Overview

Budgets are used by government for many functions. They assist in planning, allocate resources, influence economic conditions, make political statements and signal government priorities. Therefore they are intimately linked with the subject of strategic management (Topic One).

Governments and organisations use budgeting to achieve fiscal responsibility, accountability and control. Public sector managers need to understand these processes, due to their impact on operations in terms of policy and program delivery.

The debate about government’s financial allocations and priorities is much more significant than the technical details of the budget and accrual accounting. This strategic role of budgets is fundamental to adding public value. Budgets also operate in the constraints of adversarial parliamentary systems and cabinet governments. Budget negotiations can generate central/line agency debates or inter-agency disputes about appropriate resourcing, not to mention internal manoeuvring between agency sections or silos to capture resources.

The budget cycle is important for public sector managers, not necessarily because they need to become experts, but because they need to arm themselves with the required business acumen and engage in the wider debate about government financial priorities and policy implications (Kelly & Wanna 2004). Financial management skills are necessary. For example, the South Australian Auditor-General expressed concern that some agencies had inadequate skills and systems to manage and audit government accounts according to legal guidelines and timeframes. This expression of concern followed the ‘slushgate affair’ that claimed the scalp of Kate Lennon, a leading CEO who tried to hide several million dollars in surplus so the funds would not be clawed back by Treasury (McGarry 2004).

Australian governments went through major financial reforms in the 1990s. Some of the biggest shifts were to benchmarking best practice in financial management, devolving responsibility and changing to accrual accounting. There was also a new financial reporting agenda for agencies, with a requirement to produce annual reports on the outputs–outcomes framework, which ideally would be linked to agencies’ strategic plans. In the current decade some jurisdictions are reviewing and refining their financial management policy and processes.

To start off, we introduce simple definitions of budgets and budgeting. A budget is a systematic means of apportioning financial, physical and human resources
to monitor progress toward organisation objectives, control spending and predict cash flow. The topic continues with a general discussion of governments’ role in economic management, budgeting and accounting. The Commonwealth Budget is a significant event on the political and economic calendar with flow-on effects to public sector managers in all jurisdictions including federal, state, territory and local as well as NGOs, so some time is spent reading about the process.

At the federal level, the budget is developed through a series of formal processes and documents. The government has a performance framework and formal agency processes and management techniques such as costing. Clear links from the cost, quantity and quality of outputs to planned outcomes and strategic priorities of government should greatly improve the quality of performance information.

Learning Objectives

On successful completion of this topic, you will be able to:

1. Outline the key components of budgets and budgeting.
2. Explain why governments budget, and identify the political, social and economic functions of these budgets.
3. Outline your jurisdiction’s budget cycle and financial performance, accountability and reporting frameworks.
4. Explain the main principles of accruals-based resource management and the outcomes–output model.
5. Identify the significance of costing activities.
6. List the steps in conducting a cost–benefit analysis.
7. Evaluate the contemporary financial reporting agenda in terms of how it has an impact on budgeting practices and outline some arguments against budgeting.
8. Explain the components and benefits of triple bottom line reporting (TBL).

4.1 General Concepts and Definitions

To start our study of the budget cycle and financial management, we will introduce some basic definitions. The most common interpretation is that budgets are only about money. However, we have talked about the need to manage and plan for all forms of resources in strategic management (Topic One), just as the following definition from the Australian National Audit Office (ANAO 2000:n.p.) does: ‘A budget is a systematic means of allocating financial, physical and human resources to monitor progress towards organisational objectives, help control spending and predict cash flow’.

Systems and terminology vary slightly between jurisdictions but financial management in a nutshell involves financial, physical and human resources (inputs),
used to achieve various desired results (outputs or outcomes) in the government's financial plans (in the form of the budget) and measured for performance against that budget (through accrual accounting and reporting) for internal and external evaluation.

Budgets should be intimately linked with organisational strategic management, although whether this is the case in practice is a moot point. Budgeting is the phase of accounting that involves preparing a plan or forecast of future operations. One of the primary functions of budgeting is to project to management the activities necessary to reach outcomes, goals and objectives. Budgeting can be either internal or external. In a generic and simplistic sense, internal budgets are documents that organisations develop to assist in planning. External budgeting involves compiling internal budget information into a report for government and others.

Budgets formalise agency outcomes, goals and objectives. They provide a ‘yardstick’ against which financial performance can be compared. The comparison between planned and actual should be a powerful financial management tool.

4.1.1 Levels of Analysis

There are several dimensions to the role of public sector financial management, ranging from the conceptual to the minutiae. The three dimensions of perspectives, level and extent of detail are shown in Figure 4.1.

**Figure 4.1 Three dimensions of government budgeting**

<table>
<thead>
<tr>
<th>Dimension 1</th>
<th>Government</th>
<th>Agency</th>
<th>Section</th>
<th>Individual Manager</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dimension 2</strong></td>
<td>Federal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level</td>
<td>State/territory</td>
<td>Local</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Conceptual</td>
<td>General</td>
<td>Specific</td>
<td></td>
</tr>
</tbody>
</table>

The three dimensions shown in Figure 4.1 also have different layers of analysis as shown in Table 4.1.

**Table 4.1 Levels of analysis in government budgets**

<table>
<thead>
<tr>
<th>Level of analysis</th>
<th>Examples from in this topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conceptual</td>
<td>Theories of economics</td>
</tr>
<tr>
<td>General/high level or systemic</td>
<td>Roles and functions of government budgets</td>
</tr>
<tr>
<td>Specific/step-by-step</td>
<td>Commonwealth Budget Process</td>
</tr>
<tr>
<td>Minutiae</td>
<td>Commonwealth Budget Process</td>
</tr>
</tbody>
</table>
When discussing budgeting, it is also important to remember Australia’s federal system of government. This has a major influence over how much revenue the states and territories receive and imposes constraints on their own revenue raising ability, and local governments also suffer constraints from their state/territory ‘masters’.

4.1.2 Budget Concerns at Different Levels of Government

The reason why we need to remind ourselves of federalism when speaking of budgets is because the nature, scope and intention of budgets will differ between federal, state/territory and local governments. At the Commonwealth level, the Budget is largely concerned with the global economic perspective. It is concerned predominantly with strategic economic policy that impacts on the functioning of the Australian economy, both on the domestic scene as well as Australia’s economic position in the global economy.

State/territory budgets, on the other hand, focus predominantly on expenditure allocation and service delivery. The main concern is where, and how much, resources can be allocated to hospitals, roads, police and education and so on. State/territory budgets have fewer economic tools to wield and less scope to influence the drivers of their economies. As a result, the focus of their budget is somewhat different from the Commonwealth. At yet another level, local governments are responsible for the funding of ‘roads, rates and rubbish’ and usually have even less flexibility than state/territory counterparts to source income in an independent manner, although this has changed somewhat in recent times as local governments extend their services and find different means of raising revenue. The focus of their budget process is very much on the detail of community spending on basic, local services as well as unique programs tailored to that particular place, and they are substantially controlled by their relevant state/territory government.

The focus and thrust of budgeting in various jurisdictions will differ and we need to distinguish the level of analysis when considering the budget process and the intent and scale of budgeting. However, there are common themes:

Organisations use internal budgets to establish and communicate funding priorities, support decision making, set financial controls, and monitor and report financial performance. Effective internal budget processes, which underpin the efficient allocation of resources, enable Australian Government organisations to more readily identify and respond to changes in environmental conditions and government priorities (ANAO 2008:i).

Government budgeting is not a discrete process taking place somewhere else of no concern to public sector managers. The higher up managers become located in the hierarchy, the more relevant it becomes. They are required to adopt a higher level, more strategic perspective on the agency’s activities. This point reinforces those observations made about line of sight in strategic management (Topic One) and flow through to performance management in a later topic.

Required Reading 4.1

This reading provides the conceptual and contextual background for government and public sector budgeting and financial management. The first section (pp. 14–19) discusses budgets at the highest conceptual level. It explains a range of assumptions, analytical frameworks, perspectives, theories and economics analyses. Reading this should indicate that the current system we have represents a particular ideology, theory, perspective and system. It isn’t the only way to approach government finances.

The second section (pp. 41–7) is still quite a general discussion but somewhat less conceptual. It is about the roles, actors and processes. It explains who’s who, such as the distinction between guardians and spenders of money. The historical background is useful to explain where we are today by looking at where we have come from. The fact that a particular public sector manager may now see an end-of-month operating statement come across their desk has a long genesis.

4.2 Political, Economic and Social Functions of the Budget

Government spending represents a very large proportion of the Australian economy. There are political, economic, social and other functions served by budgets as we will discuss here, commencing with the political.

4.2.1 Political Functions

Analysis of budgeting often obscures the fact that the budget process is one of the central planks of political activity and a critical element of the fascinating distribution of resources and power in society. Budgets provide a useful perspective from which to examine public policy. Budgeting offers ample opportunities for comparison as the outcomes are both ‘specific and quantifiable’ (Wildavsky 1972:192–3).

In recent times, governments somewhat changed their former secrecy on budget processes as a way of managing expectations. They began to use leaks to ‘test the waters’ for budget strategies prior to their announcement. If reaction is favourable, the initiative is pursued, whereas negative reaction often returns the initiative to the drawing boards. As a result, the main features of a budget become known well in advance of its public release and budgets may then appear boring or predictable. Better media coverage and acceptability achieved through this process can be beneficial to the market and smooth out economic reaction to budget initiatives.

4.2.2 Economic Functions

Governments have an extremely intense interest in the performance of the economy and the impact of public sector activity on the overall financial and economic health of the nation. Budgets are often used by governments to attempt some form of control over the economy or by default at least have some impact on the state of the economy. Budgets are also a tool for managing a range of conflicts and tradeoffs in government objectives and for providing control and efficiency in departmental activity.
Peter Groenewegen (1990:23–29) suggests that government budgets perform a number of other economic functions, including:

- **allocation** – determine the relative size of the public sector as well as the allocation of resources in government activities and directly and indirectly contribute to unemployment figures
- **distribution** – impact on the distribution of resources in a community
- **stabilisation** – can assist in providing stability to an economy, especially in areas such as monetary policy, debt management and wage determination

These functions are expanded in Table 4.2. Government budgets are notable for their size and complexity in serving these multiple functions and the unintended consequences that occur as a result of implementing a certain set of budget initiatives.

