conducted by the OECD show that of 11 respondent countries providing data for both 2000 and 2010, 8 recorded an increase in numbers over the period and 3 recorded a decrease. The average increase across the 11 countries was 23% over the 10 years. Thus, while there may be common factors leading to an increased use of ministerial advisors, there is clearly no unavoidable imperative in this direction.

While OECD (2007) found that "regulations setting a limit on the number of advisors seem rare", it went on to note the existence of limits in Denmark, France, Poland and Portugal, as well as attempts to introduce such limits in Spain. Moreover, this has apparently been an area of rapid change, since the OECD found in 2011 that "the vast majority of respondent countries have now sought to restrict the numbers of advisors. Over two-thirds use a system of quotas to cap either budget allocations for ministers or actual numbers" (OECD, 2011).

Frameworks governing ministerial staff in OECD countries

The OECD (2011) pointed to the high level of public concern about the growing use of advisors in many countries and suggested that this was a significant part of the reason for widespread attempts to limit their numbers and, possibly, role. Public concern over this issue was identified by 75% of OECD countries responding to the survey. This public concern is, in turn, seen as being a product of the lack of transparency regarding the means by which ministerial staff are appointed and their rates of pay, as well as the lack of clear accountability frameworks, given that most are responsible only to their ministers. As an example of the accountability issues highlighted, survey data showed that in 27% of respondent countries, advisors' misconduct had fuelled public debate in recent years and yet "very few" were aware of any sanctions having been applied to the offenders.

Several countries have reported recent reforms to enhance transparency and better control of the number and costs of ministerial advisors. In addition, some have moved to spell out terms and conditions of employment and standards of conduct and to clarify the accountability framework. Key initiatives relate to standards of conduct and guidelines, the declaration of private interests, transparency in relation to aspects of the advisors' employment, and accountability mechanisms.

Standards of conduct

In relation to standards of conduct, three broad approaches can be identified among countries that have explicitly addressed this issue. Some countries (e.g. New Zealand) have taken the view that advisors should be subject to the same code of conduct requirements as civil servants, save only for the requirement for political neutrality. Others (e.g. the United States) have complemented a requirement for advisors to adhere to the civil service code with an additional set of guidelines that are specific to advisors. A third group (including Australia) has focused on developing codes of conduct that are specifically tailored to advisors and do not apply civil service codes to advisors.

Private interests

Only 39% of OECD countries responding to the recent survey require ministerial advisors to declare private interests – a result that clearly contrasts with near universal disclosure requirements for ministers themselves. The Danish government publishes the list of special advisors on the website of the Prime Minister's Office.

Transparency

The OECD survey findings (2011) indicate that the functions of advisors are not specified (in legislation, job descriptions, etc.) in more than half of the respondent countries (57%).

Although a majority of the countries responding to the 2010 OECD questionnaire indicated that they provide public information on the number of advisors, publicly available information is much more limited on the profiles/biographies of advisors (14% of respondent countries), their job description (23% of respondent countries), and the total costs of advisors (23% of respondent countries).

Accountability

In 75% of countries responding to the recent OECD survey, ministerial advisors are accountable only to their ministers. King (2003) points out that such arrangements are likely to be ineffectual, as ministers will have limited incentives to sanction close personal advisors. The above-cited result from the recent OECD survey, indicating that in more than one-quarter of countries, poor behaviour by advisors had caused public concern, and yet the application of sanctions had rarely occurred, underlines this point. Moreover, in most countries, formal guidelines for ministers do not exist to assist them in such an endeavour: while 59% of countries have guidelines that ministers should follow in organising their private offices, only half of these (i.e. 30% of total respondent countries) explicitly state that ministers are accountable for the actions of their advisors (OECD, 2011).

The OECD has argued that "there is a need for an independent procedure for handling and investigating breaches and imposing sanctions" (OECD, 2011). An example may be provided by the position of ministerial advisors in New Zealand, where they are employed by the Department of Internal Affairs, to which they are accountable.

Canada passed the Federal Accountability Act in 2006, applying a broad approach to the above issues. Much of the act applies to ministerial advisors. Its general effect is to put standards of conduct for ministerial staff into law. More specifically, it incorporates a code of conduct, requires advisors to disclose their private interests and makes their actions subject to the oversight of an Ethics Commissioner (Smith, 2006).

The OECD has previously noted King's view that "legal regulation on its own is not enough. The promotion of virtue is as important as the control of vice. Codes of conduct need to be developed in dialogue with civil servants, and ethical behaviour needs to be promoted in a variety of different ways, through induction training, seminars and human resources management".[5] Elements of this approach have been adopted since the mid-2000s by the Danish government, which has established training programmes for ministerial advisors that which cover issues including the government's policy regarding advisors, the basic history and organisation of the government administration, the ministerial system and services provided, the development of the civil service, general rules of administration, including the Public Administration Act, guidelines for advisors' communication with the media, and the rules of ministerial responsibility. Similarly, a Canadian judicial investigation into inappropriate behaviour by ministerial advisors recommended in 2006 that all advisors should be required to undertake training in the most important aspects of public administration (Smith, 2006).

Reform efforts

The OECD publication on ministerial advisors (2011) concludes that "taken as a whole, respondent countries have taken limited efforts to maintain public trust by increasing transparency, integrity or framing accountability in respect of ministerial advisors". While 75% of these countries reported public concern in relation to the use of advisors, only 31% had responded with concrete action. Moreover, many review recommendations had gone unimplemented in countries that had investigated the issue formally. The publication highlights a number of ways in which countries can act to better address the issues highlighted above in relation to ministerial advisors. In particular, it proposes that key avenues for developing a clear governance framework for ministerial advisors include: clearly defining advisors' functions, their responsibilities as distinct from those of public servants and the boundaries they may not overstep; setting clear standards of integrity for political advisors and ensuring that their private interests are disclosed so that conflicts of interest may be identified and managed proactively; enhancing transparency not only as to their numbers but also their overall cost, profiles and competencies, and clarifying the accountability framework within which they work.

Ministerial staff in Australia in a comparative perspective

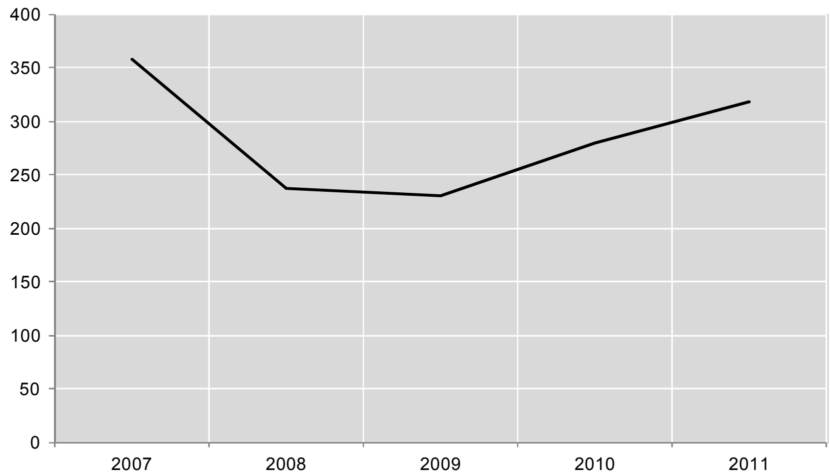
Size of ministerial staff in Australia

In Australia, the introduction of ministerial advisors was an initiative of the Whitlam government (1972-1975) (Henderson, 2009). The number of advisors has risen more or less continuously since that time.[6] As a corollary of this increase in numbers, ministerial advisors have tended to take on a broader range of roles within the policy and administrative process.

It is notable that, while the trend in the use of advisors is clearly an upward one, a number of short-term reversals are evident. These reversals largely coincide with changes of government and reflect the strong tendency for incoming governments to have made commitments to reduce ministerial staff numbers prior to their election. According to Walter (2006), this pattern was evident as early as 1976, when the incoming Fraser government initially reduced ministerial staff numbers before presiding over a substantial increase, particularly in the Prime Minister's Office (Walter, 2006). Similarly, there was a reduction in numbers of 17.5% at the time that the Howard government took office in 1996, but subsequent growth meant that, by the time of its defeat in 2007, staff numbers were 30% higher than had been the case in 1996 (Horne, 2009).The Rudd government reduced ministerial staff numbers by 30% following the 2007 election (Tiernan, 2008).

Following implementation of the Rudd government's policy, concern over increased workloads and pressure on ministerial staff, together with rising staff turnover, led to an independent review of government staffing being commissioned. Its 2009 report recommended a partial reversal of the 2007-2008 cuts, which was implemented as part of the 2009-2010 Budget (Horne, 2009). Since this time, substantial further increases in numbers have occurred. The published Annual Reports prepared pursuant to the Members of Parliament (Staff) Act 1984 provide the most up-to-date data available on ministerial staff numbers. Figure 4.2 is derived from these Annual Reports.[7] It shows that staff numbers declined from 460 to 322 between June 2007 and June 2008 and increased only slightly, to 328, in June 2009. However, there has since been a resumption of strong growth in numbers, with ministerial staff numbers totalling 366 in June 2010 and 407 by June 2011, a growth of 24% in two years.[8] Thus, almost two-thirds of the impact of the 2008 cuts in numbers had been reversed within three years. By comparison, ministerial staff numbers did not exceed their pre-1996 peak for five years after the 1996 cuts by the incoming Howard government, but that a strong upward trend had been resumed. The pattern visible in Figure 4.2 therefore appears similar to that experienced under the previous government.

Figure 4.2. **Total number of government personal employees: June 2007-June 2011**[1]



1. As well as ministerial advisors, the data include executive assistants, office managers and secretarial/administrative staff; and exclude staff in ministers' electorate offices.

Source: Department of Finance and Deregulation (various years), Members of Parliament (Staff) Act Annual Reports, *www.finance.gov.au/publications/mops_annual_reports*.

As discussed above, comparisons with like countries suggest that the current Australian numbers of ministerial advisors are relatively high. King (2003), considering the uptrend in the use of advisors in the United Kingdom, notes: "Australia and Canada now have twice the numbers of political advisors of the UK." More recent research by Tiernan (2007) showed that Australia's ministerial staff numbers had remained substantially higher than in Britain, Canada or New Zealand (Tiernan, 2007).

The Australian experience of periodic moves to limit or reduce the number of ministerial advisors as a matter of explicit policy is consistent with that of a number of other OECD countries, particularly in recent years.

Australian framework governing ministerial staff in comparative perspective

Australia has been among the countries that has recognised the necessity of a clear framework for ministerial staff and can be seen in this respect as an example for other countries. The Australian framework is focused on standards of conduct.

Standards of conduct

Australia, along with the United Kingdom, is a prominent member of the group of countries that has introduced a specifically tailored code of conduct. The United Kingdom first adopted a Code of Conduct for Advisors in 2001. Australia introduced its Code of Conduct for Ministerial Staff in 2008.

The Australian government's 2008 Code of Conduct for Ministerial Staff can be seen as responding to many of the concerns that have arisen in the public discussion about the role of ministerial advisors. Thus, core provisions of the code explicitly state that executive decisions are the preserve of ministers and public servants and not ministerial staff acting in their own right, and that ministerial staff must "facilitate direct and effective communication" between the department and the minister. The code also requires ministerial advisors to acknowledge that ministerial staff do not have the power to direct public service employees. This codifies a politico-administrative tradition of separation between public service employees and ministerial advisors that includes employment arrangements under separate legislation.

Private interests

Some 61% of respondents to the OECD's ministerial advisor questionnaire of 2010 require ministerial advisors to publicly declare their private interests – a proportion which the OECD has noted is significantly lower than the 86% of countries that require top decision makers in the executive to make such disclosures (OECD, 2011). Australia does not require public disclosure of private interests by ministerial advisors. However, they are required to complete a Statement of Private Interests at the time of their appointment and to update it annually, as well as to immediately notify the minister of any significant changes. The employing minister needs to be satisfied that the employee has no conflicts of interest and is required to endorse the statement in writing.[9]

Transparency

Australia publishes the data on the number of employees of all parliamentarians (including ministers) and trends in this number, but is not among the OECD countries that publishes names, profiles/biographies, and job descriptions. The Australian government could consider the merits of taking further steps to enhance transparency, taking into consideration best practice in other countries.

Accountability

The OECD has noted that the issue of accountability has been controversial in Australia in recent years, stating that "The Australian government has witnessed differences of opinion between the Senate and the executive as to whether political advisors should be answerable directly to Parliament" (OECD, 2011). The Victorian government was also involved in a similar conflict between the executive and the upper chamber (Legislative Council) in 2010.[10] These conflicts seem consistently to have been resolved in the favour of the executive. Thus, it appears to be the case that Australian advisors are essentially accountable only to their ministers.

Reform efforts

In common with a large proportion of OECD member countries, Australia has faced issues of control and accountability in the context of substantial growth over time in the number of ministerial advisors. The Australian government has taken a number of important steps in this area, including the adoption in 2008 of a Code of Conduct for Ministerial Staff. However, the experience of other OECD countries and the conclusions of researchers in this field suggest a number of additional steps that the Australian government may wish to consider in these areas.

Recommendations

1. The Australian government may wish to consider the scope of potential benefits from adoption of the conclusions/suggestions in the OECD publication *Ministerial Advisors: Role, Influence and Management* (2011), while giving recognition to Australia's existing rules and practices about ministerial responsibility and the Code of Conduct for Ministerial Staff.
2. The Australian government may wish to consider the merits of the Canadian Federal Accountability Act as a model for a wider range of transparency and accountability measures for ministerial advisors.

Reform 2: A more consistent division of roles and responsibilities between levels of government

The Intergovernmental Agreement on Federal Financial Relations (IGA)

Sections 51 and 52 of the Australian Constitution specify the powers of the Commonwealth Parliament. Section 52 specifies a limited number of powers that are exclusively vested in the Commonwealth Parliament (subjects on which the states cannot legislate). A much larger range of powers, set out in Section 51, relates to matters typically assigned to a federal government, for example, defence, external affairs and immigration. While these are concurrent powers (that is, both the Commonwealth and the states may legislate), Section 109 states that a Commonwealth law prevails if there is any inconsistency with a state law.

In recent decades, the Commonwealth government has become more active in a range of areas previously seen as wholly or largely the domain of the states. These include policy areas that fall within the sphere of the concurrent powers, such as health, education, and transport, as well as other areas over which the Commonwealth's role is not explicitly set out in the Constitution (for example the environment), because Section 51 of the Constitution has remained unchanged since 1967. The practical ability of the Commonwealth to act in these areas arises in three ways. First, the Commonwealth relies on broad judicial interpretation of existing provisions in Section 51 of the Constitution, such as "hospital benefits" (for aged care) and "benefits to students" (for education). Second, the Commonwealth uses more general constitutional powers, notably the external affairs power and the power to regulate private corporations in Section 51, to act in policy areas such as the environment or national workplace relations. Third, it takes advantage of the "vertical fiscal imbalance" through intergovernmental transfers because, having relinquished their income tax powers to the Commonwealth in 1942, the state governments rely on the Commonwealth for a large proportion of their revenue. Also, state consumption taxes have been invalidated by High Court judgments relating to Section 90 of the Constitution, which gives the Commonwealth the exclusive power to levy excise duties. Importantly, under Section 96 of the Constitution, the Commonwealth government can grant financial assistance to any state on such terms and conditions as the Parliament thinks fit, to provide "earmarked" (specific purpose) financial transfers to the states. Furthermore, under many Commonwealth programmes subject to the Commonwealth Grant Guidelines, state and local government bodies can compete, along with non-government bodies, for grants for a range of specific purposes.[11]

While both shared competences and vertical fiscal imbalance are found in most federal systems, Australia has high levels of both of these features, relative to other federal countries.[12] For example, in fiscal year 2007-2008, Commonwealth transfers accounted for 41.1% of state government revenue and were predicted to increase further due to declines in states' own-source revenue. This, in turn, means that payments to the states (including the general purpose grants financed by the goods and service tax) accounted for 23.7% of all Commonwealth government expenses in 2007/2008. These characteristics of Australian federalism are clearly significant in terms of the question of optimising task distribution between levels of government.

While Commonwealth government activism in many areas has been seen in terms of creeping centralism by some observers, it responds to the twin realities of a changing economic and social environment and a Constitution that, while remaining largely unaltered for over a century, has seen attempts by the Commonwealth to extend its reach largely being validated, or enabled, by decisions of the constitutional court (i.e. the High Court). It has been observed that in spite of largely unchanged formal rules of power sharing, "massive practical shifts have occurred on the back of changing judicial interpretations of Commonwealth and state power".[13]

This recognition of the practical necessity of intergovernmental co-operation in a wide range of areas – highlighted via Prime Minister Hawke's announcement of a "new federalism" policy in 1990"[14] – led to the establishment of a standing intergovernmental forum, the Council of Australian Governments (COAG), in 1992. COAG consists of the Prime Minister of the Commonwealth, the premiers of the six states, the chief ministers of the two territories and the president of the Australian Local Government Association. Its role includes initiating, developing, endorsing and monitoring the implementation of policy reforms of national significance which require co-operative action by the various levels of government.

A particular and increasing focus has been the need to expand the integration of markets for labour, goods and services within Australia. Much of the agenda of federal/state co-operation pursued through COAG and related mechanisms is based on this priority imperative and, as such, mirrors the substantial focus on developing the single market by member countries of the European Union.

Notwithstanding this formal institutional architecture of co-operation, increasing involvement of the Commonwealth government in policy areas previously managed wholly or largely by the states has caused increased tensions between the Commonwealth and the states and in turn given rise to a desire on both sides to revise traditional forms of task division and co-operation and simultaneously reform the existing financial relations between the Commonwealth and the states. Between 2002 and 2007, the potential for further reform of intergovernmental transfers was highlighted in several reports. For example, in 2005, Garnaut emphasised: "It may be efficient to raise more and more taxation at the centre, but there are economic costs and distortions in the federation from doing it. And it is best we understand those and put quite a lot of effort into designing distribution systems that minimise those effects" (Productivity Commission, 2006). He also noted that the "pervasive" use of specific purpose grants had had the effect of turning every state government function into a concurrent function and that substantial reductions in economic efficiency had resulted. The major substantive outcome of this dynamic was the "Intergovernmental Agreement on Federal Financial Relations"(further to be called the IGA), which was signed in December 2008 by the Prime Minister of the Commonwealth and the premiers and chief ministers of the states and territories.[15]

In 2008, the IGA distinguished three forms of financial support from the Commonwealth to the states:

- General revenue assistance, predominantly through non-earmarked contributions from the goods and services tax (GST).
- National specific purpose payments (NSPPs) to be spent flexibly in key service delivery sectors without prescription, to achieve agreed objectives and outcomes in related national agreements. NSPPs are earmarked only in the sense that they cannot be spent outside the key delivery sector.
- National partnership payments (NPs) to support agreed national objectives and to provide a financial contribution to the states for specific projects (project NPs), or to support the states to undertake priority reforms (reform NPs). NPs may link to the achievement of performance benchmarks or project milestones (project payments), recognise upfront costs of undertaking reform (facilitation payments) or reward states for delivering reform (reward payments). NPs are also earmarked grants in that they cannot be spent for other purposes that the ones for which they are provided.[16]

Subsequently, the IGA has been amended to reflect the creation of a fourth category of payment, national health reform (NHR) funding. To replace the national healthcare SPP (the largest NSPP) from 1 July 2012, NHR funding will be subject to the terms and conditions agreed in the National Health Reform Agreement.

GST revenue is provided to the states without conditions, to spend according to their own budget priorities. Australia's current system of horizontal fiscal equalization is based upon GST revenue-sharing relativities recommended by the Commonwealth Grants Commission. The relativities determine how much GST revenue each state receives and take into account each state's ability to raise revenue from its own sources and also the costs that each state would incur in providing the same standard of government services. Horizontal fiscal equalization does not guarantee that states will provide a uniform standard of service; its aim is to equalize the capacity of each state to do so, while leaving each state free to determine the standard of service provision.

Each NSPP relates to a so-called national agreement that defines the objectives, outcomes, outputs and performance indicators for the policy area and seeks to clarify the roles and responsibilities that will guide the Commonwealth and the states in the delivery of services across a particular sector. Currently there are five NSPPs, namely for health care (until 30 June 2012), school education, national skills and workforce development, disability services, and affordable housing. Failure to meet a performance benchmark of a related national agreement cannot be sanctioned by withholding NSPP resources. In addition, national agreements cannot include financial or other input controls imposed on service delivery by the states.

Each NP payment is based on a national partnership agreement that defines the objectives, outcomes, outputs and performance indicators, and benchmarks or project milestones, related to the delivery of specified outputs or projects, or nationally significant reforms. Reward NP payments are conceived as incentives for economic and/or social reforms. Incentive-based payments by the Commonwealth government have a longer history in Australia, with a key example being the national competition policy payments, made between 1997-1998 and 2005-2006, which were used to drive the implementation of reforms under the 1995 National Competition Policy agreements. These transfers were provided as general revenue assistance. Reward payments to the states are currently proposed in the areas of: health, school education and training, and national competition and regulatory reform. These remain a small share of total NP payments.[17]

The COAG Reform Agenda adopted in March 2008 was streamlined in February 2011 into the following five themes of national significance that lie at the intersection of COAG member governments' responsibilities and require co-operative actions:

1. Economic and social participation (this theme encompasses school education, pre-school education, early childhood education and care, skills and workforce development, and disability services).
2. A national economy driven by our competitive advantages (this encompasses national competition and regulation policy).
3. A more sustainable and liveable Australia (this encompasses capital city planning, infrastructure, affordable housing, the environment and water).
4. Better health services and a more sustainable health system for all Australians.
5. Closing the gap on indigenous disadvantage.

