



National Programme for Turkey 2010 under the Instrument for
Pre-Accession Assistance

*This project is co-financed by the
European Union and the Republic of Turkey*

TR2010/0136.01-01/001- Technical Assistance for Improved Strategic Management Capacity

*Australia Country Report
Activity 2.3*

21.07.2014



Country Visit Synopsis

Country Visited	Australia
Purpose of the Visit	Component 2: Central capacity building Organise 3 five-day study visits (10 participants each) to OECD/EU member states and produce 3 country reports
Period	03-09/05/2014
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PERFORMANCE BUDGETING & STRATEGIC MANAGEMENT IN AUSTRALIA



393335/26/2014

Study Tour Report

A report by Senior Non-Key Expert Briony Grigg for Project
EuropeAID/131858/D/SER/TR: Technical Assistance for Improved Strategic
Management Capacity, Republic of Turkey

Table of Contents

1. COUNTRY OVERVIEW	4
Demographics.....	4
Geography and History.....	4
Key Economic Indicators	6
2. GOVERNMENT AND PUBLIC ADMINISTRATION.....	7
Constitutional Structure	7
The Executive.....	7
Legislature.....	8
Judiciary	9
State and Local Government	9
BOX 1: 1975 Australian Constitutional Crisis.....	10
Public Administration.....	11
Australian Public Service	11
APS Classification, Recruitment, Performance and Remuneration.....	12
Senior Executive Service.....	13
Role of the Australian Public Service Commission	14
Key Issues, Lessons Learnt, Trends	15
BOX 2: Service Delivery Reform - Centrelink	16
3. INTERGOVERNMENTAL RELATIONS	17
Three Tiers of Government.....	17
History.....	17
Federal Parliament.....	17
State and territory parliaments.....	18
Local Government (Councils).....	19
Structure of Government Revenues.....	21
Key Issues, Lessons Learnt, Trends	21
Changes in the Federal State Relationship.....	21
Cooperative Federalism.....	22
Evolving State and Local Government Relations	23
4. PERFORMANCE BUDGETING IN AUSTRALIA.....	24
History.....	24
Annual Budget Cycle.....	25
Key Bodies.....	27
Central Agencies.....	27
Senate Estimates Committee.....	27
Australian National Audit Office – Auditor General	28
Council of Australian Governments	29
Outcomes and Output Frameworks.....	30
Determining Performance Outcomes	30
Measurement and Assessment of Results.....	35

Key Issues, Lessons Learnt, Trends	35
BOX 3: 2013-14 National Commission of Audit	37
5. STRATEGIC MANAGEMENT IN NEW SOUTH WALES	38
General Background	38
Demography.....	38
Government	38
Constitution.....	38
Parliament.....	38
Local government.....	38
Budget Overview.....	39
Functions and Structure of the NSW Public Sector.....	42
Machinery of Government	42
Workforce.....	42
NSW 2021: A Plan to Make NSW Number One.....	43
Context	43
Overview.....	44
Implementation.....	48
Measuring Performance and Tracking Progress.....	48
Accountability Mechanisms.....	49
Improved Financial Management	49
Program objectives.....	50
Key reform areas	50
Key Issues, Lessons Learnt, Trends	51
6. CONCLUSION	53
Stages of Reform.....	53
Benchmarking Australia's Performance.....	53
Redesigning Federalism	55
APPENDIX A: COMMISSION OF AUDIT - RECOMMENDATIONS	57

Performance Budgeting & Strategic Management in Australia

STUDY TOUR REPORT

1. COUNTRY OVERVIEW

Demographics

The population of Australia was estimated to be 23,428,361 as of 25 March 2014¹. Australia is the 52nd most populous country in the world. Its population is expected to exceed 28 million by 2030.

Australia's total landmass is 7,617,930 square kilometres making it the world's smallest continent and sixth largest country by total area². Australia has scarcely more than two persons per square kilometre. With 89% of its population living in urban areas, Australia is one of the world's most urbanised countries.

The cultural and linguistic diversity of Australia's population has been reshaped over many years by migration. Historically, more people immigrate to, than emigrate from, Australia. At 30 June 2013, 27.7% of the estimated resident population was born overseas (6.4 million people). This was an increase from 30 June 2012, when 27.3% of the ERP was born overseas (6.2 million people). In 2003, ten years earlier, 23.6% of the resident population were born overseas (4.7 million people).³

At that time of British settlement of Australia, the indigenous population was estimated to have been between 315,000 and 750,000, divided into as many as 500 tribes speaking many different languages. In the 2011 Census, approximately 550,000 respondents declared they were Aboriginal, Torres Strait Islander, or both Aboriginal and Torres Strait Islanders.

The life expectancy of Australia in 2012 was 79.7 years for males and 84.3 for females, among the highest in the world.⁴

Geography and History

Australia is located in Oceania between the Indian and South Pacific Oceans. Although it is a large country, its topography is not particularly varied and most of it consists of low desert plateau. There are however fertile plains in the southeast.

¹ Australian Bureau of Statistics, Population Clock, <http://www.abs.gov.au/ausstats/abs%40.nsf/94713ad445ff1425ca25682000192af2/1647509ef7e25faaca2568a900154b63?OpenDocument>

² <http://en.wikipedia.org/wiki/Australia>

³ Australian Bureau of Statistics, <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/3412.0Chapter12011-12%20and%202012-13>

⁴ Australian Bureau of Statistics, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/3302.0>

Australia's climate is mostly arid to semiarid, but the south and east are temperate and the north is tropical. Although most of Australia is arid desert, it supports a wide range of diverse habitats, thus making it very bio-diverse.

Alpine forests, tropical rainforests and a wide variety of plants and animals thrive there because of its geographic isolation from the rest of the world. As such, 85% of its plants, 84% of its mammals and 45% of its birds are endemic to Australia. It also has the greatest number of reptile species in the world as well as some of the most venomous snakes and other dangerous creatures like the crocodile. Australia is most famous for its marsupial species, which include the kangaroo, koala and wombat.

Due to its isolation from the rest of the world, Australia was an uninhabited island until about 60,000 years ago. At that time, it is believed that people from Indonesia developed boats that were able to carry them across the Timor Sea, which was lower in sea level at the time.

Europeans did not discover Australia until 1770 when, Captain James Cook mapped the island's east coast and claimed it for Great Britain. On January 26, 1788, colonization of Australia began when Captain Arthur Phillip landed in Port Jackson, which later became Sydney. On February 7, he issued a proclamation which established the colony of New South Wales.

Most of the first settlers in Australia were convicts who were transported there from England. In 1868 the movement of prisoners to Australia ended and shortly before that, in 1851, gold was discovered in Australia which significantly increased its population and helped grow its economy.

Following the establishment of New South Wales in 1788, five more colonies were founded by the mid 1800's. They were Tasmania in 1825, Western Australia in 1829, South Australia in 1836, Victoria in 1851 and Queensland in 1859. In 1901, Australia became a nation but remained a member of the British Commonwealth. In 1911, Australia's Capital Territory (where Canberra is located today) was formally established and in 1927, the seat of government was transferred from Melbourne to Canberra.

Figure1: Map of Australia⁵



⁵ CIA World Fact Book <https://www.cia.gov/library/publications/the-world-factbook/geos/as.html>

Key Economic Indicators

The economy of Australia is one of the largest capitalist economies in the world with a GDP of US\$1.488 trillion⁶. Australia's total wealth is 6.4 trillion dollars. In 2013, it was the 12th largest national economy by nominal GDP and the 19th-largest measured by PPP-adjusted GDP.⁷ By 2012, Australia had experienced more than 20 years of continued economic growth, averaging 3.5% a year.

Rich in natural resources, Australia is a major exporter of agricultural products and commodities, particularly wheat and wool, minerals such as iron ore and gold, and energy in the forms of liquefied natural gas and coal. Although agriculture and natural resources constitute only 3% and 5% of GDP, respectively, they contribute substantially to export performance. Australia's largest export markets are Japan, China, South Korea, India and the US.

Demand for resources and energy from Asia and especially China has grown rapidly in recent years, creating a channel for resources investments and growth in commodity exports. The high Australian dollar has hurt the manufacturing sector, while the services sector is the largest part of the Australian economy, accounting for about 70% of GDP and 75% of jobs.

Australia was comparatively unaffected by the global financial crisis and the banking system remains robust. Inflation has typically been 2–3% and the base interest rate 5–6%⁸. Australia has benefited from a dramatic surge in its terms of trade in recent years, stemming from rising global commodity prices.

Australia is an open market with minimal restrictions on imports of goods and services. The process of opening up has increased productivity, stimulated growth, and made the economy more flexible and dynamic⁹. Australia plays an active role in the World Trade Organization, APEC, the G20, and other trade forums. Australia has bilateral free trade agreements (FTAs) with a range of pacific and Asian neighbours.

⁶ CIA *World Fact Book* <https://www.cia.gov/library/publications/the-world-factbook/geos/as.html>

⁷ *ibid*

⁸ Reserve Bank of Australia <http://www.rba.gov.au/statistics/>

⁹ CIA *World Fact Book* <https://www.cia.gov/library/publications/the-world-factbook/geos/as.html>

2. GOVERNMENT AND PUBLIC ADMINISTRATION

Constitutional Structure

The Commonwealth of Australia is a federal constitutional monarchy under a parliamentary democracy. It was formed in 1901 as a result of an agreement among the six self-governing British colonies, which became the six states. The terms of this agreement are embodied in the Australian Constitution, which was drawn up at a Constitutional Convention and ratified by the people of the colonies at referendums¹⁰.

The Government of the Commonwealth of Australia (also known as the Australian Government, Commonwealth Government or the Federal Government) is the federal democratic administrative authority of Australia. The structure of the Australian Government is characterised by two distinct concepts, namely federalism and the separation of powers into executive, legislative, and judicial branches of government.

The Australian federal system is a unique mixture of the Westminster and U.S. systems of federal representative democracy, with important elements of both present. Section 1 of the Australian Constitution creates a democratic legislature, the bicameral Parliament of Australia which consists of the Queen of Australia and two houses, the Senate and the House of Representatives. Section 51 of the Constitution provides for the Commonwealth Government's legislative powers and allocates certain powers and responsibilities (known as "heads of power") to the Commonwealth government.

All remaining responsibilities are retained by the six States (previously separate colonies). Further, each State has its own constitution, so that Australia has seven sovereign Parliaments, none of which can encroach on the functions of any other. The High Court of Australia arbitrates on any disputes which arise between the Commonwealth and the States, or among the States, concerning their respective functions.

In addition, Australia has several territories, three of which are self-governing: the Australian Capital Territory (ACT), the Northern Territory (NT) and Norfolk Island. The legislatures of these territories exercise powers delegated to them by the Commonwealth, and the Commonwealth Parliament retains the power to override territorial legislation and to transfer powers to or from the territories. While Australian citizens living in the Australian Capital Territory and the Northern Territory are represented in the Commonwealth Parliament, Norfolk Islanders are not represented federally.

The federal nature of the Commonwealth and the structure of the Parliament of Australia were the subject of protracted negotiations among the colonies during the drafting of the Constitution. The House of Representatives is elected on a basis which reflects the differing populations of the States. Thus New South Wales has 48 members while Tasmania has five. But the Senate is elected on a basis of equality among the States: all States elect 12 Senators, regardless of population. This was intended to allow the Senators of the smaller States to form a majority and amend or even reject bills originating in the House of Representatives. The ACT and the NT also elect two senators each.

The Executive

The role of head of state in Australia is divided between two people: the monarch of Australia and the Governor-General of Australia. The functions and roles of the Governor-General include appointing ambassadors, ministers and judges, giving Royal Assent to legislation, issuing writs for elections and bestowing

¹⁰ http://en.wikipedia.org/wiki/Government_of_Australia

honours¹¹. The Governor-General is President of the Federal Executive Council and Commander-in-Chief of the Australian Defence Force. These posts are held under the authority of the Australian Constitution. In practice, barring exceptional circumstances, the Governor-General exercises these powers only on the advice of the Prime-Minister. As such, the role of Governor-General is often described as a largely ceremonial position.

The Prime Minister of Australia is the highest government minister, leader of the Cabinet and head of government, holding office on commission from the Governor-General of Australia. The office of Prime Minister is, in practice, the most powerful political office in Australia. Despite being at the apex of executive government in the country, the office is not mentioned in the Constitution of Australia specifically and exists through an unwritten political convention. Barring exceptional circumstances, the prime minister is always the leader of the political party or coalition with majority support in the House of Representatives. The Cabinet of Australia is the council of senior ministers responsible to Parliament. The Cabinet is appointed by the Governor-General, on the advice of the Prime Minister and serves at the former's pleasure. The strictly private Cabinet meetings occur once a week to discuss vital issues and formulate policy. Outside of the cabinet there are a number of junior ministers, responsible for a specific policy area and reporting directly to any senior Cabinet minister. The Constitution of Australia does not recognise the Cabinet as a legal entity, and its decisions have no legal force. All members of the ministry are also members of the Executive Council, a body which is – in theory, though rarely in practice – chaired by the Governor-General.

Legislature

The Parliament of Australia, also known as the Commonwealth Parliament or Federal Parliament, is the legislative branch of the government of Australia. It is bicameral, and has been influenced both by the Westminster system and United States federalism.

Under Section 1 of the Constitution of Australia, Parliament consists of three components: the Monarch, the Senate, and the House of Representatives. The Australian Parliament is the world's sixth oldest continuous democracy.

The Australian House of Representatives has 150 members, each elected for a term of office not exceeding three years, to represent a single electoral division, commonly referred to as an electorate or seat. Voting within each electorate utilises the instant-runoff system of preferential voting, which has its origins in Australia. The party or coalition of parties which commands the confidence of a majority of members of the House of Representatives forms government.

The Australian Senate has 76 members. The six states return twelve senators each, and the two territories two senators each, elected through the single transferable voting system. Senators are elected for terms not exceeding six years, with half of the senators contesting at each federal election.

The Senate is afforded substantial powers by the Australian Constitution, significantly greater than those of Westminster upper houses such as those of the United Kingdom and Canada, and has the power to block legislation originating in the House as well as supply or monetary bills. As such, the Senate has the power to bring down the government, as occurred during the 1975 Australian constitutional crisis.

Because legislation must pass successfully through both houses to become law, it is possible for disagreements between the House of Representatives and the Senate to hold up the progress of government bills indefinitely.

¹¹ http://en.wikipedia.org/wiki/Government_of_Australia#Head_of_state

Such deadlocks are resolved under section 57 of the Constitution, under a procedure called a double dissolution election. Such elections are rare, not because the conditions for holding them are seldom met, but because they can pose a significant political risk to any government that chooses to call one.

Under the prevailing Westminster system, the leader of the political party or coalition of parties that holds the support of a majority of the members in the House of Representatives is invited to form a government and is named Prime Minister. The Opposition is represented by Leader of the Opposition, usually the leader of the largest party outside the government, and a Shadow Cabinet of Opposition members who "shadow" each member of the Ministry, asking questions on matters within the Minister's portfolio.

The Prime Minister and the Cabinet are responsible to the Parliament, of which they must, in most circumstances, be members. General elections are held at least once every three years. The Prime Minister has discretion to advise the Governor-General to call an election for the House of Representatives at any time, but Senate elections can only be held within certain periods prescribed in the Constitution.

The most recent general election was on 7 September 2013.

Judiciary

The High Court of Australia is the Supreme Court in the Australian court hierarchy and the final court of appeal in Australia. It has both original and appellate jurisdiction, has the power of judicial review over laws passed by the Parliament of Australia and the parliaments of the States, and interprets the Constitution of Australia.

The High Court is mandated by section 71 of the Constitution, which vests in it the judicial power of the Commonwealth of Australia. The High Court is composed of seven Justices: the Chief Justice of Australia, presently Robert French, and six other Justices.

The state supreme courts are also considered to be superior courts, those with unlimited jurisdiction to hear disputes and which are the pinnacle of the court hierarchy within their jurisdictions. They were created by means of the constitutions of their respective states or the Self Government Acts for the ACT and the Northern Territory. Appeals may be made from state supreme courts to the High Court of Australia.

State and Local Government

Australia's six states and two territories are structured within a political framework similar to that of the Commonwealth. Each state has its own Parliament and a Governor, who undertakes a role equivalent to that of the Governor-General at the federal level, and a Premier, who is the head of government and is equivalent to the Prime Minister. Each state also has its own supreme court, from which appeals can be made to the High Court of Australia.

Elections in the six Australian states and two territories are held at least once every four years, although Queensland holds them every three years. In New South Wales, Victoria, South Australia and the Australian Capital Territory, election dates are fixed by legislation. However, the other state premiers and the Chief Minister of the Northern Territory have the same discretion in calling elections as the Prime Minister at national level. Most direct service delivery functions, for example the delivery of health, education, law and order and community services, take place at the state or territory level.

Local government in Australia is the third (and lowest) tier of government. Local governments are established by state and territory governments to take responsibility for a number of community services. Local

government has a legislature and an executive but no judiciary. Their powers are defined by the state or territory government which established them. Local governments are also known as local councils. Unlike the United States, United Kingdom and New Zealand, there is only one level of local government in Australia.