### Table 4.2 Functions of budgets

<table>
<thead>
<tr>
<th>Key budget functions</th>
<th>Instruments</th>
<th>Main aims/concerns</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Political</strong></td>
<td>Budget speech and documentation, ministerial statements, press releases and media engagements, parliamentary debates</td>
<td>Reception and spin, selling a message – writing the headlines for the media, highlighting the government’s record, strategies and plans</td>
</tr>
<tr>
<td><strong>Economic</strong></td>
<td>Interim reports</td>
<td>Fiscal discipline and stability, reception of the economic statement aimed at financial markets and business</td>
</tr>
<tr>
<td><strong>Revenue/Income</strong></td>
<td>Taxation authority and types of tax instruments, some user-charging and sale of services</td>
<td>Provision of resources for collective needs, notions of tax efficiency, non-arbritrariness, simplicity, fairness, compliance</td>
</tr>
<tr>
<td><strong>Allocative</strong></td>
<td>Strategic review, current priorities, policy review, contestability, revenue retention, expenditure shares</td>
<td>Priority need, redistribution, services or targeted assistance, service providers, agencies, range and type of public goods to the community</td>
</tr>
<tr>
<td><strong>Technical efficiency</strong></td>
<td>Resource management, purchaser-provider models, price reviews, efficiency audits, best practice guides</td>
<td>Productivity improvement, offsets/savings, cost effectiveness, as seen in the performance management framework</td>
</tr>
<tr>
<td><strong>Accountability</strong></td>
<td>Appropriation bills and associated documents, public scrutiny, parliamentary debates</td>
<td>Electorate, parliament, audit, media, pressure groups</td>
</tr>
<tr>
<td><strong>Financial/Outlay</strong></td>
<td>Agency resourcing (revenues and expenses), measures, and intended outcomes</td>
<td>Public sector, agencies and departments, performance and financial management compliance</td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td>Capital statements, specific policy statements/commitments</td>
<td>Capital works, economic and social infrastructure, asset base, equity injections</td>
</tr>
</tbody>
</table>

*Source: Adapted from Wanna, Kelly & Forster 2000:40.*
Due to issues including deregulation of the financial sector, floating the Australian dollar, the increasing influence of multinational corporations and globalisation, the Commonwealth government has arguably witnessed a decrease in its capacity to unilaterally shape the future of the broader Australian economy. This is not necessarily a unique experience, but rather a salient phenomenon for many governments (Friedman 1999). The squeeze on governments’ ability to direct the macro economy is replicated at the micro level in the limited capacity to adjust their own budgets.

Nonetheless, a range of interventions is at government disposal for influencing or guiding economic and financial performance. Groenewegen (1990:17) suggests the following tools:

- **fiscal or budgetary policy** – exemplified by tax and expenditure
- **monetary policy** – exemplified by debt management, credit and banking policy
- **external policy** – exchange rate policy, tariffs and bounties
- **wages policy** – linked to fiscal policy and exemplified in the social wage
- **direct regulation through legislation** – examples would include the Trade Practices Act, industrial relations legislation, consumer protection
- **government business enterprise activity** – prices and output policies of public utilities and corporations have a significant impact on overall economic performance (examples include electricity, rail and telecommunications policy).

Governments need to demonstrate that they are sound financial managers as well as innovative, efficient, and responsive to community desires. Achieving this balance is an extremely sensitive and difficult task. This is especially so because the budget is often analysed according to its short-term impact on the hip pocket.

### 4.2.3 Social functions

More recently the social functions of the budget have emerged with issues such as the environment and child protection taking more of centre stage. In 2006, 77% of surveyed Australians agreed with the statement: “A government’s prime objective should be achieving the greatest happiness of the people, not the greatest wealth”. And when asked “What is the most important thing for your happiness?”, almost 60% of surveyed Australians cited partner/spouse and family. A further 8% specified community and friends. It would appear, then, that a large proportion of the Australian population believes that a primary responsibility of government is to support and protect their happiness, founded in relationships with their family, friends and the broader community. At the same time, only one quarter of those surveyed think that life is getting better (Shepanski et al. 2007:3). This suggests that Australians are more focused on the social and other functions of budgeting and performance management rather than the financial.
4.2.4 Finite Resources and the Strategic Allocative Function

The business of government is the business of society and it is certain that trade-offs occur and there are winners and losers from the same budget allocations. Budgets are aimed at a variety of audiences both in and across government, and at external parties, including overseas markets. Interest groups are keen to see how a new resource environment will service their needs, state/territory governments are anxious to determine the size of their serve of the Commonwealth pie, and private sector participants have an interest in the impact on the economy, including the price of beer and cigarettes. Thus government budgets are different from household or corporation budgets in that they must serve multiple and often contradictory functions.

Accordingly, budgets are fundamentally about strategic allocation of resources. It is important to be aware of three issues that can structure government thinking on resource allocation:

- Governments want to ‘make a mark’ and resource allocation decisions are influenced by priorities that are seen by a particular government to be what they wish to be remembered for.
- Governments have to grapple with managing emergent risks that can influence their political standing or image – governments don’t want to be remembered for ‘stuff-ups’ and so they will pay attention to policy areas or issues that might potentially cause ‘damage’.
- Governments have to ensure adequate funds are allocated for smooth operating in the day-to-day business of government to ensure the community is serviced.

Together, these issues determine how a government will decide between competing policy proposals that might be put forward by departments or interest groups, and therefore will ultimately affect the volume of funds at the disposal of public sector managers.

4.2.5 Reducing Government Expenditure

Any modern government must be concerned with at least two major issues in relation to public expenditure:

- controlling the relative size of public expenditure; and
- managing the funds already designated as public expenditure.

Control of the relative size of public expenditure is largely an ideology-driven matter, but it is also influenced by pragmatic political imperatives such as reaction to terrorism and compassionate responses made to natural disasters such as the Asian tsunami, international political crises or similar unforeseen events. Consensus between the major parties regarding the desirability of achieving an overall budget surplus may play a role too. Managing the funds already designated as public expenditure tends to feature more technocratic and administrative debates.
Overall, then, budgets are both a tool of government and a means by which governments are themselves controlled. While budgets may make governments powerful, they also exert enormous power over governments. Understanding budgeting and its processes will position you to understand not only the broad details of financial techniques but also the overall strategic jockeying for power, economic control and public sector accountability that occurs in modern democratic polities. They are increasingly used to assess the capacity and performance of government itself, not just the economic and political allocative function of resource distribution.

Activity 4.1 – Understanding concepts, roles and functions of budgets

1. Sketch the broad needs for managing resources in the public sector.
2. How are government budgets the same and/or different from company budgets or family budgets?
3. Outline different examples of ‘contests’ (for example, central versus operating agencies) that occur in the budget process and discuss how these contests might impact on the budget process.
4. Do you recognise these contests from your own experience? If so, describe an example.

4.3 Financial Performance

The Commonwealth Financial Management Improvement Program (FMIP) was initiated in the late 1980s. Many of the initial provisions of the FMIP have been superseded by subsequent reforms of far greater magnitude (Wanna et al. 2000), and continue to be subject to review and revision. Budget reform needs to be understood as a trial-and-error approach rather than a perfect solution in itself. Reform itself can be a political process where central agencies flex their muscles and attempt to exert control over operating agencies and line departments, therefore it is important to place any reform in its relevant political context.

4.3.1 General Financial Performance Measurement

Governments use performance measurement and monitoring concepts and evaluation mechanisms. Governments today generally accept the standard economic problem of scarce resources matched against unlimited demands and are acting more responsibly following the economic debacles of the 1980s and 1990s. For example, NSW started with a general government debt reduction strategy in 1995, which was replaced in 2005 with a more proactive, fiscal strategy aimed at creating surplus and maintaining the state’s AAA credit rating. Different ways of measuring the efficient use of resources are set out in Table 4.3
4.3.2 Government Performance Reporting and Accountability

Government spending is subject to scrutiny and accountability. Detailed budget documentation is now compiled that provides a wealth of information rolled up into a comprehensive and tailored package of information to meet the needs of various scrutineers.

Table 4.3 Key performance measurement concepts

<table>
<thead>
<tr>
<th>Productivity</th>
<th>the ratio of all outputs to all inputs</th>
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</thead>
<tbody>
<tr>
<td>Partial productivity</td>
<td>a ratio of outputs to inputs which does not include all inputs and outputs, for example, output per employee</td>
</tr>
<tr>
<td>Efficiency</td>
<td>how well an organisation uses its resources to produce outputs relative to best practice at a point of time (possibly measured by benchmarking)</td>
</tr>
<tr>
<td>Technical efficiency</td>
<td>the conversion of physical inputs such as employees and machines into outputs relative to best practice. Technical efficiency is affected by managerial practices and the scale or size of operations.</td>
</tr>
<tr>
<td>Allocative efficiency</td>
<td>whether, given input prices, inputs are chosen to minimise the cost of production (seen for example in manufacturers moving their operations offshore where labour costs are lower)</td>
</tr>
<tr>
<td>Dynamic efficiency</td>
<td>the timeliness of changes to technology and products in response to changes in consumer tastes and productive opportunities (eg government e-business initiatives)</td>
</tr>
<tr>
<td>Economic or cost efficiency</td>
<td>whether an organisation is technically, allocatively and dynamically efficient</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>how well the outputs of a government agency achieve the objectives expected by the government, for example are the activities of hospitals having an effect on the general health of the community</td>
</tr>
</tbody>
</table>

*Source: NSW Treasury 1997.*

**Required Reading 4.2**


The federal government works on a system of outcomes to which funding is allocated in a fairly lengthy process of budgeting. Outcomes, programs and departmental activities form the basis of the Commonwealth’s budgetary framework and documentation. Outcome statements define the purpose of appropriations in the Budget Bills, and Programs and departmental activities are detailed in Portfolio Budget Statements to explain these appropriations further. Rather than duplicate this process here, refer to the Finance website. Note changes are expected in these processes but information was not published on the site at time of viewing.
4.4 Performance Framework

Agency processes for budgeting and financial management sit within a wider context. They need to be seen as part of government performance in delivering public value. The performance framework is about competitive tendering and outsourcing, service charters and accruals-based management, reporting and accountability as shown in Figure 4.2.