The IGA has set up a governance structure to implement the reforms. The Standing Council for Federal Financial Relations (Standing Council) consists of the Treasurers of the Commonwealth and the states. Its role includes the general oversight of the operation of the agreement on behalf of the COAG, monitoring the maintenance of the reforms of the agreement, making proposals to the COAG on all matters relating to the financial relations between the Commonwealth and the states, including the tax-sharing arrangement, the NSPPs and the NPs.

The IGA has established a centralised public accountability and performance reporting system for the six[18] national agreements and major national partnership agreements that relate to specific objectives in national agreements. This innovation enhanced the roles the COAG Reform Council (CRC), the Productivity Commission, the Standing Council and official data collection agencies.

The COAG Reform Council (CRC), an independent body reporting to COAG, monitors and reports on the six national agreements and major national partnership agreements agreed by COAG that are linked to the IGA. The CRC has three distinct tasks in respect of the major national partnerships. First, for reform national partnerships, the CRC assesses whether predetermined performance benchmarks have been achieved by the states and territories prior to reward payments being considered by the Commonwealth. Second, the CRC undertakes an analytical overview of the national partnerships that support particular objectives in the six national agreements. Third, the CRC monitors and reports to COAG on the water management partnership agreements under the Agreement on Murray-Darling Basin Reform between the Commonwealth government, four states, and the Australian Capital Territory.

The Steering Committee for the Review of Government Service Provision (SCRGSP), for which the Productivity Commission provides secretarial support, consists of civil servants from all jurisdictions and is responsible for collating the necessary performance data for analysis and reporting by the CRC on the national agreements. Official data agencies are responsible for developing data for the performance indicators specified in the agreements monitored by the CRC and have received additional funding for this purpose. The IGA emphasises continual improvement in performance reporting. The Treasurers' Standing Council oversees progress in improving the quality and timeliness of indicator data and the co-ordination of improvements in data collection processes, data quality and the timeliness of performance reporting for the centralised reporting system. In undertaking this task, it consults with other relevant ministerial councils, data collection agencies and line ministries. Both the Standing Council and the CRC advise COAG on changes that might be made to improve the performance reporting framework.

The CRC also has a broader role reporting to COAG annually on the aggregate pace of activity across the COAG reform agenda, including on whether institutional reforms embodied in the IGA are being realised. To complement this reporting by the CRC, the Productivity Commission reports to COAG on the economic impacts and benefits of the reform agenda every two to three years and highlights opportunities for improvement. The focus of the commission's reporting will be on the realised and prospective effects of COAG reforms on economic outcomes; its first full report was released on 15 May 2012. It focuses on the impacts and benefits of two reform areas: aspects of the "seamless national economy" deregulation priorities; and vocational education and training reforms. A framework report outlining the reporting approach was released by the Productivity Commission in January 2012.

Overall, the 2008 IGA is far more ambitious than the 1999 IGA in its reach. The latter aimed primarily to improve the financial position of all of the state and territory governments relative to that which would have existed had the previous arrangements continued. In contrast, the 2008 IGA aims to improve the well-being of all Australians through, amongst other things: clearly defined government roles and responsibilities; collaborative working arrangements; fair and sustainable financial arrangements; a focus on the achievement of outcomes and long-term policy development; stronger incentives for economic and social reforms; enhanced government service delivery; and reduced administration and compliance overheads.

Financing of sub-national government in Australia

As noted in Chapter 2, government expenditures in Australia are relatively decentralised; however, taxation powers are very centralised, giving the federal government strong powers for economic stabilisation and income redistribution. However, these arrangements also give the federal government considerable discretion to direct resource allocations of the states and territories, contrary to the principle that sub-national governments are typically best placed to innovate and tailor on-the-ground government services to best fit the needs of their populations (the federalism principle of "subsidiarity").

The IGA was implemented in a context of widespread concern regarding the large number and aggregate value of specific purpose grants, and the conditions placed on them, by the Commonwealth government. However, reforms to the structure of payments under the IGA to give the states more budget flexibility were interrupted by the federal government's temporary stimulus measures initiated to counter the effects of the global financial crisis. The temporary upswing in the share of specific purpose (earmarked) grants in total payments to the states over the period 2008-2009 to 2010-2011 largely reflects NP stimulus measures, principally through the February 2009 Nation Building and Jobs Plan, and additional assistance to the states in response to major natural disasters. Nevertheless, despite adoption of the IGA, payments for specific purposes (NSPPs, national health reform funding, and NP payments) are projected to continue to represent more than a third of all Commonwealth transfers to the states in 2014-2015, based on the data in Table 4.2. By 2014-2015, the share of payments for specific purposes falls to nearly 35%, as against nearly 33% in 2006-2007.

Table 4.2. **Commonwealth payments to the states for own purpose expenditure: 2008-2009 to 2014-2015**

Accrual expenses AUD billions

	2008-2009 actual	2009-2010 actual	2010-2011 actual	2011-2012 estimate	2012-2013 estimate	2013-2014 forward estimate	2014-2015 forward estimate
Specific purpose	32.1	36.9	39.6	37.1	31.3	32.8	30.6
General purpose	42.4	44.7	47.0	48.7	52.2	55.2	57.8

Notes: The numbers reflect decisions not to proceed with allocating revenue from the goods and services tax (GST) to health and hospitals and to increase payments for natural disaster relief and recovery.

Sources: Commonwealth of Australia (2009, 2010, 2011), Final Budget Outcomes 2008-2009, 2009-2010 and 2010-2011, Commonwealth of Australia, Canberra; and the Commonwealth's *Mid-Year Economic and Fiscal Outlook 2011-12*.

However, focusing only on trends in the broader shares of specific and general purpose transfers provides a misleading view of changes in Commonwealth prescriptions on state and territory governments' resource allocations. Importantly, within the category of payments for specific purposes, it is notable that the relative importance of the three categories is projected to change substantially over the forward estimates period, as shown in Table 4.3.

Table 4.3. **Specific purpose payments to the states 2008-2009 to 2014-2015**

Accrual expenses AUD billions

	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
NSPPs	17.9	19.2	20.3	7.9	8.3	8.8
NHR funding				13.5	14.4	16.0
NPs	18.9	20.5	16.8	9.9	10.1	5.8

Sources: Commonwealth of Australia (2010), Budget Outcomes 2009-2010, Commonwealth of Australia, Canberra; the Commonwealth's *Mid-Year Economic and Fiscal Outlook 2011-12*; and published national partnership agreements at *www.federalfinancialrelations.gov.au*.

Table 4.3 shows the share of NP payments in total payments to the states and territories for specific purposes is projected to decrease, from over one half in 2009-2010 and 2010-2011 to only 19% by 2014-2015,[19] as the stimulus NP payments phase down, agreements for other NP payments expire, and the Commonwealth government assumes greater responsibility for funding and delivering aged care services. However, this does not take account of future funding decisions, noting that there are a number of new agreements for NP payments currently under development. Also, from 2012-2013, NHR funding becomes the dominant category.

The problems in the sphere of overlapping responsibilities between levels of government that Australia has tried to solve via the IGA are not uncommon in OECD countries. Many OECD countries have so-called open competence attributions in their constitutions that allow sub-national governments to legislate on any subject they choose, as long as sub-national legislation is not in contradiction with national legislation. This shared competence often leads to problems, particularly where national governments choose to legislate in an area already subject to substantial sub-national legislation, thus over-ruling that legislation, at least to the extent of any inconsistency, and potentially creating uncoordinated requirements.

Reforming fiscal federalism

Symptoms of problematic intergovernmental financial relations include:

- large numbers of specific purpose grants (earmarked);
- national legislation that puts costly requirements on local service delivery without accompanying financial compensation (unfunded mandates); and
- lack of sub-national tax capacity (which makes a high share of sub-national spending dependent on national grants).

The fiscal federalism literature shows that each of these symptoms points to institutional arrangements that are sub-optimal from an allocational point of view and that can be improved in ways that are beneficial to all levels of government (win-win solutions or "Pareto improvements").[20] In particular:

- Specific purpose grants should be merged and given without earmarking (general purpose grants) or be integrated in a new tax-sharing arrangement.
- New national legislation that puts costly requirements on local service delivery should always be accompanied by financial compensation, preferably through the tax-sharing formula.
- Sub-national government should have sufficient tax capacity to finance sub-national tasks, either through non-distortive sub-national taxes or, in the absence of such taxes, through tax-sharing arrangements with the national government.
- The task package of each level of government should be coherent. Separate tasks or closely related tasks should not be divided over different levels of government to manage risks of cost and blame shifting.

In the last 20 years, a number of OECD governments have launched reforms of their methods of financing sub-national governments in accordance with these principles. Examples include Austria, Denmark, Finland, Italy, Portugal, Spain and Switzerland. All of these countries have reformed the nature and distribution formulas of their grants to sub-national governments. Countries that have broadened their tax-sharing arrangements over more national taxes include Portugal and Switzerland. This makes the revenues flowing to the sub-national levels of government less volatile than when only a single tax is shared.

A recent OECD report reviews fiscal federalism reform initiatives in ten countries (including Australia and all of the countries mentioned in the previous paragraph) and pays attention to relevant factors of "political economy" that contribute to the success of reform initiatives (Blöchliger and Vammalle, 2012). These factors include: favourable economic and fiscal conditions (that allow compensation of the losers); comprehensive packages that balance efficiency and equity objectives (which require a whole-of-government approach rather than a sectoral approach); involvement of external and independent expertise, particularly from trained economists, open communication focusing on long-term impacts; and a good understanding of why past reform attempts did not succeed.

The Dutch government has recently taken initiatives to further the coherence of the tasks packages of municipalities and provinces. These initiatives include further decentralisation of social services and long-term care services to the municipalities, so that the municipality will be primarily responsible in the social domain. Similarly, further decentralisation of competences in the domain of infrastructure and spatial planning would make the provinces primarily responsible in the domain of transport and spatial policy. These proposals would be accompanied by merging grants and abolishing supervisory and regulatory authorities at the national level in these fields.

Assessment of the financial relations between levels of government in Australia

Looking at the 2008 Australian IGA, as amended, a number of impressive improvements have been achieved in recent years:

- The importance of collaborative federalism for driving productivity-enhancing national reforms is a model for other federal countries to follow.
- A new federal financial framework has been introduced that allows for a reduction in Commonwealth prescriptions on service delivery by the states and territories and more local flexibility:
  - A payments rationalisation created large, flexible national specific purpose payments (NSPPs) in five key service sectors.
  - A reduction in the extent of Commonwealth prescription of service delivery requirements applying to the states has been undertaken in the case of the NSPPs.
  - The Commonwealth has agreed to make the NSPPs independent from financial or input controls and to abstain from sanctioning

failure to achieve output or outcome targets or benchmarks. These changes have allowed a greater focus on policy development.

– All payments to the states for specific purposes, including NP payments, have been centralised through Treasury departments under a single appropriation with a focus on outcomes and outputs rather than prescription on service delivery.

- A commitment to continue to administer the GST by consensus among all parties to the agreement and to work together on further tax reform. Following the national tax forum in October 2011, treasurers of the states of Queensland and New South Wales are examining the potential for harmonisation of their state taxes with a view to developing a reform plan for consideration by COAG.

- To date, key achievements of the "Seamless National Economy" regulatory and competition reforms include: standard business reporting; a national trade measurement system; a national system of registration and accreditation for health professionals; a national consumer policy framework and related product safety reforms under the new Australian Consumer Law; and consumer credit reforms (national regulation of mortgage broking, margin lending and non-deposit lending institutions). Additional reforms expected to be completed include: a national business names registration scheme; national transport safety regulators; a road reform plan and infrastructure reforms; and nationally consistent regulation of building and plumbing.

However, in the light of the reform trends described above and recent developments, some aspects of the IGA can still be improved.

- In its 2011 progress report, the CRC recommended that COAG address concerns raised by some states and territories about excessive administrative and compliance burdens for some NPs. The council also highlighted no progress in performance reporting focused on efficient service delivery (COAG Reform Council, 2011).

- While each NSPP can formally be deployed by the states in its assigned broad policy area, continued Commonwealth discretion through a large number of NPs (particularly in the health and education areas) diverts resources from service delivery to administration at both levels of government. On current policy, many small NPs remain (particularly in the health area) by 2014-2015.[21] The IGA allows scope for NP payments to be absorbed into NSPPs, should the parties agree. Merging an ongoing NP payment into an NSPP with a more generous indexation factor would need to be offset by savings under the Australian government's budget rules.

- Although, in principle, the NSPPs provide substantial expenditure flexibility to the states, they remain earmarked to particular sectors where policy issues often overlap in part. This suggests scope for further changes to payments, including making some funding available for other purposes, to create a larger efficiency incentive that has in other countries led to substantial savings. If earmarking of NSPPs is abolished, one future option is merging NSPP funding into a pool of general revenue assistance.
- A review into the distribution of the GST revenue is assessing the case for and against changes to the current form of horizontal fiscal equalization with regard to the criteria of efficiency in the allocation of resources, equity, simplicity, and stability and predictability in state and territory shares. This is expected to be completed by August/September 2012.[22]

The assessment of the previous paragraph is mostly in line with the recommendations of the Henry Tax Review which resulted from a recommendation of the Economics Group at the summit 2008 of the Governance Group 2020. The review found *inter alia*:

- The states would be better placed to meet cost pressures in the future if they received the revenue from a broad-based cash flow tax. This could fund the abolition of a number of state taxes. The states could raise some revenue from tax base sharing of the personal income tax, with the Australian government keeping a share of the consumption tax revenue.
- To ensure that governments face a hard budget constraint, any intergovernmental grants should be transparent and not easily subject to discretionary changes.[23]

The IGA cannot function effectively if roles and responsibilities are not clearly defined, accepted and understood. Minimisation of shared roles and responsibilities supports improved public transparency by clarifying where accountability resides. If the Australian government wanted to further clarify the division of responsibilities between the Commonwealth and the states in the future, the OECD considers that a whole-of-government approach is preferable to a sectoral approach.[24] An allocationally efficient division of responsibilities must be based on public finance principles that are applied in the same way to all policy domains. For instance, regulation of markets for goods and services and financial markets are typically a prime responsibility of the national government as it is a condition for a "seamless" economy. Other OECD countries have found that infrastructure and spatial development can largely be decentralised, possibly with the exception of infrastructural projects of national importance. In the areas of educational, social and health policy, the main responsibility of the national government lies in the assurance of minimum service levels and a certain degree of equality among all citizens. However, minimum service levels and equality among citizens can also be imposed by legislation, and do not require involvement in earmarked (specific purpose) funding arrangements or performance assessment.

A whole-of-government approach has the advantage of minimising pressures for increases in expenses overall as a result of changing responsibilities between levels of government.[25] Considerations of political economy as well as OECD experience also suggest that a whole-of-government approach is more likely to succeed. Since reform of financial relations involves a large number of specific interests, a whole-of-government approach offers more opportunities to reach agreement on the basis of trade-offs, while savings from elimination of duplication and bureaucracy can lead to a win-win situation for both states and the Commonwealth (from a theoretical perspective broad reform is a "Pareto improvement").

If the Australian government wanted to go in this direction, the best way would be to form a high-level COAG working party to study what other OECD countries have done in recent years in the sphere of decentralisation and separation of responsibilities between levels of government, including through modernising their federal constitutions and financial relations between levels of government, and to prepare advice.

Another aspect of the IGA that the Australian Commonwealth government may wish to reconsider in the light of reforms and reform trends in other OECD countries, particularly the Value for Money countries, is the responsibility for results in terms of outputs or outcomes. A general aim of the IGA has been the reduction or abolition of Commonwealth prescriptions on input use and services delivered, either in the form of legislation or in the form of grant conditions, and replacement of these prescriptions by commonly agreed outcome targets or benchmarks. Outcome targets and benchmarks are laid down in the national agreements (for NSPPs) or the national partnership agreements (for NPs). A relatively heavily centralised organisation was established to collect information and monitor these outcomes (the COAG Reform Council and the Steering Committee for the Review of Government Service Provision). However, a reform trend that is observable in some of the Value for Money countries (Denmark, the

Netherlands and Sweden) is a separation between budgeting and steering on outputs and outcomes.

Budgeting can, to a large extent, be based on needs indicators and information on input costs (capacity budgeting). Budgetary sanctioning of performance results leads easily to perverse incentives and deterioration of data quality. Furthermore, budgeting is an annual exercise whereas steering on outputs and outcomes is a permanent process. Definitions of outputs and outcomes are subject to permanent change due to shifting political priorities and results of social research. Furthermore, in the service sector, including the public service sector, output targets are typically refined in the course of policy execution and cannot be fixed a year or more in advance.[26] Budgeting is the primary responsibility of the Minister of Finance.[27] Steering on outputs and outcomes is the primary responsibility of the line minister.

COAG renewed its commitment to strong ongoing monitoring and reporting of important national initiatives to ensure that they meet their goals and are delivered in a timely way. COAG has also set ambitious goals to improve outcomes with the reviews of the performance frameworks of national agreements providing an opportunity to ensure that progress is measured and that all jurisdictions are clearly accountable to the public and COAG for their efforts.

COAG recognised that ministerial councils play a key role in progressing important work across all levels of government. COAG has agreed to a comprehensive reform plan for a new system of ministerial councils. These changes will see a fundamental shift towards a council system focused on strategic national priorities and new ways for COAG and its councils to identify and address issues of national significance. COAG has effectively halved the number of ministerial councils from over 40 to 23. This will see COAG focus on reforms of critical national importance through:

- a more agile and responsive system based on policy development through standing councils and flexibility to respond to critical and complex issues through time-limited, subject-matter specific select councils;
- policy oversight of national agreements and national partnership agreements;
- a system more focused on implementation;
- a tighter relationship between COAG and its councils.

While these steps are consistent with the idea that outcome definitions need to be flexible and subject to permanent policy dialogue, further steps are still possible. Such further steps suppose a clearer distinction between outcomes for which the Commonwealth is responsible and those for which the states are responsible. For the first, a permanent policy dialogue with the states on the basis of reliable performance data is useful. In this dialogue it should be recognised by all parties that performance definitions should be flexible and adjustable on a continuous basis in the light of shifting political preferences, new results of social research and practical executive experience. Financial sanctioning of results[28] should be avoided since it leads to perverse incentives. This is equally true for NSPPs (where it is recognised) as for NPs (where it is not recognised). As far as NPs are concerned, this does not imply that the link with performance indicators would be severed (which would remove their entire rationale), but that the performance supervision would be conducted through dialogue and persuasion (as is currently the case for NSPPs). For the latter (outcomes for which the states are responsible), the Commonwealth is only responsible for adequate funding of the states to deliver those outcomes, and the adequate location of the permanent policy dialogue on outcomes is between the states' ministers and the states' parliaments, as well as between the states' line ministers and their executive agencies (see further Reform 10 on this), not between the Commonwealth ministers and the state ministers.

Recommendations

3. The Australian government may consider a more consistent division of tasks in the area of concurrent powers, by demarcating domains of service provision in which the states are the primary responsible layer of government from domains in which the Commonwealth government is the primary responsible layer of government. Such a division of tasks should be prepared by an external advisory group that takes a whole-of-government approach.
4. The Australian government may consider further reform of the financial relations between the Commonwealth and the states aiming at: *i)* national partnership (NP) payments, insofar as they are not time limited, to be rolled into national specific purpose payments (NSPPs); *ii)* ending the earmarked character of NSPPs and eventual integration of NSPPs into general revenue assistance; *iii)* reforming the revenue-sharing arrangement between the Commonwealth and the states by adding more taxes to the shared revenue base. Time-limited NPs can be allowed to expire once payment has ceased. Merging an ongoing NP payment into an NSPP with a more generous indexation factor needs to be offset by savings under the Australian government's budget rules. Financial sanctions on performance results should be avoided for NP payments, as for NSPPs.

Reform 3: Integration of executive and professional expertise in policy development

Strengthening linkages between policy development and service delivery

Creating strong linkages between policy development and policy execution – including service delivery – is widely recognised as essential for policy success. For example, a best practices report on implementation that was jointly issued by the Department of the Prime Minister and Cabinet (PM&C) and the National Audit Office argues that failure to build questions of programme delivery into policy design are likely to result in "sub-optimal delivery methods; over-ambitious time frames; resources not being available when required; inappropriate skills or capability for the initiative; and insufficient contingency planning". To that end, the report highlights the necessity of "making implementation an important consideration during policy design" and "using the experience of the implementers during policy development" (DPM&C and ANAO, 2006). Yet, as many OECD countries have come to realise after the New Public Management reforms of the 1980s and 1990s, the nexus between policy development and execution requires special attention once service delivery is moved out of core ministries and put in executive agencies at arm's-length distance.