BOX 1: 1975 Australian Constitutional Crisis

The 1975 Australian constitutional crisis (known colloquially as "the Dismissal") has been described as the greatest political and constitutional crisis in Australian history. It climaxed on 11 November 1975 with the removal of the Prime Minister, Gough Whitlam of the Australian Labor Party (ALP), by Governor-General Sir John Kerr, who then appointed the Leader of the Opposition, Malcolm Fraser, as caretaker Prime Minister.

Whitlam's Labor government had been elected in 1972 with a small majority in the House of Representatives, but with the Opposition controlling the Senate. While the Whitlam Government introduced many new policies and programs, it was also rocked by scandals and political miscalculations. In October 1975, the Opposition used its control of the Senate to defer passage of the Budget (or supply). The Opposition stated that they would continue to do so unless Whitlam called an election for the House of Representatives and urged Kerr to dismiss Whitlam unless he agreed to their demand.

On 11 November 1975, Whitlam intended to call a half-Senate election in an attempt to break the deadlock. When he went to seek Kerr's approval of the election, Kerr instead dismissed him as Prime Minister, and shortly thereafter installed Fraser in his place. Acting quickly before all ALP parliamentarians became aware of the change of government, Fraser and his allies were able to secure passage of the appropriation bills, and Kerr dissolved Parliament for a double dissolution election. Fraser and his government were returned with a massive majority.

The events of the Dismissal led to only minor constitutional change. The Senate retains its power to block supply, and the Governor-General the power to dismiss the Government. However, those powers have not been exercised again. Kerr was widely criticised by ALP supporters for his actions, resigned early as Governor-General, and lived much of his remaining life abroad. Though Whitlam and Fraser later reconciled, Kerr, who died in 1991, continues to be reviled in some quarters.

Public Administration

The Australian Government shares responsibility for the delivery of public services with the governments of the six states and two territories. To acquit its responsibilities, the Australian Government employs almost 300,000 people, representing 1.5% of the Australian workforce, in its agencies and departments, statutory authorities and government business entities.

Of this number, roughly 160,000 are employed in the agencies of the Australian Public Service (APS) under the Public Service Act 1999. They include the employees of Commonwealth government departments, the federal court system and some government agencies.

The precise number of APS agencies is reported variously as between 120 and 140. This number fluctuates when agencies merge or split, when public service functions expand or are outsourced, and in response to the inevitable changes of agencies' names and functions following a change of government. A current list of Departments and Agencies is available on the Australian Public Service Commission website¹².

Australian Public Service

The Australian Public Service (APS) is established under the Public Service Act 1999 (which was comprehensively reviewed during the 1990s)¹³. The Act:

- establishes an apolitical public service that is efficient and effective in serving the Government, the Parliament and the Australian public;
- provides a legal framework for the effective and fair employment, management and leadership of APS employees;
- defines the powers, functions and responsibilities of Agency Heads, the Public Service Commissioner and the Merit Protection Commissioner; and
- establishes the rights and obligations of APS employees.

With over 160,000 employees across numerous organisations spread across the continent of Australia, the APS is an extremely diverse workforce¹⁴. While around two thirds of employees are located outside the Australian Capital Territory, three quarters of the Senior Executive Service (SES) employees are based in Canberra. Over time, the APS workforce is becoming relatively older and more highly educated. Employment has also shifted upwards over time into higher level classifications. Representation of women in the APS is seeing strong upward growth, reaching 58% of the workforce in 2008. However, the proportion of employees with a disability has been steadily falling, reaching a low of 3.1% in 2008. Indigenous employment has also been falling, though at a slower rate—from 2.7% in 1999 to 2.1% in 2008. The proportion of employees from a non-English speaking background has been roughly steady at around 6% over the past decade.

The APS's role has evolved significantly over time, largely to keep pace with the expanded role of the Commonwealth Government—including greater responsibility for achieving social and economic development goals¹⁵. These changes have not been without controversy in the context of ongoing debate about the proper division of powers and responsibilities between the Commonwealth and the states and territories. However,

¹² <http://www.apsc.gov.au/publications-and-media/current-publications/australian-public-service-agencies>

¹³ <http://www.apsc.gov.au/aps-employment-policy-and-advice/legislationlegal-and-government-frameworks>

¹⁴ http://www.dpmmc.gov.au/publications/aga_reform/aga_reform_blueprint/docs/APS_reform_blueprint.pdf

¹⁵ *ibid*

the fundamental purpose of the APS has remained remarkably constant reflecting its strong roots in the Westminster system. Broadly speaking the role of the APS can be categorised into four categories of work¹⁶:

Figure 2: Core Functions of the APS



APS Classification, Recruitment, Performance and Remuneration

An eight-level classification system is used in the public sector, excluding the Senior Executive Service, which is described further below. Allocation of a classification to employees is the responsibility of each respective agency head. Each agency uses its own standards to determine the value of a group of duties, the responsibilities and the skills required to perform those duties. This determines the classification to be applied. The APS classification structure is designed to provide a flexible framework for a wide variety of APS jobs across a diverse range of agencies¹⁷. The structure is based on a single spine of classification levels. The approach facilitates mobility within the APS and supports the concept of a unified APS. It also provides a structure that enables the merit-based promotion of APS employees to a higher classification level. The approved classification levels are: APS Levels 1-6; Executive Levels (EL) 1-2, and Senior Executive Bands 1-3. There is also a small number of occupational-specific classifications (for example, Medical Officers) and a limited number of approved agency-specific classifications relating to work that is only performed in one specific agency.

Recruitment must follow the principles of transparency, merit and competitiveness. Most vacant positions are now advertised internally and externally. Historically, most vacancies were only advertised internally (within the public service), with outside recruitment focused mainly on “entry-level” positions. Mobility between the public and private sectors is increasing.

¹⁶ Centre for Policy Development, *The State of the Australian Public Service: An Alternative Report*, August 2011 pg 9 <http://cpd.org.au/2011/08/the-state-of-the-australian-public-service/>

¹⁷ Australian Public Service Commission, *APS Classification Guide* 2013 pg 4 <http://www.apsc.gov.au/publications-and-media/current-publications/aps-classification-guide>

The APS career structure is typically hierarchical and classification based, but public service wages were decentralised in 1997, allowing individual APS agencies to negotiate their own collective pay deals. There are no pay scales associated with APS classifications. Recent analysis of 103 government wage deals suggests salary differences across the Australian Public Service are undermining the APS job classification system¹⁸. For executive level 1 jobs, which are the most common in Canberra, entry-level pay ranges from \$89,796 (the Australian National Maritime Museum) to \$115,751 (the Australian Office of Financial Management) – a difference of \$25,955. The gap between maximum salaries is wider still, with EL1 officers earning up to \$47,658 a year more or less than other staff at the same level. However, even at junior levels, such as APS1, base pay can differ by as much as \$12,648 a year – about a third of these officers' entire salary. The wage data shows that some workers who accepted a promotion to another agency would experience a pay cut rather than a raise. Larger Departments such as the Treasury and the Education Department are generally high-paying employers, while the Resources Department and the Bureau of Statistics pay comparatively little. The current government is looking at how pay disparities can be addressed without undermining the independence of agencies.

Performance management systems are used across the public service. All increases to employees' salaries must be linked to performance. In some cases, performance management systems incorporate performance bonus arrangements. In rare cases, bonuses have been as high as 20% of an individual's total pay. However, it is more common for bonus payments to be equivalent to around 10% of total pay. Currently there is no maximum bonus set centrally. The use of a maximum bonus varies greatly between agencies. Some agencies apply it only to the most senior levels. Others apply it only to the successful completion of "flagship" projects. Bonuses must also be seen in the context of the ability to individualise pay through the personal agreements, especially at the more senior levels. All such arrangements are established at the agency level.

Senior Executive Service

The Senior Executive Service (SES) consists of three levels: deputy secretary/deputy head of agency, head of division, and head of branch¹⁹. The positions of secretary and head of agency are not SES positions. The secretary/head of agency decides on the number of positions classified as SES within his/her organisation, subject to budget constraints. A selection panel is appointed for each SES opening, and it includes a representative of the Australian Public Service Commission (APSC). The final selection decision is made by the secretary/head of agency who also sets the salaries for SES positions within his/her organisation. The role of the APSC representative on the selection panel is to certify that all appropriate procedures have been followed for the appointment and that the process has been merit based. The Commissioner must endorse the certification of the process by the APSC representative before the final selection can be effected.

The SES is regarded as a cross-service leadership cadre, even though their employment is agency based. The APSC is interested in the development of the SES cadre and encourages mobility of SES members between departments and agencies. In this context, the positions of secretary/head of agency are generally filled from the ranks of the SES, although a number of secretaries are also selected from outside.

The SES was established by the Government in 1984 to create new arrangements for senior management, with the dual purpose of ensuring a fully productive relationship with government and enabling senior managers to realise their full potential. The landscape has changed significantly since the creation of the SES

¹⁸ Sydney Morning Herald, *Public Service Pay Gap to Hit \$47,000 Per Year*, 2013 <http://www.smh.com.au/national/public-service/public-service-pay-gap-to-hit-47000-a-year-20130731-2qyd6.html>

¹⁹ Australian Public Service Commission, *Senior Executive Service* <http://www.apsc.gov.au/publications-and-media/current-publications/the-senior-executive-service-selection,-mobility-and-separation>

in 1984. With more than 20 years of reformist governments the APS has undergone a major rethinking of its role and the way it carries out the task of public service. The recent growth in the SES and the growth within the SES in the number of the most senior staff has prompted questions about whether controls on SES numbers and classification levels would help constrain costs and maintain equity at little damage to the public good.

A recent review of the SES undertaken by Price Waterhouse Coopers on behalf of the APSC found that while the size of the SES had remained relatively steady from its inception in 1984 to 2003, it has been growing since 2004²⁰. The rapid growth of the SES since 2004 was found to have occurred during a period in which real spending increased strongly, and the Australian Government has faced a range of challenges – in national security, on its borders, in the economy and in the environment.

The Australian Government has also taken an increasingly direct role in delivering services to citizens over this period. There is evidence of a relationship between the strong growth in the SES over the last decade and the number of programs administered by the APS, as well as growth in regulation, the number of cabinet meetings, the scope and complexity of international meetings including the development of the G20 and the COAG reform agenda.

New policy, new legislation and new programs require higher levels of oversight by senior staff. Other contributing factors for which evidence exists – albeit much of it anecdotal – are the growth in complexity and political risk associated with the administration of programs, significantly greater demands for interaction with and responsiveness to stakeholders, including Ministers and their offices and the impact of advances in ICT and the emerging 24/7 media cycle on expected response times for the provision of advice.

Role of the Australian Public Service Commission

The Australian Public Service Commission (APSC) is a central agency within the Prime Minister and Cabinet portfolio²¹. The Commission supports two statutory office holders: the Public Service Commissioner—who is also agency head—and the Merit Protection Commissioner. The APSC's vision is to lead and shape a unified, high-performing Australian Public Service. Its statutory responsibilities are detailed in the PS Act and include:

- evaluating the extent to which agencies incorporate and uphold the APS Values
- evaluating the adequacy of systems and procedures in agencies for ensuring compliance with the APS Code of Conduct
- promoting the APS Values and Code of Conduct
- developing, promoting, reviewing and evaluating APS employment policies and practices
- facilitating continuous improvement in people management throughout the APS
- coordinating and supporting APS-wide training and career development
- contributing to and fostering leadership in the APS
- providing advice and assistance on public service matters to agencies on request
- providing independent external review of actions by the Merit Protection Commissioner.

²⁰ Australian Public Service Commission *Review of the Senior Executive Services, Report to the Special Minister of State for the Public Service and Integrity*, Price Waterhouse Coopers February 2011 pg 3-15

²¹ Australian Public Service Commission, *About Us*, <http://www.apsc.gov.au/about-the-apsc/the-commission>

Key Issues, Lessons Learnt, Trends

Major reforms to the structure of the Australian federal government were implemented in 1987 when the number of ministries (departments) was reduced by nearly half, from 27 to 17²². The Prime Minister who introduced the reforms reflected on them as follows:

The purpose of the reforms was to achieve better policy co-ordination, administrative efficiencies and improved budget processes. The changes sought to enhance ministerial control of departments... Each of the sixteen Cabinet ministers was responsible for one of the larger portfolios... The changes made for an improved Cabinet process since all portfolios were now within the Cabinet. The reforms also permitted a greater focus on the main priorities of government, freeing Cabinet ministers from some areas of routine administration... The objective was to reconcile some issues internally rather than at the Cabinet table. Cabinet agendas were getting out of hand (Bob Hawke, 1994).

Since then, the numbers of ministries and their respective functions has remained relatively stable. Currently, there are 18 ministries in Australia²³.

The organisation of government is the prerogative of the Prime Minister but usually subject to advice from the Secretary of the Department of the Prime Minister and Cabinet and senior ministerial colleagues. Changes to machinery of government are set out in an “Administrative Arrangements Order” which is formally issued by the Governor-General. When major changes occur, they typically take place at the start of a new three-year term of government.

In recent years, there have been a number of distinct trends impacting the organisation of government and delivery of public services in Australia. These are highlighted in the 2010 APS reform blueprint *Ahead of the Game*²⁴ and include:

- **Greater Engagement and Empowerment of Citizens:** The Australian government and public service is keen to make it easier for citizens to access public services. There has been a noticeable shift in Australia from simply administering services to regularly engaging and empowering citizens, involving them in the design and in some cases delivery of services. This shift is not just about increasing citizen satisfaction with services but also about delivering services more efficiently²⁵. Services are actively being designed to be better integrated and more appropriate to citizens' life experiences and needs. It is recognised that citizens are increasingly mobile and businesses operate across both domestic and international borders. Opportunities for new and aligned technological solutions are also being pursued, while better models for partnering with the community and private sectors are being developed.
- **More Open Government:** An important component of open government is enabling citizens to collaborate on policy and service design. Many Australian government Departments conduct citizen surveys to collect feedback on citizen's satisfaction with government service delivery. Advances in information technology are enabling a stronger relationship between citizens and government and

²² Organization for Economic Cooperation and Development (OECD) , *Budgeting in Australia*, Jon R Blondal, Daniel Bergvall, In Hawkesworth and Rex Deighton-Smith 2007: 41 <http://www.oecd.org/australia/42007191.pdf>

²³ Australian Public Service Commission <http://www.apsc.gov.au/publications-and-media/current-publications/australian-public-service-agencies>

²⁴ Department of Premier and Cabinet, *Ahead of the Game: Blueprint for the Reform of Australian Government Administration*, March 2010

http://www.dpmc.gov.au/publications/aga_reform/aga_reform_blueprint/docs/cover_exec_summary.pdf

²⁵ <http://www.humanservices.gov.au/spw/corporate/about-us/resources/service-delivery-reform-overview.pdf>

there are experiments with making public sector data be more widely available, subject to privacy and secrecy laws.

- *Enhancing Policy Capability and Developing a Robust Evidence Base:* Rigorous research, analysis and data are recognized as essential for high quality strategic policy advice. Many Government Departments are attempting to build these capabilities in staff and at the same time create better partnerships with academic and research institutions.
- *Reform of Human Resource Management:* The heads of each federal agency have been given increasing responsibility for the recruitment, classification of positions, wage-setting and dismissal of employees. It should be emphasized that this devolution is explicitly set forth in legislation; it is not an administrative delegation of power from a central agency.
- *Improving Agency Efficiency:* Efficiency dividends are now routinely imposed on Departments by Treasury to control spending and drive productivity and efficiency. The newly elected federal Government under Prime Minister Tony Abbot has committed to reducing the size of the APS by 12,000 staff by natural attrition²⁶. In recent weeks, there has also been discussion of changes to public service working conditions to drive productivity²⁷.

BOX 2: Service Delivery Reform - Centrelink

Centrelink is a statutory agency that delivers a wide range of welfare payments and transfers (including old-age pensions, disability pensions, unemployment benefits, child care subsidies, student grants and loans). Centrelink is unique in that its activities traverse a number of ministries and because it not only handles the actual payment, but is a one-stop shop that assesses eligibility for benefits as well, based on guidelines determined by the responsible ministries.

It distributes approximately AUD 66.3 billion annually to 6.5 million clients, or approximately one-third of the Australian population. It administers over 140 different products and services for 11 departments in more than 1 000 service delivery points ranging from large customer service centres to small visiting services. It employs 25 000 staff. Formally it reports to the Minister for Human Services, but it delivers benefits and services for ten other departments.

Centrelink was created in 1997 by merging the service delivery functions of several agencies operating across the human services spectrum. As part of this process, savings on the running (operating) costs of 10% over three years were realised. Centrelink's running (operating) budget is principally a function of fee-for-services payments it receives from each of the 11 ministries for which it provides services. If any ministry wishes Centrelink to take on new tasks, a marginal cost calculation is done on the basis of a detailed workload measurement system. This forms the basis for cost negotiations with the purchaser ministry. The "one-stop shop" has been judged to have improved service delivery markedly. In fact, Centrelink surveys 65 000 of its customers twice a year to measure user satisfaction. Customer feedback notwithstanding, there has been some criticism regarding the complexity of providing services on behalf of so many "masters" and regarding the ministries' ultimate threat of "pulling rank" and ordering a specific service at a specific price that may not fully take into account the complexity and time required to deliver a new service. This also calls into question Centrelink's fee-for-services model rather than being directly funded through the budget.