Figure 4.2 Performance framework

![Performance Framework – Beyond 1998](image)


Based on the performance framework, elements of effective financial management can be achieved through:

- accruals-based management where the costs and benefits of new and existing activities are delivered in full
- output-based management which focuses on managing the services being delivered and who they are delivered to
- benchmarking and market testing in terms of cost and benefit against other agencies which provide the same services, to determine which activities need improvement and which should not be done at all
- outsourcing activities the agency cannot complete at ‘best practice’ standard, ensuring that the agency focuses on its core business
- a financial accountability framework that focuses managers on their roles and responsibilities in delivering outputs and integrates performance measurement into the decision-making processes of managers and resource purchasers (MAB 1997a:8).
These ideas are illustrated next using the Northern Territory as an example in Table 4.4.

**Table 4.4 NT Financial management framework**

<table>
<thead>
<tr>
<th>Financial and Performance Management Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Territory’s financial and performance management framework is titled <em>Working for Outcomes</em>. It is a comprehensive framework comprising three core elements:</td>
</tr>
<tr>
<td>- outputs - specifications of outputs;</td>
</tr>
<tr>
<td>- performance - measurement of agency performance in relation to the quality, quantity, timeliness and cost of outputs; and</td>
</tr>
<tr>
<td>- accruals - budgeting, accounting and reporting according to the accrual methodology.</td>
</tr>
<tr>
<td>The principle objective of the <em>Working for Outcomes</em> framework is to provide a better basis for resource allocation within the Territory by:</td>
</tr>
<tr>
<td>- focusing on outputs and performance;</td>
</tr>
<tr>
<td>- clearly defining links between outcomes and outputs; and</td>
</tr>
<tr>
<td>- providing full cost information for outputs.</td>
</tr>
<tr>
<td>The <em>Working for Outcomes</em> framework provides agencies with the tools necessary to effectively monitor, evaluate and improve their performance in the delivery of outputs to the Territory community. It promotes efficient and effective agency management with value for money service delivery. <em>Working for Outcomes</em> is a contemporary financial management system derived from an accrual output-based framework.</td>
</tr>
<tr>
<td>Agencies provide Treasury with quarterly performance information on actual performance compared to targets during the year. This information is then reported to Ministers and Cabinet.</td>
</tr>
<tr>
<td><em>Source: NT Treasury 2008</em></td>
</tr>
</tbody>
</table>

### 4.4.1 Benefits of the Framework

There are a number of benefits from the accruals-based resource management and the outcomes–outputs model. These include clearer and more accountable pictures of the outputs that agencies are producing and of how these outputs contribute to the government’s desired outcomes, and improved information for decision-making and control of resources.

As well, there is a stronger focus by managers on the expectations of government through the highlighting of outputs and outcomes, and budgets for the outputs that agencies produce. A sharp focus on government resources and the outputs produced means financial performance should be measured more completely and comprehensively.
A total accrual framework has benefits in terms of public sector management for line managers, as well as the transparency it provides to external users about the costs and performance of government. Over time, the results-based information should give government, media, commentators and citizens a clearer picture of what services governments can deliver and at what total price (MAB 1997a). Whether the framework has delivered these benefits is debatable. For example, ‘accruals are premised on assumptions and therefore open to creativity and contextualization’ (Kelly & Wanna 2004:100).

**Activity 4.2 – Assumptions about budgets**

The various government financial management frameworks assume that public sector managers know what their budgets are and what outcomes they are expected to deliver within the budget, as well as being aware of inputs (costs such as staffing etc). Is this the case? Do you have a budget? Do you know what outcomes you have to deliver within that budget? Do you report against the budget (eg quarterly)? Are you required to know about and control your costs? If you don’t have this responsibility, who does? That is, what level is financial accountability devolved to? How far above or below your level does it go? If it is above your level, what are the implications? What do you think about having budget responsibility at your level if you don’t have it now?

Each jurisdiction has its own financial management framework and process. In Figure 4.3 we look at Queensland as an example of how resources are allocated. It is not possible to cover everyone in this topic and in addition the frameworks are undergoing review and revision in some cases, and the reporting and accounting requirements vary as well. For example the South Australian Department of Treasury and Finance (DTF) began a review in 2006 and has recently (2008) released new guidelines: a revised Treasurer’s Instructions (TI) 2 Financial Management and a new TI 28 Financial Management Compliance Program were issued, effective 1 July 2008; and the Financial Management Framework was withdrawn, effective 30 June 2008 (SA DTF 2008, see <http://www.treasury.sa.gov.au/dtf/financial_management/financial_publications_and_downloads/treasurers_instructions.jsp> viewed 17 September 2008).
Components of the framework are:

- set high-level government objectives and priorities
- set agency service delivery objectives and strategies
- allocate resources to meet government service demands and achieve desired outcomes
- allocate resources to meet agency service demands and achieve desired outcomes
- manage resources to achieve government outcomes
- manage resources to deliver agency services

The components of the framework are listed as a series of rational logical steps but as you can imagine there is a fair bit of ‘argy bargy’ to arrive at the final allocation. The other point worth noting in the above list is that it (realistically) acknowledges the need to meet service demands rather than only mentioning strategic priorities.
This suggests that the Queensland government recognises that it has an obligation to provide certain essential, expected services. This contrasts with private sector strategies and budgets which have much more discretion, where unprofitable products or services can be discontinued.

**Activity 4.3 – Financial management framework**

Visit your jurisdiction’s Treasury website and source details about the financial management framework or similar if available and compare it to the one shown here from Queensland. The quality, format and availability of this information varies between states, territories and the Commonwealth, so you may not be able to produce a figure as useful and succinct as the one from Queensland, and this could form part of your comparison. Browsing through the website will give you an idea of what information is available and in what style. You might also check your own agency site to see what specific information or interpretation and application has been made of the government guidelines. This activity is particularly directed at PSM Program participants who have no budget or financial responsibility or general knowledge of government and agency financial management. As we have already discussed, not every budget process is the same. However, the broad principles of planning and reporting are inherent in all governmental budget cycles. Source your relevant budget process from your federal, state/territory or local government web page or by contacting the relevant Treasury or Finance section.

Read through the document(s) you have obtained and perform the following tasks:

1. Summarise the main steps in the process in your own words, to make sure you understand and can articulate the key points.
2. Make a list of all the players involved in the budget process, considering what their respective interests and expectations might be from the process.
3. Describe how the budget process fits with the broader policy process.
4. Analyse the flexibility of the budget process vis-à-vis the needs of routinisation and a structured process.

The following section will discuss this framework in more detail.

**4.5 Accruals-Based Resource Management and Outcomes and Outputs**

Appropriations are managed and accounted for in an accruals framework, which consists of legislation, outcomes, administered items, outputs, accountability mechanisms, service charters and portfolio budget statements. The framework measures outcomes and outputs, not just inputs. The framework is intended to be flexible and dynamic.
4.5.1 Detailed budgets and plans for agencies

In line agencies (spending departments to whom appropriations are made), the budget statements provide the main basis for management and business planning for the year(s) ahead. These plans inform politicians and agencies of the proposed allocation of resources to outcomes and outputs by agencies in the portfolio. Importantly, the documents record the main objectives and planned achievements of the various agencies. They list performance commitments related to an outcomes framework. They are accountability documents against which agencies report progress or achievements (even non-achievement) of their stated outputs. The reporting process is robust where agencies are engaged in definable outputs (often quantifiable) and where agency management is (in theory) frank and informative about their performance. Internal reviews or evaluations may be commissioned to assess such performance and used in the budget process to inform decision-making.

4.5.2 Government Service Charters and/or Fiscal Responsibility Charters

Modern governments have made increasing use of charters as a means of encouraging focus on service delivery and/or fiscal responsibility. These charters sometimes specifically link performance with incentives and stipulate mechanisms of redress should outputs or outcomes not be achieved. Alternatively, they set out underpinning targets and values which will underscore service or fiscal activity and provide a set of parameters that must be met or that the government will adhere to.

4.6 The Government Budget Process

In Australia the Commonwealth Budget runs on a yearly cycle. The cycle structures the work of government and illustrates a lot of what ministers consider acceptable, viable, and desirable from a policy perspective. Further, it has become a key plank in government's platform for performance and delivering public value. It has major implications for government at lower levels. The cycle determines agency budgeting cycles and the overall context in which public sector managers execute their financial management responsibilities.

Timing and process issues will differ from jurisdiction to jurisdiction but the aim is always to structure the budget process into a coherent and manageable practice. The Budget provides a complete picture of Australia’s planned financial performance, setting out the framework for the conduct of the government’s fiscal policy for the financial year.

4.6.1 The Budget Rhythm

Once passed, the Budget empowers the government to commit and direct resources legally to its own purpose for the year ahead. Forward Estimates — projections of expenditure — may show intended commitments, but they do not constitute formal
authorisations to spend. Rather, governments must return to parliament on a yearly basis to run through the process and extract approvals and make their budget process subject to public scrutiny and appraisal.

The subsequent budgetary rhythm is both a blessing and a curse. It provides structure and focus to government procedures and decision-making, but can also be so regimented as to stifle flexibility and to encourage only incremental financial and policy gains.