Whereas managers of large executive organisations (tax service, police, penitentiary service, labour service, social assistance [welfare] service, roads and railway service, etc.) used to sit at the same ministerial staff tables as the policy makers in the 1960s and 1970s, now they sit in their own buildings and offices, often at considerable distance from the umbrella ministry. Whereas the benefits of executive autonomy are generally acknowledged, and no OECD country that created arm's-length agencies in the 1980s and 1990s has revoked these reforms, it can be observed that more OECD countries are now concerned about the nexus between policy development and policy execution. Particularly, complaints about policy that is hard or impossible to implement or that is inconsistent with other policies from the same ministry are more often heard and have given rise in many OECD countries to special arrangements designed to restore the nexus. The crucial challenge in this respect is to maintain the benefits of specialist execution and service delivery, while integrating the lessons from implementation into the system of policy development.

Models of policy development

Policy development amounts to the translation of political objectives into policy instruments under the control of government. The number of policy instruments available to the government is limited. The choice set basically consists of regulation, financial instruments (including transfer payments), and provision of goods and services in kind.[29] Regulation through legislation makes it possible to prescribe, forbid or encourage/discourage certain activities in the private sector of the economy. In addition, legislation can be used to organise the government itself (administrative and constitutional law). Financial instruments can be used to create incentives in the private sector of the economy by providing subsidies or imposing levies. Transfer payments to individuals such as pensions can be used to provide targeted assistance. Through provision of goods and services, directly and indirectly through third parties, governments can also meet demands of citizens and businesses that the market does not take care of. One can think of collective goods (defence, infrastructure, police, basic research, judicial services, etc.) or individual goods with strong external or distributional effects (education, health, social services, cultural services, etc.). In OECD countries, the budgets of governments are structured to an increasing extent by coherent packages of policy instruments, or programmes, geared to the realisation of political objectives.

It is the task of policy development officials to design proposals for policy instrumentation that are optimal from the perspective of effectiveness in relation to political objectives, including integration and consistency with other policies; efficient in terms of costs and the proposed method of implementation; and acceptable in terms of risks of failure, delays and/or increases in costs. Performance of this task not only requires theoretical and empirical knowledge about the costs and impacts of policy instruments and the feasibility of objectives, but also an understanding of the needs of politicians, as well as the role of stakeholders (such as interest groups and executive officers) who often have preferences for instruments next to preferences for objectives. Finally, policy development officials must be aware of the feasibility of policies in execution, including issues of skills and capacity in the organisation that is to be charged with implementation. In OECD countries, policy development officials are typically located in core line ministries and in central "strategic policy units" of such ministries such as the Prime Minister's Office, the Ministry of Finance, and the Ministry of Public Administration.

Important tools for policy development are (*ex post*) evaluation and (*ex ante*) impact analysis (including cost-benefit analysis). Evaluation, among other aspects, looks back to the costs and effects of current policies in order to learn from the results. Impact analysis looks forward to the expected costs and effects and risks of new policies. It includes assessing, estimating and in some cases forecasting, the future costs and effects of current policy as well as scenario analysis of alternative policies. Evaluation and impact analysis can be performed by government agencies or outsourced.

Looking at the organisation of policy development at the level of central government in OECD countries, it is possible to identify three different traditions, or models, which can be called the line ministry model, the Cabinet model, and the central steering model. The three models differ in the extent to which policy development is steered from the centre of government.

The line ministry model is characteristic for such countries as Austria, Germany and the Netherlands. In this model, the responsibility for policy development rests exclusively with the line ministry and there is little steering from the Prime Minister's Office or any other central ministry. It may be the case that there is a Cabinet or coalition agreement in place that specifies new policies for the government as a whole, but the responsibility for subsequent development rests exclusively with the line minister. This implies, among other things, that only the line ministries can order evaluations or impact analysis studies and put forward concrete proposals for Cabinet consideration. It also implies that only the line ministries can take the initiative for interministerial co-ordination if certain aspects of policies exceed the domain of the line minister. The role of the Prime Minister's Office is limited to monitoring progress and solving problems at the request of line ministers if process is blocked because of lacking interministerial agreement.

The Cabinet model is characteristic for Scandinavian countries such as Denmark, Norway and Sweden. In this model, there is collective Cabinet responsibility for the development of all new policies. This implies that there is a strong role for the Prime Minister's Office or for the Ministry of Finance. Evaluations and impact analysis studies can be ordered by line ministries but also by the Prime Minister's Office or the Ministry of Finance. In Denmark, policy development in the economic area is co-ordinated by the Economic Committee, chaired by the Minister of Finance, and in the area of public order, safety, defence and international affairs by the Cabinet Committee, chaired by the Prime Minister. All proposals for new policies have to pass these committees before they reach the Cabinet. In Sweden, all (important) legislative proposals have to go through an internal committee procedure. The committee can be chaired by an official of the line ministry but also by the Prime Minister's Office or a prominent expert or former politician/official. Other ministries and stakeholders outside the core ministries (executive agencies, local government, interest groups, civil society organisations) are represented in the committee. Executive agencies are often tasked with the elaboration of new proposals on the request of the committee. The committee reports formally to the line minister, but the minister has little room to deviate from the committee proposal.

The central steering model is characteristic for Anglo-Saxon countries such as Canada, the United Kingdom and, to some extent, Australia (featuring a two-party political system). In this model, there is a strong steering role for one or more central ministries (Prime Minister's Office, Ministry of Finance, Ministry of Public Administration). Central ministries may take the initiative for new policies, particularly if they constitute an important part of the government's programme, or if they fall in the area of responsibility of various line ministries. Central ministries may also order evaluations or impact analysis studies.

While Australia has a number of features of the central steering model, it is also the case that Australia has a strong tradition of collective Cabinet responsibility. New policy proposals are most often initiated and developed by line ministers, supported by their ministries. Typically, this also involves consultation and co-ordination with other relevant ministries through interdepartmental committees or less formal means. Many proposals considered by the Cabinet are in turn supported by a series of Cabinet sub-committees including the Expenditure Review Committee (ERC) as well as several other sub-committees chaired by relevant line ministers (e.g. the Social Policy and Social Inclusion Committee of the Cabinet chaired by the Minister for Families, Community Services and Indigenous Affairs).

The need for better integration of executive expertise in policy development has different consequences in each of the models. In the line ministry model and the Cabinet model, better integration can basically be achieved by ensuring that executive professionals regain a formal role in the policy development process inside line ministries and are invited to take an active part in the development of proposals. The Swedish committee procedure for the preparation of legislation, which ensures the participation of representatives of executive agencies, can be seen as exemplary in this respect. In the central steering model, special arrangements are necessary to ensure that executive expertise is not only represented in the line ministries but also in the central steering ministries. In the United Kingdom, where many reform initiatives come from the Cabinet Office, special attention is given to the recruitment of delivery experts in the office itself. This may be a feasible approach in other countries working in this tradition as well.

Policy development in Australia

Some reforms in the mid-1990s created additional competition within the system of policy development and advice. Within line ministries, there was some tendency for departmental secretaries to focus more on managerial skills with some increased outsourcing of policy development to, for example, consultants, think-tanks, and university researchers. Line ministers continued to consult widely across relevant interest groups and also employed staff with policy expertise in their political offices (see Reform 1). Within the government, the central ministries increased their emphasis on policy development and appointing special advisors to undertake policy research and development work across a range of policy areas. The need to strengthen strategic policy capacity across government was a key theme of the more recent *Blueprint for Reform* (Advisory Group on Reform of Australian Government Administration, 2010). PM&C has expanded its own policy development capacity. The apparent growth of the policy development staff in central agencies, which was not compensated by a similar decrease in line ministries, may largely explain the current large share of policy development in Commonwealth employment compared with other OECD countries (see Table 2.5 above, noting the associated caveat about that snapshot data and the fact that a large share of service delivery is undertaken by state and territory governments).

The integration of executive expertise in policy development in Australia is unusual, with the central policy co-ordination role shared across three different central ministries: PM&C, Finance and Treasury. A considerable amount of the central agencies' work consists of assessing new policy proposals put forward by line agencies as part of the whole-of-government policy co-ordination processes before proposals are considered by the Cabinet. Central agencies are better placed than line agencies to provide whole-of-government and economy-wide perspectives and to take account of budget priorities and targets. The roles of the three central agencies can broadly be described as follows:

- PM&C supports the Prime Minister as head of government and in managing the extensive Cabinet processes that underlie government decision making. Its primary role is to provide advice across all areas of government activity. It provides advice on policies, including policies put forward by portfolio ministers, from a whole-of-government perspective and to help ensure they are aligned with the government's over-arching policy objectives.

- Treasury supports the Treasurer with advice on macroeconomic policy, fiscal strategy, taxation policy, effective functioning of markets and structural policies to promote sustainable economic growth and support community well-being.

- Finance supports the Minister for Finance and Deregulation and its responsibilities are focused on management of government expenditure, budget processes and financial management; implementing the Australian government's deregulation agenda; and a number of public administration roles.

All three central agencies play a role in budget policy development and the management of budget processes. The central agencies' roles in budgeting have been previously broadly described in the OECD review of budgeting in Australia (Blöndal et al., 2008). That review noted that the division of tasks between Finance and Treasury was not always clear:

> The relationship between the central agencies is complex, but they do appear to complement each other for the most part, with each focusing largely on its special "niche" in the budget process – general expenditure review, structural adjustment policies, and the broad policy overview, respectively. However, responsibilities could be clearer, especially between the Treasury and the Department of Finance and Deregulation. There is also a cost – in both time and money – in managing the relationship and achieving consensus among the three central agencies on the various agencies. (Blöndal et al., 2008)

The following is an updated and more detailed description of the roles played by central agencies in budgeting, drawing on the OECD 2008 review and how the Australian authorities currently see the division of roles between Finance and Treasury, particularly in their relationship to line ministries:

- A committee of high-level officials from Treasury, Finance and PM&C steer the co-ordination of the budget. Treasury and Finance are responsible for the preparation of the budget papers. As budget estimates are a joint responsibility of these two departments, they work closely together in the production of each budget and mid-year review.

- Finance focuses on the expenditure side of the budget and is organised along the same lines and performs the same functions as generally associated with a central budget office, including desks that shadow the line ministries. It co-ordinates the preparation of the expenditure side of the budget and validates the expenditure estimates. It also oversees the budget accounting and financial frameworks. Finance has detailed knowledge of expenditure programmes and expertise in the analysis and costing of new expenditure proposals, and this enables it to take the lead role in the provision of advice for the deliberations of the Expenditure Review Committee (ERC) of Cabinet, with co-ordinated input from Treasury and PM&C. Finance also advises on long-term expenditure sustainability, including at the detailed programme level.

- Finance has a more direct role than Treasury and PM&C in the co-ordination and management of the budgeting process across government departments. Finance's expertise on expenditure programmes is built on close relationships with line departments/agencies – which requires a great deal of co-operation as well as Finance taking a "challenge" function towards those spending entities.
- With its detailed understanding of programmes and cost drivers, Finance is able to provide advice on the design of new programmes, overlap and duplication between new proposals and existing programmes, options for reallocating outlays, and the identification of opportunities for savings.

- The Treasury focuses on economic and taxation issues. It provides the tax revenue estimates (non-tax revenue estimates are provided by Finance) and the economic forecasts that underpin the budget, including costings processes and the fiscal strategy. Treasury's role in expenditure policy relates to advice on fiscal strategy and how new policy proposals will support community well-being and sustainable economic growth. The Treasury also advises the government on debt management and long-term fiscal sustainability issues, including intergenerational issues.
  - Around half of the resourcing of Treasury's Fiscal Policy Group is organised to shadow each line ministry. When Finance significantly scaled back its detailed budget oversight and advice capacity in 1999, Treasury started building up its capacity in this area. While Finance has since rebuilt its capacity in the budget area, Treasury's build-up remains largely in place today, reflecting greater engagement in the development of policy, including staff secondments to line agencies as well as greater participation in interdepartmental consultative processes.

- The Fiscal Policy Group is also responsible for advice on overall fiscal strategy, co-ordination of the budget together with Finance, and other reports required under the Charter of Budget Honesty. Another area of the group is directly responsible for fiscal relations with the states and territories. Intergovernmental fiscal relations are a major, and sensitive, issue in Australia (see Reform 2). The 2008 Intergovernmental Agreement enhanced Treasury's responsibilities in the area of payments for specific purposes to a much greater extent than those previously held by Finance.

- PM&C has a key role in supporting the Prime Minister in the setting of the strategic agenda for the budget with its focus on the government's policy priorities. As PM&C includes the secretariat for the Cabinet and its sub-committees (including ERC), it also plays a key role in the co-ordination of policy proposals to go to Cabinet. PM&C has long had a structure that includes policy advice areas aligned with individual ministries. The role of officers in these areas is to provide advice to the Prime Minister on policy proposals from a whole-of-government perspective by bringing together the government's over-arching policy objectives, the economic and fiscal strategy, and the policy objectives of the portfolio ministers.

- In regard to costing of new policy proposals, Treasury deals with proposals that involve tax policy and thus impact on tax revenue. Finance deals with expenditure proposals (and also matters concerning non-tax revenue). This reflects the expenditure/tax revenue division of responsibilities in regard to the budget.

The three central ministries have their own specific perspective on policy development. As such, they play significant and complementary roles. However, the division of tasks between the central ministries is not always clear and could be better communicated. As noted earlier, this is particularly true for the division of tasks between Treasury and Finance.

Reform to improve the integration of policy development and delivery

The Australian government has considered initiatives intended to improve the integration of policy development and execution. The government has investigated how service delivery agencies could be systematically involved in the design and implementation of programmes. The work has focused on enhancing the end-to-end policy development and implementation cycle to support better outcomes, with the view that service delivery to Australians is a key component of policy. It has focused on Commonwealth programmes delivered by Commonwealth agencies, and considered strategies for both new policy proposals and existing programmes. Other programmes of work include those identified in the *Australian Public Service Reform Blueprint*, specifically Recommendation 3.3, which proposes "a greater focus on policy implementation, through improved guidance, greater networking between service delivery agencies and implementation governance boards to oversee high risk projects". These reforms will require sustained effort and leadership to ensure they are implemented.

In 2011, the Australian government agreed to a number of reforms to shift the emphasis towards delivery-focused policy. This included requirements for comprehensive implementation plans for new policy proposals, consistent methodology for risk assessments, greater co-ordination and collaboration on complex cross-portfolio initiatives and improvements to agency delivery capability in the medium term.

The Cabinet Implementation Unit (CIU), situated in the Department of Prime Minister and Cabinet, was subsequently given an expanded mandate to:

- assess all submissions going to the Cabinet and new policy proposals for implementation and delivery issues that may not have been addressed and, where necessary, work with departments on key implementation issues such as governance and accountability, stakeholder engagement and communications as well as project planning and management;

- facilitate capability building across the Australian Public Service on implementation and delivery, including working with the Australian Public Service Commission on targeted learning and development on delivery leadership as well as collaborating with the Department of Finance and Deregulation on the application, design and development of assurance tools; and

- develop a network of implementation capability sharing across the APS including an implementation network for senior executives to share implementation experiences and knowledge, lessons learnt and new approaches to delivery.

In doing its assessments of Cabinet submissions and new policy proposals (the first role listed above), the CIU is well placed to draw on experiences relating to other departments as well as cross-portfolio delivery experiences. Where necessary, the CIU also works with the relevant department(s) on the development of implementation plans.

In addition to these reforms, the CIU continues to track, assess and report to the Cabinet on the implementation and delivery progress of the government's highest priorities. The reporting task includes working collaboratively across departments in assessing the "current state of play" as well as identifying any necessary corrective actions that may need to be taken to improve delivery confidence. The CIU also carries the capability and capacity to conduct specific in-depth implementation assessments on a specific programme or initiative where necessary.

Once the implementation and delivery reforms have been fully embedded and the new arrangements allowed to operate for a period of time, it would be useful for the Australian government to consider undertaking an evaluation of the effectiveness of its reforms and the merits of taking further steps towards the objective of improving implementation and delivery capability, including through improved integration of policy development and implementation.

Recommendation

5. The Australian government may wish to consider undertaking an evaluation of the effectiveness of its 2011 reform initiatives aimed at improving implementation and delivery capability within the Australian Public Service, after a period of experience under the arrangements from those initiatives, in order to consider the scope for further reform.

Reform 4: Development of the Parliamentary Budget Office

The establishment of a Parliamentary Budget Office (PBO) in Australia

In the spring of 2011 the Parliament of the Commonwealth of Australia passed a bill for an "act to provide for the appointment and functions of a Parliamentary Budget Officer and the establishment of a Parliamentary Budget Office and for related purposes". The same bill provided for an appropriation of AUD 6 million in the financial year starting on 1 July 2011 for the purposes of the Parliamentary Budget Officer and the Parliamentary Budget Office (PBO).[30]

The establishment of a PBO in Australia has been debated at various times since the 1980s. Following the 2010 federal election, the minority government agreements signed by the Australian Labor Party with the Australian Greens and three independent members of Parliament included a commitment to establish a PBO. That commitment also formed part of the Agreement for a Better Parliament: Parliamentary Reform, negotiated between the minority government, the coalition and the Independents in September 2010*,* which called for a special committee of the Parliament to decide on the "structure, resourcing and protocols for such an office".

Subsequently, the Parliament appointed a Joint Select Committee on the Parliamentary Budget Office (Joint Committee) to inquire into and report on the most appropriate structure, resourcing and protocols for a PBO. The Joint Committee membership included senators and members of the House of Representatives from the Australian Labor Party, the Liberal Party of Australia, the Nationals, the Australian Greens and an Independent member of Parliament. The Joint Committee considered examples of similar institutions in other countries, such as the Congressional Budget Office of the United States and the Parliamentary Budget Office of Canada. The Joint Committee tabled its report on 23 March 2011 and the government tabled its response on 1 August 2011.[31] In May 2011, the government also announced in a press release that it would provide AUD 24.9 million over 4 years to establish the PBO and that the PBO would be established as a separate entity headed by an independent statutory officer – the Parliamentary Budget Officer. On 24 August 2011, the government submitted a bill for that purpose. The bill was subsequently passed by both Houses of Parliament.

In accordance with the proposal of the Joint Committee, the PBO was given a broad mandate. Its purpose is described as "to inform the Parliament by providing (….) independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals" (Section 64B of the act). Among the proposed functions of the Parliamentary Budget Officer is a provision that he or she can "conduct, on his or her own initiative, … research on and analysis of the budget and fiscal policy settings" (Section 64E(1) (e)).

However, regarding forecasting, the government's legislation specifically states that:

> (2) The Parliamentary Budget Officer's functions under subsection (1) do not include:
>
> (a) preparing economic forecasts; or
>
> (b) preparing budget estimates (whether at the whole-of-government, agency or programme level). (Section 64E(2))

And:

> (3) In performing his or her functions under subsection (1), the Parliamentary Budget Officer must use the economic forecasts and parameters and fiscal estimates contained in the most recent relevant reports released under Parts 5, 6 and 7 of Schedule 1 to the Charter of Budget Honesty Act 1998.

By contrast, it is interesting to note that a private bill submitted by the shadow Treasurer, the Hon. Joe Hockey MP, at around the same time as the government bill, proposed that the PBO have among its functions: "making medium and long-term projections of budget parameters and the effects of budget proposals or other developments that the officer considers significant".[32]

As to costings, the legislation establishes a role for the PBO outside the caretaker period for a general election to undertake costings on request by senators or members. These requests may be confidential. During the caretaker period for a general election, the act provides for the PBO to prepare policy costings on request by authorised members of parliamentary parties or independent members.[33] However, authorised or independent members are precluded from requesting a policy costing before, on, or after polling day, if a member of that party has "requested the preparation of a costing of that policy, or a substantially similar policy, under clause 29 of Schedule 1 to the Charter of Budget Honesty Act 1998". Essentially, this means that authorised members will have to choose whether they prefer costings of policies to be performed by Treasury/Finance or by the PBO, with the likely effect that Treasury/Finance will continue to carry out the costings for the governing party and that the PBO will carry out those of the opposition parties and independents.[34] However, in order to ensure that minority parties (with at least five members of either House of Parliament) can have their costings carried out by Treasury/Finance, the act has simultaneously amended the Charter of Budget Honesty Act 1998 to broaden access to costings by Treasury/Finance to minority parties during caretaker periods.

Examples of independent fiscal institutions in OECD countries

The following section provides three examples of independent fiscal institutions (often termed fiscal councils or parliamentary budget offices) in other OECD countries: the United Kingdom, Canada and the Netherlands. The examples from the United Kingdom and Canada are considered especially relevant to Australia given the similarities in the three countries' political systems (Westminster-based parliamentary systems) and the fact that the relative size of the United Kingdom OBR and the Canadian PBO are closer to what has been proposed for the Australian PBO than that of some of the more long-standing institutions like the United States Congressional Budget Office (CBO). Nevertheless, independent fiscal institutions, and particularly those under Parliament, have much to learn from the CBO experience, and indeed the United Kingdom, Canada and Australia have all looked to the experience of the CBO as well as other long-established institutions such as the Netherlands Bureau for Economic Policy Analysis (CPB) as part of the process of devising their own institutions. The role of the CPB in costing election platforms makes it particularly relevant to the Australian case.