²⁶ Sydney Morning Herald, *We'll Cut Public Service Jobs Much Better Says Abbot*, May 8, 2013

<http://www.smh.com.au/national/public-service/well-cut-public-service-jobs-much-better-says-abbott-20130508-2j77j.html>

²⁷ The Age, *More Hours For Public Servants* April 17 2011 <http://www.theage.com.au/federal-politics/political-news/more-hours-for-public-servants-20140418-36whg.html>

3. INTERGOVERNMENTAL RELATIONS

Three Tiers of Government

Australia has three levels of law-making—or three levels of government—that work together to provide Australians with the services they need. The three levels are:

- federal Parliament—legislates, or makes laws, for the whole of Australia
- six state and two mainland territory parliaments—make laws for their state or territory
- over 560 local councils—make local laws, called by-laws, for their region or district.

Each level of government has its own responsibilities, although in some cases these responsibilities overlap. Australians aged 18 years and over vote to elect representatives to federal, state/territory parliaments and to local councils to make decisions on their behalf. This means Australians have someone to represent them at each level of government.

History

The three level system of Australian Government was an outcome of federation in 1901, when the six British colonies—New South Wales, Western Australia, Queensland, Victoria, South Australia and Tasmania—united to form the Commonwealth of Australia. Up until the 1850s each colony was run by a non-elected governor appointed by the British Parliament.

By 1860 all the colonies, apart from Western Australia, had been granted partial self-government by Britain (Western Australia became self-governing in 1890). Each had its own written constitution, parliament and laws, although the British Parliament retained the power to make laws for the colonies and could over-rule laws passed by the colonial parliaments. By the end of the 19th century, many colonists felt a national government was needed to deal with issues such as defence, immigration and trade.

For federation to happen, it was necessary to find a way to unite the colonies as a nation with a central or national government, while allowing the colonial parliaments to maintain their authority. The Australian Constitution, which sets out the legal framework by which Australia is governed, resolved this issue by giving Australia a federal system of government. This means power is shared between the federal government and state governments.

Under the Constitution the states kept their own parliaments and most of their existing powers but the federal Parliament was given responsibility for areas that affected the whole nation. State parliaments in turn gave councils the task of looking after the particular needs of their local communities.

Federal Parliament

The Constitution established a Commonwealth, or federal Parliament, which is bicameral. Sections 51 and 52 of the Constitution describe the law-making powers of the federal Parliament. For example section 51 lists 40 areas over which the federal Parliament has legislative (law-making) power. These include:

- trade and commerce
- postal and telecommunications services
- foreign policy taxation census and statistics
- weights and measures
- bankruptcy and insolvency

- quarantine lighthouses, lightships, beacons and buoys
- fisheries
- currency
- copyright
- marriage
- immigration
- defence

Under section 51 of the Constitution, state parliaments can refer matters to the federal Parliament. That is, they can ask the federal Parliament to make laws about an issue that is otherwise a state responsibility. Any federal law then made about the issue only applies in the state or states who referred the matter to federal Parliament or who decide to adopt the law.

Section 52 of the Constitution stops state parliaments from making laws in some areas, including defence and communication. This means the federal Parliament has exclusive power to make laws in these areas. States are also barred from charging customs duties, which guarantees free trade within Australia. The creation of a single Australian market was a key reason for federation—before 1901 each colony taxed goods imported from the other colonies, which made trade difficult and was considered bad for their economies.

State and territory parliaments

Australia has six state parliaments. It also has two territory parliaments known as Legislative Assemblies. These parliaments are located in Australia's eight capital cities:

- Northern Territory – Darwin
- Queensland – Brisbane
- New South Wales – Sydney
- Australian Capital Territory – Canberra
- Victoria – Melbourne
- Tasmania – Hobart
- South Australia – Adelaide
- Western Australia – Perth

Each state, apart from Queensland, has a parliament that consists of two houses. In 1922 Queensland Parliament agreed to abolish its upper house, the Legislative Council, which was made up of non-elected members appointed by the Queensland governor. Queensland Parliament kept the Legislative Assembly, making it unicameral (single-house).

The Northern Territory and the Australian Capital Territory parliaments are also unicameral – both have one house called the Legislative Assembly. The Australian Capital Territory is unique in Australia because its parliament combines the functions of local and state government.

Section 122 of the Constitution gave federal Parliament the power to make laws for the territories. Until they were granted self-government, the Northern Territory and Australian Capital Territory were administered or managed by the federal government. Federal Parliament gave the territories self-government by passing the Northern Territory (Self-Government) Act 1978 and the Australian Capital Territory (Self-Government) Act 1988.

State and territory parliaments make laws that are enforced within their state or territory. By defining federal powers, the Australian Constitution reserved or left most other law-making powers to the states. As a rule, if it is not listed in sections 51 and 52 of the Constitution, it is an area of state responsibility. State laws relate to matters that are primarily of state interest such as:

- schools
- hospitals
- roads and railways
- public transport
- utilities such as electricity and water supply
- mining and agriculture
- forests
- community services
- consumer affairs
- police
- prisons
- ambulance services

On some matters the federal Parliament and the state parliaments may make laws about the same things, for example, roads and health. However, section 109 of the Australian Constitution states that if the federal Parliament and a state parliament pass conflicting laws on the same subject, then the federal law overrides the state law, or the part of the state law that is inconsistent with it.

Section 122 of the Constitution allows the Parliament to override a territory law at any time. The federal Parliament has only used its power under section 122 on a few occasions and only in cases where the territory law has created much debate or controversy within the Australian community.

Up until 2011 the self-government Acts covering the Northern Territory and the Australian Capital Territory gave federal ministers the right to veto or change territory laws without referring the matter to federal Parliament. This veto power was used by Prime Minister John Howard in 2006 to disallow the Australian Capital Territory's civil union laws. Federal Parliament has now amended the self-government Acts to remove this veto power.

Local Government (Councils)

From the 1840s colonial parliaments began to hand over responsibility for local issues to local councils. The first council was established in Adelaide in 1840, followed in 1842 by the City of Sydney and Town of Melbourne councils. From the 1850s onwards, the number of elected councils grew rapidly.

Today, local authorities include city councils in metropolitan and regional urban centres, and shire councils which serve rural areas. On average each council looks after about 28 400 people; however, the size varies greatly. For example, Brisbane City Council is responsible for a population of nearly one million, while Jerilderie Shire in New South Wales has a population of less than 2000 people.

Today, there are around 560 local government bodies in Australia accountable to a diverse range of metropolitan, regional, rural, and Indigenous communities. Of these, 539 are regional/rural.

Councils consist of two groups who serve the needs of local communities:

- elected members, who normally have four year terms
- staff who work for the council.

There are about 6,600 elected councillors in Australia with an average of just under 10 councillors per council. The chair or head of the council is usually called the mayor or president.

Local councils are not mentioned in the Australian Constitution, although each state has a local government Act (law) that provides the rules for the creation and operation of councils. While these Acts vary from state to state, in general they cover how councils are elected and their power to make and enforce local laws, known as by-laws. A by-law is a form of delegated legislation because the state government gives, or delegates, to councils the authority to make laws on specific matters. As councils derive their powers from state parliaments, council by-laws may be overruled by state laws. As constitutional responsibility for local government lies with the state and territory governments, the roles and responsibilities of local government differ from state to state but generally include:

- infrastructure and property services, including local roads, bridges, footpaths, drainage, waste collection and management
- provision of recreation facilities, such as parks, sports fields and stadiums, golf courses, swimming pools, sport centres, halls, camping grounds and caravan parks
- health services such as water and food inspection, immunisation services, toilet facilities, noise control and meat inspection and animal control
- community services, such as child care, aged care and accommodation, community care and welfare services
- building services, including inspections, licensing, certification and enforcement
- planning and development approval
- administration of facilities, such as airports and aerodromes, ports and marinas, cemeteries, parking facilities and street parking;
- cultural facilities and services, such as libraries, art galleries and museums
- water and sewerage services in some states
- other services, such as abattoirs, sale-yards and group purchasing schemes

Local councils spend more than \$20 billion each year providing a broad range of infrastructure, economic and community services to residents. In total, councils employ around 178,000 people (almost 10% of the total public sector).

Local government revenue comes from three main sources - taxation (rates), user charges and grants from Federal and state/territory governments. A fourth source, categorised as 'miscellaneous' by the ABS, consists of revenue raised through the likes of investment interest, dividend interest, income from public enterprise and fines.

Rates account for about 38 percent of total revenue but just 3 percent of tax raised by all levels of government. Rates are the only tax levied by local government, of 260 taxes in Australia. Another one third of total local government revenue comes from user charges. Overall, grants and subsidies from the Australian and state/territory governments account for around 17 percent of total revenue. For some rural and remote councils where own-source revenue raising capacity is limited, grants can account for more than 50% of council revenue.

Structure of Government Revenues

Taxation in Australia is levied at the federal, state, and local government levels. The federal government raises revenue from personal income taxes and business taxes. Other taxes include the goods and services tax (General Service Tax), excise and customs duties. The federal government is the main source of income for state governments.

Besides receipts of funds from the federal government, states and territories have their own taxes, in many cases at slightly different rates. State taxes commonly include payroll tax levied on businesses, a poker-machine tax on businesses that offer gambling services, land tax on people and businesses that own land and most significantly, stamp duty on sales of land (in every state) and other items (chattels in some states, unlisted shares in others, and even sales of contracts in some states).

The states effectively lost the ability to raise income tax during the Second World War. In 1942, Canberra invoked its Constitutional taxation power (s. 51 (ii)) and enacted the Income Tax Act and three other statutes to levy a uniform income tax across the country. These acts sought to raise the funds necessary to meet burgeoning wartime expenses and reduce the unequal tax burden between the states by replacing state income taxes with a centralised tax system. The legislation could not expressly prohibit state income taxes (s. 51(ii) does not curtail the power of states to levy taxes) but the federal government's proposal made localised income tax extremely difficult politically. The imposition of a Commonwealth goods and services tax (GST) in 2000 transferred another revenue base to the Commonwealth.

Consequently, Australia has one of the most pronounced vertical fiscal imbalances in the world: the states and territories collect just 18% of all governmental revenues but are responsible for almost 50% of the spending areas. Furthermore, the centralisation of revenue collection has allowed Canberra to influence state policy in areas well beyond the scope of its constitutional powers, by using the grants power (s.96) to mandate the terms on which the states spend money in areas over which the it has no power (such as spending on education, health and policing).

Local governments as mentioned above, rely on a combination of their own taxes (rates) and state and federal funding to provide services and local infrastructure.

Key Issues, Lessons Learnt, Trends

Changes in the Federal State Relationship

Since Federation some rulings made by the High Court have strengthened the law-making powers of the federal Parliament. Established under section 71 of the Australian Constitution, the High Court can resolve disagreements between the federal and state governments over their law-making powers. If a law is contested, it is up to the High Court to determine whether the Constitution gives the relevant parliament the power to make this law. A law judged by the High Court to be unconstitutional is then invalid.

The states' reliance on federal government funding to pay for activities such as schools and hospitals has also shifted the federal-state balance. Federal funding grants make up about half of the states' total revenue. Under section 96 of the Constitution, the federal Parliament can 'grant financial assistance to any State on such terms and conditions as it thinks fit'. This allows the federal government to give 'tied' grants to state governments, directing the state government on how to spend the money. The federal government can then influence the way things are done in areas such as education, health, housing and urban development, which are primarily state responsibilities.

The law-making powers of the federal Parliament have also grown to deal with the huge social and technological advances that have occurred since federation. As Australian society has changed so too have the issues facing federal Parliament. For instance, the drafters of the Constitution could not have foreseen the digital revolution or how central this would become to our society, impacting the way we live, work and communicate. In 1901 there were only 33 000 telephones in Australia and no radio, television, computers or the internet. Today the federal Parliament makes laws about all of these services. It is able to do this under section 51 (v) of the Constitution, which gives Parliament responsibility for 'postal, telegraphic, telephonic and other like services'.

Cooperative Federalism

As law and its administration become more complicated, members of the federal, state and local executives are required to work together in order to solve problems. In 1992 the federal government established the Council of Australian Governments (COAG), which includes the Prime Minister, state premiers, chief ministers and the president of the Australian Local Government Association, who meet twice a year to discuss intergovernmental matters. In 2008 the federal government set up the Australian Council for Local Government, so it could work directly with local government as well.

Ministers from the various levels of government also work together on matters of common concern. For example, the Australian Health Ministers' Advisory Council meets regularly to negotiate a coordinated national approach to health policy.

As a result of intergovernmental discussions, uniform national laws have been made to tackle issues such as road transport, food standards and consumer rights. By introducing uniform national laws, the three levels of government can operate together with a greater level of efficiency – an evolution of the Australian system of government that is likely to continue into the future.

Before World War II both federal and state governments collected income tax. In 1942, in order to run the war effort, the federal government became the sole collector of income tax. It did this by passing laws which raised the federal tax rate and gave some of the proceeds back to the states on the condition they drop their income tax. States receive this money in the form of funding grants. Technically a state could still collect its own income tax but this would mean its people would be taxed twice and the state would forfeit its funding grants.

Four states—Western Australia, Victoria, South Australia and Queensland—challenged the legislation. The High Court ruled it was valid on the grounds that section 51 (ii) of the Constitution gives the federal Parliament power to make laws relating to taxation, even though in practice the legislation removed a state power. It also ruled that under section 96 of the Constitution, the federal government could attach conditions to funding grants, and therefore it was legal to only give compensation to states that stopped collecting income tax.

Intended as a wartime measure, the arrangement has remained in place ever since. As a result the states are now more dependent on the federal government for revenue.

The 2014 Commission of Audit has recommended that the current duplication between the Commonwealth and the states (especially in health, education and housing) be addressed and, controversially, that the states be returned the capacity to raise income tax – for further details see Appendix A below.

Evolving State and Local Government Relations

In the 1990's most Australian States moved from prescriptive legislation to enabling Acts that allowed local governments to determine in consultation with the local community what activities it could undertake.

While State and Federal governments have continued to manage most of the larger infrastructure and community services programs from a central framework, local government has continued to focus on the three r's: rates, roads, and rubbish²⁸.

Nevertheless, the overall system of government in Australia has evolved with a growing recognition that in some cases it is better to deliver services through local governments given their proximity to and relationship with their constituents.

This has allowed many in the Federal and State tiers to more effectively concentrate on policy development and the administration of national or State programs (Balmer, 1981 and for local government to focus on becoming a service delivery arm of the other two tiers of government (Chapman, 1997). At the same time all three tiers of government are increasingly becoming involved in joint actions in response to greater community expectations concerning the delivery of services.

²⁸ Managing the Relationship between State and Local Government – The Victorian Experience, Leonie Newnham and Professor John Parker, <http://www.fig.net/pub/proceedings/prague-final-papers/Papers-acrobats/newnham-parker-spall-fin.pdf>

4. PERFORMANCE BUDGETING IN AUSTRALIA

History

The budget process in Australia has been in a state of transformation and improvement since 1984 following the release of a seminal White Paper entitled *Budget Reform*. Early reforms focused on reducing central input controls and granting more latitude for spending ministries and agencies. Line items were systematically merged under running costs arrangements and centralised manpower controls were removed, so that the budget was the only constraints on staffing levels.²⁹

More recently, Australia's current arrangements for budgeting derive from recommendations coming out of the National Commission of Audit 1996, an independent review commissioned by the then incoming Government³⁰. The review considered aspects of the management and financial activities of the Australian government and how they were recorded. The commission's main recommendations were that:

- government management skills and government finances operate on a more business-like footing;
- the transparency of government finances be further improved;
- the culture and operations of the Australian public service reflect a more businesslike approach.

Between 1996 and 1999, legislative and administrative changes were introduced that reflected the principles espoused by the National Commission of Audit:

- The Audit Act 1901 was replaced in 1997 by new financial legislation for government departments, agencies, authorities and companies. Legislation comprised the Financial Management and Accountability Act 1997 (FMA Act) and the Commonwealth Authorities and Companies Act 1997 (CAC Act), as well as the Auditor-General Act 1997.
- Financial management moved to a principles-based framework, with clear lines of accountability.
- The Charter of Budget Honesty Act 1998 (the Charter) was introduced in response to a specific recommendation of the National Commission of Audit 1996. The Charter provides a framework for more transparent fiscal policy including the requirement that the government discloses their fiscal strategy and to base that strategy on principles of sound fiscal management.

Other key reforms were implemented in 1999/2000 in addition to the legislative changes. These included:

- the move to accrual budgeting (including accrual appropriations);
- an outcomes and outputs resource management and performance framework; and
- increased flexibility and responsibility for agency chief executives (also reflected in the Public Service Act 1999).