4.6.2 The Budget Extravaganza

Yet things are not all dour and monotonous. Increasingly, governments are treating budgets as their moment of glory when Treasurers can make their mark and governments can herald their successes and initiatives with flair and style. Budgets are used as a marketing ploy and a tool for advertising the government’s achievements into the future. Reporting mechanisms are increasingly becoming more client-oriented and market sensitive.

4.7 Managing Budget Appropriations in Agencies

As we have just seen, government budgets translate into separate and individual budgets in agencies. All government agencies therefore are responsible for internal budgeting. Consider Figure 4.4. This shows how the details of budgeting, outputs etc., should fit into the bigger picture of how the organisation is managed. It’s not just the budget. Internal budgets must align with the corporate, business and individual performance plans of an agency. Budgeting structures should include performance budgets in operations, internal processes, customer focus and organisational development. However, as we saw in Topic One on strategic management, it can be easy to lose sight of other resource implications by focusing too much on the financial aspects of budgeting.
It is clear that the objectives of internal budgeting will include the need for a direct link from agency business objectives and outcomes to financial and other resources required to achieve them. Internal budgeting also needs to include internal financial targets. Once the confirmation of internal resource allocations has occurred, accurate performance monitoring is an essential part of internal budgeting.

Under a best practice financial framework, the appropriation to an agency for outputs becomes an accrual-based price (which the agency recognises as revenue) for the outputs. The agency is then required to manage its costs, so as to maintain its operating result (revenue minus costs). A well-managed agency should be able to maintain its balance sheet given the price for outputs.

Other best practice approaches include:

- using budget modelling systems that link cost management approaches and other data sources with budgeting (improves depth, speed and accuracy of budgeting)
- implementing and improving standardised budget guidelines
- maintaining an appropriate level of detail
- resolving allocation issues and timeframes
- accommodating some elements of change (enables business units to respond to changing conditions and can obviate the need to overstate budgets to cover unforeseen developments).

This all sounds fine in theory but what can sometimes happen in practice is that agencies are penalised for sound financial management. That is, if they are efficient and demonstrate a surplus, their budget is reduced the following year and the excess funds are stripped back. This creates problems and disincentives.
Required Reading 4.3


This document is 80 pages in length and has been provided more as a reference source than required reading. However do read the preliminary pages and Part 1 which gives a brief overview of financial management changes in Australian government. Part 2 provides some good general best practice management guidelines which are worth having a look at to get a management overview and emphasises our point in the strategic management topic about alignment. The document puts a lot of emphasis on managing costs which could receive more attention from public sector managers. Section 2.6 on engaging internal stakeholders is relevant. The case studies provide brief overviews of how some of the nitty gritty is being put into place. It isn’t essential to read Parts 3 and 4. Figure 8 is another interesting example of a problem solving cycle, in this case budget over-runs. The graphs in the appendix show how information about costs can highlight management issues and areas for action.

4.8 Managerial Functions of Budgets

Budgeting remains central to the activities of the modern public sector manager. Beyond bean counting: effective financial management in the APS – 1998 & beyond, a publication released by the Commonwealth government in 1997, made it clear that financial management skills are essentially the underpinning skills for public sector managers and cannot be overlooked. This view is also supported in state/territory government practices across Australia, which have long encouraged employees to become more cognisant of business acumen and better trained in financial management proficiencies.

Activity 4.4 – Assessing your financial skills

Beyond bean counting (MAB 1997a) suggests answering the following questions to determine your ability to measure up against baseline financial skills needed for effective performance. You may not be able to answer all these questions at this stage, and some of these issues may not be applicable to your current area of responsibility. But you should be aware of financial management and business acumen and be familiar with the concepts, terminology and expectations of budgeting in order to be effective in managing available resources. The higher up in the organisation you are, the more pertinent these should become.

Questions

1. Can you articulate the outputs you are accountable for and link them to outcomes, and cost the outputs you deliver, whether they are service delivery to the public or policy advice?
2. Do you know how to calculate the full accrued costs of the outputs you are accountable for?
3. Maybe your area will be subject to market testing. How would you apply competitively neutral pricing policies to analyse the real-cost ramifications of service delivery?
4. Do you envisage that, rather than managing the resources for specific output delivery, you might manage a contract for delivery? What financial performance criteria would you set to monitor the contractor’s performance?

5. How will you defend the cost/quality trade-offs you make if you can’t measure the true cost implications of your decisions?

A budget has the following managerial roles:

- **Providing a basis for fiscal responsibility**: with the push towards decentralisation and devolution, senior managers have been made responsible for achieving budget targets.

- **Delegating**: budget responsibility is seen as a key feature in delegating responsibility to agencies and, to a lesser extent, in agencies.

- **Planning**: potential problems can be anticipated and appropriate strategies developed to alleviate or reduce potential difficulties.

- **Coordinating activities in agencies**: with budget preparation should come increased coordination between business units, work groups and even agencies, as this activity requires integrating individual plans to achieve shared outcomes.

- **Communicating**: budgets are a formal communication device that managers could use to convey objectives and strategies in various programs and activities.

- **Controlling**: budgets provide for comparing and contrasting actual performance against plan – identifying deviations from the plan and taking corrective action – budgetary control (ANAO 2000).

One of the key distinctions between accruals accounting and the previous cash accounting systems is that transactions are allocated in the period in which they are first incurred. In fact, accrual budgeting is intended to allow for:

- the fiscal strategy to be expressed in accrual terms
- a full picture of financial performance, at both whole-of-government and agency level
- a shift in focus from programs and processes to outcomes and outputs
- a full costing which promotes a more thorough assessment of public sector and government performance
- the public to have an opportunity to better assess what the government does with its dollars
- increased financial transparency
- increased accountability (DOFA 1998a).

Government economic and political budget functions involve having to manage reductions in government spending which filters down to public sector manager’s role:

- public sector managers are likely to face and manage funding reductions at some stage in their career due to tightening of the public sector expenditure purse which tends to happen in waves
management of funding reduction requires sensitivity to the human
dimension – governments are not always willing or able to enforce difficult
decisions involving employment cuts unless there are some alternative
strategies for redeploying human capital

continual performance measurement, in terms of efficiencies and
benchmarking, is a useful tool for justifying the existence of a program or
policy – if you are managing an area threatened by budget cuts, you should
articulate clearly the rationale for your area, including how it fits with the
government’s policy platform and strategic priorities

similarly, if you are responsible for identifying areas for streamlining,
you can use the information derived from performance measurement
and benchmarking experience to isolate areas for improvement where
efficiencies can be achieved (Wanna et al. 2000:291).

Activity 4.5 – Budgets relevant to your own workplace

As we have already discussed, not every budget is the same. However, the broad principles are
inherent in all governmental budget cycles. Source your relevant agency budget.

Read through the budget document(s). Contemplate:

- How useful this information is for you in your position
- Explore how it could be more relevant or functional
- Consider what, if any, actions you would need to take to make it more useful and relevant.

In government financial management frameworks, public sector managers are
required (in theory) to be aware of the cost of their inputs including staff salaries,
materials, equipment and so on. In the next section we turn to some basic
knowledge of costing. The extent that this happens in practice varies between levels
and jurisdictions.

4.8.1 Local government financial management

Local governments in Australia constitute a significant part of the national economy
and employ significant number of the country’s population. Local governments
have been subject to large scale amalgamations on the assumption that bigger
is cheaper, but this is a contested notion. In some areas they may be the main
employer and their decisions can have a significant local financial impact. In recent
years they have been under acute financial pressure and the fees and charges they
levy have become an increasingly significant source of revenue (Dollery, Crase &
Johnson 2006). Victorian local governments have improved their use of financial
information and budgeting in the last ten years, however the overall emphasis on
the budget is still not strong, partly due to a ‘clan based’ culture which doesn’t focus
on external, performance measures (Kloot & Martin 2007). Evidence from CPA
Australia (2008) suggests that local governments also lag behind their state/territory
and federal counterparts in implementing triple bottom line reporting and lack
focus on sustainability.
4.9 The Significance of Knowing Your Costs

Activities undertaken by government are as diverse as can be imagined. They range from the concrete, specific and easily identifiable such as police patrols, school places and land purchases, to activities of a more abstract nature, along with the costs of reporting, filing, reviewing, controlling, responding, complying and other forms of red tape. Nonetheless local managers are not inclined to identity and document their costs, even at the level of hours and salaries. There are significant implications for public sector managers here in terms of developing business acumen.

Costing activities occurs in tandem with the inputs–outputs–outcomes approach to financial management. Including direct and hidden costs enables efficient and effective resource use. The basic principles of costing are to:

* ensure that all costs of production are allocated to products and services in a manner that best reflects how resources are consumed. Put simply, output costing is the determination of the cost of products and services produced for external consumption.*

* Costing should be thought of as a management tool to identify cost drivers and eliminate non-value-added activities, leading to more efficient operations and increasing the transparency of business activities.*

* On the other hand, ‘pricing’ represents the market value of a product or service. Although it is influenced by the cost of production, distribution and supply, it is also influenced by demand, i.e. what government/taxpayers are prepared to pay for public sector outputs in light of their priorities, the availability of alternative supplies, and overall resource constraints (DOFA 2001:8).*

Full costing enables governments to better plan over the long-term and ensures that governments compete against the private sector on an equal footing.

4.9.1 Implications for Managers

It is important to understand the significance of costing activities. As a manager, you need to have a working knowledge and understanding of the cost of components and processes which combine to produce goods and services. The ability to manage these costs is fundamental to good management and particularly enables you, as a manager, to influence performance. Public sector managers may encounter costing concepts when developing projects and proposals for approval in the budget process, when undertaking planning and management activities, and also when analysing projects or proposals put up for consideration (although feedback from previous PSM Program participants, particularly on the Work Based Project, suggests these ideas are relatively foreign to some).