The Office for Budget Responsibility (OBR), United Kingdom

The United Kingdom's Office for Budget Responsibility was established in 2010 as part of reforms to the United Kingdom's fiscal framework that sought, among other things, to address sources of deficit bias and increase transparency and openness of economic and fiscal policy making. The OBR has a broad remit, to "examine and report on the sustainability of the public finances".

Budget and staffing

The OBR has a budget of GBP 1.75 million and a staff of 15. The majority of OBR's staff initially came from Treasury but OBR is gradually adding in outside hires.

Relationship with the executive and Parliament

The OBR is under the executive rather than Parliament but is a legally separate arm's-length entity, with its own oversight board. The OBR's core functions are established by legislation, and neither the government nor

Parliament has a right of direction over OBR analysis, although both may request analysis. In addition, there are a range of mechanisms built in to ensure appropriate oversight of the OBR by Parliament. Parliament scrutinises the OBR's budget and the Treasury Select Committee has a veto on key appointments and dismissals. All OBR reports must be published and sent to Parliament and the OBR answers parliamentary questions and appears before parliamentary committees.

Forecasting and costing roles

As with the Netherlands CPB, the OBR has been tasked with producing the official forecasts for the economy and public finances. The intention is that the OBR's forecasts be used as the government's official forecast on which policy is set and the fiscal mandate assessed and there is no expectation of a parallel Treasury forecast. In practice, this means Treasury has essentially relinquished their forecasting capacity while retaining important monitoring and analytical functions. However, the Treasury is not prohibited from producing a parallel forecast and whether or not future governments choose to go down this road will be a key test of the OBR's success. As it is still early days, concerns have been voiced over what might happen if the OBR brings the Finance Minister bad news or how vulnerable the OBR will be to inevitable forecasting errors.

Specifically, the OBR publishes five-year forecasts twice a year in its *Economic and Fiscal Outlook* (EFO) publication. Its spring EFO is published at the same time as the Budget and incorporates the impact of any tax and spending policy measures announced in the Budget. Finally, its annual "Forecast Evaluation Report" examines what lessons can be learnt from its recent forecasting performance for improving the techniques used. It should be noted that there are credible independent alternative macro forecasters in the United Kingdom but they have not had the access to government information that the OBR now does.

The OBR also assesses the long-term sustainability of the public finances through its annual "Fiscal Sustainability Report" which sets out long-term projections for different categories of spending and revenue; analyses the public sector's balance sheet; and reports different indicators of long-term sustainability.

While the OBR is not tasked with costing, they do provide a check on the Treasury's costing of Budget measures. In particular, during the run-up to budgets and other policy statements, the OBR subjects the government's draft costings of tax and spending measures to detailed challenge and scrutiny. It then states in the EFO and the Treasury's costing documents whether it endorses the costings that the government finally publishes as reasonable central estimates.

The OBR does not assess alternative policy paths and measures, or cost election platforms. And, as is the case with the majority of independent fiscal institutions today, it does not provide normative commentary on the merits of policy. These constraints were seen by its designers as critical to avoid the perception that OBR is advocating or arbitrating between alternative policy approaches in a way that could undermine its independence or the credibility of its forecasts.

Other functions[35]

The OBR is also tasked with assessing progress towards the government's fiscal targets. Currently the government has set itself two medium-term fiscal targets: first, to balance the cyclically-adjusted current budget five years ahead; and second, to have public sector net debt falling in 2015-2016. The OBR includes an assessment of whether the government has a greater than 50% probability of hitting these targets under current policy when it prepares the EFO.

The Parliamentary Budget Office, Canada

The Canadian Parliamentary Budget Office (PBO) was established by the 2006 Federal Accountability Act[36] which provided for a range of reforms to help strengthen accountability and increase transparency and oversight in government operations. The reforms were enacted over a period of several years and the first Parliamentary Budget Officer was appointed in 2008. The PBO has a broad mandate to "provide independent analysis to Parliament on the state of the nation's finances, the government's estimates and trends in the Canadian economy; and upon request from a committee or parliamentarian, to estimate the financial cost of any proposal for matters over which Parliament has jurisdiction."

Budget and staffing

The Canadian Parliamentary Budget Office has a staff of 13 and 2 interns. The staff brings a mix of public and private sector experience, with the majority having worked at the Department of Finance or the Treasury Board Secretariat. The budget in 2010 was CAD 2.8 million, up from CAD 2.2 million in 2009 and a starting budget of CAD 1.8 million in 2008 (with a promise of a CAD 1 million increase to the full operating budget).

Relationship with the executive and Parliament

The Parliamentary Budget Officer is an officer of Parliament; however, he or she is appointed by the Prime Minister from a list of three names prepared by a committee that is formed and chaired by the parliamentary librarian. The Parliamentary Budget Officer also "serves at the pleasure of the Prime Minister." In addition, while the PBO has an independent mandate, the office itself is located within the Parliamentary Library. There have been questions as to whether these arrangements have hampered the PBO's independence.

The PBO's enabling legislation identifies three parliamentary committees as its primary clients: the Standing Committee on National Finance of the Senate; the Standing Committee on Finance of the House of Commons; and the Standing Committee on Public Accounts of the House of Commons. Other legislative committees and individual parliamentarians can make requests of the PBO but requests from the Finance Committees take priority.

Forecasting and costing roles

The PBO was established in part due to concerns over the accuracy of government forecasts which had consistently underestimated budget surpluses. This was seen as hindering full public and parliamentary debate on fiscal options. However, unlike the OBR, the PBO has no legal obligation to produce forecasts, nor is it in any way prevented from doing so. The PBO's broad mandate (see above) has been interpreted as including the provision of alternative forecasts. In practice, the PBO has typically produced two forecasts per year in the spring and fall, just before the government's forecasts. These forecasts take a medium-term (five-year) perspective. The fiscal forecasts are based on the PBO's own model and assumptions but, unlike the private sector, the PBO uses the same accounting basis as the government thus making their forecasts more comparable. In terms of economic projections, for the first two years of its existence, the PBO took the consensus or average forecasts from Finance Canada's survey of private sector economists, but they are now making their own economic projections. They also typically produce a short analysis of the government's forecasts once they are released.

For the past two years, the PBO has released a "Fiscal Sustainability Report" (FSR) with long-term projections of 75 years. While the scope of the 2010 FSR was limited to the federal government, the 2011 report expanded the analysis to include provincial-territorial governments on a consolidated basis. The Canadian government does not produce long-term forecasts of this kind.

The PBO also undertakes costings but given limited resources are selective when doing so and often choose instead to scrutinise Treasury's costings, putting them through "tests of reasonableness". Nevertheless, the PBO has carried out several high-profile cost assessments on, for example, Canada's mission in Afghanistan; Aboriginal education infrastructure; the "Truth in Sentencing Act"; the proposed acquisition of the F-35 Lightening II Joint Strike Fighter (in co-operation with the United States Congressional Budget Office); and several private members' bills.

The PBO does not cost election platforms, and again, as is the case with the majority of independent fiscal institutions today, the PBO does not provide policy recommendations.

Other functions

The PBO provides the Parliament with comprehensive analysis of the government's budget proposals as well as other analysis on request. Most recently, with a view to enhancing parliamentary oversight throughout the fiscal year, the PBO introduced the *Integrated Monitoring Database* (IMD). The IMD is a searchable database of budgeted and in-year expenditures listed by vote for each federal department and agency and updated every three months. As such, it attempts to ensure congruence between the estimates and in-year financial reporting. The IMD uses non-confidential government data and is adjusted for supplementary estimates throughout the year to allow parliamentarians to track the increase (or decrease) of authorised expenditures over the course of a fiscal year, as well as compare this evolution to previous years.

Bureau for Economic Policy Analysis (CPB), the Netherlands

The Bureau for Economic Policy Analysis in the Netherlands (Central Planning Bureau, or CPB as it known locally) was established in September 1945 and given a legal statute in 1947. In contrast to what its name suggests, the bureau has never done any central economic planning in the sense of setting normative targets for economic development, although this idea was circulated by members of the newly established Labour Party in the first months after the war. Rather, the mission of the bureau is to conduct independent analysis relevant for economic policy, in particular macroeconomic forecasting and costing of policy proposals.

Budget and staffing

The bureau has a staff of 160 (140 full-time equivalents) of which two-thirds are academic economists and the remainder are statisticians and support staff. It has an annual budget of around EUR 12 million, of which 10%-15% comes from project contributions from ministries, the European Union and other international organisations (including the OECD). The remainder is part of the budget of the Ministry of Economic Affairs. The bureau does not carry out research for private corporations or institutions.

Relationship with the executive and Parliament

Like the British OBR, the CPB is under the executive branch of government. It has the status of an independent agency under the Ministry of Economic Affairs. Its independence is guaranteed by its statute. The Director is appointed by the Council of Ministers. All other staff is appointed by the Director. The work of the CPB is supervised by the Central Planning Commission, which is composed of representatives of the corporate sector and academic economists. The CPB has access to all non-published information held by the ministries.

The government, ministries, Parliament, political parties, trade unions, employer associations, and civil society can all request analysis from the CPB. The CPB sets its own priorities in accordance with general guidelines of the Central Planning Commission. In practice, most work is done for the government, ministries and political parties (both coalition parties and opposition parties).

Apart from incidental project contributions from ministries and international organisations, all studies are provided free of charge. The reports are submitted to the client and remain confidential until the client publicly refers to them. All reports are ultimately published (as a condition of every project agreement). The CPB sees to it that its analytical methods are fully transparent: all assumptions, empirical data and economic models are fully specified and published.

The CPB seeks active contact with the scientific community. The staff are encouraged to publish in academic journals and work with academics. With a frequency of around five years, the work of the CPB is evaluated in peer reviews by academics (on scientific value) and clients (on policy relevance).

Forecasting and costing roles

The CPB is the only macroeconomic forecaster for the government and the Parliament. The CPB also forecasts tax revenues in close co-operation with the Ministry of Finance. The ministry provides the CPB with revenue realisations over the current year and planned changes in the tax laws over future years. However, the ministry is responsible for the budget and from time to time there have been slight differences between the tax estimates of the ministry and those of the CPB. The line ministries are responsible for estimates of entitlement spending but they use the macro factors that go into the calculations of the estimates for the (upcoming) budget year and the baseline estimates for the out-years (inflation, unemployment, economic growth, oil prices, demographic estimates, etc.).

The CPB updates the macro forecasts three times per year. The Central Economic Plan, published in February, provides the basis for the budget of the upcoming budget year. The so-called Queen's Macroeconomic Explorations, are provided to the government before the summer but after the major decisions on the expenditure side of the upcoming budget have been made (around 30 April, which is Queen's Day). The Queen's Macroeconomic Explorations take into account the effect of the expenditure side of the budget on the economy. They are not published. In the summer, the decisions on the revenue side of the budget are taken. Endogenous fluctuations in tax revenue are not subject to a compensation requirement, but tax policy (changes in tax laws including laws on social insurance premiums) can be affected by the Queen's Macroeconomic Explorations (especially tax relief, since tax increase is subject to a pay-as-you go requirement). After the summer, the (definitive) Macroeconomic Explorations are put up. They take into account the decisions on the revenue side of the budget. They are published by the bureau on the same day as the budget is submitted to Parliament (the third Tuesday in September) and provide an important input to the debate in Parliament about the budget in the remaining months of the year.

The Central Economic Plan and the Macroeconomic Explorations focus on the short term (upcoming budget year and one out-year). In addition, the bureau provides (at least) every four years a medium-term forecast for the upcoming budget year and three out-years. The medium-term forecast serves as the basis for the electoral platforms of the political parties and for the coalition programme (including the medium-term expenditure framework). The pre-election forecast is published a half year before parliamentary elections.

Finally the bureau publishes every few years a long-term forecast for the next decades (50 years) which focuses on the sustainability of public finances and serves as the basis for the advice of the Budget Margin Study Group (with includes the principal officials responsible for financial-economic policy and the Director of the Central Bank) on the debt and deficit rules in which the medium-term framework for the next Cabinet period is to be anchored.

As far as costing is concerned, every ministry can request a cost and economic impact forecast of any major policy initiative. In practice, a major initiative cannot be submitted to Cabinet without a forecast by the CPB. In addition, all major infrastructural projects have to be subjected to cost-benefit analysis by the CPB.

Political parties and civil society organisations can also request costing and economic impact forecasts by the bureau. Furthermore, since the 1980s, a tradition has grown that all parties subject their parliamentary election platforms to cost and impact analysis. Although this is a voluntary decision of the parties, all major parties have in practice asked for such forecasts, probably to avoid being reproached with fear of reality.

Other functions

The bureau does not give policy advice to the government or any other client. Nor does it comment on the government's financial or economic policy apart from considerations of feasibility and impact.

The bureau has its own research programme that it carries out independently of ministerial requests for costing and impact studies. Current research themes include: economic growth, labour market and welfare state, knowledge economy, competition and regulation, physical environment (infrastructure, agglomeration, housing) and international economics (globalisation, climate). The resulting studies can be seen as the most "politically sensitive" part of its work. Although the CPB sees to it that its reports and conclusions are always couched in factual (forecast) terms and never in normative terms, the line between factual and normative reporting can become thin, if the negative effects of current policies or policy plans are made explicit. However, the management of the bureau is very much aware of this and makes every effort to maintain the reputation of the bureau as a neutral institution that serves all its customers in a strictly objective way.

The Australian PBO in comparative perspective

Table 4.4 provides an overview of roles of the Australian PBO in comparison with the most comparable institutions in other OECD countries.

Table 4.4. **Roles of forecasting and costing institutions in selected OECD countries**

	Australian PBO	United Kingdom OBR	Canadian PBO	Netherlands CPB
Agency of:	Parliament	Ministry of the Treasury	Parliament	Ministry of Economic Affairs
Short and medium-term macroeconomic forecasting	No	Yes, (in principle) unique	Yes, alternative	Yes, unique
Long-term macroeconomic forecasting	No	Yes, unique	Yes, unique in practice	Yes, unique
Costing	Yes[1]	No, only scrutiny	To a limited extent, for the rest scrutiny	Yes, unique
Costing of electoral platforms	Yes, but not leading to duplication	No	No	Yes, unique
Monitoring of fiscal policy against rules and objectives	Yes	Yes	Yes	Yes
Policy research on own initiative	Yes	Yes	Yes	Yes

1. As proposed, authorised members of Parliament must choose whether they request costings from the PBO or from the government during the caretaker period. They cannot ask for both (see above).

Under its enabling legislation, the Australian PBO is not entitled to make macroeconomic forecasts. The Treasury has primary responsibility for this task, in consultation with other members of the Joint Economic Forecasting Group. In general, there is debate as to whether macroeconomic forecasting should be entrusted to an independent institution (either under the umbrella of Parliament or an independent government agency).[37] There is some evidence that there is systematic optimistic bias in GDP forecasting by ministries of finance (for instance, EC 2004). Countries that have entrusted macroeconomic forecasting to a Parliamentary Budget Office have usually done so in view of this problem. This applies, for instance, to the OBR in the United Kingdom. The Australian authorities may wish to consider whether this problem is also relevant for Australia.

The risk that costings undertaken by both Treasury/Finance and the PBO may be carried out in different ways and methodologies become the subject of political debate has been recognised in the PBO's enabling legislation by providing for a number of processes to address these potential differences. These include a prohibition on Treasury/Finance and the PBO undertaking costings of the same policies. Also, Section 64G requires the PBO to agree written principles setting out approaches and costing conventions to be used in preparing policy costings with the Secretaries of Treasury and Finance. Failing this, the PBO must use the approaches and costings conventions in the most recent guidelines issued by these secretaries under the Charter of Budget Honesty Act. Furthermore, the PBO legislation (Section 64E(3)) requires the PBO to use the economic forecasts and parameters and fiscal estimates contained in the most recent relevant reports released under Parts 5, 6 and 7 of Schedule 1 to the Charter of Budget Honesty Act. In practice, this means that the PBO will be using the same forecasts and parameters and fiscal estimates as Treasury and Finance for their costings. In spite of these provisions, it should be noted that countries that have a unique costing institution or a costing institution that works for all parties in Parliament (the Netherlands, United States) see it as an advantage of their arrangement that it depoliticises the debate on the facts. Costing of all proposals by the same neutral institution can contribute to more focus in the political debate on objectives and policy instruments, rather than on the facts (however conditional on uncertainty margins). The Australian authorities may wish to consider whether this consideration is also relevant for Australia.

Furthermore, where the PBO is asked to undertake a costing, it is essential that it has the full co-operation of the various line ministries who would be required to furnish the PBO with information. Under its legislation, the PBO has broad-ranging powers to access information from Commonwealth bodies. The act (Section 64F) states that the Parliamentary Budget Officer may make an arrangement, in writing, with the head (however described) of a Commonwealth body, or a person authorised by the head, to obtain from the body information and documents relevant to the Parliamentary Budget Officer's functions. The question arises whether this is sufficient. In the Dutch CPB, which has a long tradition in costing government proposals, there is a daily exchange of information between the line ministries and the bureau and complete openness about data and information. Such strong relations between the costing institution and the ministries are indispensable for reliable costing where estimates are dependent on very detailed information on existing policies and empirical data which only the line ministries possess.

Finally, it should be recognised that there can be a relation between costing and economic forecasting, especially if entire electoral platforms with dozens of far-reaching proposals are to be costed. Major programme proposals have not only direct effects on expenditures, but also indirect effects on macroeconomic developments and revenues. Under long-standing convention (reiterated in the latest guidelines issued by the secretaries to the Departments of the Treasury and of Finance and Deregulation under the Charter of Budget Honesty Act 1998), separate costings may take account of direct behavioural responses, but will generally not incorporate second round effects. The costing will focus on first round effects and the direct budgetary consequences of policies). This practice reflects the uncertainty associated with estimating second round effects. Therefore, given the required consistency of costing methods of Treasury/Finance and PBO, it is less likely that the PBO will have to estimate macroeconomic effects. However, the question arises about what this means for the costing of entire electoral platforms or of major programme proposals. Since the PBO is prohibited to carry out macroeconomic forecasting, opposition parties that wanted to have their electoral platforms costed by the PBO would need to ask for additional information from the government about the macroeconomic impact of their proposals. The question arises whether this is a practical arrangement.

Recommendation

6. The Australian government may wish to consider whether, after a few years' experience, it will be useful to perform a thorough evaluation of the current set-up of the Parliamentary Budget Office as chosen in Australia, in comparison with the set-up chosen in other OECD countries.

Reform 5: Process sharing among agencies and merging of agencies

Trends in OECD countries regarding process sharing and merging of agencies

Across OECD countries, the trend in recent years has been to merge agencies and/or share parts of the policy execution processes across government agencies. The reasons for these initiatives have basically been threefold:

- fiscal: to save money in light of increasing demand for funds;
- a wish to increase the quality of services in light of citizens' expectations that the quality of governments' services match the private sector's; and
- a wish to increase the attractiveness of the public sector as an employer in light of a smaller cohort of young people.

For reasons of efficiency, quality and employee satisfaction, it makes sense to amalgamate agencies. Arguments for amalgamation are typically that the agencies share the same clients, the same processes and/or the same geographical target area.

The organisation of policy execution in Australia

Internationally, Australia has been on the forefront concerning the integration of service delivery to citizens and business. Particularly, the Centrelink agency, now part of the Department of Human Services (DHS), provides a model of horizontal integration that attracts much international attention.

DHS sits within the human services portfolio,[38] which delivers virtually all social security entitlements, welfare payments and transfers (for example, old age pensions, disability pensions, unemployment benefits, student grants and loans, family allowances, transfers of funds between custodial and non-custodial parents, medical benefits and services, and pharmaceutical benefits and services). DHS is unique in that its activities cut across all relevant ministries and because it not only handles actual payments, but is also a one-stop shop that assesses eligibility for benefits, based on guidelines determined by the responsible ministries. It distributes approximately AUD 142.1 billion annually to over 22 million customers, or approximately one-third of the Australian population. It administers over 270 different products and services across the Australian government, at more than 880 service delivery points ranging from large customer service centres to small visiting offices. It employs 36 000 staff. DHS surveys 65 000 of its customers twice a year to measure customer satisfaction. The one-stop-shop has been judged to have improved service delivery markedly for customers.

Centrelink was created in 1997 by merging the service delivery branches of several agencies operating in this area. As part of this process, savings on the operational costs of 10% over three years were realised.

The most recent changes to Centrelink happened on 16 December 2009 when the Australian government announced a programme of reform for service delivery in the human services portfolio, including the integration of the Child Support Program (CSP), Centrelink and Medicare Australia to merge into DHS. Virtual integration occurred on 1 March 2010 and financial integration occurred from 1 July 2011. DHS is responsible for service delivery and also for service delivery policy. The responsibility for developing policies that underscore DHS payments and benefits, for example income support, health benefits, assistance to families with children, students and others, continues to reside with: the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA); the Department of Education, Employment and Workplace Relations (DEEWR); and the Department of Health and Ageing (DHA).

Before becoming part of DHS, Centrelink was mostly financed on the basis of fees provided by the policy departments for which it provided services (the purchaser-provider model). If any ministry required Centrelink to take on new tasks, a marginal cost calculation was done on the basis of detailed workload measurement. This formed the basis for negotiations with the purchaser ministry.