The financial management and public administration legislation that replaced the Audit Act 1901 saw detailed legislation, mandatory requirements and directives relating to authority and action on public funds. replaced by more general framework that gives chief executives the authority to set their own internal

²⁹ Organization for Economic Cooperation and Development (OECD) , *Budgeting in Australia*, Jon R Blondal, Daniel Bergvall, In Hawkesworth and Rex Deighton-Smith 2007: 7 <http://www.oecd.org/australia/42007191.pdf>

³⁰ Organization for Economic Cooperation and Development (OECD) , *Performance Budgeting in Australia*, Lewis Hawke 2007: 2 <http://www.oecd.org/australia/43411866.pdf>

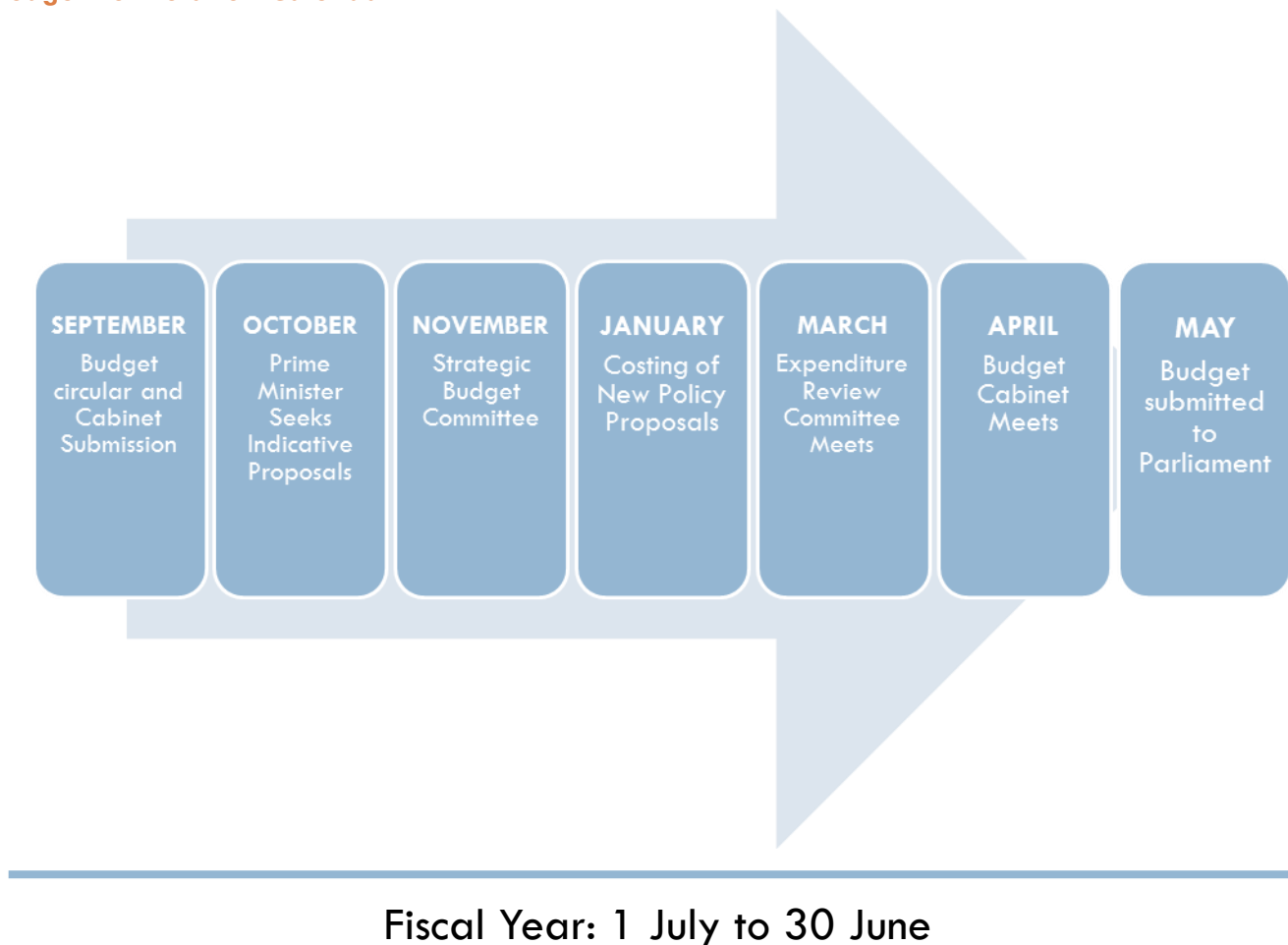
operating procedures and delegations, subject to general principles of efficient, effective and ethical use of resources.

The new arrangements also established performance agreements between chief executives and their ministers. The agreements generally cover the key goals and objectives for the CEO and their agencies.

Annual Budget Cycle

Australia's fiscal year starts on 1 July. The budget formulation cycle begins the previous September, or ten months prior to the start of the fiscal year as depicted in Figure 3. The key steps and bodies responsible for them are described in more detail below.

Figure 3: Budget Formulation Calendar



September - Budget Circular

The first step in the cycle comes with the Treasurer and the Minister for Finance providing a submission to the Cabinet on the process and timetable for the forthcoming budget. Following the Cabinet's consideration of the submission, the Department of Finance issues a budget circular detailing the timetable and operational rules for the forthcoming budget formulation process.

October - Ministers Provide Proposals to PM

In October, the Prime Minister traditionally writes to portfolio ministers asking them to outline their proposals for new initiatives. No indicative quantum is set for new policy priorities in these letters, and no indication of overall policy priorities. Around this time, various stakeholders, lobbyists and community organisations send budget submissions to their respective portfolio minister trying to promote their areas. This is particularly common in the social welfare field. Ministers deliver their budget proposals by late October in letters to the Prime Minister. A separate process applies to spending proposals below a certain threshold which go through the so-called “minors process”. The threshold has recently been increased from AUD 5 million to AUD 10 million in one year³¹.

November - Strategic Budget Committee

Budget proposals are reviewed by officials from the three central agencies, namely the Department of the Prime Minister and Cabinet (PM&C), the Treasury, and the Department of Finance – referred to as the “trilateral review” – before being vetted by Strategic Budget Committee (SBC). The SBC consists of the Prime Minister, the Deputy Prime Minister, the Treasurer and the Minister for Finance. Each of the three central agencies offers its views on whether an individual submission should be approved for further development and the consideration of the ERC or rejected and not further developed. Approximately half of all new policy proposals are dropped at this stage.

Expenditure Review Committee

In March, the ERC meets to decide on new proposals. There will typically be about ten meetings over the four-week period. The Treasury and the Department of Finance prepare an updated economic and fiscal outlook (based on existing policies) to guide the ERC. Each minister makes the case for his/her particular proposals. The minister is assisted by relevant officials and private office advisers. Following their questioning, the ERC forms a view regarding whether the proposal should be supported, rejected, varied, or sent away for further work. The ERC generally makes a case-by-case decision at each meeting. The Department of Finance act as a secretariat for ERC and provide briefings advising on the merits of the various proposals.

The “Budget Cabinet”

The decisions by the ERC are discussed by the full Cabinet in April, known as the “Budget Cabinet”. At this time, the complete set of ERC decisions is considered. Decisions can be appealed in the Budget Cabinet, but this is rare.

Budget Submitted to Parliament

The budget is usually introduced on the second Tuesday in May. Then the Parliament has less than two months to scrutinise and approve the budget before the start of the fiscal year on 1 July.

The budget is introduced by the Treasurer on “Budget Night”. The Treasurer’s speech showcases significant points in the budget and provides commentary on the government’s overall policy priorities. The speech is the highlight of the annual parliamentary calendar and receives prime time media coverage. The leader of the Opposition offers the formal response in a speech typically taking place two days later. Discussion of the budget is then adjourned for one week.

³¹ Organization for Economic Cooperation and Development (OECD), *Budgeting in Australia*, Jon R Blondal, Daniel Bergvall, In Hawkesworth and Rex Deighton-Smith 2007: 26 <http://www.oecd.org/australia/42007191.pdf>

There is no institutional mechanism in place in the Parliament to separately consider the government's Fiscal Strategy Statement prior to the discussion of the budget. That statement is presented to the Parliament at the same time as the budget. General budget debate then commences in plenary session in the House, generally lasting one week. This debate is for the most part an overall political and economic debate rather than a debate on specific measures in the budget.

Key Bodies

In addition to Government Cabinet Committees mentioned above, the following bodies play an important role in allocating, managing and monitoring public finances.

Central Agencies

The three central agencies are the Department of Finance and Deregulation, the Department of the Treasury (the Treasury), and the Department of the Prime Minister and Cabinet. The Treasury and the Department of Finance were the same ministry until being separated in 1976³². The Department of Finance is focused 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. It co-ordinates the preparation of the expenditure side of the budget and oversees the budget accounting and the financial framework. It analyses the government's expenditures and has traditionally provided options for reallocation or reductions in outlays. It provides input for the deliberations of the Expenditure Review Committee (ERC) of Cabinet.

The Treasury is focused on economic and taxation issues. However, it is also involved with the expenditure side as well. The Budget Policy Group of the Treasury is organised to shadow each line ministry, just as a budget office would typically do. It provides a "strategic structural focus" whereby it looks at those aspects of the government's expenditure that contribute to, or detract from, necessary structural adjustment to enhance economic performance. It has been described as a "think tank" in relation to government expenditures. The Treasury is also directly responsible for fiscal relations with the states and territories. Intergovernmental fiscal relations are a major – and sensitive – issue in Australia

The Department of the Prime Minister and Cabinet (PM&C) supports the Prime Minister as head of government and assists in managing the extensive Cabinet processes that underpin government decisions in this area. As part of the secretariat for the SBC and the ERC, it has a key role in setting the strategic agenda for the budget. The PM&C has always had a structure with desk officers following each ministry – again, just as a budget office would typically be organised. The role of these desk offices is to provide advice to the Prime Minister on expenditure and revenue proposals from a whole-of-government perspective by bringing together the government's policy objectives, the economic and fiscal strategy, and the policy objectives of the portfolio ministers.

Senate Estimates Committee

The Senate's interest in the scrutiny of the budget by specialised committees is because of the opportunity it offers the Opposition, minor parties and individual senators to gather information on the general operations of government from both ministers and (particularly) officials. The Senate's scrutiny of the budget takes place exclusively in the committees. The scrutiny is based primarily on 'Portfolio Budget Statements' issued by each Department of State and setting out key output and outcome information – see Outcomes and Outputs

³² Organization for Economic Cooperation and Development (OECD), *Budgeting in Australia*, Jon R Blondal, Daniel Bergvall, In Hawkesworth and Rex Deighton-Smith 2007: 11 <http://www.oecd.org/australia/42007191.pdf>

Frameworks below. There are eight Senate committees which scrutinise on average the budgets of two portfolios. One committee – the Economics Committee – also reviews the budget from an overall fiscal policy point of view. All meetings of the committees are open to the public. The basic function of the committees is “to require the presence of, and seek explanations from, ministers who formulate policy and officials who implement policy to explain expenditure proposals and to answer questions concerning the effectiveness and efficiency of various programs”. Once the committees have completed their examination, they report their deliberations to the Senate, highlighting any items of particular concern. A member may attach to the report a minority or dissenting report making relevant conclusions and recommendations.

Australian National Audit Office – Auditor General

The Auditor-General is ‘an independent officer’ of the Parliament, reflecting the special relationship between the Auditor-General and Parliament. The Auditor General is required to undertake the audits of the financial statements of all Commonwealth controlled entities (some 260 entities).

The Auditor General also undertakes performance audits which consider the efficiency and economy issues related to Commonwealth organisations and Commonwealth programs. Approximately 55 performance audit reports are conducted each year. Traditionally performance audits have had a higher profile than the financial statement audits, but more recently financial issues have been attracting Parliamentary and Government interest and attention; particularly related to the Defence Department. The Auditor General’s mandate to undertake performance audits is broad, but not absolute. Exclusions include:

- the Parliament, its members and its committees;
- staff employed under the Members of Parliament (Staff) Act 1984;
- judicial actions of the Courts;
- the processes directly related to government policy undertaken by
- members of the Government and their personal staff.

The ANAO has a staff of approximately 300 and a budget of some \$64m. Its work assists:

- Australian Government agencies to improve their performance;
- Informs the Government and Parliament of the performance of Australian Government entities;
- Assists the Parliament in holding the Executive Government to account.

It also produces a series of Better Practice Guides to bring together Government and industry experience, on a range of topics such as public sector governance, contract management, and grants administration³³.

The ANAO has extensive powers of access to Commonwealth documents and information, and its work is governed by its auditing standards, which adopt the standards applied by the auditing profession in Australia.

The ANAO adopts a consultative approach to its forward audit program, which takes account of the priorities of the Parliament, as advised by the Joint Committee of Public Accounts and Audit, the views of entities and

³³ National Audit Office of Australia, *The Role of the Auditor General and ANAO*
http://www.anao.gov.au/~media/Uploads/Documents/the_role_of_the_auditor_general_and_the_australian_national_audit_office1.pdf

other stakeholders, including individual members of the public. The program aims to provide a broad coverage of areas of public administration and is underpinned by a risk-based methodology.

The final audit program is determined by the Auditor-General. Each year the ANAO publishes an Audit Work Program. The Program is designed to inform the Parliament, the public and government entities of the ANAO's planned financial statement audit coverage; other assurance activities; and performance audit coverage for the Australian Government public sector³⁴.

The National Audit Office does not have the power to apply sanctions to agencies, however its reports carry significant weight and are presented to Parliament, responsible Ministers and agency heads. Performance reports also receive significant media attention particularly where they reveal deficiencies in performance or malfeasance. This creates strong incentives for Departments to address audit recommendations. The process usually commences with a formal letter from the subject Department, outlining whether or not it partially or fully accepts the audit recommendations. This is followed up by an internally managed action plan to implement recommendations to the satisfaction of the Minister. The vast majority of ANAO recommendations are accepted by Departments.

Council of Australian Governments

The Council of Australian Governments (COAG) is the peak intergovernmental forum in Australia. The members of COAG are the Prime Minister, State and Territory Premiers and Chief Ministers and the President of the Australian Local Government Association (ALGA). The Prime Minister chairs COAG.

The role of COAG is to promote policy reforms that are of national significance, or which need co-ordinated action by all Australian governments. COAG meets as needed, usually once or twice a year, though at times it has met up to four times in a year. COAG may also settle issues out-of-session by correspondence. The outcomes of COAG meetings are contained in communiqués released at the end of each meeting. Where formal agreements are reached, these may be embodied in intergovernmental agreements, including National Agreements and National Partnership Agreements³⁵.

In 2008, after many years of constrained intergovernmental relations, COAG agreed the Intergovernmental Agreement on Federal Financial Relations (IGAFFR). The IGAFFR provides the States and Territories with flexibility to deliver quality services where they are most needed, while increasing governments' accountability to the public³⁶. Rather than seeking to control how States deliver outcomes, the IGAFFR aims to improve the quality and effectiveness of government services by reducing Commonwealth prescription, aligning payments with the achievement of outcomes and/or outputs and giving States the flexibility to determine how to achieve those outcomes efficiently and effectively.

Under the IGAFFR, all payments are processed centrally by the Commonwealth Treasury and paid directly to each state treasury. State treasuries are then responsible for distributing the funding within their jurisdiction. Payments under the new financial framework consist of:

- **National Specific Purpose Payments** (National SPPs), made annually on an ongoing basis, to be spent in the key service delivery sectors of health, schools, skills and training, disability services and affordable housing.

³⁴ <http://www.anao.gov.au/About-Us/Audit-Work-Program>

³⁵ Council of Australian Governments, *About COAG* https://www.coag.gov.au/the_federal_financial_relations_framework

³⁶ Council of Australian Governments, *Federal Financial Relations*, https://www.coag.gov.au/the_federal_financial_relations_framework

- **National Partnership payments** for major reforms or projects, including payments made to support projects, facilitate major reforms and reward jurisdictions that deliver on nationally significant reforms; and
- **General revenue assistance**, including Goods and Services Tax (GST) payments, to be used by the States for any purpose.

The framework is designed to give greater flexibility to the States and Territories, in recognition of their expertise and experience in service delivery and understanding of local needs. At the same time, it increases the accountability of all governments for what they have committed to do.

Some of the National Partnerships established under the framework include funding which is specifically linked to achievement against ambitious reform targets. Reward payments are made by the Commonwealth only after an independent assessment is provided by the COAG Reform Council that States and Territories have met their agreed targets.

Outcomes and Output Frameworks

Australia introduced an outcomes and outputs framework with the 1999/2000 budget. Its introduction was meant to focus the budget process on ends rather than means. In this sense it was a continuation of the reforms launched by the Department of Finance in the 1980s³⁷.

Under the outcomes framework, every agency is required to identify comprehensive and explicit outcomes, thus forming the legal basis for appropriations approved by the Parliament. In their “Portfolio Budget Statements”, which are the supporting documents to the budget, agencies need to identify the outputs to be delivered on behalf of the government which will contribute to the achievements of the outcomes. Portfolio Budget Statements remain indicative only and do not bind the government in any way. The legal focus of appropriations is exclusively on the outcomes. Agencies are expected to measure performance at two levels: first, the effectiveness of the contribution of agency outputs and administered items to the achievement of outcomes; second, the efficiency of agency outputs in terms of quantity, quality and price.

Agencies are required to report on their achievements vis-à-vis the Portfolio Budget Statements in their annual reports, which are published shortly after the end of each fiscal year. Prior to the introduction of the outcomes and outputs framework, Australia budgeted on the basis of running costs and programmes. Agencies received one lump-sum appropriation to cover all of their running costs, which included salaries and other operating costs. A separate appropriation was made for each programme which largely consisted of transfer payments. The outcomes and outputs framework was introduced concurrently with the accrual budgeting framework. Implementing outcomes has proved to be a significant challenge, especially in terms of its usefulness for decision-making purposes and the fundamental difficulties in identifying and then meaningfully measuring progress against outcomes. Many of these challenges are common to other countries in moving to a results-oriented budgeting framework.