Cost information should be aligned with, and support, the operational and strategic decisions of managers. This provides the opportunity to evaluate the processes and activities undertaken to deliver outputs. Accurate and reliable information about the full cost of outputs enables managers to:
• measure and assess performance on a total cost basis
• measure cost recovery and user-pays charges
• manage and minimise costs – eg cost of absence and turnover
• assess alternatives when implementing new policy initiatives
• establish the full cost of service delivery and goods
• compare internal delivery against outsourcing options.

In the quest to fully cost outputs, the total cost of all contributing overheads, including indirect costs, must be recorded to develop a complete picture. In *Beyond bean counting* (MAB 1997a), two figures are used to demonstrate reporting views of costing. These figures have been reproduced in Figure 4.4.

**Figure 4.5 Traditional financial reporting view versus output cost reporting view**

![Figure 4.5 Traditional financial reporting view versus output cost reporting view](image)

*Source: MAB 1997a:74.*

The traditional view on the left in Figure 4.4 is a one-dimensional look at the total agency costs, where no effort is made to link cost of resources such as employees and office supplies to the end results produced by these resources. In contrast, in the output cost view on the right you will notice that a horizontal slice of an organisation has been taken. A summary of the costs for each group in the organisation that participates in the production of a specified output has been highlighted.

### 4.9.2 Activity Based Costing

A range of costing techniques is available and you should find out which is applicable in your jurisdiction. Activity Based Costing (ABC) is one model. It is based on the premise that activities add value relative to outputs. By focusing on activities, you can better manage the outputs (Pyke 1998:85). See Figure 4.5 for an illustration of the process flows.
4.9.3 Types of Costs

There are numerous types of costs. These include:

- **Direct costs** – those that can be traced specifically to an activity. They include operating and maintenance costs of plant and equipment, vehicles, personnel costs, consumable stores and travel costs.

- **Indirect costs** – those that cannot be attributed specifically to an activity. They include costs associated with the use of buildings (heating, cooling, power and water), activity and management overheads and capital costs.

- **Full costs** – the total costs of an activity obtained by adding the indirect and the direct costs.

- **Variable costs** – variable costs can change due to the level of the activity. Examples include power, fuel and fares.

- **Fixed costs** – these remain unchanged in total for a given period of time, irrespective of changes in activity levels. They can include rent, permanent staff and cleaning services. The concept of fixed costs is somewhat misleading. In reality, all costs are variable given a large enough timeframe. It is the measurement period that defines them as fixed or variable according to these definitions. Reducing the level of an activity may not necessarily reduce the overall cost of the activity if the majority of costs are fixed.

- **Recurring costs** – those costs which are ‘ongoing’ to a particular activity. They can include cleaning costs and maintenance.

- **Non-recurring costs** – best described as ‘one-off’ costs for a particular activity. Examples include the purchase of a particular piece of equipment or unscheduled equipment repairs.
4.9.4 Cost–Benefit Analysis

Cost–benefit analysis (CBA) is a technique to evaluate the worth of an idea, proposal, project or other activity. It is a logical way of making decisions based upon the probable financial outcomes of various courses of action. It is a means of looking either forward to choose the best direction or backward to evaluate the choices that have been made. A CBA is a measure of the extent, and degree of certainty, to which the overall social benefits outweigh the overall costs associated with a proposal, policy or project. It is also a technique that aids in decision-making (but should not substitute for it) and provides a comparison of the various alternatives.

There may be several reasons to complete a cost–benefit analysis: to prepare a business case, to present a funding plan, to sell an idea or gain management approval for a project, such as the Work Based Project.

There are ten steps:

1. **Identifying a business need or problem** – business needs can be external to the organisation (for example, changes in legislation or competition) or they may be internal (for example, ideas to boost the performance of a particular operational area). In some instances, you will be required to complete a CBA for a project or program that has been determined in higher level management planning. In other instances, you will be motivating others to accommodate the idea, program, project or cost item that you are promoting. In these circumstances, there must be a compelling reason for your proposal to be accepted.

2. **Options included** – a CBA is a means of choosing the best from a range of options. The analysis must identify alternative proposals, ideas or items. Each should be described briefly in terms of their differentiators and key costs and benefits. Major risks affecting the success of each should also be highlighted.

3. **Options excluded** – in some instances it is appropriate to include options that have been considered and briefly reasons why they were eliminated as unviable or undesirable. It demonstrates both depth of knowledge and expansive research techniques.

4. **Qualitative benefits** – provide a description of the qualitative benefits for each of the options considered. This is very pertinent to the public sector where benefits can be valued not just in dollar terms but also in ‘intangible’ benefits. These include: community good, better service for clients, better policy development, improved reporting to government, greater accountability and increased transparency.

5. **Assumptions** – a CBA usually deals in the future. It is essential to state assumptions underlying estimates. Typically these can include: the level of analysis (global, national, state, local), the analysis period (development time plus life of system), discount rate, staff costs (salary, super, administration, recruitment, accommodation, equipment), calculation of productivity benefits, development costs and supporting infrastructure.

6. **Current situation** – it is important to describe the aspects of the current situation which are going to be changed by the proposal you are making. It is essential to include a description of current costs and the distribution of those costs over the analysis period.
7. Each alternative – depending on the degree of sophistication of the analysis only basic estimates of costs or benefits might be included or the CBA could go further and complete a:
   • description
   • possible risks
   • benefits (name, basis for calculation, distribution, $ value)
   • time distribution for benefits
   • costs (name, basis for calculation, distribution and $ value)
   • Costs – Benefits = Net Cost. Cost of Current Situation – Net Cost = Net Benefit
   • Net Present Value (NPV) – the sum of discounted net benefits in each year of the analysis period. The actual NPV is calculated by subtracting the present value of all costs from the present value of all benefits for an option.
   • sensitivity analysis, including the ‘switching point’ on critical cost or benefit estimates
   • risk mitigation strategies.

8. Funding plan – there are a number of factors to be considered when determining who should pay what proportion of costs. This includes which business areas will enjoy benefits, when the benefits will be realised and the relative risks affecting the realisation of the benefits.

9. Benefit realisation plan – it may be necessary to attach a plan outlining what the various business units must do to realise the benefits.

10. Recommendation – a recommended course of action needs to be stated. Typically, if an option returns a positive NPV, and the risks are well calculated and controllable, the option should proceed (Fricker 2001).

4.9.5 Problems and Pitfalls of CBA

One of the greatest difficulties of CBA is measuring qualitative benefits. How do you put a dollar value on ‘better information’ or ‘improved policy’ or ‘increased quality of decision-making’ or ‘faster responses to minister’s requests’? In these instances, it is better to find a measurable impact of the benefits rather than pursue a more altruistic evaluation of their worth. Typically, it is easiest to convert to an impact, such as personnel hours that would be saved. For example, forget about the true worth of a ‘quality decision’ and think about the hours saved by not having to revisit decision records, handle client complaints, explain the reasons behind a decision and put into place contingency plans. The personnel hours saved through enhancements and productivity increases can be converted to a dollar value. Staff costs need to cover salary, salary on-costs such as superannuation, corporate services costs, accommodation and equipment. If contractors are used, the costs should include direct billings as well as administrative overheads (Fricker 2001). It is better to do a basic analysis of costs and benefits than to not consider these issues at all.

There is a useful overview given in the New Zealand cost benefit analysis primer (including some figures). This can be accessed at: <http://www.treasury.govt.nz/publications/guidance/costbenefitanalysis/primer> (viewed on 17/9/08)
4.10 Critique of Budgeting and Accrual Output Approaches in Government

This section presents some critical analysis of budgeting and the accruals framework by canvassing alternative views and looking at arguments for and against. Read through the following statements derived from experience in both the private and public sectors.

Included in Business Review Weekly (July 1999), an update from Harvard Management states:

We are currently seeing a significant management revolution emerge as a sizeable number of organisations either abandon traditional budgeting altogether or very significantly reduce or refocus their use of budgets. The revolution is still at an early stage, but if the seeds of change take root in a few years, as seems likely, they will change your work life as dramatically as anything you have experienced.

The Australian National Audit Office (2000) document Benchmarking the finance function included Public Sector Centre of Excellence (CPA Australia) results which stated:

... survey results found that the demands of the budgeting process are increasingly been seen as a drain on an organisation’s resources and a constraint on its ability to react quickly to changing circumstances. There is a growing trend among private sector organisations towards reducing the impact of the budget on corporate activities, while in government the budget is becoming more comprehensive in its coverage. The survey also found that 26% of the organisations indicated that they spend five months or more on external budgeting, while a further 26% spend three to four months. The demand on resources is further increased as a result of many organisations reporting budget information on both cash and accrual basis.

Activity 4.6 – Looking at the way budgets are perceived

1. Highlight ways that your organisation, and you as a leader within your organisation, can use innovative tactics, such as IT and process involvement, to redesign the finance function within your organisation.

2. Compile a response to the statement ‘While planning is critical in any organisation, expending resources pushing detailed budgets through layer after layer of management is not’.

3. How are you utilising your budget/s as a tool to add value to your management functions? Could this be improved? How?

4. Do you agree that annual budgets should be abandoned? What implications does this have for the public sector? Consider accountability, transparency and responsiveness.

5. In your opinion, are budgeting procedures draining resources in your organisation? Explain.
While financial performance frameworks are largely commonplace today and have been in use for some years, there has been some debate that accrual accounting is not readily adaptable for the full range of government and management reporting needs. Much of the debate has focused on ‘technical’ accounting issues, but needs to engage a wider community of policy actors including public sector managers. The presumed link between accrual budgeting and improved public value in the form of service delivery and resource management is still contested terrain. Whether managers are now engaged in on-the-ground control, management, and analysis of the cost of service delivery is debatable (Kelly & Wanna 2004).

In theory, accrual output budgeting is intended to make departments act more like business in managing their finances. However, the fundamental differences between the sectors make this impossible in reality. There are basic limitations to how the private sector approach can be applied to public organisations because of the essential fact that in business, shareholders are not generally also customers, do not generally meet the firm’s operating expenses out of their own pockets and have limited liability if the firm goes broke. Citizens or taxpayers on the other hand have a fundamentally different relationship with public organisations on all these counts.