Since 2009-2010, Centrelink's funding has been directly appropriated from the Australian federal Budget. Transfer of new tasks to DHS is now achieved through tri-lateral negotiations between the ministry concerned, the Ministry of Finance and DHS. Funding is split between base financing and variable financing. Base financing covers mostly capital expenditure (ICT, physical assets). Variable financing covers mostly current expenditure (both current operational expenditure and programme expenditure) which is strongly dependent on workload measure and customer numbers assumptions.

Regarding the relationship between the agency and the line ministry in policy development, it is helpful if DHS is involved early in the process by participating in departmental working groups assessing requirements for new initiatives. The process leads to a "business requirement statement" which specifies the objectives of the law, what the agency needs in order to attain these objectives, and how much it will cost.

Establishment of an integrated DHS has required significant investment, especially in relation to ICT and property. Given the number of ICT investments that were necessary in the last ten years, it is presently difficult to assess the extent to which the horizontal integration has saved resources, but this is deemed to be the case if compared to a baseline of the previous organisational set-up. DHS is now seen as the premier government service delivery agency and is often the first port of call for individuals in need of assistance. In general, DHS officials feel that the future in terms of service delivery lies in horizontal integration of ICT architecture (built once, used by many).

Besides the merging of agencies into DHS, other elements of the service delivery reform include the introduction of online services to allow people to self-manage using their preferred service channel (e.g. Internet); providing intensive support for people with complex needs; the co-location of Medicare Australia and Centrelink offices; and a single portfolio telephone number and website. It is expected that this reform will generate efficiencies and savings for government. This programme of reform was based on the vision of the *Australian Public Service Blueprint* report to make government services more efficient and effective through: refocusing programmes and services on the needs of citizens; automation; and integration and better information sharing. Over time these reforms are expected to lead to:

- a "tell us once" approach;
- a service delivery portal that guides citizens through interaction with government; and
- physical locations where citizens can access multiple services.

Despite these changes, the organisation of policy execution in Australia still shows a somewhat fragmented pattern. It is characterised by two features:

1. Australia has by far the most employment in core ministries of all Value for Money countries (42%, see Table 2.4 above). A substantial part of policy execution remains organised inside core ministries. Australia is characterised by large core ministries and small agencies.

2. Australia still has a high number of very small agencies. As at end March 2012, excluding Commonwealth companies and the 20 departments of state, there were 149 arm's-length Australian government agencies and 4 parliamentary departments. As a consequence of New Public Management reforms of the 1990s, many of these agencies have developed their own support services in the sphere of budgeting, accounting, internal audit, human resources, ICT, and communication rather than being serviced by their core ministry.

Trends of reform in Australia

In recent years, there have been two distinct trends in the organisation of government. The first is to limit the number of agencies wherever possible. There is a policy preference to curb the growth of new bodies, to have new tasks conferred on existing bodies and to merge agencies where possible. In addition, the *Australian Public Service Reform Blueprint* (Recommendation 9.3) called for improvements to the efficiency of small agencies, including through the use of shared services and that any newly created agencies are to receive their corporate functions from their portfolio or ministerial agencies. Differences across agencies, in terms of corporate functions, systems and terms and conditions of employment, make it difficult to move quickly to establish shared arrangements. However, these issues are not insurmountable and interest in sharing arrangements appears to be growing. That said, the task remains a challenging one, as new tasks often result in new agencies. In practice, little reduction has taken place. In light of this, the Department of Finance and Deregulation is now responsible for co-ordinating the implementation of these particular recommendations.

Experience in other countries shows, however, that a focused approach, supported by political will, can achieve results in this respect. One example of such an exercise would be Denmark, which in 2002 disbanded approximately 350 more or less autonomous bodies and saved about EUR 40 million per year in operational costs.

The second trend has involved abolishing undue and excessive governing boards (boards of directors) associated with prescribed agencies. Instead, it is envisaged that agencies would have one chief executive directly accountable to a minister in line with the government's policy on governance arrangements of government bodies (Department of Finance and Deregulation, 2005). The next section discusses experiences regarding horizontal integration in two Value for Money countries.

The Danish and Dutch approach to process sharing and merging agencies

In Denmark, emphasis has been on using ICT to make interaction with government "seamless". A citizen portal is in the process of being set up that will enable a broad array of public sector organisations – central and local – to use a common interface with the citizens. Horizontal integration is also pursued across government through enhanced ICT standard setting by the Ministry of Finance, which will allow easy communication between all government units (central and local). The use of common e-government components across the public sector or within selected domains is of great utility, not only to ensure increased efficiency (in some cases also large savings potential) but also to establish a more integrated public sector as perceived by the citizens and businesses (OECD, 2010a; 2010b).

A strict condition for the development of e-government initiatives in Denmark is the proof of savings in the form of a positive business case. A new initiative is the Digital Mailbox where each citizen has a digital mailbox for receiving government communications. The business case shows an accumulated savings potential of EUR 65 million in 2016.

In the Netherlands, thinking about horizontal integration is still at an early stage. Work on common portals has started. The idea is that a common citizen portal, which can be seen as a common process unit for all ministries, will be created in the Ministry of the Interior and Kingdom Relations.

In the area of integration of executive units, a number of ideas have recently been raised in the Netherlands. The most concrete ideas are to be found in the Spending Review on "Operational Management"[39] (see Box 4.1). It explored various options for co-operation and mergers between these units. As to the responsibility for executive policy, it suggested that it could remain with the line ministry responsible for the programmes. In the case of full mergers, the common process units would be placed under one ministry that would assume the role of economic ownership and be responsible for operational management. Financing would take place on the basis of fees or lump-sum contributions, to be paid by the client ministries (including the owning ministry).

Box 4.1. Spending Review "Operational Management"

The Spending Review "Operational Management" has identified clusters of executive agencies and ministerial divisions characterised by similar executive processes or target groups of service users. The most concrete proposals include the horizontal integration of three clusters of executive organisations:

- Agencies tasked with paying cash benefits to citizens (unemployment, old age pensions, disability benefits, housing contributions, health premium contributions, study grants).
- Agencies tasked with incasso procedures (fines, taxes, study loans, etc.).
- Agencies tasked with paying subsidies to the business sector (agricultural, environmental, technological and EU subsidies).

According to the calculations made for the spending review,[1] horizontal integration of these three clusters can lead to savings of around EUR 250 million in 2015 (taking into account necessary costs of ICT and other investments).

1. Information from the Netherlands Ministry of the Interior and Kingdom Relations.

Lessons regarding horizontal integration

Whereas in Australia and the Netherlands the strongest emphasis in the area of horizontal integration has been on concrete amalgamation of agencies into a common process unit, the emphasis in Denmark has focused more on virtual "seamless interaction" which leaves back-office tasks where they are, but guarantees easy access and communication. Nevertheless, although the emphasis may differ, both components are necessary in any policy aimed at horizontal integration. Australia's DHS needs to communicate with the line ministries that are responsible for executive policy and the Danish Agency for Government Management needs to establish shared front office units (the citizen portal, the digital mailbox unit, etc.). In Denmark, the discussion about the responsibility for shared process units with local government has not yet come to a conclusion.

In the light of international experiences full mergers are not always necessary to realise the savings potential. In Denmark, the vertical horizontal integration mainly affects small front offices. Furthermore, it is not always clear that merging all organisations with similar tasks of similar target groups will lead to an optimal size of production. In any case, it is essential that every initiative in this area be based on a thorough business case analysis.

As to the steering and control of the shared process units, it is essential that client involvement is strong by relying on a permanent performance dialogue between the agency head and the responsible ministers. This is particularly true for the ministries that do not own the shared process unit and that have to effectuate the ministerial responsibility for executive policy through their relationship with the agency. Without such an enhanced client involvement, the responsible minister cannot be said to be in charge of his/her area.

While Australia is at the forefront regarding horizontal integration with regards to DHS, there is little doubt that more is possible. This is currently being addressed in Australia and should continue. In this connection, it should be noted that the fragmented nature of the Australian ministerial portfolios might pose particular challenges for horizontal integration. However, these challenges can be overcome if the role of the core ministries is strengthened in accordance with the recommendations provided under Reform 10 (see below).

Recommendations

7. The Australian government may consider taking further steps to reduce the number of executive and statutory agencies through amalgamation and avoid creating new agencies without rationalisation of existing agencies involved in lower priority activities of the government.
8. The Australian government may consider taking further steps in the governance reform of statutory agencies that are administered by governing boards and replace these boards with single chief executives.
9. The process towards further horizontal integration in Australia should be strengthened with a particular focus on the permanent performance dialogue between the agency and the relevant ministry.

Reform 6: Service sharing among agencies

Sharing of support services

The sharing of support services among agencies is limited in Australia. Among the nine participating countries that have provided information about shared service centres, two (Australia,[40] Spain) reported that up to now, no shared service centres were in place in their government. Seven (Austria, Canada, Denmark, Finland, the Netherlands, Norway, Sweden) reported having established shared service centres.[41.] Table 4.5 provides an overview of the number of shared service centres, their total employment and their location (the number of ministries where the centres are located should not be confounded with the number of client ministries and governments to which services are provided).

Table 4.5. **Shared service centres**

	Number of shared service centres	Total employment	Number of ministries where the shared service centres are located
Austria	6	2 558	2 (5 out of 6 in Finance)
Canada	15	11 476[1]	8 (7 out of 15 in PWGSC[2])
Denmark	2	400	1 (Finance)
Finland	7	2 087	1 (Finance)
Netherlands	25	2 615[1]	4 (17 out of 25 in BZK[3])
Norway	4	1 030	Various
Sweden	1	43[4]	1 (Prime Minister's Office)

1. Data for some smaller agencies were not available and have not been included.

2. Public Works and Government Services Canada.

3. Ministry of the Interior and Kingdom Relations.

4. In persons employed (not in FTEs).

There are two distinct models for the creation and use of shared service centres in the countries of the Value for Money study: the top-down model and the bottom-up model. In the top-down model, the use of the shared service centre is centrally imposed and the personnel that provide the support services are transferred from the line ministries to the shared service centre. In the bottom-up model, the use of the shared service centre remains voluntary, but there may be incentives in place to stimulate its use, such as one of personnel reduction operations (sometimes specified for support services) or permanent automatic productivity cuts.[42] Austria, Denmark and Finland report following a top-down approach. The Netherlands, Norway and Sweden report following a bottom-up approach, while Canada reports using a combination of the two.

In the countries that rely on incentives to stimulate the establishment and use of shared service centres, there are no plans in place to move to a more coercive approach. On the contrary, it is generally felt in those countries that the practice of service sharing will increase automatically to the extent that the cost and quality benefits flowing from economies of scale become clear to potential clients. Interlocutors in those countries have also noted that there are risks attached to the creation of monopoly suppliers of those services within the public sector, particularly where large ICT systems are involved (risks of project failure or malfunctioning of existing systems). This is not to say that monopoly supply should necessarily be avoided. The government consists by its nature almost entirely of monopoly suppliers. The argument is rather that if monopoly is optimal from the point of view of quality and economies of scale, it should grow gradually to the extent that its benefits are perceived by client units. Moreover, for many support services, it is not clear that the optimal scale of production is the entire ministry including its agencies or even the entire central government. A too large scale may lead to bureaucracy and lack of responsiveness to client preferences. In this light, it seems too early for recommendations about the concentration of support services in ministry-wide or even government-wide units, or about the choice between the bottom-up approach and the top-down approach to service sharing as best practice from an international perspective.

Service sharing in Australia

The Australian federal government's financial management legislation places direct responsibility and accountability on agency chief executives for the efficient, effective, ethical and economical management of resources. Therefore, agencies must organise activities as efficiently as possible, including by exploring the use of shared services as an option for efficiency gains. In Australia, the trend since the 1990s was to decentralise decision making regarding corporate support services to all agencies and encourage "tailor-made" solutions. Currently, differences across agencies in terms of support services make it difficult to move quickly to establish shared service arrangements. This legacy can make it difficult to agree on common standards, which is necessary in order for shared service centres to work. In fact, centralised standard setting is a necessary condition for service sharing. Furthermore, common standards of operational management are not only required to realise savings through service sharing, but also because they lead to savings per se, assuming that they are set at prudent levels (for instance in the area of employment conditions that now vary considerably between Australian agencies). Critics will say that common standards run counter to the idea that agencies should be able to decide the best configuration of internal operations to suit the nature of their service charter and be accountable for those decisions. However, it may be argued that the pendulum has swung too far in this respect (by creating a default presumption that full operational autonomy is most appropriate) and that in the Australian situation, considerable savings are possible in corporate support services without any negative effect on agency outputs.

Recently, the Australian government has announced that there will be a one-off increase in the efficiency dividend in 2012-2013. The Minister of Finance and Deregulation announced that “the government had tasked the Department of Finance and Deregulation with strengthening efforts across all departments to drive efficiency savings.” The department has established a dedicated unit – the Efficiency Improvement Branch – to assist in that role.

The efficiency dividend encourages Australian government agencies to examine a wide range of options to achieve their savings targets. Given that Australia is among the countries that rely on a financial incentive to promote service sharing, the question arises whether the efficiency dividend, even if increased for the budget year 2012-2013 (to 4%), is large enough to effect a new way of thinking about delivery of corporate support services. Australia has noted that experiences with shared service arrangements, including in its state governments, vary greatly and that many of the claimed benefits do not stand up to rigorous analysis. Accordingly, Australia is taking a pragmatic and empirical approach to exploring shared services alongside other options for improving efficiency. Like Australia, New Zealand and Sweden have automatic cuts of productivity dividends in place, but in these countries insufficient service sharing is still seen as a problem. The same was true for the Netherlands until the start of the previous Cabinet period (2006), when across the board targets for personnel reductions were in place. In 2006, the Netherlands introduced a specific reduction target for support personnel of 25% in four years. Monitoring of this target required a careful registration of support personnel, which involved some costs, but the target was achieved. On the other hand, Dutch officials, when interviewed about the effectiveness of the support personnel target, voiced the opinion that it was not large enough (namely 6.25% per year) to “trigger fundamental reconsideration and decisions to transfer tasks to shared service centres” (OECD, 2010c). Partly for this reason, the current Dutch government has moved to a more top-down approach along the Danish lines (called “compact government”).

In view of these experiences and assuming that the Australian government wants to stick to an approach based on financial incentives rather than on top-down decisions to lift support personnel out of ministerial divisions and agencies, the Ministry of Finance may consider introducing a specific reduction target for support personnel as part of the implementation plan for the temporary increase of the efficiency dividend.

Recommendations

10. The Australian government may consider promoting shared service arrangements among agencies and ministries, particularly in the areas of financial management, human resource management, and ICT management. For that purpose, it may be useful to stipulate that agencies make more use of the central support units of the ministries, and to create shared service centres that provide services to more ministries and agencies of ministries.

11. To stimulate service sharing, financial incentives should be created for agencies to make use either of the central support units of the ministries or of the shared service centres. Financial incentives could take the form of *ad hoc* downsizing targets aimed specifically at support services next to the application of the efficiency dividend cuts.

Reform 7: Strengthening the spending review procedure

Spending review and programme evaluation

Spending reviews, as conceived in the OECD Value for Money study, differ from programme evaluation in three ways. First, spending reviews not only look at the effectiveness and efficiency of programmes under current funding levels but also examine the consequences for outputs and outcomes of lower funding levels. Second, the Ministry of Finance or the Prime Minister's Office holds final responsibility for the spending review procedure. Third, the follow up of spending reviews is decided in the budget process.

The need for spending review stems from the fundamental asymmetry of the budget process. Line ministers have an incentive to put forward good proposals for new spending, in particular proposals that respond to urgent needs of citizens and that are based on effective and efficient programmes of service delivery. The better the proposals, the higher the chance of adoption. On the other hand, for the same reason (the better the proposals, the higher the chance of adoption), line ministers have no incentives to put forward good proposals for new savings, in particular proposals that minimise effects on urgently needed services and that improve the effectiveness and efficiency of programmes of service delivery. If there are strong rules of budgetary discipline in place, as is the case in Australia, line ministers may only be interested in good savings proposals, if they need to compensate for overspending, or as part of deals to allow new spending, but apart from these specific situations, line ministers do not feel any obligation to put forward good savings proposals for their own sake (or to allow tax relief or new spending on other portfolios). This is fundamentally different with evaluation aimed at programme improvement without any budgetary consequence. Line ministers are responsible to Parliament and citizens for the effectiveness and efficiency of their programmes and are therefore intrinsically motivated to conduct programme evaluation (particularly in the beginning of their term in office; towards the end they may become less interested in critical evaluations if they can be blamed for not reforming programmes in an earlier stage). Since spending reviews are by definition (the OECD definition) aimed at the development of savings options, they are unable to be relegated to line ministries, but should be conducted under the supervision of a central ministry (Finance or Prime Minister's Office).

Spending review and evaluation in Australia

Australia does not currently have a single framework covering all forms of evaluation and review. As components of the review environment, it is worth noting the difference between comprehensive expenditure reviews, strategic reviews, and programme evaluations. Comprehensive expenditure reviews have been conducted periodically by the Australian government, most recently through the 2007-2008 reviews that focused on identifying savings. These expenditure reviews are usually decided on an "as needed" basis and are not continuous in nature. In contrast, strategic reviews are now part of the Australian government's budget process and are an option for ministers to directly target policies, programmes and agencies designated to be either of strategic policy or budget importance (or to involve issues of strategic importance), with each review managed by the Department of Finance and Deregulation. Review topics are selected at the start of the budget process when priorities are set and this approach assists the Cabinet to decide priorities in budget formulation. Finally, programme evaluations are conducted by agencies to monitor and evaluate their programmes. The quality of these programme evaluations is quite variable between government agencies.

The Australian government is therefore looking to reform and strengthen monitoring and evaluation across agencies as tools for policy and budget development. For this, the Department of Finance and Deregulation is examining practices used in other countries. It feels the challenge in strengthening monitoring and evaluation is not in commissioning more reviews by central agencies, but in embedding monitoring and evaluation as part of the normal policy implementation and delivery, with an effective mechanism for making information available to central agencies and ministers.

The first effort to establish a permanent evaluation mechanism to support budget decision making in Australia occurred as part of the Portfolio Management and Budgeting (PMB) reforms in 1989. As part of these reforms, the Ministry of Finance introduced the Portfolio Evaluation Program (PEP) which required all portfolio ministers to establish a regular and ongoing system of programme evaluation by scheduling all programmes for evaluation over a three-year period. A small group within Finance set down the methodology to be adopted and a representative from Finance sat on the steering committee and was typically involved in the review team. However, this was not a centrally managed process and evaluations were selected, conducted and used by the responsible line ministry.[43] This system was problematic from the outset: evaluation of any contentious programmes was deferred by the line ministries; Finance tried to amend the PEP to ensure its concerns were on the agenda, and there was little evidence that evaluations influenced budget decisions.[44] Gradually, the PEP system was replaced by a more "market-based" process of pricing reviews under the accrual outcome budgeting reforms. Here, line ministries were expected to cost and then benchmark all programmes against private sector providers to ensure efficient delivery.[45] These were also abandoned and by that time the government was managing a period of high budgetary growth.

In April 2007, the Howard government committed to establishing an enhanced framework for the strategic review of government programmes. This included establishing a team within the Department of Finance and Deregulation to conduct strategic reviews of major policy and spending areas across programmes and/or portfolios and significant Australian government initiatives. The team is located in the Budget Group within the Department of Finance and Deregulation and it is responsible for managing the process as well as providing support to the review team leaders. The purpose of strategic reviews is:

- to identify options for improving the efficiency and effectiveness of expenditure programmes and their alignment with policy priorities (that is, their appropriateness);
- to identify opportunities for savings (or avoiding unbudgeted cost increases) in order to contribute to budget sustainability; and
- to allow for resources to be reallocated to better address policy priorities and identify potential duplication.

Strategic reviews are not focused solely on operational efficiency, but have a whole-of-government focus, examining the alignment of programmes with government priorities, the effectiveness and the efficiency of programmes and potential budget savings.

Under the framework, the Department of Finance and Deregulation (and Treasury in the case of tax expenditures) leads and manages reviews in close consultation with the responsible ministry or ministries. Where applicable, joint strategic reviews are conducted by the Ministry of Finance and the relevant ministry.

Twelve strategic reviews have been conducted since 2007 in accordance with the following process:

1. Review topics are identified by the Minister of Finance who then requests Cabinet (or a sub-committee of Cabinet) to agree on the proposed reviews.
2. Each review is conducted over approximately four to six months by approximately four team members.
3. Strategic reviews are usually led by a senior Finance officer or by an independent leader who is either a former public servant or eminent person. The review leader is supported by a team of officials from Finance and secondees from other relevant agencies.
4. The team is supported by a consultative group of representatives from relevant agencies, including the Department of the Treasury and the Department of the Prime Minister and Cabinet, which provides expert advice to the team.
5. Line ministries are invited to participate in the review via interviews or as part of a reference group, but they do not have any direct influence over the report or its recommendations.
6. Reports are presented to the Finance Minister who brings it to Cabinet. With an expanded agenda for open and transparent government there is a trend for these reports to be published.

Although final reports are initially provided to the Minister of Finance and Deregulation (and the relevant minister in case of a joint strategic review), the government takes the final decisions on implementation of review recommendations.