Determining Performance Outcomes

The Australian government’s performance information framework places a strong emphasis on agency-level outcomes as the foundation for assessment of Government performance and the returns on public investment. Outcomes are defined as the results, impacts or consequences of actions by the Australian government for the

³⁷ Organization for Economic Cooperation and Development (OECD), *Budgeting in Australia*, Jon R Blondal, Daniel Bergvall, In Hawkesworth and Rex Deighton-Smith 2007: 21 <http://www.oecd.org/australia/42007191.pdf>

Australian community. Outputs are the goods and services produced by the individual department or agency on behalf of the government that contribute to outcomes³⁸. While outputs may be easy to measure and include variables like number of clients accessing a program, outcomes are generally difficult to measure as they may not be determined until many years later. For example, the outcome of a preventative health program can only be measured many years after the intervention, and it may be difficult to find a clear causal link between the program and the outcome.

Desired outcomes are determined by the responsible ministers in consultation with the Minister for Finance. Individual ministers are responsible for choosing outputs, which are decided at a broad level by cabinet in the budget process. The emphasis on explicit measures of results is crucial to the usefulness of the framework as a tool for performance assessment and evaluation

Under the devolved financial framework, performance management (including performance measures and program evaluation) is generally the responsibility of individual ministers and their departments and agencies, although outcomes must be agreed with the Minister for Finance and Administration³⁹.

The Australian government's outcomes policy requires every department and agency within the general government sector, including statutory bodies, to identify comprehensive and explicit outcomes, outputs and performance measures for the quantity, quality, price and effectiveness of their activities.

Agencies generally have between one and five outcomes each, with many agencies having only one outcome. There is greater variation in the number of outputs, but most agencies have one to ten outputs, although some have significantly more outputs. For example the Commonwealth Department of Human Services lists its outcome in the 2013-14 Budget Papers as "Support individuals, families and communities to achieve greater self-sufficiency; through the delivery of policy advice and high quality accessible social, health and child support services and other payments; and support providers and businesses through convenient and efficient service delivery."⁴⁰

DHS's outcome statement is typically brief and broad. Being both general and as far-reaching as possible would appear to be the guiding principle behind most Department's definitions of outcomes. The definitions have been described as vision statements, often aspirational and value-laden in nature, rather than attempting to concretely define the desired impact of activities on society. This level of definition is quite understandable from the point of view of the agencies themselves, since outcomes are the basis of appropriations: the more general the outcome, the more flexibility the budget holder has.

The high-level nature of outcome statements does however make it difficult to demonstrate the linkages between the individual outputs and the outcomes. In many cases performance outcomes are difficult to measure and attribute unequivocally to a particular program or investment. This is particularly in areas such as health or education where it may take many years before the final result of an investment can be seen. Some agencies do not even attempt to develop performance indicators for outcome effectiveness. Others note that some of their outcome indicators are not measurable. Agencies tend to focus more on indicators of the

³⁸ Organization for Economic Cooperation and Development (OECD) , *Performance Budgeting in Australia*, Lewis Hawke 2007: 8 <http://www.oecd.org/australia/43411866.pdf>

³⁹ Organization for Economic Cooperation and Development (OECD) , *Performance Budgeting in Australia*, Lewis Hawke 2007: 5 <http://www.oecd.org/australia/43411866.pdf>

⁴⁰ Department of Human Services, *Portfolio Budget Statement 2013-14* <http://www.humanservices.gov.au/spw/corporate/publications-and-resources/budget/1314/resources/2013-14-dhs-pbs.pdf> pg 13

efficiency of their outputs and use them as proxy outcome indicators, although there are exceptions to this as well.

Over the last 25 years, the Commonwealth Government's budget reporting framework has moved from a narrow focus on reporting financial inputs — money being allocated to programmes — towards an approach intended to provide greater information on results and outcomes achieved by the expenditure of public funds⁴¹. Despite this, most performance information is focused on financial accountability — particularly whether the money was actually spent or spent on time. While this is important, it does not demonstrate if programmes are achieving their policy objectives.

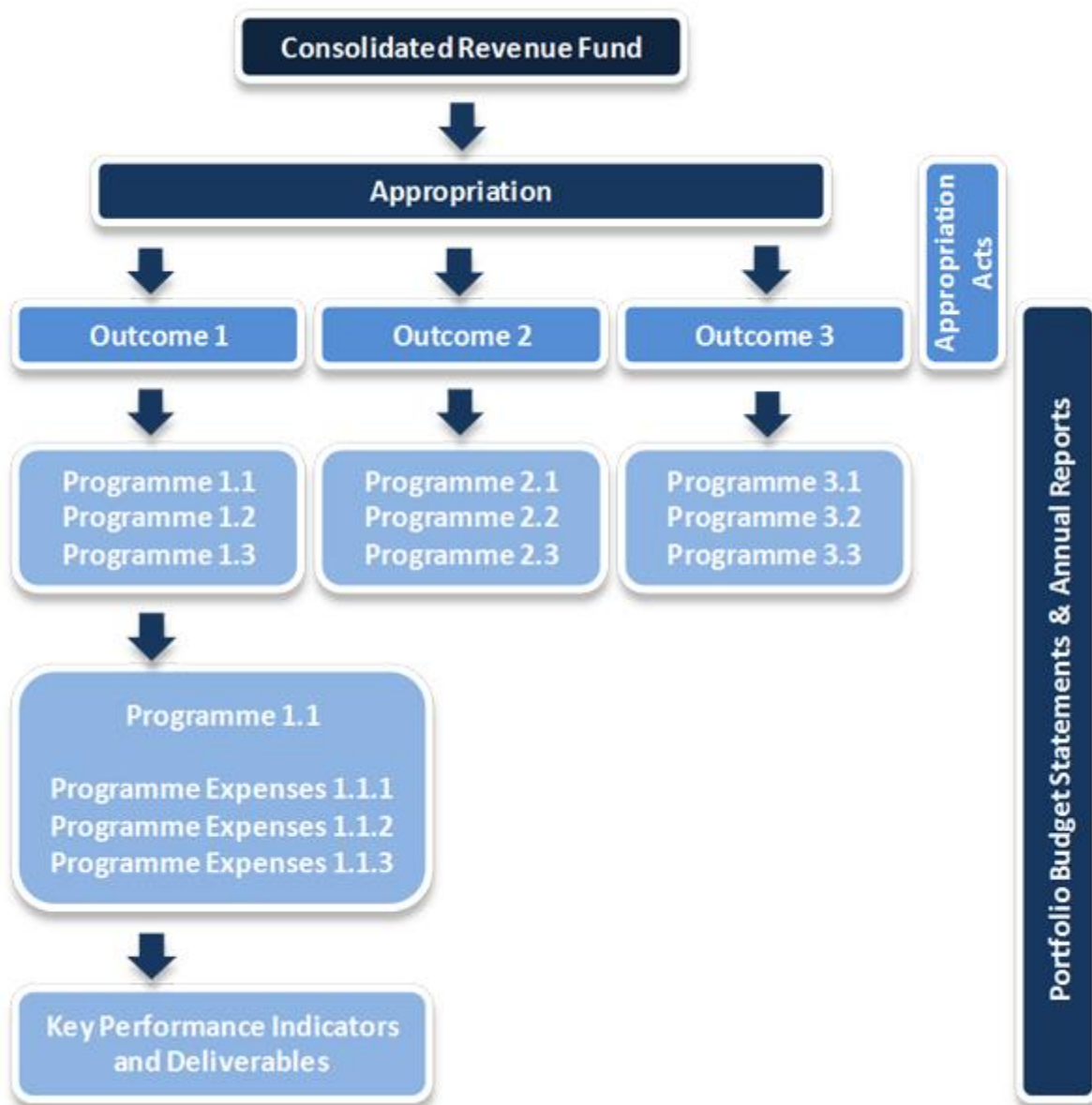
The Commonwealth introduced the 'Outcomes and Outputs' framework for the Budget in 1999-00. Under this framework, all departments and agencies were required to identify explicit outcomes intended to define the desired impact of the government's activities and programmes on society. These identified 'outcomes' formed the legal basis for appropriations approved by the Parliament.

In each department's portfolio budget statements, agencies are required to identify the 'outputs' to be produced and the administered items to be delivered on behalf of the government which contribute to the previously identified 'outcomes'.

The 2009-10 Budget introduced a variation to this approach with the introduction of the current 'Outcomes and Programmes' framework. This approach differs from the 'Outcomes and Outputs' framework in so far as it is intended to provide more information on programmes and what they contribute to achieving government outcomes over the Budget and forward years.

The Constitution requires that all revenues or monies raised or received by the Executive Government of the Commonwealth be placed in one Consolidated Revenue Fund. Under current arrangements departments and agencies receive funding through the Commonwealth's annual Appropriation Acts which provide funds to deliver specified 'outcomes' the government is seeking to achieve. Specific government programmes contribute to these outcomes. Often several programmes will contribute to the achievement of one outcome. A summary of the Outcomes and Programmes framework is outlined in Figure 4 below.

⁴¹ http://www.ncoa.gov.au/report/index.html?utm_source=Liberal+Party+E-news&utm_campaign=f9646c25f4-Commission+of+Audit&utm_medium=email&utm_term=0_51af948dc8-f9646c25f4-57654429

Figure 4 Outcomes and Programmes Framework

Keith MacKay, Lead Evaluation Officer of the World Bank's Independent Evaluation Group has provided a detailed analysis of the evolution of the Australian Government's performance framework over the period 1987 to 2011⁴². MacKay identifies three main periods of reform which coincided with the election of successive governments of different political persuasions. Characteristics of the three key stages are shown below:

⁴² <http://www.oecd.org/gov/budgeting/49042370.pdf>

Table 1. Australia's performance framework: key aspects

	1987-96	1996-2007	2007-11
Australian Public Service (APS)	Cohesive public service; central rules and standards, e.g. pay, classifications, terms of employment.	Public service downsized and balkanised; individual employment contracts; heavy use of business consultants; departmental secretaries usually employed on three-year contracts.	Efforts to renovate public service, e.g. for policy skills; moves to recentralise some functions, e.g. procurement, pay grades.
Philosophy underlying public sector management	Substantial devolution to departments; central requirements, e.g. evaluation, to "make the managers manage".	Very high level of devolution ("let the managers manage"); reduction in red tape; much greater reliance on private sector.	Some recentralisation, with heavy emphasis on encouragement; "let the managers manage"; further reduction in red tape.
Policy cycle	Formalised, disciplined; heavy reliance on analysis by public service; Expenditure Review Committee (ERC) at centre of budget process.	Much less disciplined; greater reliance on non-APS policy advice; many policy/ expenditure decisions taken in Prime Minister's Office; ERC relatively weak.	Decision making initially in hands of four key ministers; now greater reliance on budget/ERC processes; APS policy skills to be strengthened.
Role of the Department of Finance (DoF)	Powerful, respected, high level of policy skills; heavily involved in scrutinising new policy proposals – the "challenge" function; responsible for budget estimates; heavily involved in evaluation.	Severely downsized; small role in budget estimates and low financial management skills (until after 2002); low policy skills; little or no evaluation involvement; passive oversight of "Outcomes and Outputs Framework"; strategic reviews managed by the DoF (from 2006).	Increase in staff numbers; refurbished financial management skills; role in reducing regulation and red tape; strategic reviews, and prospect of a rejuvenated evaluation approach.
Evaluation	Formal strategy and requirements (from 1987); enforcement by the DoF; heavy utilisation in policy advice and by the ERC; evaluation use by line departments.	Evaluation deregulated; only a few remaining evaluation islands among departments/agencies; small number of strategic reviews (from 2006); no systematic use of evaluation in the budget process.	Flurry of reviews after 2007; continuation of strategic reviews; no systematic use of evaluation in budget process, and major investment decisions taken without benefit of evaluation; agency reviews to be conducted in future; possible rejuvenation of evaluation in near future.
Performance information (PI), programme objectives, accountability	Programme budgeting (from 1986 on); evaluations usually published; only late attention to performance indicators via reviews of PI, programme objectives (from 1994); federal/state reporting of service delivery performance (from 1995); formal reporting requirements (annual reports, portfolio budget statements).	Programme budgeting abolished (from 1999); new "Outcomes and Outputs Framework" for formal reporting, based on performance indicators (1999); principles-based, no quality control by the DoF; accrual accounting (1999); evaluations rarely published; federal/state reporting of service delivery performance.	"Outcomes and Programmes Reporting Framework", based on performance indicators, and now including programme budgeting; evaluations rarely published; federal/state reporting of service delivery performance; citizen surveys planned.

Measurement and Assessment of Results

Performance information in Australia is meant to contribute to financial management and budgeting at three levels: internal agency management, whole-of-government resource management, and external accountability. Agencies are expected to undertake their own performance assessment and evaluation as part of normal Departmental management practice. At a minimum, agencies are required to identify outcomes, administered items and outputs covering all expenditure within their area of responsibility. They are required to identify, measure and report publicly on key performance indicators for the quality and quantity of outputs and effectiveness indicators that assist in measuring the success of their contribution to identified outcomes. Published performance information on agency plans is provided at budget time (in portfolio budget statements), and after the end of the year the results are published in their annual reports.

It is widespread practice for agencies to monitor and report on a range of key indicators on a regular basis throughout the year. Practices vary from sophisticated reporting techniques such as balanced scorecards, performance dashboards or traffic light reports, to providing a list of progress against key indicators, showing variances from plans, as a supplement to the financial progress reports or to meet public reporting obligations.

A key impediment to the development of accurate and detailed performance information at the national level is that many public services are delivered by state and territory governments. Consequently, the Australian government does not control the use of resources and has limited influence on performance. One exception is for specific-purpose payments from the Australian government to states and territories, which generally require performance reporting and achievement of targets or performance conditions. For example, specific performance benchmarks are set for literacy, numeracy and participation in schools, the quantity and quality of housing for disadvantaged people, and a range of health services delivered through cross-jurisdictional agreements by state and territory governments.

Key Issues, Lessons Learnt, Trends

The institutional arrangements for budgeting in Australia are unique in many respects. The strong emphasis on Cabinet committees and the multiple central agencies involved in the budget formulation process are characteristics of budgeting in Australia. These institutional arrangements provide a robust framework for promoting fiscal discipline, albeit with tradeoffs in terms of time and money for consensus building.

A key challenge with current arrangements is to ensure that the links between programmes, outputs and outcomes are clear and measured effectively. The benefits of programme and outcome performance information relate primarily to agency efficiency and effectiveness. Central agencies are seeking to encourage improvement in the quality and precision of performance information and evaluation in agencies. The aim is to develop skills, systems and a culture in agencies to raise the standard and usefulness of performance information for internal planning and for constructive dialogue with external stakeholders.

A further challenge is to ensure that government has better access to performance information by better integrating it into the decision making phase of the budget. The Federal government's decision to adopt a more centrally coordinated strategic review framework and its initiatives to review the quality of agency

information on outcomes will help it to overcome some of the variability of agency performance information and improve its overall usefulness⁴³.

Continuing pressure for improving the effectiveness and sustainability of government expenditure remains an ongoing challenge across all levels of Government. It is in this context that a National Commission of Audit is currently undertaking a comprehensive review of Government expenditure in the lead up to the 2014-15 Federal Budget⁴⁴ - See Box 3 below.

⁴³ Organization for Economic Cooperation and Development (OECD) , *Performance Budgeting in Australia*, Lewis Hawke 2007: 13 - 15 <http://www.oecd.org/australia/43411866.pdf>

⁴⁴ National Commission of Audit, <http://www.ncoa.gov.au/>

BOX 3: 2013-14 National Commission of Audit

A little over a month after being elected to power, and reflecting Government statements about a worsening fiscal situation, the Treasurer, the Hon Joe Hockey MP, and the Minister for Finance, Senator the Hon Mathias Cormann announced the establishment of a National Commission of Audit ('the Commission'). The Commission was established by the Government as an independent body to review and report on the performance, functions and roles of the Commonwealth government. The Commission's Terms of Reference include:

- ensure taxpayers are receiving value-for-money from each dollar spent;
- eliminate wasteful spending;
- identify areas of unnecessary duplication between the activities of the Commonwealth and other levels of government;
- identify areas or programs where Commonwealth involvement is inappropriate, and
- improve the overall efficiency and effectiveness with which government services and policy advice are delivered.

Accordingly, the Commission has a broad remit to examine the scope for efficiency and productivity improvements across all areas of Commonwealth expenditure, and to make recommendations to achieve savings sufficient to deliver a surplus of 1 per cent of GDP prior to 2023-24. The Terms of Reference also state that the Commission should also be guided in its work by the principles that:

- government should have respect for taxpayers in the care with which it spends every dollar of revenue;
- government should do for people what they cannot do, or cannot do efficiently, for themselves, but no more; and
- government should live within its means.