"Those parties who continue to advocate the adoption of unmodified accrual accounting across all types of entities in the public sector have not yet fully grasped the fundamental nature and objectives of not-for-profit entities, in particular, nor have they accepted that public sector organisations ‘grapple with a more complex and contestable world than the private sector’ (Carnegie 2004:3)."

A further criticism is the opacity and complexity of the process and documentation (Robinson 2002). This point is also made about local government financial management in the reformed system by Carnegie (2004:1) who says ‘persistent criticisms of these reforms continue to be made, including those made by councillors and other ratepayers who often appear to find such information to be too narrow, too complex and often bewildering’.

### 4.10.1 Countering Some of the Criticisms

Methods such as the ‘balanced scorecard’ and ‘triple bottom line’ reporting have been incorporated into some governments’ financial reporting practices. You may recall that some of these ideas were introduced in Topic One when we were discussing alternatives to traditional strategic management.

### 4.10.2 Triple bottom line reporting

The Maroochy Shire Council in Queensland identifies that triple bottom line (TBL) accounting and reporting:

*is the process of identifying, assessing and reporting business activities in terms of their impact on society, the environment and economic sustainability. Triple Bottom Line reporting is about measuring our future sustainability with regards to our environmental, social and economic accountability.*

This point is endorsed by Carnegie (2004:2) who says ‘a broader, more functional notion of accountability is … more apt within Australian local government contexts’.
Pat Barrett Auditor-General expands on this as follows:

While there is no agreed definition of precisely what TBL reporting comprises and covers, it is currently fairly widely accepted that, at its narrowest, the term TBL is used to describe the framework for measuring and reporting organisational performance against economic, social and environmental indicators. … TBL is now generally interchangeable with the notion of ‘sustainability’ in conceptual terms.

The emphasis today is on sustainability reporting, which is also important for good corporate governance and the concept of ‘corporate social responsibility’. As such, there has to be a shift in focus on performance from largely a short-term view to a more medium to longer term outlook.

[…]

In the public sector, Chief Executives of agencies are required to promote proper use of Commonwealth resources. The production and verification of sustainability reports is consistent with fulfilling this responsibility and may contribute to greater transparency and accountability in this regard.

In 2002–2003, the Department of Family and Community Services (FaCS) produced its first TBL Report. They are commended for taking the initiative to produce this report, the first-ever verified TBL report for an Australian Government agency.

[…]

The Department of Environment and Heritage will also prepare a TBL report this year that will be verified by my office. I commend the Department for taking this initiative which, I hope, will encourage others to do likewise, where it is cost effective to do so.

[...]

The initiative to undertake TBL reporting within the Australian Government is timely and consistent with the contemporary expectations of transparency and accountability for both financial and non-financial organisational performance. The concept has the support of the accounting profession, clearly indicated by the higher profile being given by the accounting bodies to the concept in recent years, for example, in the various professional publications and conferences. While recognising the wide range of professional skills likely to be required in various elements of TBL reporting, there is concern that accountants need to demonstrate the contribution they can make to such reporting (Barrett 2004:1-3).

TBL represents a trend in public sector budgeting and financial management and is very much in keeping with public value and social good. TBL is elaborated in Table 4.5.
Table 4.5 More details of TBL

What is triple bottom line?

There is an increasing trend and demand for organisations to demonstrate transparency and accountability beyond the domains of financial performance.

Triple bottom line (TBL) refers to the three elements of social, environmental and financial accountability.

Quadruple bottom line reporting embraces a further component — governance. More broadly still is the emergence of sustainability reporting. This seeks to more closely align reporting, underlying management practices and measures of corporate performance with the notion of sustainable development.

Decision-making along TBL lines is becoming an accepted approach in implementing the intangible concept of sustainability. Reporting on TBL aims to extend decision-making and disclosure so that decisions explicitly take into consideration the impacts on natural and human capital, as well as financial capital.

Environmental includes impacts made through processes, products or services. These may include air, water, land, natural resources, flora, fauna and human health.

Social includes involvement in shaping local, national and international public policy, equality, treatment of minorities, employee issues and public concern.

Financial includes financial performance, activities relating to shaping demand for products and services, employee compensation, community contributions and local procurement policies.


Reforms and improvements are ongoing. In commenting on Australian government financial performance vis-à-vis other nations, an OECD report indicated that:

Finance is responsible for developing policies on the review of expenditure initiatives; individual departments and agencies have ongoing responsibility for monitoring performance and undertaking evaluations of their own programmes. However, Finance established a strategic review unit (the Unit) in October 2006 that provides advice to senior ministers on matters warranting major (strategic) review as part of the budget process. The Unit coordinates cross-agency consultation on strategic reviews and administers those reviews approved by ministers. The strategic reviews will typically cover high-priority, large, complex, cross-agency initiatives, and are intended to assist the government in improving the efficiency, effectiveness and appropriateness of expenditure (including tax expenditure) programmes (Curristine 2007).

As the business of government becomes more complex and demanding, financial and strategic management processes have to change to keep up.
4.11 Summary

In order to function effectively contemporary public sector managers need to be aware of the budget cycle in terms of its impact on policy and operations and the wider public sector. Budgets are used by government for many functions. They assist planning, allocate resources, influence economic conditions, signal government priorities, achieve social objectives, monitor progress towards organisational goals, control spending and predict cash flow. An accrual budget is a comprehensive budget incorporating assets, liabilities, expenses and revenues, as well as cash receipts and expenditures.

Budgets operate within the constraints of an adversarial parliamentary system. Budget negotiations are often the site of central/line agency debates or inter-agency disputes about the appropriate allocation of resources. Governments have become increasingly cognisant of the importance of defining activities and also costing them, taking into account the obvious and not-so-obvious aspects of the activity. The increased information and financial rigour that results from a thorough costing approach can lead to significant change and management treatment of an issue. Costing should be thought of as a management tool to identify cost drivers and eliminate non-value-added activities, leading to more efficient operations and increased transparency of business activities. One of the costing methods that gained increasing popularity in the service industry is activity based costing.

Cost–benefit analysis (CBA) is a logical way for public sector managers to make decisions or justify proposals based on the probable outcomes of various courses of action. It is a technique to evaluate the worth of an idea, project or cost item. It is a means of looking forward to choose the best direction or backward to evaluate choices made. CBA is a measure of the extent and certainty to which the overall benefits outweigh the overall costs.

Criticisms of public sector budgeting and accounting include that it doesn’t focus on other quality considerations besides value for money, that it is debatable whether private sector market models can ever apply, and that the links between supposedly better financial management and improved service and efficiency appear tenuous at this stage.

Review

Having completed this topic, you should now be able to:

1. Define the key components of budgets and budgeting.
2. Explain why governments budget, and identify the political and economic functions of budgets.
3. Explain government financial performance, accountability and reporting frameworks.
4. Identify the significance of costing activities.
5. Assess the value of current costing systems, such as activity based costing, and evaluate their effectiveness.
6. List the steps in conducting a cost–benefit analysis.
7. Evaluate the contemporary financial reporting agenda in terms of how it has an impact on budgeting practices and outline some arguments against budgeting.

8. Explain the components and benefits of triple bottom line reporting (TBL).

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**Required Reading**


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**Further Reading**


Detailed budgeting and financial management is well beyond the scope of this course. Refer to your jurisdiction for specific training. For example, federal level Finance runs courses in conjunction with various professional trainers


Good graphical presentation of how the whole cycle of budget allocation, accounting and reporting works in Victoria based on the 2005 *Integrated Management Cycle*.


Explanation of the system in the NT.


This is a first national manual to help local government achieve best practice in governance. It is designed for mayors, councillors and senior management to assist decision-making processes, financial management and overall accountability to the local community, and can be used as part of an induction kit for new councillors and to determine responsibilities among elected members. It also features a self-assessment tool to assess current governance performance and assist with the development of plans to build on existing work-place practice (CPA Australia 2005:1).
Topic 4: Required Reading


chosen for analysis. It is convenient to unpack the existing contributions to budgetary theory with reference to four analytic dimensions:

- the basic and often *a priori* assumptions made from the outset;
- the intended approach or analytical framework used in the investigation;
- the main events or topics of interest chosen for investigation; and
- the particular features prioritised or privileged in the account.

At the most fundamental level, research rests on the explanatory frameworks and basic assumptions adopted by researchers. This can involve the degree to which they believe social interaction is conflictual or consensual; the degree to which we are individuals or collectives; the degree to which we seek to maximise or share our utilities. For illustration, much of the strategic-managerialist literature assumes problems are solvable with sufficient planning and leadership, while sceptics are less sanguine, expecting unintended consequences to emerge and Murphy’s law prevail. These assumptions shape and are shaped by the values held by the researchers themselves.

On the second dimension, the analytical approach adopted may be coherent or episodic, systematic or eclectic, rigorous or lax. A recognisable approach is often the result of intellectual training or disciplinary interest, as with political, historical, administrative,
socio-anthropological or economic approaches. Analytical approaches relate closely to the research methodologies used to progress the investigation, perhaps using deductive or inductive reasoning, qualitative or quantitative methods of explanation, longitudinal analysis or case studies. Research may proceed according to chronological order or themes picked out for special mention. Political theories or ideological frameworks can enrich the analysis or inform the way researchers examine issues—perhaps drawing on the relatively coherent ideological dispositions available in liberalism, neo-liberalism, neo-marxism, or social democratic thought.

Third, the chosen topics of interest or main subject matter investigated provide a body of evidential material which influence explanatory accounts. Whether focussing on budget reforms, official documentation, changes to inputs, results and outcomes or even on particular budgets, will partly predetermine the account developed. Researchers often select incidents or particular events (e.g. a single but difficult budget such as 1974 or 1993) and concentrate on explaining the aberrant. Others are apt to evaluate the tangible benefits or measurable outcomes when governments promise improvements; contrasting the rhetoric of the players with subsequent empirical reality.