Strategic reviews are usually considered during the budget process. An example is the Job Capacity Assessment Review, which was considered in the 2010/2011 budget process. The review assessed the cost-effectiveness of job capacity assessments in assessing people's work capacity and facilitating access to the disability support pension and employment services. It examined the scope for reducing the cost of the programme and improving its effectiveness. The government agreed the recommendations of the review to streamline the assessment arrangement for job seekers and disability support pension claimants, which is expected to deliver savings of AUD 383.4 million over 4 years.

Weaknesses in the current system of spending review and evaluation

The current procedure of strategic review has two flaws that hamper their effectiveness as a tool of budget management and reallocation. First, even though conceived more broadly, in practice the process has tended to focus on questions of appropriateness, policy alignment and operational efficiency (such as shared services). Consequently, the reviews may be aimed at more informed budget decisions rather than just identifying savings. Although the procedure of strategic review has the typical characteristics of spending review (aimed at developing good savings options, supervised by the Department of Finance and Deregulation, feeding into the budget process), the Australian government has thus far maintained a conceptual distinction between "strategic reviews" and "comprehensive spending reviews", the latter aimed more explicitly at identifying savings and conducted on an "as needed" basis. Spending reviews in other countries usually require the development of one or more mandatory savings options (5%, 10% or 20% of spending). Such a requirement leads to proposals for the reduction of service levels because the savings target can usually not be realised by efficiency measures alone. The Australian strategic reviews do not require the development of mandatory savings options (except if the terms of reference of a review contain such a requirement on an *ad hoc* basis).

Second, the strategic reviews ought to compensate for the fundamental asymmetry of the regular budget process, which is the bias towards options for new spending over those for new savings. To address this bias, decision makers have tended to rely on new savings options that are not identified in portfolio budget submissions.[46] In the current situation, the strategic review reports are progressed to Cabinet for decision as part of the budget process but are not fully integrated into the process.

There is no explicit regulatory framework for programme evaluation as a tool for line ministries to assess the effectiveness and efficiency of their ongoing programmes (apart from any budgetary consequence). Such a framework is useful to guarantee the quality of evaluation and to make sure that evaluation remains objective and useful under all circumstances (also if the programme is controversial or towards the end of the term in office of a Cabinet). Regulatory frameworks for programme evaluation exist in a number of OECD countries (for instance the "green book" in the United Kingdom and the Regulation Performance Data and Evaluation

Central Government in the Netherlands). They generally contain rules for the participation of external experts, supervision by a steering group, publication of the terms of reference and the report.[47]

Embedding spending review procedures into the budget process – lessons from the United Kingdom and Canada

The strategic review procedure in Australia could be enhanced by adopting features from other countries' procedures. The United Kingdom is known to have long-standing tradition of performing spending reviews. Canada has recently adjusted the spending review procedures to improve the alignment between reviews and the budget process.

In the United Kingdom, the spending review process started in 1998 as part of a wider set of reforms aimed at modernising public finance management. The aims of spending reviews were to support the biennial revision of the expenditure framework and ministerial ceilings. For that purpose, the spending reviews are supposed to reallocate money to key priorities; change policies so that money is well spent; ensure that departments work better together to improve services; and weed out unnecessary and wasteful spending. Spending reviews are produced by various types of working groups: some exclusively composed of Treasury officials, some of mixed composition. External experts are often invited to participate or chair the working groups. The completed reviews are discussed between the Chief Secretary of the Treasury (responsible for the Budget) or the Chancellor of the Exchequer and the line ministers. The British spending review process focuses on discretionary spending, which covers around 60% of total spending. This is the part of the budget that is subject to the fixed multi-annual ceilings. The remaining 40% is taken up by "annually managed expenditure" which includes social security, interest, and other items of mandatory spending, and is allowed to fluctuate to provide for the automatic stabilisers to perform.

In Canada, the strategic review was established in 2007 as part of the new expenditure management system. The reviews are managed by a small secretariat within the Treasury Board Secretariat and undertaken as part of the Treasury Board Secretariat's dual role as budget office and management board. The process applies to all direct programme spending and the operating costs of statutory programmes; review results feed into the annual budget process and are announced in the annual budget. Strategic reviews have three key aims: to ensure the efficient and effective delivery of departmental programmes, that departmental spending programmes align with the federal government's core responsibilities, and that departmental spending is aligned with the government's key priorities. All reviews must identify options for restructuring and programme redesign, and at least 5% of total spending must be "freed-up" for reallocation from the "lowest priority, lowest performing".

Reform options

The Australian procedure could be enhanced by ensuring better linkages between the spending review process and the budget process along the lines of experience in either Britain or Canada. In both countries, the process is used as a tool for strategic reallocation; in Britain every two or three years, in Canada annually. The process in Canada is relatively new. The experience in other countries that have tried annual procedures (Denmark and the Netherlands) is that it is difficult to maintain an annual process in the long run (i.e. getting a number of sufficiently important reviews approved each year), particularly in years when there are no major revisions of the expenditure framework, so that results can only be used for intra-ministerial reallocations. In the Netherlands, the procedure is now coupled with the quadrennial revision of the expenditures framework in a similar way as it was coupled in the United Kingdom to the biannual revision of the expenditure framework.[48] This points in the direction of a procedure that is strongly coupled to the budget process, but perhaps not each year.

In Australia, this could be achieved by ensuring that each new Cabinet confirms the need for strategic reallocation in the budget process at the same time it announces the budget and fiscal strategy as required under the Charter of Budget Honesty.[49] Selection of the specific topics for review could occur during the first "strategic" or priority setting stage of budget preparation, which currently occurs around September-October. The Minister of Finance could then recommend the selection of policy areas to be reviewed and the composition of the working parties. This is standard practice in both Denmark[50] and the United Kingdom. The line ministry can be invited to join the working parties and to submit its own options.[51] The strategic reviews would then be undertaken during the three months when portfolio budget submissions are prepared, and recommendations discussed and agreed during the more detailed budget negotiations between the portfolio minister and Expenditure Review Committee that occur during February-March, and announced in the Budget. This option would limit the depth and reliability of strategic reviews as they are presently configured, partly because the strategic reviews would be competing directly with mainstream budget processes for resources and attention. On the other hand, the practice of conducting spending reviews in three or four months is standard in countries like Canada, Denmark, the Netherlands and the

United Kingdom, and has proven to be successful. In order to avoid "review fatigue" and to avoid too much competition for attention with the regular budget process, the Australian government could also align the procedure more closely to strategic budget revisions, which typically do not occur every year (the reason why the Australian "comprehensive spending reviews" are not conducted every year). The procedure could be set up as a biennial process (like in the United Kingdom) or, if it is coupled to the strategic reorientation occurring at the start of a new Cabinet period, as a quadrennial process (like in the Netherlands), but follow the time schedule outlined above for the remainder.

Recommendations

12. The Australian government may consider institutionalising strategic reviews as part of the budget process, rather than as separate advice for the Minister of Finance (thus eliminating the conceptual difference with comprehensive spending reviews). To this end, strategic reviews could be linked more closely to the government's procedure of budget preparation and be more explicitly aimed at development of savings options.
13. The Australian government may consider selecting the subjects of strategic reviews as part of the strategic phase of the budget process. Strategic reviews need not be conducted every year but can be organised according to a biennial or quadrennial cycle along the British or Dutch lines.
14. The Australian government may consider establishing a regulatory framework for programme evaluation as a tool for line ministers to assess and improve programme effectiveness and efficiency. Such a framework should provide guarantees for quality and objectivity such as rules for participation of external experts, supervision by a steering group, publication of the terms of reference and the report.

Reform 8: Strengthening ICT management

Challenges in ensuring value for money through ICT project expenditures

The Australian government's recent experience in adopting and managing information and communication technology (ICT) projects mirrors that of many other OECD countries. The majority of projects in this area aim to enhance value for money by improving operational efficiency within organisations, facilitating communication between government ministries, or by interactions between the state and citizens. In 2010, the Australian government committed to the ethos of Gov 2.0 – in which public servants collaborate with "existing online communities of interest around issues of relevance to government policy, service delivery and regulation … (to) help public agencies and their officers become more informed, responsive, innovative and citizen-centric" (Australian Government 2.0 Taskforce, 2009). Advocates argue that government will become "cheaper and more responsive" as public officials utilise tools of instantaneous communications and collaboration such as blogs, wikis and a range of "open source" and publicly available technologies. In sum, ICT projects promise to deliver better and cheaper government services.

Yet, few of the countries in this study could provide specific examples of savings or enhanced value for money from ICT investments. Globally, the failure rate, cost and time overruns for ICT-related programmes and projects are high, and this is mirrored by experience in Australia. As a result, OECD governments are examining ways to enhance their performance in this area so that potential gains are realised and excessive costs minimised. This report does not intend an extensive review of ICT adoption in government or of Gov 2.0, these issues are examined by other OECD reports.[52]

Rather, we look to international experience to make two recommendations likely to enhance the value for money that flows from expenditure in ICT projects. First, the government of Australia may stimulate the use of shared process units for the organisation of ICT applications that are used government wide or that are used by target groups of citizens; second, all new ICT projects should be subject to an evaluation before implementation and subsequently be strictly divided into those that lead to savings and those that do not, and subsequently be decided in separate procedures reflecting this division.

The use of shared process units

In the OECD Value for Money study, ICT is seen as an operational means. The use of operational means is, in the first place, the responsibility of managers. Operational means include: communication, human resources and organisation, internal audit, procurement, information and ICT, finance (budgeting, accounting, paying) and accommodation and facilities (office equipment, reproduction, cars, catering, security). The use of operational means is called operational management. Standard setting is defined in the Value for Money study as the making of general rules for operational management. Managers responsible for operational management have to respect certain rules with respect to each of the operational means. In the area of ICT, these rules may apply to the use of hardware and software, the accessibility of data, the protection of privacy, etc. Standards are usually set for the whole of central government by authorities who are located in central ministries (Finance, Interior, Prime Minister). Furthermore, central standards are often complemented by de-central[53] standards, which are set by the permanent secretaries (highest civil servant) of the ministries.

Managers are supported in their operational management tasks by specialised support units for each of the operational means. These units used to be concentrated at the level of ministries. Each minister has its finance director, human resource director, communications director, information director (chief information officer), etc. The tasks of the support service units includes advice on the use of operational means, advice on the interpretation of central and devolved standards, as well as the execution of support tasks, for instance running a salary administration in a human resources division or running a financial administration in a financial division. Partly as a consequence of the New Public Management reforms of the 1990s and 2000s, a proliferation of support service units can be witnessed in many OECD countries. New support service units have been set up in divisions of core ministries, as well as in many agencies under the umbrella of ministries. This has in many countries led to a considerable growth of the total personnel and resources involved in support service delivery.

Traditionally, support service units have not only supported line managers in operational management and in the interpretation and application of central and de-central standards, but they have also supported standard setters, particularly de-central standard setters at the ministerial level, in the development of standards. This combination is generally seen as favourable, because standards should be developed in the light of practical experience about the application of standards.

ICT support services include advice concerning ICT solutions, the development of ICT solutions, and support in the procurement of ICT solutions (hardware and software) for the primary process of policy making, executive, regulatory/supervisory and other support service units. ICT support may also include the maintenance and management of ICT systems that can be considered as belonging to the primary process of the ICT support unit itself. This includes general systems, such as office automation, Intranet, help desks, and e-government portals. Furthermore, it includes advice to central and de-central standard setting authorities.

In various countries included in the Value for Money study, the distinction between ICT support service delivery and the maintenance and management of ICT systems employed as part of the primary process of other units (in agencies or core ministries) is somewhat blurred. In particular, ICT support services are sometimes tasked with the maintenance and management of ICT systems that are part of a primary process of other units. This task combination may lead to difficulties, as it gives ICT support units an interest in the existing mode of operation of other units that is hard to reconcile with its advisory and supporting role concerning the most efficient set-up of ICT arrangements. Whereas the combination of support service delivery and support for standard setting is generally seen as favourable, this is not true for the combination of support service delivery and tasks in the sphere of the primary process of policy making, executive, regulatory/supervisory units and **other** support services (for instance, finance support for human resource units or ICT support for finance units). Responsibility for the primary process of other units should be kept apart from ICT support service units. It is the main task of support units to advise managers about operational management. This task should not be combined with actual responsibility for the use of operational means, since it gives support an interest in the *status quo* of operational management in other units that is not compatible with objective advice on optimal methods of operational management. Since the development of ICT solutions is certainly a task of ICT support units, this reasoning implies that ICT systems should be transferred to the units that are responsible for the primary process as soon as they are developed and have been shown to function appropriately.

The government is organised according to policy sectors (policy making, policy execution and regulation/supervision) and, as far as support services are concerned, according to type of support service. Some ICT systems are also aimed at supporting policy sectors, for instance the tax service or the penitentiary service). Many other ICT systems, however, serve a broader group of clients. This is true for government-wide systems for communication with citizens and business (portals), and government-wide internal information systems (Intranets, help desks, information retrieval systems), as well as for systems for base registers (population, land, cars, ships, corporations, etc.) and systems that contain information about target groups (students, groups eligible for social security benefits, subsidies, medical patients, criminal offenders, etc.). Systems that exceed policy sectors or types of support services, are unable to be managed by regular organisational units, but require special governance arrangements, in particular shared process units and shared service units that are supervised by all relevant client units.

In Australia, ICT standard setting for the whole of government is the responsibility of three authorities (see Box 4.2).

Box 4.2. **ICT governance committees and authorities**

Secretaries' ICT Governance Board (SIGB)

The SIGB consists of some permanent secretaries and chief executives representative of central bodies, portfolio departments and delivery agencies. It drives the ministerial agenda on whole-of-government information and communication technology.

Chief Information Officer Committee (CIOC)

The CIOC is a committee of chief information officers (CIOs) representative of central bodies, portfolio departments and delivery agencies. Under the direction of the SIGB, the CIOC investigates and identifies ICT issues and solutions and emerging trends to be applied at a whole-of-government level. The CIOC is responsible for setting technical standards and policies across ministries and agencies.

The Australian Government Information Management Office (AGIMO)

An office in the Department of Finance and Deregulation that provides advice, tools, information and services to help Australian government ministries and agencies use ICT to improve administration and service delivery. The AGIMO supports the SIGB and the CIOC, as well as whole-of-government ICT policies and arrangements approved by government. It also provides a shared support service (the Australian government's principal online gateway and the pan-government online collaboration service called "Govdex").

In 2008, the Minister of Finance and Deregulation appointed Sir Peter Gershon to lead an independent review of the Australian government's use and management of ICT. The resultant report was highly critical of ICT governance and standard setting arrangements both across the government and within ministries and of the government's effectiveness in using ICT to improve operational efficiency and service delivery across a range of policy areas (Gershon, 2008) (Box 4.3). Based on these recommendations, the government issued an ICT Reform Program which established new policies to be adopted by all ministries and agencies. These reforms included a stronger central and agency governance of ICT, the review and reduction of agency business-as-usual and ICT costs, the establishment of whole-of-government data centres and ICT sustainability strategies, and a new system of opt-outs from agreed whole-of-government agreements where agencies are able to show that they have a strong business case to work otherwise.

Box 4.3. **Gershon Report on Information and Communication Technology Use and Management**

- Weak governance of pan-government issues related to ICT.
- Agency governance mechanisms are weak in respect of focus on ICT efficiency and understanding of organisational capability to commission, manage, and realise benefits from ICT-enabled projects.
- The business as usual ICT funding in agencies is not subject to sufficient challenge and scrutiny.
- Disconnect between the stated importance of ICT and actions in relation to ICT skills.
- There is no whole-of-government strategic plan for data centres. In the absence of such a plan, the government will be forced into a series of *ad hoc* investments which will, in total, cost significantly more than a co-ordinated approach.
- The government ICT marketplace is neither efficient nor effective.

The Financial Management Accountability Act 1997 provides the governance framework for chief executives of Australian government agencies. The act allows, in principle, for co-ordinated activities where they support more efficient, effective, ethical and economic use of Commonwealth resources, including better value for money through particular ICT acquisition and management strategies. However, in practice, many agencies have their own ICT support services. Shared ICT support service units are rare in Australia, aside from a few instances where larger agencies may provide ICT support services to smaller agencies within the portfolio.

Similarly, joint process units for the management of sector-exceeding ICT systems (base registers, systems for target groups) are not yet common in Australia, compared to other OECD countries. Table 4.6 shows, for example, that compared to selected other OECD countries, Australia still has few government-wide accessible base registers.

The Australian government and its ICT standard-setting authorities (SIGB, CIOC, AGIMO) may take further steps in the development of a strategic, long-term view on the organisation of ICT support. It should be noted in this connection that the Australian government is in the process of finalising a "Strategic Vision" for the government's use of ICT to support increased public sector and national productivity. Further steps could perhaps be integrated in this document or be considered as additional options to be taken into account in the decision-making process on this document.

Table 4.6. **Selected Value for Money study countries with central registers that are used across the government**

	Australia	Austria	Denmark	Finland	Norway
Total number of central registers	2	10	8	13	7
Including:					
Population	–	Ministry of Interior	Ministry of Interior	Population Register Centre	Tax Directorate, Ministry of Finance
Land	Australia Public Sector Mapping Agency	Ministry of Interior	National courts		Norwegian Mapping Authority
Businesses	Australian Taxation Office	Ministry of Economy	Commerce and Companies Agency	National Board of Patents and Registration	Ministry of Trade and Industry, registers
Motor vehicles		Ministry of Interior		Transport Safety Agency	Public Road Administration

The authorities may consider a more rigorous split between ICT support on the one hand and the management of ICT systems on the other. ICT systems should be located in the policy making, executive, regulatory/supervisory and other support service units that are responsible for the primary process that they serve. Only the systems that can be considered as belonging to the primary process of the ICT support units themselves (citizen and business portals, Intranets, help desks, office automation) should be managed by the ICT support units themselves.

There is still ample opportunity in Australia for sharing ICT support services among ministries and agencies.[54] AGIMO provides policy advice and some shared ICT support services for the government as a whole, but more co-operation in the sphere of primary process of de-central ICT support units of ministries and agencies (Intranets, help desks, information retrieval, office automation, advice on procurement of hardware and software, development) is still possible. The Australian government may consider further steps in this direction along the lines of and with the financial incentives recommended in Reform 6. While a single ministry should be responsible for the financing and operational management of such shared service agencies, it is important that all client ministries have a role in the steering and control of their outputs. For the steering and control of multi-client agencies, see Reform 10.

In the many cases that the systems exceed a single policy area (base registers, systems for target groups of citizens or businesses), shared process units should be established in separate agencies. In Australia, various initiatives have already been taken to establish multi-sectoral ICT units, for instance the Service Delivery Reform through the amalgamation of Medicare Australia, Centrelink and the Child Support Programme. However, further steps are possible and there still seems to be ample opportunity for sharing ICT systems among ministries and agencies along the lines of and with the financial incentives recommended in Reform 5. Equally as for shared service units, Reform 10 is relevant for the steering and control of multi-client shared process units.

ICT projects should lead to savings

Australia currently has two processes in place to strengthen the *ex ante* evaluation (before implementation) of individual ICT projects: the ICT Two Pass Review and the Agency Capability initiative (P3M3). The ICT Two Pass Review is an ICT investment management service that supports Cabinet decisions on major ICT investment and agencies' investment management. This process applies to non-defence, ICT-enabled projects brought forward after June 2008 that are high risk in areas such as technical complexity, workforce or schedule and have a total cost of AUD 30 million, including an ICT costs of AUD 20 million, or more. SIGB may also identify proposals with a total cost of less than AUD 30 million for Two Pass Review, if it considers that the proposal would benefit from the review.

Agencies are implementing the Portfolio, Programme and Project Management Maturity Model (P3M3) to assist agencies in assessing and improving their capability to commission, manage and realise the benefits of ICT investment. Financial Management and Accountability Act agencies are required to complete P3M3 assessments and develop capability improvement plans, and from September 2012, will be required to assess their capability twice a year using P3M3 and report to SIGB on progress against thier capability improvement plans. P3M3 is complementary to the method the Australian Public Service Commission (APSC) is trialling to assess agency capability. The APCS method is higher level, addressing leadership, strategy and delivery.

AGIMO has also implemented a range of co-ordinated procurement initiatives which are designed to aggregate agency purchasing of IT products and services to deliver savings and efficiencies. These initiatives must be used by agencies subject to the Financial Management and Accountability Act 1997 and cover products and services in areas such as telecommunications, software, data centre facilities and services, desktop hardware and software.

The capability of ministries and agencies to implement ICT projects is further reinforced by the Australian government's Gateway Review Process (Gateway), led by the Department of Finance and Deregulation. The Gateway methodology is based on confidential assessments provided to the agency under review in order to ensure that projects are delivered in accordance with the stated objectives, on time and on budget. This is particularly critical for large and high-risk ICT projects. Currently the process requires that new projects above financial thresholds of AUD 10 million (for information technology) and AUD 20 million (for procurement and infrastructure projects) undergo a series of brief, independent reviews at critical stages in the development and implementation of a project.

It is clear from this description that Australia has thorough procedures in place to ensure that ICT projects are thoroughly evaluated *ex ante* (before implementation) and that conditions are created to optimise the chance for success. Looking at this set of procedures, the external observer would even be inclined to think that there is a bit too much *ex ante* evaluation and that procedures could be simplified or merged. However, this is not the point that this assessment wants to emphasise. The salient point is rather the use of *ex ante* evaluation.

