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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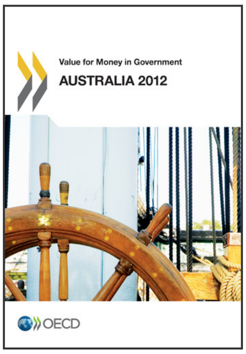

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