Fourth, many studies privilege certain aspects of social relations in constructing explanations. For instance, the analysis of guardians and spenders prioritises the roles and behaviour of insider agencies relative to structural, economic or societal forces or where budgets occur in the election cycle. Researchers have also highlighted the roles of budgetary networks or insular ‘village societies’ within which shared knowledges and understandings develop. Weight may be given in the analysis to elected political elites over administrative ones or vice versa, or external pressure groups relative to key insiders. The conventional discourses associated with budgetary systems can be studied as a way of interpreting meaning and contrasting accounts of apparent phenomena.

These dimensions of research offer many alternative ways of conceptualising budgeting and the budgetary process. The particular orientations adopted by researchers over these four dimensions (the emphasis within each and the mix between them) provide an almost limitless variety of explanatory accounts. It must be noted that most of the existing contributions to the study of public budgeting are not organised around ‘debates’ where the merits of particular explanations are contested. Rather, most researchers or groups of like-minded scholars are engaged in separate endeavours, which only when taken together can be acknowledged as a range of debates on public budgeting. It is as true of budgeting as it is of many areas of social science that most writers on the topic are not greatly reflexive or sensitive to other representations, but tend to stay in well worn ruts. Having made these points, the most influential contributions to explaining budgetary behaviour are summarised below.

The public finance literature tends to be written by economists generally interested in the impact of budgets on the economy. They emphasise the fiscal and economic functions of public spending and taxing (and also the impact of public regulation on markets). Often public finance scholars face a dilemma in that they show a general preference for smaller government yet have to account empirically for increases in the size of government. Budget growth theories point to various contributing causes (such as economic maturity and meeting higher levels of need, productivity lags, social structure and demographic change, displacement effects due to crises and wars). Alternatively, critiques of public sector expenditure have emerged from neo-liberal or new right protagonists who favour ways of reducing government responsibilities and returning to a ‘residual’ state or notions of virtual government.

Public choice theories extend these observations into a more robust model of the ‘economics of politics’—but are heavily dependent on a set of narrow assumptions and ideological preferences. Public choice and institutional economics begin from notions of individuals or groups inside government who engage in self-interested behaviour to maximise their share of resources. Politicians and budget maximisers within government departments typically ‘over-produce’ public or merit goods while responding to voter choices or political pressures with consequent increases in taxation. Citizens are considered mobile between jurisdictions seeking out the lowest acceptable tax-benefit trade-off. Solutions include making governments more competitive and changing public sector incentive structures, with perhaps the imposition of constitutional or legislative restrictions on budgets (e.g. balanced budget legislation). Other views within this explanatory framework have argued that the fungibility of budget resources together with contractualism may empower the ‘bureau-shaping’ capacities of political executives—thereby

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5 See Groenewegen (1990); Mikesell (1998); Rosen (1999); Musgrave (1959); Hyman (1990); Wilson (1998); Peacock and Wiseman (1967); Taylor (1983); Wildavsky (1985).
perhaps reducing the inherent bias toward budget maximisation within agencies themselves.6

An extensive literature exists in welfare economics investigating in positive and normative ways the most appropriate means of instituting allocative efficiency in public budgets. Their concern is to encourage the best use of funds and investigate how governments can decide on better ways to reallocate funds to maximise social well-being. Some models are technical, as with projects or programs assessed according to evaluation techniques (such as cost-benefit analysis). Others are more concerned with the distributional aspects of budgets over policy fields, citizen lifespans, asset maintenance, and patterns of spatial distribution.7

Theories of budgetary behaviour often stress the cyclical and incremental nature of budget decision-making in which groups and organisations vie for public resources. Incrementalism implies that budget decision-making is shaped by the politics of inheritance, the steady accruing of piecemeal decisions and marginal change. Governments are risk-averse and conservative, and so prefer regular adaptations to radical change. Such process theories focus on the analysis of the major and often repetitive stages of decision-making within which budgets are framed. Budget process theory tends to privilege the technical aspects of budgeting and usually emphasises the formulation stage of budget-making. Against these bottom-up depictions of budget formulation, strategic thinkers and managerial planners believe that decisions can be driven by top-down prioritisation, involving formal relations and strict accountabilities between plans, budgets, operations and evaluation and feedback.8

Institutional theories (both traditional and new), by contrast, explore the roles of key actors and the ways they operate. Institutionalised actors may be motivated by concerns of control, propriety, secrecy or service to others rather than behave according to the assumptions of economic theory. Governments will often

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6 See Niskanen (1971; 1978); Tiebout (1956); Buchanan and Tullock (1962); Downs (1957); Tullock (1970); Miller and Roe (1958); Blais and Dion (1991); Dunleavy (1991); Stretton and Orchard (1994).
7 See Mishan (1964; 1973); Samuelson (1954); Boardman et al. (1996); Rosten (1999); Self (1975).
8 See Wildavsky (1964; 1975); Rubin (1988; 1990); Caiden (1992); Schick (1990; 1997); Savoie (1990); Aucoc and Savoie (1994); Thompson, Miley, Patashnik, Navada, Jones, McCaffery (1996–97); Premchand (1994); Pratlett and Campos (1996); OECD (1997).

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BUDGETS AND PUBLIC EXPENDITURE IN DEMOCRATIC SOCIETY


The structure of this book reflects the patterns and development of the Commonwealth government's experience in expenditure management. It covers changes from the 1960s to the present day, but traces some changes back to the late 1950s. Though there is an evolving reformist logic to the developments traced, such logic was also subject to the contingencies faced in political and bureaucratic arenas. The structure of the text, therefore, is episodic, covering periods of government incumbency while highlighting crucial themes within the chapters. This book should not be read as a linear progression enforced by a single rationality. Rather, the chapters are better viewed as scenes from a multi-act play where the twists and turns of the central characters bring topics into and out of focus, adding complexities to the account.

Consequently, the main chapters of the book are of two kinds. The majority are centred upon the lives of specific governments,
Table 2.3 Budgetary Functions

<table>
<thead>
<tr>
<th>Key Budget Functions</th>
<th>Instruments</th>
<th>Main Aims / Concerns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic function</td>
<td>Mid-year Economic and Fiscal Outlook (MYEFO), medium-term fiscal strategy (i.e., no overall call on private savings); Fiscal Balance</td>
<td>Fiscal discipline and stability; reception of the economic statement aimed at financial markets and business; budgets are becoming less important in macro-economic settings</td>
</tr>
<tr>
<td>Political function</td>
<td>Budget Speech and documentation; ministerial statements; press releases and media engagements; parliamentary debates</td>
<td>Reception and spin—selling a message—writing the headlines for the media; highlighting the government's record, strategies and plans</td>
</tr>
<tr>
<td>Revenue/Income function</td>
<td>Taxation authority and types of tax instruments, some user-charging and sale of services</td>
<td>Provision of resources for collective needs; notions of tax efficiency, non-arbitrariness, simplicity; fairness, compliance</td>
</tr>
<tr>
<td>Financial/outlay function</td>
<td>Agency resourcing (revenues and expenses); Measures; and intended outcomes</td>
<td>Public sector; agencies and departments; performance and financial management; compliance</td>
</tr>
<tr>
<td>Accountability function</td>
<td>Appropriation bills and associated documents, public scrutiny; parliamentary debates</td>
<td>Electorate; Parliament and JCPAA; ANAO; media; pressure groups</td>
</tr>
<tr>
<td>Allocative function</td>
<td>Strategic review; current priorities; policy review; contestability and CTC; revenue retention; expenditure shares;</td>
<td>Priority need; redistribution; services or targeted assistance; service providers; agencies; range and type of public good to the community</td>
</tr>
<tr>
<td>Investment function</td>
<td>Capital statements; specific policy statements/commitments</td>
<td>Capital works; economic and social infrastructure; asset base; equity injections</td>
</tr>
<tr>
<td>Technical efficiency function</td>
<td>Resource management, purchaser-provider models; price reviews, efficiency audits, best practice guides</td>
<td>Productivity improvement; offsets/savings; cost effectiveness</td>
</tr>
</tbody>
</table>

Key Budget Functions | Instruments | Main Aims / Concerns |
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Exchequer function</td>
<td>Issuing of warrants on the availability of funds, receipts to consolidated revenue; previously a separate function to mid 1980s; now within executive (FMA Act)</td>
<td>Central funds management; guaranteeing the availability of money; vouching the government can honour payments; ensuring consistent practices in the collection of receipts</td>
</tr>
<tr>
<td>Territorial-jurisdictional function</td>
<td>Appropriation Bill No 2; plus Commonwealth-state negotiations; post-GST deal; adjustment recommendations by the Commonwealth Grants Commission</td>
<td>Fiscal federalism; financial assistance grants and specific purpose payments; elements of purchaser-provider relationships</td>
</tr>
</tbody>
</table>

BUDGETARY ROLES, ACTORS AND PROCESSES

There are a large number of actors in the Australian budgetary system. These include both key individuals and significant organisations with budgetary responsibility. One way of categorising these actors is according to the roles performed *vis-à-vis* resource allocation. Wildavsky (1964; 1975) argued that in traditional, democratic budgetary systems, two types of institutions could be detected, each of which performed specialist functions. Guardian actors guarded the public purse while spending agencies found new ways to spend more. These adversarial institutions were locked in ongoing conflictual relations over budget formulation. One set of actors, the guardians, would 'push' and seek to impose discipline knowing the spenders would 'push back' finding justifications to request more resources. Typically the guardians were the senior ministers and the central agencies with an interest in the overall fiscal strategy of the government and in issues of expenditure control or targeting. Their routine actions were often invisible to outsiders and because of their roles in holding the purse strings were often regarded as harsh or uncaring. Australian guardians include the Treasurer, Minister for Finance and their respective departments and specialist cabinet committees used explicitly to perform guardian roles (e.g., the Expenditure Review Committee). On occasions the Prime Minister, as the overall coordinator of government policy, can also perform this role, but equally can be
an advocate of big spending initiatives. The Prime Minister's priorities or fiscal stance will depend on a range of political and economic factors, but the Prime Minister does not perform an exclusively guardian role. All these actors are central agencies and typically have little direct operational responsibilities or service delivery functions but have an overall interest in the quality of services throughout government.