In general, ICT projects are supposed to contribute to efficiency and quality of service delivery. Efficiency is furthered through easy collection and transmission of data. Quality is improved through improving the quality and quantity of data, quicker collection and transmission, and easier accessibility. For the assessment of ICT projects, it is fundamental that both aims are clearly separated. ICT projects that lead to additional costs should be traded off against all other initiatives for new spending and should follow a fundamentally different decision procedure than ICT projects that lead to savings. Under the Australian budget procedures, ICT projects that lead to savings can be decided by ministers, who can use the savings to provide compensation for overspending on other items, or to fill in government-wide savings targets, or alternatively can be decided by Cabinet, possibly through spending review procedures (see Reform 7), to realise savings targets for the government as a whole. However, ICT projects that lead to additional spending are generally decided as part of the annual priority-setting exercise on new spending. Furthermore, occasionally governments will choose equity and/or expense measures where the benefits warrant them. For example, the Australian government is investing in a new Commonwealth company, NBN Co Ltd, to build and operate the National Broadband Network to deliver high-speed broadband services to all Australian premises, including homes, schools and businesses.

The Australian government may consider emphasising more clearly than is currently the case that *ex ante* evaluation should always lead to an unambiguous conclusion on whether a proposed ICT project leads to savings in the medium term (three to five years) against the baseline of current policy. The business case proposed by the responsible minister and checked by *ex ante* evaluation should be explicit about costs and savings, year by year, for a period covering the medium term (three to five years). Possibly, this check could be made part of the ICT Two Pass Review. Only if the review endorses the conclusion that the project leads to savings, can the decision-making process proceed under the responsibility of the line minister. If not, the project has to be referred to the annual budget process to be traded off against other initiatives for new spending, before any additional steps can be taken. ICT projects that lead to savings should not be decided without simultaneous downward adjustment of the multi-annual budgetary baseline estimates of the relevant appropriations.

A procedural change, as suggested in the previous paragraph, concentrates on the fact that, in principle, ICT projects should lead to savings and that savings should be accurately estimated and checked by independent agencies, before any next steps in the decision-making process can be taken. Experience in other OECD countries (Denmark, the Netherlands among others) shows that a procedural change in this sense leads to a profound re-orientation of the policy preparation process concerning ICT projects and to increased *ex ante* scrutiny of any new initiatives in the ICT area.

Recommendations

15. The Australian government may consider taking further steps in the development of a strategic, long-term view on the organisation of ICT support, possibly to be integrated in the future whole-of-government ICT strategies currently being finalised or as additional options to be taken into account in the decision-making process on this document. In particular, the authorities may consider the following steps.

16. Making a more rigorous split between ICT support on the one hand and the management of ICT systems on the other. ICT systems should be located in the units that are responsible for the primary process that they serve. Only the systems that can be considered as belonging to the primary process of the ICT support units themselves (citizen and business portals, Intranets, help desks, information retrieval, office automation) should be managed by the ICT support units themselves.

17. Emphasising more clearly than is currently the case that *ex ante* evaluation should always lead to an unambiguous conclusion on whether a proposed ICT project leads to savings in the medium term against the baseline of current policy. The business case proposed by the responsible minister and checked by *ex ante* evaluation, should be explicit about costs and savings, year by year, for a period covering the medium term. Possibly, this check could be made part of the ICT Two Pass Review. ICT projects that lead to savings can be decided by the responsible minister in virtue of her/his portfolio budget responsibility. ICT projects that do not lead to savings should only be decided in the annual budget process after trade-off with other new spending initiatives possibly in other portfolios.

18. Promoting more co-operation among ministries and agencies. The Australian government has already taken steps in the sharing of ICT support services among ministries and agencies. This initiative should be pursued with vigour, while the opportunity for additional steps should be explored. More co-operation in the sphere of primary process of decentral ICT support units of ministries and agencies (Intranets, help desks, information retrieval, office automation, advice on procurement of hardware and software, development) is still possible (see also Reform 6). The recommendations provided under Reform 10 for the steering and the control of multi-client agencies are relevant in this respect.

Reform 9: Improving risk management in supervisory and regulatory activities

Risk and regulation

Effectively managing risk is a core aspect of both regulatory development and regulatory supervision and enforcement in the field of social regulation.[55] In the context of regulatory development, the challenge arises from the central fact that, while much regulation is made in pursuit of the objective of reducing risk, risk can never be entirely eliminated. Neither can regulation be used to address all kinds of risks. Hence, a high-quality regulatory process must ensure that regulation is used only where the nature and extent of the risks involved make it an effective and efficient response. Such a process must also ensure that the extent of risk reduction pursued is appropriate and proportionate.

In relation to regulatory supervision and enforcement, the issue of risk management centres on the need to deploy the resources of supervisory/regulatory agencies in ways that maximise their effectiveness. This involves, in particular, developing inspection and auditing programmes and protocols that will most effectively detect non-compliant behaviour and directing information/educational programmes toward areas of greatest need.

Risk management is a key factor that determines the costs of supervision and enforcement in the field of social regulation. As indicated in Table 2.5, the Australian Commonwealth has one of the largest sectors of supervisory and regulatory activities among the Value for Money countries (exceeded only by Norway).

Regulatory development

As the OECD noted in its country review of regulatory reform in Australia (2009a), "the reduction of risk is a key rationale for regulatory control, and OECD countries are increasingly finding that there is a case for improving the way that risk is managed by regulators to reduce the costs of regulation and increase its effectiveness." The need to review current approaches to risk in a context of social regulatory development (OECD, 2009a) was highlighted in a major review commissioned by the Australian government and published in 2006 (Regulation Task Force, 2006). The Banks Report identified "an increasing risk aversion in many spheres of life" as a fundamental driver of excessive and poor quality regulation (Regulation Task Force, 2006). As the report noted, this problem of risk aversion has also been highlighted in the United Kingdom, with then

Prime Minister Blair arguing that it caused pressure on regulators "to act to eliminate risk in a way that is out of all proportion to the potential damage."

The Banks Report recommended an improved standard of regulatory impact analysis (RIA), including requiring risk analysis where appropriate, as constituting a major mechanism for counteracting these identified concerns. These recommendations were adopted by the government of the day. New, more stringent RIA requirements were adopted, while a newly published RIA handbook for regulators provides explicit guidance on risk issues. The new government, elected in 2007, has continued the focus on improving RIA, making several further changes to the process.

One aim in revising the RIA handbook was to provide user-friendly guidance material to increase compliance with the regulation impact statement (RIS) requirements. The revised handbook is targeted at an audience of policy officers who may not have a sophisticated understanding of technical issues. The Office of Best Practice Regulation (OBPR) believes that a full treatment of risk within the RIA handbook would compromise this objective. Where additional guidance is judged to be required on specific issues, the OBPR provides this by way of targeted guidance notes and training presentations as well as through one-on-one meetings with agencies. More information on technical issues is also available on the OBPR website.

In general, the approach to risk management taken within the Australian government is that each agency is responsible and accountable for the management of risk. Specifically, CEOs of agencies are accountable to Parliament for their performance in managing risk in their agencies. Given the vast range of issues and risks managed by Australian government agencies, it is impractical to mandate a framework for risk management across all agencies. Generally, the RIS requires agencies to be transparent in their treatment of risk and encourages them to consider all aspects of how risk may affect their chosen options. Where the OBPR believes that the level of detail provided is insufficient or is not treated in a balanced manner, it will provide individual guidance on how the assessment of risk can be improved upon.

The RIA handbook indicates that assessments of alternatives should indicate what level of risk would result if each were adopted. Advice is also given on the potential for non-regulatory means to ensure adequate and appropriate risk management. Of particular note, the guide includes an appendix (substantially revised in the 2010 edition of the guide) which specifically addresses the issue of risk analysis. The appendix highlights the fact that risk analysis forms part of the government's best practice regulation requirements and provides detailed guidance on its use in the regulatory context.

A specific decision rule contained in a previous edition of the guide (i.e. that regulatory stringency should be set at the point at which marginal benefit and marginal costs are equalized) no longer appears. Australian officials explained that this reflects the view that this rule is extremely difficult to implement in practice (particularly given data limitations) and a desire to ensure that the guide provides more pragmatic guidance to generalist policy officers. Consistent with this approach, the new edition states that "the aim of a regulatory impact statement is to identify 'how much' risk is acceptable to society, and the cost that society is prepared to pay to achieve that." As the above indicates, the current approach is based on the concept of "acceptable risk", rather than "optimal risk reduction effort". The two approaches are distinct and will, in some areas, have differing practical implications. However, there is no accepted "best practice" in this regard.

Since the acceptable risk approach is simpler and less demanding in terms of information, there is clearly merit in opting for this approach and ensuring that guidance to regulators reflects the views of the government on what is acceptable (and unacceptable) risk. Linking this acceptable risk concept with the discussion of excessive risk aversion contained in the 2006 Banks Report and subsequently endorsed by government, would arguably do much to provide practical background and advice to regulators. Importantly, consideration could also be given to providing regulators with explicit guidance on identifying the threshold between acceptable and unacceptable risk levels, including publishing quantitative thresholds. This approach is, as yet, used relatively infrequently in OECD countries, but has been in use by the Health and Safety Executive in the United Kingdom since 2001 (Health and Safety Executive, 2001) and by the Occupational Health and Safety Administration in the United States (OECD, 2009b). Provision of more detailed risk assessment guidance at a central level, whether in the RIA handbook or on the website, would provide important gains, even where some regulators have well-developed skills in these areas, by favouring consistent approaches based on explicit, government-wide views of risk issues. However, without explicit guidance, whether quantitative or qualitative, regulators have little opportunity to use the acceptable risk concept in a meaningful way in decision making.

Finally, in common with most countries' RIA guidance documents, the current Australian RIA guide remains silent on a number of risk-related issues that have been identified by the OECD (2009b) as needing to be taken into account in the RIA context. These include, among other things, the question of what role, if any, the "precautionary principle" should play. Australian officials have noted, however, that where an RIA document incorporated these issues, they would seek to ensure that the specific treatment of these factors was made transparent in the RIA document.

Regulatory administration and enforcement

Within the context of regulatory supervision and enforcement, risk assessment is a potentially powerful tool to guide the deployment of inspection, auditing and other resources in ways that will maximise their effectiveness and, consequently, overall regulatory effectiveness. Traditionally, regulators have tended to adopt undifferentiated approaches, such as conducting inspections of all regulated entities at identical intervals, undertaking equally detailed inspections in all cases and adopting similar reporting requirements.

More recent trends have seen a focus on the development of indicators that can predict which regulated entities have a higher risk of non-compliance, as well as taking into account differences in the expected consequences of non-compliance in different circumstances, and of different types of non-compliance. These factors have increasingly been used as the basis for planning the disposition of inspection and auditing activity. Key benefits include:

- more effective use of inspection resources due to better targeting of areas of non-compliance;
- consequent ability to reap resource savings while maintaining the effectiveness of compliance monitoring; and
- the ability to incorporate dynamic feedback, varying the extent of compliance monitoring for individual regulated entities in accordance with past performance.

Significant work in this area has been undertaken in the United Kingdom. In particular, the Hampton Review (Hampton, 2005) recommended that risk assessment should be the basis for all regulatory activity, notably including inspection and enforcement programmes. Specifically, this implied that there should not be any inspections without a reason, data requirements for less risky businesses should be lower than for riskier businesses, resources released from unnecessary inspections should be redirected towards advice to improve compliance and, when new regulations are being devised, departments should plan to ensure enforcement can be as efficient as possible.

Substantial change in the UK government’s risk management practices has resulted, with Hampton implementation reviews having been under way since 2007, covering all 36 major regulators' performance in implementing the recommendations of the Hampton Review.[56]

The concept of risk-based compliance and enforcement strategies is introduced in the Australian RIA guidebook. However, in contrast to the post-Hampton approach of the United Kingdom, in which risk-based enforcement strategies are considered as a standard approach and expected to be widely adopted, the Australian guidebook argues that such strategies should be identified "in some cases" as part of "alternative compliance strategies". Again, according to OBPR, the handbook is intended to be a relatively simple guide targeted at policy officers with a relatively low level of risk analysis. OBPR can provide additional guidance directly to agencies by way of targeted guidance notes or training presentations. According to OBPR, each agency within the Australian government is responsible and accountable for the management of risk. Given the vast range of issues and risks managed by Australian government agencies, it would be impractical to mandate specific enforcement strategies across all agencies.

While there is much to say for the OBPR view that each agency is responsible for the management of risk and its enforcement strategies, and that expert guidance should be on a case-by-case basis, this should not be taken to mean that agencies can refrain from an explicit, risk-based enforcement strategy altogether. The handbook and OBPR guidance should at least require an explicit risk-based enforcement approach from every regulatory and supervisory authority. The current wording of the guide suggests, to the contrary, that risk-based approaches should only be used in "special cases" and could be seen as discouraging moves in this direction by regulators. Moreover, no specific guidance is provided as to how such strategies can or should be designed and implemented, or about associated issues such as implementation problems and counter-strategies. In this respect, use could be made of the extensive experience with risk-based supervision and enforcement of various vanguard agencies (for example, Food Safety Australia New Zealand [FSANZ], Australian Radiation Protection and Nuclear Safety Agency [ARPANSA]).

Further steps in the direction of risk-based supervision and enforcement could lead to substantial savings on the costs of supervision and enforcement borne by the Australian Commonwealth government. Particularly it is important that OBPR sees to it that all regulatory and supervisory authorities avail of an explicit risk-based enforcement strategy and support agencies in developing such strategies if currently such strategies are lacking or show deficiencies.

Recommendations

19. Given the innovative choice for the "acceptable risk" approach in regulatory development, leading itself to substantial efficiency gains, the Australian government may consider expanding guidance whether in the RIA handbook, on the website or in guidance on a case-by-case basis on its application in separate cases.
20. As to supervision and enforcement, the Australian government should consider requiring more explicitly from every supervisory and enforcement authority a risk-based enforcement approach, to be laid down in a public document.

Reform 10: Separation of budgeting from output steering in agencies

Australia's agencies

In the Commonwealth general government sector, each core ministry forms the centre of a portfolio. About 60% of the administrative employment in the sector works in executive agencies.[57] The dominant agency in 2011-2012 from an employment perspective is the Australian Taxation Office (approximately 25 000 employees), but there are also many small agencies that employ less than 100 staff. The core ministry with the largest number of staff is the Department of Human Services (38 000 employees).

As at end March 2012, there were 20 departments of state and 149 arm's-length and independent agencies divided over 19 portfolios (excluding Commonwealth government companies and 4 departments of the Parliament). The core ministries have a weak co-ordinating role within the portfolio. Indeed, the Department of Finance and Deregulation maintains direct relations with each large agency rather than focusing only on the core ministries. The Department of Finance and Deregulation focuses especially on the largest 50 agencies which are responsible for 99% of all expenditures. These agencies are known as the "material agencies".

Australia's budgeting framework

Between the 1999/2000 to 2008/2009 budgets, Australia's budget process was based on an outcomes and outputs framework. This reform was meant to focus the budget process on ends rather than means, by more directly linking expenditure to outputs produced and outcomes achieved.

Agencies reported the output level until the 2008/2009 budget. From the 2009/2010 budget, output level reporting ceased and was replaced with reporting at the programme level. This was a result of the 2009/2010 reform agenda to enhance budget transparency.

Under the outcomes and outputs framework, every agency was required to identify comprehensive and explicit outcomes which form the legal basis for appropriations approved by the Parliament.[58] Agencies were expected to measure performance at two levels: first, the effectiveness of the contribution of agency outputs and "administered items" (programme expenditures such as social benefits, subsidies and grants) to the achievement of outcomes; second, the efficiency of agency outputs in terms of quantity, quality and price (Blöndal et al., 2008). However, the extent to which outcomes and outputs were actually used for the purpose of budgeting was very low.[59] In recent years, as noted above, Australia has amended the appropriations framework moving away from agency outputs to focus more on outcomes and programmes. As part of its broader review of the financial management framework, Australia continues to review appropriations with the intention of simplifying arrangements to facilitate better decision making by both government and Parliament. In general, implementing an outcomes and outputs framework has proved to be a significant challenge, especially in terms of its usefulness for decision-making purposes. This has been the case in all OECD countries that have tried to move in this direction. In the Australian case, it has been noted that outcome definitions are brief and broad, hence vague, widely different between agencies in terms of their nature and specificity, subject to permanent reformulation, hence not comparable over time. Furthermore, it has been noted that the information provided by agencies concerning the connection between outputs and outcomes as well as the output and outcome information itself is often of low quality (Blöndal et al., 2008).

Since 2009/2010 agencies have been required to publish in their budget documentation planned financial and non-financial performance information at the programme[60] level. This established a "clear read" principle, where Parliament and the public can see a link between appropriations agencies receive and their proposed deliverables and key performance indicators for those funded programmes in the budget documentation, and the agencies' stated outcomes[61] in their annual reports. Furthermore, agency outcomes statements were assessed against stricter criteria during this reform phase and this has improved the specificity and focus of outcomes.

The steering of outputs should be separated from the budget process

Steering of agency outputs is a different matter than budgeting and it is important that both processes be kept apart. The combination of output steering and budgeting in an annual exercise conducted as part of the budget cycle, is increasingly seen as ineffective, bureaucratic and distortive (leading to perverse incentives).[62]

Financing of agencies can, in general, be based on robust rules for the fixed and variable costs of the agency's required production capacity in the light of the estimated needs for its services (capacity budgeting).[63] In order to carry out negotiations effectively, the line minister/Minister of Finance needs the assistance of experts who are familiar with the agency's production methods, input mix and input costs. In many OECD countries, and also in Australia, the information available to core ministries and the Ministry of Finance about the production process of agencies is superficial or lacking.

Economic theory as well as evidence collected in the Value for Money project suggests that effective steering of outputs requires a permanent effort on the part of the line minister in which output definitions and instructions are continuously refined in the light of experience, results of research about the relationship between outputs and outcomes, and new political priorities.

Several countries have experienced similar challenges as Australia with the financing of agencies. Sweden is, in this respect, especially relevant, which is not surprising in the light of the long Swedish experience with policy execution in arm's-length agencies.

Sweden has recently developed annual performance procedures for agencies that to a large extent bypass the budget process and are based on a permanent performance dialogue. Important elements are the performance dialogue with the minister on the basis of:

1. the annual agency report;
2. the meeting with the National Audit Office on the basis of the audit report;
3. various forms of evaluation.

In addition, Sweden intends to reduce the scope of the annual letter of instruction to each agency concerning outputs attached to the appropriation, and instead introduce informational requirements on performance in the permanent Agency Ordinance. As far as budgeting is concerned, Sweden aims at complete transparency of input use in agencies.

A special situation arises if an agency performs tasks for various ministries. In such a case, there is still a ministry to which the agency formally belongs. This owner ministry has the responsibility to take the lead in the permanent performance dialogue with the agency management. However, this lead ministry should make sure that the other client ministries are represented in the team that conducts the performance dialogue and diverging interests among the clients are reconciled before the dialogue starts.

Strengthening the role of ministries

Direct budget negotiations between agencies of line ministries and the Ministry of Finance are not a usual practice in OECD countries. An important reason for the existence of this practice in Australia is the fact that legal responsibility (accountability) for agency operations rest with the portfolio minister and the head of each agency. Other officials of the core ministry have a limited legal basis for a co-ordinating role. The heads of agencies are also keen to have direct relationships with the Minister of Finance, rather than operating through the core ministry (Blöndal et al., 2008).

Although there are good arguments for the separation of budgeting from output steering, this does not mean that the budgeting competence should be taken away from the parent (owning) ministry. Given that, as noted earlier, there are 149 arm's-length and independent Australian government agencies, with more being created, the detailed knowledge about the production process, input mix and input costs of each agency, which is necessary to conduct effective budget negotiations, can only be built up in the line ministries. It is true that the Ministry of Finance can play an important role in the advisory sphere, for instance by developing the required methodology for efficiency studies, or by conducting pilot studies, but the responsibility for budgeting and efficiency can only be borne by the parent ministry. In the case that an agency is financed by various ministries, there is still only one parent (owner) ministry, to the portfolio of which the agency formally belongs. This ministry should be responsible for financing the agency and for conducting the budget negotiations with it. The budgeting competence is intrinsically connected to the (economic) ownership of the agency. This is even the case if other ministries finance the largest part of the agency's budget.

If an agency is financed by various ministries, the parent ministry should negotiate the funding shares before it has agreed the agency's budget. The agency should not negotiate its resources directly with various ministries. Such multiple budgeting relations undermine the capacity of the parent ministry to control the efficiency of agency operations.

On the other hand, if an agency works for various client ministries, there is every reason that each of these maintains direct and relatively frequent relations with the agency for the purpose of output steering (the permanent performance dialogue). Without output steering competence, the line minister cannot be held accountable for the policy results she/he is trying to achieve. Furthermore, the expertise required to steer agency output is only available in the client ministry (particularly in the policy-making divisions of the core ministry). It is important though that the performance dialogue is co-ordinated among client ministries in order to reconcile diverging interests.

Regardless whether there are one or more client ministries, the processes of budgeting and output steering should be kept apart. Budgeting is an annual process in which the line minister is seconded by his finance director and possibly a representative of the Ministry of Finance. The output steering process is a continuous process in which the line minister is seconded by the experts of the policies that the agency is tasked to execute.