The Review will be conducted in two phases: **Phase 1** will report on:

- *The Scope of Government* including an assessment of the current split of roles and responsibilities between and within the Commonwealth government and State and Territory governments;
- *Efficiency and effectiveness of government expenditure* including options for greater efficiencies in the Australian Government, such as increasing contestability of services; adoption of new technologies in service delivery and within government; rationalising the service delivery footprint to ensure better, more productive and efficient services for stakeholders;
- *State of the Commonwealth's finances and medium-term risks to the integrity of the budget position* including the long-term sustainability of the budget position, identifying key policy areas where trends in expenses and revenue pose risks to the structural integrity of the budget.
- *Adequacy of existing budget controls and disciplines in promoting efficient and effective government* disciplined expenditure, long-term fiscal sustainability and budget transparency.

Phase 2 will report on:

- *Commonwealth infrastructure* including its current condition and remedial works that may be required
- *Public sector performance and accountability* including identify options for continuous assessment of programs, agencies and performance and options for strengthening Commonwealth budgeting arrangements.

The Commission's released its final report to Government on the 2nd of May 2014. **Appendix A** provides an overview of the Commission's key findings and recommendations

5. STRATEGIC MANAGEMENT IN NEW SOUTH WALES

General Background

Demography

New South Wales (abbreviated as NSW) is a state on the east coast of Australia. It borders Queensland to the north, Victoria to the south, South Australia to the west, the Tasman Sea to the east and surrounds the whole of the Australian Capital Territory. New South Wales's capital city is Sydney, which is also the state's most populous city. As of June 2013, the estimated population of New South Wales was 7.4 million, making it Australia's most populous state. Just under two-thirds of the state's population, 4.67 million, live in the Greater Sydney area. Inhabitants of New South Wales are referred to as New South Welshmen.⁴⁵

Government

Executive authority is vested in the Governor of New South Wales, who represents and is appointed by Queen Elizabeth II. The current Governor is Marie Bashir. The Governor commissions as Premier the leader of the parliamentary political party that can command a simple majority of votes in the Legislative Assembly. The Premier then recommends the appointment of other Members of the two Houses to the Ministry, under the principle of responsible or Westminster government. The sitting Premier is Mike Baird of the Liberal Party who replaced Barry O'Farrell on the 17th of April 2014. Mister O'Farrell resigned after it was proven that he had received a \$3000 bottle of wine from a lobbyist despite repeatedly denying any knowledge of it to the Independent Commission on Corruption currently underway in NSW.

Constitution

The form of the Government of New South Wales is prescribed in its Constitution, dating from 1856 and currently the Constitution Act 1902 (NSW). Since 1901 New South Wales has been a state of the Commonwealth of Australia, and the Australian Constitution regulates its relationship with the Commonwealth.

Under the Australian Constitution, New South Wales ceded certain legislative and judicial powers to the Commonwealth, but retained independence in all other areas. The New South Wales Constitution says: "The Legislature shall, subject to the provisions of the Commonwealth of Australia Constitution Act, have power to make laws for the peace, welfare, and good government of New South Wales in all cases whatsoever".

Parliament

The State Parliament is composed of the Sovereign and two houses: the Legislative Assembly (lower house), and the Legislative Council (upper house). Elections are held every four years on the fourth Saturday of March, the most recent being on 26 March 2011. At each election one member is elected to the Legislative Assembly from each of 93 electoral districts and half of the 42 members of the Legislative Council are elected by a statewide electorate.

Local government

New South Wales is divided into 152 local government areas. In addition, there is also the Unincorporated Far West Region which is not part of any local government area, in the sparsely inhabited Far West, and Lord Howe Island, which is also unincorporated but self-governed by the Lord Howe Island Board.

⁴⁵ http://en.wikipedia.org/wiki/New_South_Wales

Budget Overview

The NSW budget process is very similar to the Commonwealth process, with the Budget/Expenditure Review Committee of Cabinet, on advice from the Departments of Premier and Cabinet and Finance, playing the primary role in evaluating submissions from line agencies.

To develop the Budget, every year the Government goes through a process of deciding what programs and services it intends to provide. This involves the Government considering its priorities, how much money it will have, and what it can afford.

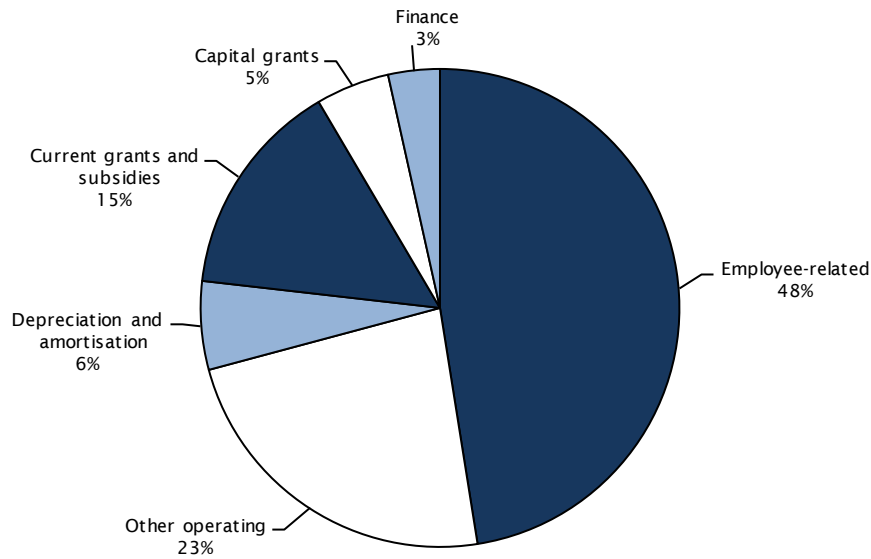
The calendar for this process is usually:

- September – update forward budget estimates (i.e., budget plan for the next 3 years) and release it to Ministers. Treasury requests information from Departments on proposals for capital works and expected recurrent and capital receipts for the next year.
- November – Ministers respond to forward estimates and propose changes to the programs they administer (e.g., ask for more money to provide a new service). They also submit proposals for capital works.
- December to February – the Budget Committee meets to set the budget strategy, deciding which of the proposals put forward by Ministers the Government will or will not agree to and allocating how much money the Government wishes to allocate to each Program.
- March – Treasurer issues Budget allocation letters, informing Ministers and Presiding Officers of the Parliament how much money the Government intends to allocate to their Programs.
- April – meeting of Budget Committee to review the Government's final Budget position.
- May – the Budget is presented to Parliament. The Parliament will then debate the Budget and may hold Estimates Committees to question Ministers and Departments about specific details.
- June – Parliament passes the Appropriation Bills, giving the Government authority to spend the money as set out in the bills as passed.

Total revenue for NSW for 2013-14 is estimated to be \$62.6 *billion*. This is an increase of \$3 billion or 5 per cent over the expected outcomes for 2012-13. Total revenue is estimated to rise by an average of 4.5 per cent per annum over the four years to 2016-17⁴⁶.

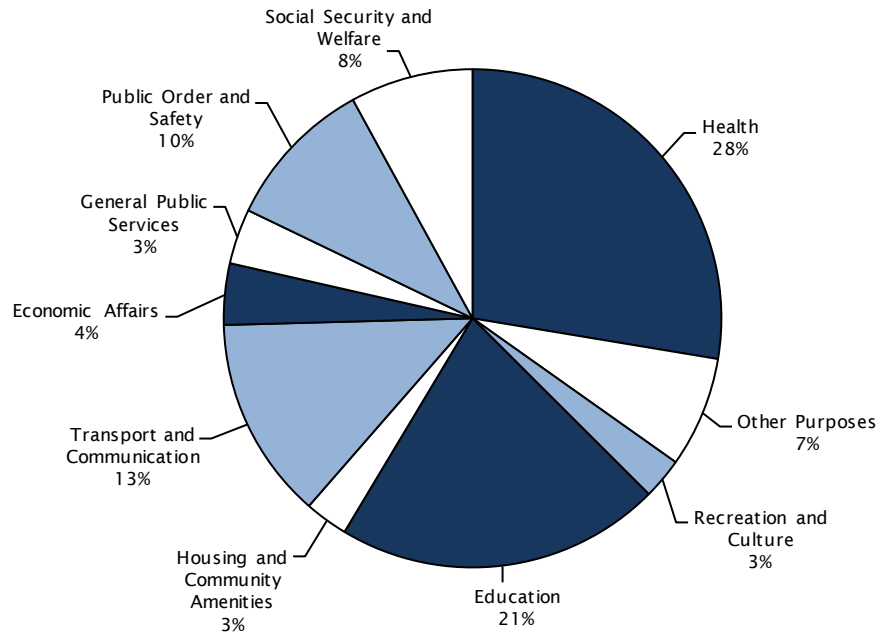
Total expenses for 2013-14 are estimated to \$62.9 *billion*, up from \$60.6 billion in 2012-13. The following charts and tables show the composition of expenditure by type and policy.

⁴⁶ NSW Treasury, 2013-14 Budget Paper 2, http://www.budget.nsw.gov.au/budget_papers/budget_paper_2

Figure 4: Composition of Expenses 2013-14: by type**Figure 5: Expenses by Policy Area: Level, Share and Four Year Average Growth (a)**

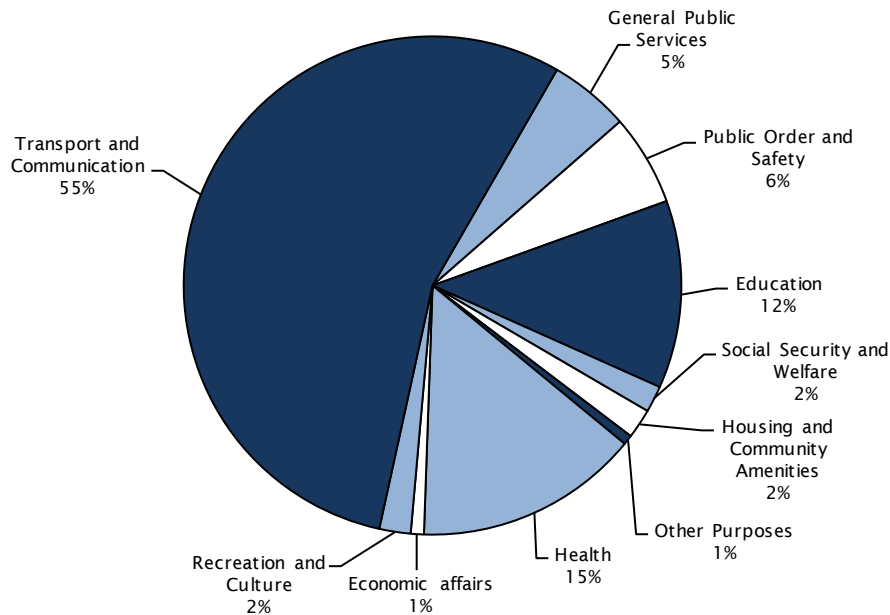
	2013-14 Expense (\$ m)	Share of total (per cent)	4-yr avg growth (% pa)	Ctb points to to 4-yr avg growth (% pts)
Health	17,800	27.6	5.7	1.5
Other Purposes	4,632	7.2	11.0	0.7
Recreation and Culture	1,722	2.7	8.1	0.2
Education	13,624	21.1	3.3	0.7
Housing and Community Amenities	1,815	2.8	-16.8	-0.8
Transport and Communication	8,478	13.2	5.5	0.7
Economic Affairs	2,567	4.0	4.5	0.2
General Public Services	2,307	3.6	6.4	0.2
Public Order and Safety	6,373	9.9	2.9	0.3
Social Security and Welfare	5,143	8.0	2.8	0.2
TOTAL	64,462	100.0	3.9	3.9

Figure 6: Composition of Total Expenses 2013-14: by policy area (a)



(a) In this chart the 'Economic Affairs' category includes Fuel and Energy, Agriculture, Forestry Fishing and Hunting, Mining, Manufacturing and Construction and Other Economic Affairs.

Figure 7: Capital Expenditure by GPC Policy Area (a), (b)



(a) Distribution of total capital expenditure for the four years ended 2013-14.

(b) In this chart the category 'Economic affairs' includes the functional areas Fuel and Energy, Agriculture, Forestry and Fishing; Mining, Manufacturing and Construction; and Other Economic Affairs.

Functions and Structure of the NSW Public Sector

The NSW public sector delivers a wide range of services and regulatory functions to the community, such as education, law enforcement, transport, health services and environment protection⁴⁷.

Machinery of Government

These services and functions are delivered by organisations through a variety of arrangements determined by the government of the day. The organisations are grouped into nine 'clusters' to improve coordination and service delivery. Each cluster of organisations is administered under a Department. These are:

- Department of the Attorney General & Justice
- Department of Education & Communities
- Department of Family & Community Services
- Department of Finance & Services
- Ministry of Health
- Department of Premier & Cabinet
- Department of Trade & Investment, Regional Infrastructure & Services
- Department of Transport
- The Treasury.

A large number of other organisations such as boards and committees are also involved in delivering services or performing other functions for the NSW community.

Some 'central agencies' are responsible for supporting government and legislative processes, policy making, budgeting and people management. These are:

- Department of Premier & Cabinet, which focuses on working with clusters to coordinate the achievement of government priorities and measuring overall performance by setting objectives and targets
- The Treasury, which leads and promotes effective and accountable financial and economic management and use of the state's resources
- Department of Finance & Services, which develops policy, and supports agencies in relation to the key enabling functions of government, such as procurement and asset management.

The Public Service Commission has a central, independent role to promote and maintain a sector culture that is underpinned by core values of integrity, trust, service and accountability. The Commission works to improve the capabilities, performance and configuration of the sector's workforce so it can effectively deliver services to the public.

Workforce

At the end of 2012–13, the NSW public sector employed 399,243 people, which is approximately 11% of all NSW employed persons or 329,336 full-time equivalent (FTE) employees. The majority of public servants (88.4%) provide direct services to the public or to other agencies, for example, as teachers, nurses, medical practitioners, police, fire fighters, bus drivers, family support workers, auditors and IT specialists.

⁴⁷ New South Wales Public Service Commission, *Getting into Shape, State of the NSW Public Sector Report 2013*
<http://psa.asn.au/wp-content/uploads/2013/01/Getting-into-shape-State-of-the-NSW-Public-Sector-Report-2013.pdf>

Over the past year, the total number of FTE employees fell by 3,218.55 or 1.0%, the first recorded decrease since 2000.

NSW 2021: A Plan to Make NSW Number One

Context

In March 2011, the Liberal National Party, led by Barry O'Farrel, won government from the Labor Party which had been in power for 16 years. In the years leading up the 2011 State election, NSW budget position and record of service delivery had been in decline, with experts suggesting that "financial management in NSW has been confusing, lacking in transparency and below the standards expected of efficient and effective government."⁴⁸

In response, the new Government established the NSW Commission of Audit to review the fiscal situation of the state and to establish a framework for future reform. Like the current Federal Commission of Audit, the objective of the NSW review was to identify opportunities to deliver improved services to the people of NSW in a more efficient and cost effective manner and to provide a sustainable budget position going forward.

The Commission's report which was released in 2012 sets out broad principles and directions for fiscal management in the context of the Government's policies, key strategies and priorities. In its analysis of reform opportunities for service delivery, six key themes emerged as the Report progressed:

- *Devolution*: The devolution of authority and accountability, specifically in the areas of education and health, means expenditure (and power) must move from the centre to more local units. The capabilities of both people and systems need to be significantly improved along with a clearer understanding of the respective responsibilities of central and local roles and how to move from here to there. The experience of front line public servants needs to inform the development and delivery of government policy.
- *Partnerships and Outsourcing*: Partnerships, outsourcing and divestments are an increasing part of modern government and service delivery. Where groups outside government can deliver better services at lower cost and with greater innovation than government then that should be expedited. The contracted not for profit providers of the government's human and social services need to be recognised as partners with the public service in implementing government programs. In areas like social housing, out of home care for children, and disability services, the not for profit sector is actively exploring new partnerships with government and the private sector. And this partnership activity is growing. This should be encouraged. It is also evident that many relatively routine tasks, like cleaning and maintenance, are more cost effective when done by private enterprise who specialise in these roles. While outsourcing has been used by government for some time there are still many areas of government that have not fully embraced outsourcing. There are also some opportunities for divestments where sale value exceeds properly calculated retention value.
- *Workforce flexibility*: Greater workforce flexibility allows modern work practices to be implemented. This is not happening sufficiently because of a perceived or real restriction in workplace practices. The outcome is a frustration to those wanting to do their best and having to work around needless hierarchy and bureaucracy. This is observable throughout the public service and it impedes talent and new ideas which undoubtedly exist within the service.

⁴⁸ New South Wales Government, *NSW Commission of Audit, Final Report*, 2012 pg 7
http://www.treasury.nsw.gov.au/__data/assets/pdf_file/0020/22583/Commission_of_Audit_Final_Report.pdf

- *Transparent and evidence based decisions:* More transparent and evidence based decisions around programs is essential. For programs and schemes, especially those that have been in place for many years, it is worth reviewing whether or not they are achieving what was intended. This comment applies across the public sector to both small and large programs. The matrix by which program effectiveness is measured need to be significantly improved to ensure that the full long term costs and benefits are incorporated in the calculation of public benefits from programs.
- *Collaboration and coordination:* Collaboration and coordination across government can improve outcomes significantly. This is the case for some important services and also for internal activities that require coordination and consistent standards across the sector. Modern governance arrangements should also harness cross sectoral partnerships between the public, private and community sectors. The Commission also notes that better collaboration and coordination between the Commonwealth and State Governments would improve outcomes. Attention is typically focused on the taxation behaviours of each of these governments but the overlap of expenditure responsibilities can be better managed. A similar comment also applies to the local / state government relationship.
- *Budget constraint:* Where there is a severe budget constraint, government must prioritise its activities. Government should not do things that others can do more effectively, and what government does must be done efficiently. Expectations about services that can be delivered within the existing budget must be managed.

