Executive summary

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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