In Australia, the 2003 Uhrig Review of the governance of agencies revealed unclear and inadequate steering and control arrangements (Uhrig Review, 2003). It was noted that agencies, in several cases, reported directly to the minister and not via the relevant ministry. The review underlined the role of core ministries as the "principal source of advice to the minister", a role that should be reinforced by requiring agencies to provide relevant information to the ministries and their permanent secretaries, in parallel to that information being provided by agencies to the ministers. The government endorsed the recommendation; now agencies must provide necessary information to the ministries as well. This opens the way to a more assertive role of the ministries in the financing of agencies as well as the permanent policy dialogue on outputs.

In many OECD countries, reform of the agency budget process is arguably the most important savings measure that is possible in the organisation of government, since the bulk of operational expenditure is made in the agencies. That is also true for Australia. For this to happen, reform of the budget process for agencies is an essential precondition.

Recommendations

21. In recent years, Australia has amended the appropriations framework, moving away from agency outputs to focus more on outcomes and programmes. As part of its broader review of the financial management framework, Australia continues to review appropriations with the intention of simplifying arrangements to facilitate better decision making by both government and Parliament. The Australian government may consider taking further steps in this direction and stepping up its reform effort, focusing the line items more on programmes and on the operational costs of the core ministries and the agencies, rather than on outcomes. Such a reform will restore the role of the appropriations laws as the main vehicle for political decision making about the budget.
22. The Australian government may consider separating more clearly budgeting for agencies from the steering of their outputs (through setting targets and monitoring results). Budgeting is a task of the parent ministry to which the agency belongs. This should be established unambiguously, which may require new legislation. If necessary, financial directorates of portfolio ministries should be strengthened to make this possible. If an agency is financed by more ministries, financing shares should be agreed among the ministries concerned before the agency budget is agreed.
23. Budgeting should take place on the basis of robust rules, based on fixed and variable costs and need indicators (capacity budgeting). Since in a non-market environment output costs are the input costs needed to produce them, agencies should be required to provide transparent information on the input mix and the input costs that allow the parent minister to assess efficiency. The Ministry of Finance should play a supportive role in the improvement of cost information about the agencies and always be represented in budget negotiations with agencies.
24. Steering and control of the agency's output is essential, but output targets and realisations should be set, monitored and evaluated in a performance dialogue running throughout the year. This task should be fulfilled by the line minister(s) who is (are) responsible for the executive policy of the agency. The line ministers should be supported in this task by the divisions responsible for the development of the policies that the agencies are tasked to execute.

Survey of the reforms

Table 4.7 provides an overview of quality improvement and potential savings of the ten priority reforms discussed in this chapter. Savings are characterised in relation to current operational costs of the units concerned.

Savings could not be quantified by the OECD Secretariat but are estimated as moderate or large in the light of the available information. A moderate saving (less than 20%) of a large unit can be larger than a large (more than 20%) saving on a small unit.

Table 4.7. **Survey of value for money effects**

	Reform	Quality improvement in administration	Quality improvement in service delivery	Savings
Reform 1	Stricter rules with regard to ministerial advisors	X		–
Reform 2	A more consistent division of roles and responsibilities between levels of government	X		Moderate (less co-ordination and administration)
Reform 3	Integration of executive and professional expertise in policy development	X	X	–
Reform 4	Development of the Parliamentary Budget Office	X		–
Reform 5	Process sharing among agencies and merging of agencies	X	X	Moderate (less duplication)
Reform 6	Service sharing among agencies	X		Moderate (less duplication)
Reform 7	Strengthening the spending review procedure	X		Moderate (more and better savings options)
Reform 8	Strengthening ICT management	X	X	Moderate (less duplication, more emphasis on savings target)
Reform 9	Improving risk management in supervisory and regulatory activities	X		Large (better focus on risk can simplify regulation and reduce enforcement activities)
Reform 10	Separation of budgeting from output steering in agencies	X	X	Unknown but potentially large (less bureaucracy around output measurement in the financing and steering of agencies)

Notes

1. Note that in Chapter 1 the reform trends were also grouped in a different way, namely in accordance with broad reform trends (a more consistent division of tasks between levels of government, vertical integration, horizontal integration, etc.).

2. The Australian data refer to 20 Cabinet ministers and 10 ministers outside the Cabinet.

3. Australia responded to the OECD survey but, as the numbers provided were not suitable for international comparison, they were not used in the OECD report.

4. OECD (2007) also notes that France had 700 political advisors at that time. France did not respond to the 2011 survey.

5. OECD (2007) citing King (2003).

6. Henderson (2009) identifies the trend as having commenced with the election of the Whitlam government in late 1972. Holland (2002) gives the number of ministerial staff in 2002 as around 150.

7. See: Members of Parliament (Staff) Act 1984 Annual Reports for 2007-2008, (Tables 2a and 2b: Ongoing, non-ongoing and casual government personal employee numbers as at 30 June 2007 and 30 June 2008), 2009-10 (Table 2: Ongoing, non-ongoing and casual government personal employee numbers as at 30 June 2009 and 30 June 2010), and 2010-11 (Table 2: Ongoing, non-ongoing and casual government personal employee numbers as at 30 June 2010 and 30 June 2011), available at: *www.finance.gov.au/publications/mops_annual_reports*.

8. In contrast to the data in Figure 4.1, these numbers include administrative staff employed in ministerial private offices. Including these staff means that the numbers reported in Figure 4.2 are comparable with the long-term trend data reported by Henderson (2009).

9. It is the minister's responsibility to retain such statements on a confidential basis. Employees are required to update their statements each year and to inform their employing minister promptly of any significant changes in their private interests as they occur.

10. This issue involved an attempt by the Legislative Council to require a ministerial advisor to give evidence to an inquiry it was conducting. The relevant minister instructed the advisor not to appear, giving rise to suggestions that this act could be found to be in contempt of Parliament.

11. Competitive grants allocated across the government and non-government sectors are classified as Commonwealth own-purpose expenses. Details of funding allocations for each programme are reported on Commonwealth agency websites. Prior to 2009 these were termed "discretionary" grants.

12. Australia's vertical fiscal imbalance is one of the largest in OECD federal countries, with the federal government collecting more than 80% of total tax revenue (Blöchliger and Vammalle, 2012).

13. See, for instance, Brown (2006).

14. Prime Minister Hawke initiated, as part of his policy, functional reviews of roles and responsibilities and a review of tax-sharing arrangements. These reform processes ceased after he was replaced by Prime Minister Keating at the end of 1991.

15. This agreement superseded a previous (1999) agreement on reform of intergovernmental financial relations. The previous agreement aimed to provide a more stable (and growing) revenue base to the states and ensure the elimination of a range of inefficient state taxes. This was achieved by hypothecating the GST revenue to the states. The GST – a value added tax levied at a 10% rate – was, and under the current agreement still is, collected by the Commonwealth government, but all revenue received is returned to the states. This is the largest single revenue flow from the Commonwealth government to the states.

16. The terms "national specific purpose payment" and "national partnership" were not used before 2008, when all earmarked transfers were referred to as "specific purpose payments" or "SPPs".

17. See: *www.coag.gov.au/crc/reform_agenda.cfm.*

18. There are six national agreements but only five NSPPs. There is no NSPP associated with the National Indigenous Reform Agreement.

19. Note that the accrual expense reporting (used in Table 4.3) of natural disaster relief payments differs from cash payment reporting. This is explained in Attachment D of the 2011-12 Mid-Year Economic and Fiscal Outlook (November 2011).

20. For an overview of this literature see Bergvall et al. (2006).

21. By 2014-2015, approximately 60 NP payments will remain, most of which are under AUD 100 million.

22. GST Distribution Review Terms of Reference, accessed at: *www.gstdistributionreview.gov.au*.

23. Specifically, the Review Report noted that if national partnership payments are used too often for discretionary purposes, there is a risk that the payments will become complex and lead to the states having softer budget constraints (AFTS, 2009).

24. In Australia, the last whole-of-government review of federal and state expenditure roles was conducted for the 1996 Commission of Audit. The reforms were not implemented. An attempt to transfer responsibility for aged care to the states was not successful. Currently, an attempt is made to transfer specific aged care services that states have assumed to the Commonwealth, but two states have not agreed, so that the responsibility remains divided. Since 2007, the governments have decided on sectoral ("functional") reviews instead.

25. The Governance Group of the 2020 Summit suggested a three-stage process: *i)* an expert commission to propose a new mix of responsibilities; *ii)* a convention of the people, informed by the commission and by a process of deliberative democracy; and *iii)* implementation by intergovernmental co-operation or referendum.

26. See *Building on Basics* (OECD, forthcoming) for a more extensive explanation on this point.

27. As far as budgeting for executive agencies is concerned, the line minister is responsible in his capacity of financial manager for his own ministry.

28. The only form of financial sanction that exists under Australia's IGA is the option of withholding of NP payments until agreed performance benchmarks and/or milestones have been met by the states and territories. However, the OECD defines financial sanctioning as including any form of withholding payments based on quantitative performance indicators, as opposed to incentives based on dialogue or persuasion.

29. Sometimes information or counselling is mentioned as a fourth instrument, but it can also be seen as a service in kind.

30. See the new Part 7 Division 2 of the Parliamentary Service Act 1999.

31. A copy of the government's response can be found at: *www.aph.gov.au/Parliamentary_Business/Committees/House_of_Representatives_Committees?url=jscpbo/report.htm*.

32. Parliamentary Budget Office Bill 2011 Division 2 section 7 (1) (ii).

33. An authorised member of a parliamentary party means the Leader of the parliamentary party or a member of the parliamentary party authorised in writing by the Leader of the parliamentary party.

34. According to the amended Charter of Budget Honesty Act "the Secretary to the Department of the Treasury is responsible for costing aspects of policies affecting tax revenue" and "the Secretary to the Department of Finance is responsible for costing aspects of policies that affect government outlays or expenses and revenue estimates other than tax revenue estimates."

35. These are examples and may not cover all of the work produced by the institutions highlighted here.

36. The full title is: "An act providing for conflict of interest rules, restrictions on election financing and measures respecting administrative transparency, oversight and accountability".

37. An independent government agency would be financed by government but enjoys independence in executive policy (including its reports) on the basis of its legal statute, often including guarantees for the appointment and dismissal of its director or board members on a non-partisan basis. Independence in this sense is often granted to the statistical bureau, the electoral council, regulatory agencies, etc.

38. The portfolio consists of a services delivery organisation (the merged Centrelink, Child Support Programme and Medicare Australia), which now has the status of a ministry (the Department of Human Services) and Australian Hearing Services (a statutory authority within the Commonwealth non-financial corporation sector).

39. Spending Review 2010 "Operational management".

40. Since the time of reporting (2009), the *Australian Public Service Reform Blueprint* called for improvements to the efficiency of small agencies, including the use of shared services (Recommendation 9.3). Any newly created agencies are to receive their corporate functions from their portfolio or ministerial agencies. The Department of Finance and Deregulation is responsible for co-coordinating the implementation of these particular recommendations.

41. A unit that exclusively offers support services to agencies of the same ministry is not a shared service centre in the sense of the Value for Money study (defined as a government unit that provides support services to [divisions or agencies of] more than a single ministry of the central government or to more than a single government; see glossary). There are examples of shared service arrangement in a broader sense across the Australian Public Service, namely within portfolios or ministerial areas. Similarly, there is evidence that agencies are pursuing greater collaboration with other agencies.

42. See OECD (2010c) for more information about these models.

43. See Wanna et al. (2001).

44. See ANAO (1996), Di Francesco (1998), Mackay (1999).

45. See Kelly (2001).

46. Relevant to this, there is a compensation requirement in place in Australia. This implies, among other things, that an integral part of the Australian process of considering new spending proposals is a requirement that the proposing minister also identifies equivalent savings. However, spending reviews are not primarily aimed at helping line ministers to find sensible savings in their own portfolio, but at helping the Minister of Finance to find sensible savings options in the portfolio of a line minister, in cases that such options are useful inputs for allocative decision making that goes further than compensation of new spending.

47. The Australian government does have special rules for new spending proposals requiring that they set out the review and performance framework under which they would operate, including key dates and reporting requirements.

48. The United Kingdom has (since 2010) moved to a five-year expenditure framework. Whether this implies that the spending review exercise will also move to a quinquennial procedure remains to be seen.

49. Generally, fiscal strategy statements required under the Charter of Budget Honesty are released with each budget. However, the current medium-term fiscal strategy has been in place since 2009 and it is this strategy that provides the framework for decision making in each budget.

50. The Danish Minister of Finance informs the Cabinet Committee of Economic and Financial Affairs (which he chairs) on the spending reviews he has approved.

51. In this respect, the Irish procedure of spending review could also be relevant to Australia (for an outline see OECD, 2010d).

52. OECD (2005) and e-government country reviews.

53. De-central standards may either be devolved in the sense of delegated by the government-wide standard setter or additional in the sense of added by the ministries to provide specifications or additions to central standards.

54. Note, however, that a favourable business case is necessary in any concrete sharing project. ICT service sharing is not always efficient. For example, the United Kingdom's National Audit Office released a review called "Efficiency and reform in government corporate functions through shared service centres", in which it stated that "the initiative for

government departments to share back-office functions suffered from an approach which made participation voluntary and tailored services to meet the differing needs of individual departments. The result was over complexity, reduced flexibility and a failure to cut costs."

55. Social supervision/regulation is defined in the Value for Money study as regulation and supervision of the corporate and non-profit sector outside general government and of executive units, sub-national governments and non-profit institutions inside the general government sector aimed at the protection of citizens and businesses other than through the promotion of competition.

56. For details, see: *www.bis.gov.uk/policies/bre/enforcement-of-regulation/Hampton-Reviews/hampton-implementation-review-reports.*

57. Snapshot of the Australian public administration in OECD (2010c).

58. There are mainly two appropriations bills in Australia. The first is for continuing expenditure on the basis of current policy. The second is for the funding of new policies, including new capital. Both appropriations laws use accrual line item estimates classified according to outcomes. Next to the appropriation laws, the government provides portfolio budget statements (PBS) as part of the supporting documentation. The PBS are the principal documents on which Parliament relies when scrutinising the government's budget proposal. There is a PBS for each of the 19 portfolios. The PBS provide more detail than the appropriation laws and give information about costs of outputs and administered items. In addition, the PBS are presented on both an accrual and cash basis and they give information about the sources of funding (appropriations, special appropriations and balance of carried-over appropriations).

59. Conceptually it is also difficult to define what it would mean if they were used. One possible definition would be that budgets would be retrospectively or prospectively cut if output targets were not reached. On this point see *Building on Basics* (OECD, forthcoming).

60. Programmes deliver benefits, services or transfer payments to individuals, industry/business or the community as a whole and are the primary vehicles for government agencies to achieve intended results of their outcome statements. See *www.finance.gov.au/financial-framework/financial-management-policy-guidance/commonwealth-programs-policy.html*.

61. Outcomes are henceforth defined as the results, consequences or impacts of government actions. Outcome statements articulate government objectives and serve three main purposes: to explain the purposes for which annual appropriations are approved by the Parliament for use by agencies; to provide a basis for budgeting and reporting against the use

of appropriated funds; and to measure and assess agency and programme non-financial performance in contributing to government policy objectives. See *www.finance.gov.au/financial-framework/financial-management-policy-guidance/outcomes-arrangements.html*.

62. See *Building on Basics* (OECD, forthcoming).

63. On capacity budgeting, see *Building on Basics* (OECD, forthcoming).

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Glossary

Note: The asterisk (*) in some of the definitions refers to a term included in this glossary.

Administrative employment: all employment in general government (in the sense of the national accounts) except employment in service delivery in kind*.

Administrative regulation: economic regulation* or social regulation* by authorities other than the formal legislature.

Administrative supervision: monitoring of compliance with laws, economic regulations* and social regulations* other than through the regular police, in particular through inspectorates.

Agency: unit of a ministry with a separate financial administration.

Arm's-length agency: agency* for which the minister is responsible as far as (executive) policy is concerned (not necessarily for the handling of individual cases). The minister also remains responsible for operational management.

Baseline estimates: multi-annual estimates of expenditures on the basis of current policy at the level of line item authorisations*.

Central ministry: Prime Minister's Office, Ministry of Finance and ministry where the most important tasks in the area of standard setting* for operational management* are located.

Central support unit: division* providing support services to all or some line divisions* of the ministry.

Civil service: all employees of central government whose labour conditions are ruled by public law.

Common process unit: government unit that carries out tasks that belong to the primary process of more than a single ministry of central government or more than a single government (for instance a ministry and a municipality).

Core ministry: the part of the ministry that is not organised in agencies*.

De-central support unit: unit of a core ministry or agency that provides support services to a single (sub-)division of a core ministry or agency.

Division of a ministry: unit of a core ministry led by an official who reports directly to the minister or deputy minister or to the highest non-political official of the ministry. National titles of officials leading ministerial divisions may be: director general, director, assistant secretary.

Economic (or "market") regulation: regulation of entry to or exit from a market, the prices at which goods and services can be sold or the quantities of goods that can be sold aimed at the promotion of competition. Economic regulation also includes regulation requiring the provision of access to infrastructure owned by other parties.

Executive policy: policy concerning policy execution.

Financial audit: assessment of reliability of financial reports. This includes the compliance of financial transactions or the registration of financial transactions with the applicable legislation (compliance audit) and the assessment of the financial control arrangements in place to safeguard the reliability of financial reports (operational audit).

Horizontal integration: process sharing among agencies* and merging of agencies*; sharing of support services* or merging of support service* units.

Independent agency: agency* for which the minister is not responsible, neither for executive policy* nor for the handling of individual cases (the minister remains responsible for policy and operational management*).

Internal audit: financial audit* or performance audit* carried out by a unit of a core ministry* or an arm's-length agency* to be reported to the minister, deputy minister or highest non-political official of the ministry or agency.

Line division: division* of a core ministry that has tasks in the areas of policy development, policy execution and administrative regulation or supervision.

Line item authorisation: authorisation of expenditures at the most detailed level of the classification used in the annual budget law.

Line minister: minister who is not responsible for standard setting for operational management (or acting in any other capacity).

Market structure: conditions of the market that determine its competitiveness or other features of perfection. A market can be imperfect because of small numbers of buyers or sellers (monopoly, oligopoly), information asymmetry, or external effects. Monopoly or oligopoly can be legal (legal entry barriers) or natural (decreasing marginal costs for instance in network services).

Multi-annual baseline estimates: estimates of the future expenditures in the two, three or four years following the budget year, on the basis of current policy of the most detailed expenditure group distinguished in the budget law.

Operational (or technical) efficiency: relative productivity of a production process compared to the optimal production process with the same output.

Operational expenditures: expenditures for compensation of employees, intermediate production and investment in accommodation for employees (in the sense of the national accounts).

Operational management: decision making on the use of operational means*. For instance: financial management, human resource management, procurement management.

Operational means: communication, human resources and organisation, internal audit, procurement, information and ICT, finance (budgeting, accounting and paying), accommodation, real estate and facilities (office equipment, reproduction, cars, catering, security, cleaning, internal post).

Out-year: each year of the multi-annual estimates after the (upcoming) budget year.

Performance audit: assessment of the effectiveness or efficiency of government activities, given the policies (targets and instruments) in place.

Permanent advisory council or committee: a committee established by law or governmental or ministerial decree for an indefinite term or a term longer than a few years, with the task of advising the government or the minister about policy development or execution.

Planning bureau: unit of the government that provides forecasts on economic, social, financial and environmental developments and scenario studies on impacts of government policies on those developments. A planning bureau may, in addition, provide other forms of policy analysis.

Policy evaluation: assessment of the effectiveness and efficiency of a policy (targets and instruments).

Private corporation: institutional unit belonging to the corporate sector of the economy (in the sense of the national accounts) which is not controlled by the government.

Programme expenditure: all public expenditure except operational expenditure* (transfers, grants, subsidies, social benefits, investment other than in accommodation for public employees, etc. in the sense of the national accounts).

Public corporation: institutional unit belonging to the corporate sector of the economy (in the sense of the national accounts) which is controlled by the government.

Regulatory capture: undue influence of regulated market parties or governmental organisations over regulatory authorities*.

Service delivery employment: all employment in the military, the police, the penitentiary institutions, units providing other collective services in kind (for instance construction of management of transport infrastructure: roads, tunnels, bridges, waterways, harbours, rail networks, airports, pipelines, etc., or ICT infrastructure), non-profit institutions classified inside general government in the national accounts, educational institutions, health providers and units providing other individual services in kind (cultural institutions, institutions providing social services, etc.).

Social (or "protective") regulation: regulation of the quality of goods and services that are sold on markets or that are provided by government outside markets (against "insignificant prices" in the sense of the national accounts). This includes, for example, regulation of environmental quality, food safety, labour conditions and regulation of health care quality, quality of education.

Standard setting: making rules on operational management*.

Senior civil service: top layer of the civil service*.

Shared service unit: government unit that provides support services* to more than a single ministry of central government or to more than a single government (for instance a ministry and a municipality).

Support services: services to support operational management*.

Supreme audit institution: independent high college of state mandated by the Constitution to audit the activities of the state (financial audits* and usually also performance audits*).

Vertical integration: a better use of executive and professional expertise in policy development.

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