In relation to evaluating the effectiveness of government spending and whether it offers value for money, the Commission reached the following conclusions:

- NSW does not have a rigorous framework or even the information to evaluate expenditure outcomes and demonstrate value for money or otherwise.
- There is little or no transparency on what agencies achieve with their expenditure.
- Comprehensive information about program expenditure is lacking and needs to be improved.
- Robust business cases should accompany new expenditure proposals to demonstrate their merits and establish meaningful baselines against which performance can be evaluated.
- Mandated requirements should be set around the evaluation of both new and existing programs across government. All programs should have a sunset clause setting out when expenditure will stop. Prior to this date the program should be reviewed if it is to continue.
- Evaluation of large and significant programs should be led by Treasury and conducted on a rolling basis. From time to time Treasury should have their evaluations independently reviewed to assure agencies that the process is fair and comprehensive.

Together these somewhat damning findings provided a compelling case for change and context for a new whole of Government strategic plan: NSW 2021.

Overview

NSW 2021 was launched by the Government in September 2011 and sets the current Government's agenda for change in NSW⁴⁹. It is described as a 10 year plan to rebuild the economy, return quality services, renovate infrastructure, restore accountability to government, and strengthen our local environment and communities. It replaces the State Plan as the NSW Government's strategic business plan.

⁴⁹ NSW Government, *NSW 2021, A Plan to Make NSW Number One Again*, September 2011 http://www.2021.nsw.gov.au/sites/default/files/NSW2021_WEBVERSION.pdf

NSW 2021 sets immediate priorities for action and guides NSW Government resource allocation in conjunction with the NSW Budget. Agencies are expected to identify cost-effective initiatives to achieve the goals and targets within the plan. The Plan comprises five strategies and thirty two goals as set out below.

In addition to the 'whole of state' NSW 2021 strategic plan, all Departments are also required to develop their own Strategic Plans which are available to the public and also provided to Finance, sometimes with additional non-public sections. Strategic Plans usually cover a five year period and typically set out a Department's :

- Operating context and key functions;
- Vision;
- Strategic Priorities; and
- Outcomes and targets.

Consistent with the NSW 2021 strategic reform agenda, individual Departmental goals and targets must align with the State Plan. For example the NSW Department of Education and Communities' 2012 – 2017 Strategic Plan ⁵⁰ identifies that its goals align with State Plan goals including:

- improving education and learning outcomes for all students
- strengthening the NSW skill base
- making it easier for people to be involved in their community

fostering opportunity and partnership with Aboriginal people. While NSW 2021 is a state government initiative and does not apply to local government as a separate level of government, it includes a focus on improved collaboration between state and local government. Regional ministers and members of Parliament are through NSW 2021 tasked with consulting with local government and communities to develop local and regional action plans aligned to NSW 2021. These plans will focus on the most important action the NSW Government can take to improve outcomes in each region and locality.

⁵⁰ See <https://www.det.nsw.edu.au/media/downloads/about-us/how-we-operate/strategies-and-plans/corporate-plans/fiveyrs-strategic-plan.pdf>

NSW 2021 32 GOALS

REBUILD THE ECONOMY

1. Improve the performance of the NSW economy
2. Rebuild State finances
3. Drive economic growth in regional NSW
4. Increase the competitiveness of doing business in NSW
5. Place downward pressure on the cost of living
6. Strengthen the NSW skill base

RETURN QUALITY SERVICES

TRANSPORT

7. Reduce travel times
8. Grow patronage on public transport by making it a more attractive choice
9. Improve customer experience with transport services
10. Improve road safety

HEALTH

11. Keep people healthy and out of hospital
12. Provide world class clinical services with timely access and effective infrastructure

FAMILY & COMMUNITY SERVICES

13. Better protect the most vulnerable members of our community and break the cycle of disadvantage
14. Increase opportunities for people with a disability by providing supports that meet their individual needs and realise their potential

EDUCATION

15. Improve education and learning outcomes for all students

POLICE & JUSTICE

16. Prevent and reduce the level of crime
17. Prevent and reduce the level of re-offending
18. Improve community confidence in the justice system

RENOVATE INFRASTRUCTURE

19. Invest in critical infrastructure
20. Build liveable centres
21. Secure potable water supplies

STRENGTHEN OUR LOCAL ENVIRONMENT AND COMMUNITIES

22. Protect our natural environment
23. Increase opportunities for people to look after their own neighbourhoods and environments
24. Make it easier for people to be involved in their communities
25. Increase opportunities for seniors in NSW to fully participate in community life
26. Fostering opportunity and partnership with Aboriginal people
27. Enhance cultural, creative, sporting and recreation opportunities
28. Ensure NSW is ready to deal with major emergencies and natural disasters

RESTORE ACCOUNTABILITY TO GOVERNMENT

29. Restore confidence and integrity in the planning system
30. Restore trust in State and Local Government as a service provider
31. Improve government transparency by increasing access to government information
32. Involve the community in decision making on government policy, services and projects

Implementation

Implementation of NSW 2021 has involved significant change with the establishment of new structures and realignment of existing frameworks and processes to support successful implementation including:

- *A New Cabinet Committee to Drive Delivery:* A new Cabinet Committee chaired by the Premier and including the Deputy Premier and Treasurer will drive delivery of NSW2021. The Committee will regularly review progress, calling in Ministers and Directors General to identify performance improvement initiatives and will seek advice from independent advisors who will attend meetings of the Committee every quarter.
- *Alignment with the NSW Budget:* The Budget will be fully aligned with the achievement of the goals and targets within NSW 2021. Agencies will be required to identify the most cost effective initiatives to achieve the goals and targets. Difficult decisions will be taken to reprioritise efforts into activities that contribute to the achievement of goals.
- *Community and Business Leaders Forum:* Community and business leaders will participate in an annual forum with the Premier and members of Cabinet. The conference style forum will discuss progress, changing priorities and new initiatives relating to the delivery of this plan.
- *Local Community Priority Setting:* Regional ministers and members of Parliament will consult with local government and communities to develop local and regional action plans aligned to NSW 2021. These plans will focus on the most important action the NSW Government can take to improve outcomes in each region and locality.
- *Increased Accountability:* The community will be able to hold Government accountable for achieving the commitments in this plan. Progress towards NSW 2021 goals and targets will be reported publically through regular updates online and through an annual report tabled in Parliament.
- *Independent Assessment of Progress:* To ensure progress against the targets all performance data will be subject to an annual independent audit process. An audit team made up of data experts including the NSW Auditor-General, the Australian Bureau of statistics and the NSW Chief scientist and engineer will conduct this verification of performance data prior to the release of an annual performance report.
- *Maintaining Flexibility:* NSW 2021 will be reviewed periodically in consultation with the community. The targets in the plan will also improve over time as more accurate and nationally comparable measures are developed

Measuring Performance and Tracking Progress

NSW 2021 includes a commitment by the Government to improve transparency and accountability. It acknowledges that for the Government's progress towards meeting NSW 2021 targets, there needs to be a shared understanding about the starting point, or baseline against which progress and achievement will be measured. To facilitate this, the Government has developed a Baseline Report⁵¹ which sets out:

- how progress against each NSW 2021 target will be measured by Government;
- the source of the measurement data and the frequency of its availability;
- a baseline year and rate against which the community can track performance;
- whether a NSW 2021 target is nationally comparable, can be measured at a regional level and by other key demographic categories including age, gender and Aboriginal status; and
- historical performance and projection information.

⁵¹ NSW Department of Premier and Cabinet, *NSW 2021 Baseline Report*, December 2011
http://www.2021.nsw.gov.au/sites/default/files/pdf/120208_NSW_2021_Baseline.pdf

For most NSW 2021 targets the Baseline Report includes graphs to represent historical performance data and to allow for the projection of performance trends or the actual performance improvements needed to ensure their achievement.

For some targets in the Baseline Report further development of baseline data and measures is required. In addition, some targets within the Baseline Report do not contain associated historical performance or projection data, as they represent a new commitment or one that has not previously been measured. It is anticipated that new data will be included in future progress reports as data sources are developed.

Accountability Mechanisms

The delivery of NSW 2021 is being led by the Directors General (Permanent Secretaries) across government Departments who have been instructed to give the Plan's objectives their highest priority. Furthermore, the goals, targets and actions in NSW 2021 are integrated into the machinery of government, setting the priorities for funding, guiding decisions and focusing the day to day work of the public sector. The Department of Premier and Cabinet plays a key leadership role, working closely with clusters and agencies across the sector as well as with non-government groups to ensure the targets and measures are appropriate and robust.

The plan identifies the lead Minister and lead Agency who are responsible for delivery of each target, allowing the community to hold the Government accountable for their achievement. This baseline report sets the standard from which performance will be judged. Progress with NSW 2021 targets and measures is reported publically through regular updates online and through an annual performance report tabled in NSW Parliament. All performance data is subject to an annual independent audit process. An audit team including the Australian Bureau of Statistics, the NSW Auditor-General and the NSW Chief Scientist and Engineer conduct this verification of performance data prior to the release of the annual performance report.

NSW 2021 will be also reviewed periodically in consultation with the community. The targets will be improved over time as more accurate and nationally comparable measures are developed.

Improved Financial Management

Treasury is leading a program of significant reforms to financial management in the NSW public sector. The Financial Management Reform Program is expected to involve changes to the regulatory framework, new financial reporting systems, revised budget and financial management processes, and strengthened financial management accountabilities across the sector.

The Financial Management Transformation (FMT) Program is described the NSW Government as a 'once-in-a-generation program to raise the quality of financial management and financial reporting across the NSW public sector'⁵². The program represents a whole of government initiative under the stewardship of Treasury. It was established to address issues in policies, processes, systems and capability identified by the Commission of Audit, the Auditor-General, the State of the NSW Public Sector Report, as well as internal reviews and stakeholder feedback.

⁵² NSW Treasury *NSW Financial Management Transformation*
http://www.treasury.nsw.gov.au/financial_management_transformation

Program objectives

FMTs overall objective is to enable better services and decision making to build a stronger economy for NSW. The program aims to improve alignment of resources with the Government's priorities by:

- Providing increased transparency within and across existing expenditures.
- Improving the robustness of forward estimates for planning purposes.
- Safeguarding the Government's service and infrastructure commitments by taking a more strategic whole-of-lifecycle view of programs and assets.
- Establishing clearer accountabilities for the management of public monies.

Key reform areas

The FMT program is focusing on six key reform areas:

- Program/service based reporting: Providing transparent reporting on how government resources are allocated and what results are achieved.
- Asset management: Taking a more whole-of-life approach to asset management, including improved processes for aligning sector-wide infrastructure plans with agency capital plans.
- Longer-term planning: Ensuring a more strategic approach, with more robust forward estimates providing for better planning.
- Cascading accountability: Aligning authority for expenditure of public money with accountability across the sector.
- Comprehensive financial controls: Using a wider set of financial performance measures to monitor agency performance, with flexibility in the level of central oversight based on performance.
- Governance: Strengthening the Expenditure Review Committee's control over fiscal and budget strategy through increased transparency, clearer accountability requirements and improved forward estimates.

NSW Treasury has established a governance structure that spans across the sector and includes a steering committee of Executives from key stakeholder agencies, and an Expert Advisory Committee, which includes representatives from the private sector and other Government jurisdictions.

Role of the NSW Auditor General

Like the Commonwealth Government, all states and territories also have their own Auditor General. The Audit Office of New South Wales is the independent auditor of the New South Wales public sector. The Audit Office reports directly to parliament on the New South Wales government's financial statements and use of public money. Its role is to help the public sector improve its performance for the benefit of the community. The Auditor-General is responsible for audits and related services. The Audit Office conducts financial and performance audits, principally under the *Public Finance and Audit Act 1983* and the *Corporations Act 2001*, and examines allegations of serious and substantial waste of public money under the *Public Interest Disclosures Act 1994*.

Financial audits

Financial audits provide an independent opinion on NSW Government agencies' financial statements. They identify whether agencies comply with accounting standards and relevant laws, regulations and government

directions. The Auditor General also audits the Total State Sector Accounts, a consolidation of all agencies' accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to agencies to ensure sound financial management.

A report on each financial audit is provided to the minister responsible for the agency, to the agency, the Treasurer and to parliament through the Auditor-General's Reports to Parliament.

Performance audits

Performance audits build on financial audits by reviewing whether taxpayers' money is spent efficiently, effectively, economically and in accordance with the law. These audits may review all or part of an agency's operations. Some audits consider particular issues across a number of agencies.

Results of these audits are reported to the chief executive officer of the agency concerned, the responsible minister, the Treasurer and parliament. Final draft reports are given to the agency (as required by legislation) and the agency's response to the audit is included in the Auditor-General's Report to Parliament.

In identifying a forward audit plan, the Auditor-General writes to all members of parliament and CEOs of the major agencies seeking views on topics. The Audit Office conducts a strategic audit planning process which identifies areas of risk in the public sector. The output from this planning process, together with responses from parliamentarians and CEOs, is considered by the Auditor-General and a list of potential performance audit topics is selected.

Key Issues, Lessons Learnt, Trends

Getting into Shape - State of the NSW Public Sector 2013 identifies four key reform directions to support strategic planning and high quality public administration in NSW⁵³ in the context of the NSW2021 strategic plan. These reforms are briefly summarised below:

Measuring customer satisfaction

Improving customer satisfaction with public services is central to goal 30 of the NSW2012 Plan. To this end, the Government has established *Service NSW*, a division within the Department of Premier & Cabinet. *Service NSW* (whose governance is led by the state's Customer Service Commissioner) aims to make it easier for NSW residents and businesses to connect with government, by providing services that are available at a time and in a way that suits them and through a single point of contact. It also relates directly to the legislated objectives of the Public Service Commissioner, which include fostering a public service culture in which customer service is strongly valued, and to the NSW public sector's Ethical Framework, particularly the principles of focusing on customer needs and service quality. Against this background, the PSC Advisory Board is undertaking research into measuring customer satisfaction with NSW public sector services, including developing a whole-of-government customer satisfaction measurement instrument. The instrument will measure satisfaction in relation to, among other things, the core public sector values of integrity, trust, service and accountability.

⁵³ NSW Public Service Commission, *Getting into Shape: State of the NSW Public Sector 2013* <http://psa.asn.au/wp-content/uploads/2013/01/Getting-into-shape-State-of-the-NSW-Public-Sector-Report-2013.pdf>

Determining public sector productivity

The PSC Advisory Board has identified understanding public sector productivity as key to improving the effectiveness and efficiency of NSW public service delivery. A number of agencies have made significant efforts to not only measure the quantity of outputs, but also consider and measure their quality and even outcomes. For example, NSW Health is collecting data on metrics such as admissions by principal diagnosis and age, case-mix adjusted average length of hospital stays, and risk-adjusted re-admission rates. This has allowed NSW Health to measure and compare different health services and determine how efficiently a given treatment is being conducted, based on the difficulty of the case. The PSC Advisory Board is currently overseeing work to determine if a tool can be developed to measure productivity across the sector. The Board has engaged experts to review how public sectors around the world measure productivity. It is also working closely with public sector agencies, other jurisdictions and productivity experts to identify the drivers of public sector productivity and how best to measure it.

Increasing collaboration with other sectors

Anecdotal evidence indicates that collaboration between the public sector and not-for-profit and private sector organisations can deliver excellent results for customers. However, the evidence about collaboration outcomes is mixed, and in literature the evaluation of collaboration tends to focus on process rather than outcomes. It is widely accepted that the public sector economy in NSW, across Australia and overseas has changed to a more mixed model of service delivery. In NSW, non-government organisations have had a long history of delivering public family, health and welfare services. On the other hand, partnerships with the private sector are more recent and sporadic but some interesting new models are developing. For instance, social benefit bonds are a new way of building innovative partnerships between the public, private and not-for-profit sectors to deliver measurable social outcomes. Under the arrangement, private investors provide up-front funding for a specified social program. The return to investors varies depending on the success of the program and the performance of the service provider against agreed targets.

Innovation

In an environment where demand for government services is increasing at the same time as pressure on budgets, it is more important than ever to foster innovation. Creating a workplace where people are encouraged to think creatively and to share their ideas can increase productivity, enhance collaboration and improve service delivery and customer satisfaction. The current focus in NSW is to help agencies and employees identify the organisational and cultural conditions that foster innovation rather than define what constitutes innovation or create particular places for it in the public sector. To this end, an 'innovation index' has been developed as an indicative measure of the extent to which the essential preconditions for innovation exist in the NSW public sector.

6. CONCLUSION

Stages of Reform

Strategic management and performance based budgeting has been a feature of public administration in Australia for at least three decades. Across all level of Government there is a strong commitment to reform and innovation to deliver improved public services, maximise public value and maintain fiscal sustainability.

Typically, major periods of reform have followed a change of Government (at either the federal or state level). For example, the election of a federal Labor government in 1983 after years of conservative leadership saw one of Australia's most significant periods of reform. Under the partnership of Prime Minister Bob Hawke and Treasurer Paul Keating, major economic reforms were implemented including the floating of the Australian dollar, deregulation of the financial system, dismantling of the tariff system, privatised state sector industries, an end to the subsidisation of loss-making industries, and the sale of the state-owned Commonwealth Bank of Australia. A fringe benefits tax and a capital gains tax were also implemented.

Subsequent Governments of both political persuasions have continued in this vein with significant reforms typically implemented at the beginning of a new term of Government, often using the May Federal budget as key tool for implementing change. The recently elected Abbott Government looks to be no different announcing major changes to the role and functions of Government in Australia in the 2014 Budget.

Australia's federal structure has helped to drive reform with different Governments and systems of service delivery providing a ready comparator for performance. In recent years, governments in Australia have explicitly cooperated to align their data collection to make cross jurisdictional benchmarking a reality. The development of a national data set for education performance - The National Assessment Program – Literacy and Numeracy (NAPLAN) an annual assessment for students in Years 3, 5, 7 and 9 – provides an excellent example⁵⁴. NAPLAN tests the sorts of skills that are essential for every child to progress through school and life, such as reading, writing, spelling and numeracy. The assessments are undertaken nationwide on an annual basis and provide both the public and bureaucrats with a rich source of information on how state education systems are performing across time and relative to other jurisdiction.

Assessing public sector entities' performance remains however a challenge. Typically public sector goals are harder than those of private sector organisations to measure and communicate. Private sector organisations are focused on maximising shareholder value, measured largely by financial profit or loss and share price. Public sector organizations however aims to create public value; a direct but not always immediate benefit to society. While shareholder value is relatively easy to measure in monetary terms, public value is more difficult to measure. 'Bottom line' financial accountability data, while useful in acquitting the stewardship obligations of government in relation to public funds, is insufficient to measure public value or gauge public sector performance.

Despite efforts in Australia to focus on outcomes there remains a tension between what can be easily measured and reported on (i.e inputs) and what a program is ultimately trying to achieve (outcomes). In particular, information currently at the 'programme' level is generally too broad. In many cases, 'programme expenses' and key performance indicators and deliverables at this level would provide greater scope and depth. They would be more useful in making decisions whether to expand, cease or reduce activity.

⁵⁴ National Assessment Program, Literacy and Numeracy, <http://www.nap.edu.au/naplan/naplan.html>

The presentation of information within portfolio budget statements is the responsibility of agencies, utilising guidance provided by the Department of Finance. While this guidance is prescriptive, further improvements are needed to ensure both consistency in the type and quality of information across government.

At present there is no central register of government programmes at a detailed level (like ‘programme expenses’). The Department of Finance is currently redeveloping its Central Budget Management System, the information and technology system which supports financial and budget management for the Commonwealth Government. In the new system, entities will enter financial data at a more detailed programme level, allowing information to be generated and centralised. This reporting will commence in late 2014, for the 2015-16 Budget.

According to the 2014 Commission of Audit, to enhance the transparency of performance information there should be a ‘clear line of sight’ through all information sources, both forward looking through the portfolio budget statements and backward looking through annual reports. This would enable a programme’s progress to be followed, to allow a comparison of planned and actual performance.

The Audit Office’s performance audits consistently demonstrate that many Commonwealth agencies fall short in developing and reporting performance measures that reveal the extent of progress against stated programme objectives. Of the Audit Office’s 2011-12 and 2012-13 performance audit reports 48 per cent included recommendations that focussed on the need for better programme effectiveness measures.

Measuring the impact and effectiveness of government activity remains problematic. As is the relevance, reliability and meaningfulness of key performance indicators. Improved programme performance measurement and assessment are required to increased efficiency and effectiveness of government and provide part of the information base for in-depth programme evaluations.

The Audit Office initiated a pilot project to audit key performance indicators in 2011-12 which it continued in 2012-13. The reports on the pilot project show that agencies continue to have difficulty developing meaningful key performance indicators that measure the effectiveness of a programme’s contribution to government outcomes. The Audit Office also noted that the pilot project confirmed implementation of performance measurement and reporting requires more focussed attention.

The Australian Government is currently in the process of implementing the Public Governance, Performance and Accountability Act which is expected to improve assessment and reporting of performance. In this context, the Audit Office will have an important role in focusing agencies’ attention on measuring and improving the effectiveness of programmes. This is consistent with the Australian National Audit Office’s core function of providing auditing and assurance services to Commonwealth entities – providing an independent assessment of public sector financial reporting, administration and accountability.

Benchmarking Australia’s Performance

These successive waves of reforms have helped to ensure that public administration in Australia has continued to adapt and evolve. In 2009 global financial services consultancy KPMG was commissioned by the Australian Federal Government to benchmark the performance of Australia’s public Administration against

comparable countries⁵⁵. KPMG found that the APS is a high performer (that is, among the top third of the public services compared) in the following areas:

- it is perceived as an independent public service with a robust values-based culture;
- it is rated as responsive to changes in the economy; and
- its workforce appears to have a higher proportion of women than comparator countries, although it is in the mid-range for the number of women in senior executive positions.

The APS' performance was found by KPMG to be in the mid-range of performance in the following areas:

- its approach to developing the skills and leadership capabilities of its workforce;
- its approach to performance-based budgeting of government programmes;
- provision of online access to government information and services; and
- mechanisms for collaborating across government.

Finally, KPMG also found that there are opportunities to strengthen Australian public administration in the following areas:

- its capability for coordinated, informed and strategic policy;
- its tools, methods and institutions for integrating external expertise and the views of citizens into the policy development and service design process; and
- its understanding of government priorities through the development of an overarching framework.

Notably both performance based budgeting and coordinated, strategic policy were identified by KPMG as areas for further improvement.

Redesigning Federalism

Australia's federal structure of government represents one of its most defining features and presents both opportunities and challenges.

All Australian governments – federal, state and local – share a responsibility to make Australia's federal system work effectively for the benefit of all citizens. Over the coming decades, Australia will face significant social, economic and environmental challenges. Meeting these challenges will require collaboration between and across levels of governments to deliver national solutions that are effective and sustainable over the long term. It will also require agreement on a substantive national reform agenda aimed at deepening the economic benefits gained from the market-inspired and microeconomic reforms of the 1980s and 1990s, extending these reforms to include a focus on human capital and adopting new reforms in critical areas such as water management and climate change⁵⁶.

In 2007, Kevin Rudd came to the office of Prime Minister on the platform of “ending the blame game” with a commitment to the reform of Commonwealth–State relations. In 2008, the Prime Minister, Premiers and Chief Ministers agreed to the COAG reform agenda— a “microeconomic reform agenda for Australia, with a particular focus on health, water, regulatory reform and the broader productivity agenda”. At this time

⁵⁵ KPMG, *Benchmarking Australian Government Performance 2009*

http://www.dpmc.gov.au/consultation/aga_reform/docs/benchmarking_australian_government_KPMG.pdf

⁵⁶ Council of Federalism, *Common Cause, Strengthening Australia's Cooperative Federalism*, May 2009

<http://www.caf.gov.au/documents/FP3%20-%20final.pdf>

COAG also developed the Intergovernmental Agreement on Federal Financial Relations referred to in Chapter 4. Arguably he achieved only mixed success.

The new Prime Minister, Tony Abbott, has also come to office with a promise to reform Commonwealth–State relations. He has committed his Coalition Government to work with the States to produce a White Paper on Federalism within two years of coming to Office.

The current Commission of Audit's brief to assess the split of roles and responsibilities between the Commonwealth and the states and territories is strong signal of the current Abbott government's intention to undertake radical reform in this area.

The Commissioners were asked to identify areas of unnecessary duplication between the activities of the Commonwealth and other levels of government or areas or programs where Commonwealth involvement is inappropriate, no longer needed, or blurs the line of accountability.

According to some commentators, the most valuable and achievable role for the Commission of Audit is to explore the question: what is a meaningful role for the Commonwealth government in the early 21st century? Australia's Constitution sets out what was considered a meaningful role for the new national government in 1901 but now bears little relation to the complex intermingling of roles and responsibilities. Since federation, the Commonwealth's role that has become unstable, while the states and territories have consistently retained their focus on service delivery.

APPENDIX A: COMMISSION OF AUDIT - RECOMMENDATIONS

The National Commission of Audit released its report on the scope for efficiency and productivity improvements across all areas of Commonwealth expenditure on the 2nd of May 2014. The report, the result of the first full scale review for 18 years, made the following key findings:

- Over the past 40 years government spending, adjusted for inflation, has increased from around \$6,000 per person per year to over \$15,000 per person today.
- Under the Commission's 'business as usual' fiscal scenario Australia faces 16 consecutive years of budget deficits with net debt rising from \$190 billion today to \$440 billion by 2023-24.
- One of the major reasons is that Commonwealth spending will increase by \$280 billion over the next ten years with 70% of this increase coming from the 15 largest programs.
- Spending on most of these programs will increase faster than the growth in the economy and faster than the Commonwealth receives taxes. Aged pension, aged care, health, education, child care and paid parental leave, overseas aid and disability are the fastest growing programs.

The Terms of Reference for the National Commission of Audit were simple: return the budget to a sustainable surplus of 1% of GDP by 2023-24. According to the Commission, without reform budget deficits will place a significant burden on future generations to bring the budget under control.

The Commission makes 86 recommendations – 64 in its Phase 1 Report which deal predominantly with improving the sustainability of the nation's finances and a further 22 recommendations in its Phase 2 Report which mostly address public sector performance and accountability as well as infrastructure.

The recommendations offer savings estimated at \$60 to \$70 billion per year within ten years. On top of this with the reduction of debt there will be a significant annual saving in interest. The following is a brief summary of the Commission's major recommendations:

The Commission has recommended 24% of GDP as a reasonable long term cap on the size of Government while recognising that at times it may be exceeded. The current tax share of GDP should increase as the economy grows, however, the Commission was conscious that a deliberate increase in taxation at this time may damage the economic recovery.

The Commission reviewed and recommended rationalisation of many of the 900 Commonwealth bodies. Similarly on grants programmes it recommended far tighter controls and monitoring and assessment of outcomes.

The Commission was concerned with the absence of proper program evaluation on Commonwealth programmes. It has recommended a system of rigorous independent evaluation with a focus on ensuring spending programmes are actually meeting their objectives.

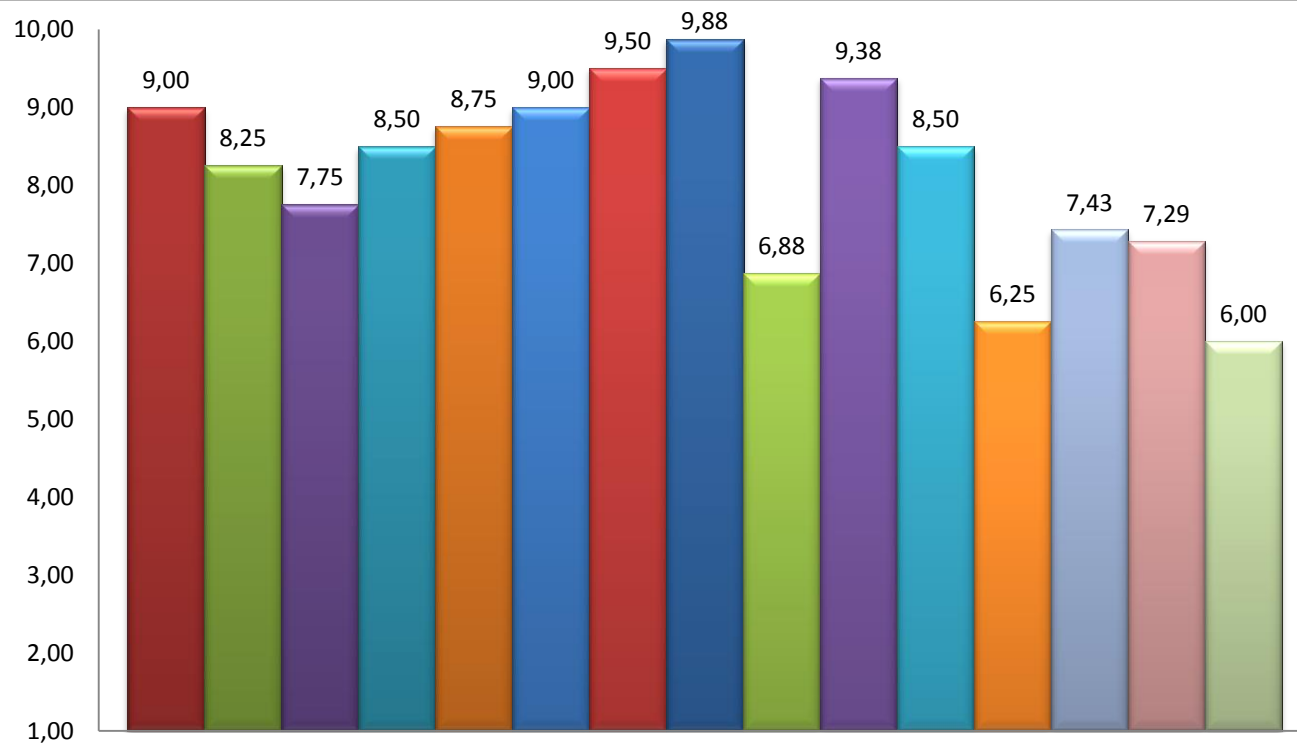
The Commission was asked to examine Commonwealth/State relations. It has made recommendations to reform the Federation and to devolve as much as possible to the States which is the level of government closest to the people.

It has also recommended the elimination of costly and ineffective duplication and a reduction in the significant administrative burden the Commonwealth imposes on the States through hundreds of COAG agreements. The States should be sovereign in their own right if Australia is to return to the Federation and Constitution which have served the country so well.

The Commission believes the vertical and horizontal fiscal imbalances within the Federation are a major impediment to growth and prosperity. The Commission has recommended that the States have direct access to a portion of income tax generated in their economy and this be offset by a reduction in tied grants. It has recommended pro rata distribution of GST with top ups to the supported States.

Evaluation Outcomes of the Study Visit to Australia

02-11 May 2014



1

- 1- Was this study visit beneficial to you?
- 2- Did the schedule of the study visit meet your expectation in a positive way?
- 3- Were the materials used in the study visit (slides, information notes etc.) sufficient?
- 4- Do you consider the information communicated to you in the study visit beneficial?
- 5- Do you consider the number of institutes that you visited in the study visit sufficient?
- 6- How would you describe your general level of satisfaction with the organization of the study visit?
- 7- How would you describe your level of satisfaction with the support provided to you in the visa application process?
- 8- How would you describe your level of satisfaction with the transfer service provided in Ankara to and from the airport?
- 9- How would you describe your level of satisfaction with the airline company?
- 10- How would you describe your level of satisfaction with the hotel that you stayed in Australia?
- 11- How would you describe your level of satisfaction with the transportation service provided in Australia?
- 12- How would you describe your level of satisfaction with the venues where the presentations were delivered in Australia?
- 13- How would you describe your level of satisfaction with the food and beverages served in Australia?
- 14- How would you describe your level of satisfaction with the cultural activities organized in Australia?
- 15- How would you describe your level of satisfaction with the interpretation service provided in Australia?

1- Are there any public organizations or administrations that you consider beneficial to visit other than the ones that you already paid a visit in the scope of this study visit? If yes, would you please name them?

- Ministry of Finance (Treasury Department talked to us about this Ministry. However, it would be better if it was the Ministry's representatives telling us about this issue).
- It would be perfect if we had had the opportunity to visit institutes at the federal level.

2- What were the most beneficial aspects of the study visit? Why did you find them beneficial?

- In addition to the presentations handling the federal system in Australia, the presentations delivered by the Treasury Department which explained the budget process at the state level quiet well as well as those delivered by the Court of Accounts explaining the audits were beneficial since they showed us the whole public financial system at the federal level. Furthermore, the visit to Ministry of Education and the presentations we heard there where we saw the parts of strategic management in practice at the institutional level were also beneficial.
- It was very beneficial to receive detailed information about Australia and its institutes. It was also beneficial to be informed about the budget structure and process.
- Our interlocutors confirmed what we know about the management system in Australia is true.
- The issues we were interested in hearing were already communicated to the institutes that we visited, therefore those issues were mentioned in the presentations.
- Those who delivered the presentation were experienced and competent.

3- What were the least beneficial aspects of the study visit? Why did you find them as such?

- The presentation which was delivered on the last day regarding how the system works at the local level did not full meet our expectations. Our expectations to hear about how the budget is distributed at the local level, what decision making mechanisms are available and how these mechanisms work at the local level were not fully met.
- The Ministry we visited which was called Ministry of Planning functions as the recently established Ministry of Environment and Urbanization in Turkey. The outcomes of the visit in which we discussed how public investments are directed at the state level were different from our expectations.
- The meeting held at the Department of Planning and Infrastructure was not very beneficial. It was not relevant. .

4- Other comments/suggestions?

- Organization was well prepared. Thank you. I would like to thank those who organized the study visit.
- The fact that there were preparations made and relevant persons were given the questions and slides before the study visit highly increased the quality and efficiency of this visit. Therefore it would be beneficial if this system was used for the upcoming study visits.