By contrast, spenders include the vast array of budget-dependent agencies that each year compete for funds from the public purse. They may be 'budget maximisers' interested only in expanding their resource base, but more likely they are task-focused, service delivery agencies faced with wide and often increasing responsibilities and yet provided with what they see as insufficient resources to do the job properly. Their role is not in rationing public resources or allocating between different policy objectives, but in claiming and then deploying public resources within their own sphere of operations. If guardians perform a necessary role restricting resources, spenders perform the equally necessary task of delivering real services and handing out largesse. Governments tend to be elected and re-elected by their policy actions and service delivery record—and spenders rather than guardians tend to be their vote-winners. A government entirely of guardians would probably not survive for long (nor would it have much to do!)

The Australian budgetary system may be assessed as one in which the guardians are generally more powerful than spending agencies, but nevertheless, spenders occasionally turn the tables. Certainly, some international evidence suggests that Australian guardians are relatively stronger and more able to impose their preferences and procedures than their counterpart guardians in some other countries (Kelly and Wann 1999). But the balance of power in guardian-spender relations vacillates and shifts over time, and a win in one year may lead to other types of compromises or defeats in subsequent years. Certainly, as will be seen in later chapters, some aspects of evolving guardian-spender relationships remain significant and change very little. Other aspects of the relationship are subject to major change and redefinition—leading to new sets of politics and game-playing.

For instance, prime ministers and their immediate staff continue to play a large role in budget formulation and the determination of fiscal strategies—when disagreements occur amongst the guardians their personal preferences may hold sway even in the midst of serious opposition. The importance of prime ministerial power when exercised over expenditure management and budgeting is one reason for the structuring of this book into periods reflecting the tenure of heads of government. At times prime ministers have shown little interest in issues of public finance and, arguably, most are focused on issues other than budgetary management. Two examples can be used to illustrate the different outcomes that can occur. It can be argued that Gough Whitlam's lack of interest in expenditure control and public finance in general helped to precipitate the events that led to the morass in which his administration (1972–75) eventually found itself. By contrast, Bob Hawke was more economically literate but not necessarily interested in government budgeting; yet being assisted by a group of powerful economic ministers, he presided over a period of tight fiscal management leading to successive budget surpluses in the late 1980s. Leadership style, interest and personal preferences are particularly powerful parameters within which public budgeting occurs in Australia. Moreover, as illustrated successfully through the terms of Fraser, Hawke, Keating and Howard, the agendas and preferences of prime ministers on budget matters are far from consistent throughout their period in office, fluctuating markedly according to their assessments of the economic and political circumstances faced from year to year.

Other features shaping the relations between guardians and spenders can also change markedly and some repeatedly. The Fraser government in the mid-1970s restructured the guardian actors by creating new arrangements and specialist roles. While Fraser's interest was not centred on the role of budget guardianship, but much more on broad economic policy, his almost incidental creation of the Department of Finance is arguably one of the pivotal administrative changes since federation. It is ironic that the establishment of a new budget guardian was a by-product of attempts to temper the influence of Treasury. Nevertheless, in many ways the decision to create a discrete budget guardian began a new era in public financial management—with some global repercussions in the ways Australian reforms have guided other nations.

Subsequently, a further budget actor was added—the Minister for Finance. For a quarter of a century the role of Finance ministers has varied enormously with the personality and interest of the
person. Perhaps the most important characterisation of Finance
ministers is whether they were active or passive in pursuing the
duties of their office. Some, such as Senator Peter Walsh, 1984–90,
occupied centre stage and saw it as a matter of honour or a crusade
to enhance the department's expenditure restraint role. Alongside
the financial management initiatives pushed by the guardian
technocrats in his department, Walsh used his political influence in
cabinet and its powerful budget committee to impose fiscal disci-
pline. Other Finance ministers have been more passive. On occasions
even passivity has its advantages; in Finance's case enabling depart-
mental administrators to experiment relatively freely with different
forms of resource management, evaluation or contestability. Min-
isterial commitment and support for technocratic endeavours, rather
than personal involvement in initiatives are often one of the signs
of an effective guardian in the Minister for Finance.

Hence Australia, like Canada, now operates with two central
agencies responsible for guarding the integrity of the budget. The
Department of Finance and Administration coordinates expendi-
ture—overseeing the financial, allocative and technical efficiency
aspects of the budget. It collates and 'validates' estimates informa-
tion from spending departments on expenditure commitments,
advises on new spending proposals, and oversees the budget process
and final consolidation of most budget papers. As one of the
original departments dating from federation, the Treasury maintains
a role in budget policy and advising on fiscal strategies. Treasury
also advises cabinet on budgetary matters and taxation policy and
intergovernmental transfers. It has a much wider role in economic
policy matters more generally. Along with the Department of the
Prime Minister and Cabinet, the guardian departments of Finance
and Administration and Treasury are key advisers to the Expendi-
ture Review Committee of cabinet.

Budget processes prescribe the ways in which certain tasks are
organised or accomplished. Processes may be descriptive in the
sense that they describe a sequential order in which events or tasks
occur. They may also be prescriptive in the sense that they dictate
ways in which tasks must be ordered or related. The public sector
and the many forms of public provision are both organised and
operationalised according to such processes and rules. In some
circumstances rules may offer routine and order in place of con-
fusion or chaos. But equally it is also recognised that existing rules
place constraints on the ways departments can organise resources
and so place further constraints upon the ways in which managers
can act. Hence, the rules and routines of budgeting governing the
behaviour of participant actors have been subjected to major and
successive waves of reform.

The history of public expenditure management in Australia
since the 1960s can be seen as a series of attempts to re-define the
rules that govern the behaviour of both spending departments and
individual managers in their resource decisions. Traditionally, the
primary tool of guardians was to impose detailed financial controls
over departmental expenditures. Reform initiatives introduced
greater operational flexibility while imposing strict performance
requirements on agencies and managers. Guardians became less
concerned with controlling detailed input amounts (expenditure
items and new claims) and more focused on resource management
frameworks, results monitoring and the reallocation of resources to
new priorities. Mostly Australia's moves towards new public expen-
diture management systems can be seen as attempts to free-up and
better utilise these resources from a guardian's perspective to allow
policy goals to be achieved.

Because guardian-spender relations are themselves contestable,
processes are frequently used to disturb or dismantle rules and
predictable routines. Guardian actors such as DoFA repeatedly seek
to change routines that they consider to have few remaining
benefits; especially if spenders have become comfortable or com-
placent. As argued in Chapter 1 there is no perfect system or set
of processes. There is no necessary science to a system of budgetary
rules and many processes could conceivably be located or operated
at various points in the system. Over time and with the increasing
utilisation of information technology (with comprehensive budgetary
information available instantaneously), new possibilities emerge
and the nature and location of processes can be periodically
reconsidered.

The devolution of financial management was undertaken for
two main reasons: because central controls were eventually con-
sidered to have become ineffective and because devolution also
imposed a rationing function on the spenders—forcing them to
become more guardian-like (Kelly and Wanna 2000a). Financial
resources are also fungible in the sense that they are movable,
flexible and transferable, and can be deployed in a great many
potential ways. Transaction costs and incentive structures can be
re-considered and trade-offs made over the forms of budgetary
processes with some disappearing and others being transferred to
spenders. The guardians meanwhile will move on to introduce new
processes they deem to improve their ability to monitor resources or impose efficiencies on the use of resources. In addition, given the unequal nature of the power relations between guardians and spenders, any devolved processes can be reclaimed if necessary. Hence, Australian central agencies have held onto or relaxed the control of processes and in many ways this is a crucial part of their power as guardians.

Other actors are particularly important in selected aspects of the disbursement of Commonwealth funds. State Premiers and Treasurers meet annually or as required with the Commonwealth in councils of ministers (previously Premiers' Conferences). These play a role in allocating intergovernmental transfers and reporting the performance of service delivery in sub-national governments. These ad hoc institutions form to negotiate amounts either as general financial assistance grants or as tied grants (special purpose payments where the Commonwealth has a major say in the uses of the funds). In 2000-01 total Commonwealth grants to the states including the GST were $44 billion or 25% of total outlays. The Commonwealth government can also negotiate with states and territories separately, but not so as to disadvantage any state relative to others. The Australian Loan Council, formed in 1927 as a joint council of Commonwealth, and state governments, exists to regulate the amounts of public borrowing occurring in any one period. This body essentially prevents the states from borrowing to supplement their recurrent costs or over-committing themselves with debt.

Finally, some mention should be made of the non-guardian/ non-sender institutions that oversee public expenditure, authorise its use and improve accountability. Parliament, but not the Constitution, insists on an annual appropriation of resources (rather than for shorter or longer term—perhaps to the full term of the Parliament). In place of guarding, the Parliament authorises and scrutinises expenditure proposals presented to it by the guardians. Although the process of public scrutiny is fundamental to our democracy, parliamentary influence or criticism tends to have little impact on the annual Budget. On occasions Parliament has complained of being under-represented in budget deliberations and marginalised from the process (Uhr 1999; HRSCE 1979:10-12; Walsh 1991). Parliamentary budget debates are too late to exert influence on the current budget and too early to impact on the next. However, general parliamentary debates and ongoing scrutiny given to particular activities or budget measures may have significant influence on the executive's formulation of the next budget.

In this sense, parliamentary scrutiny is both important and influential in holding the executive to account over the use of public funds.

Since the 1970s Senate committees (organised to investigate estimates and public accounts) have become more active in reviewing the budget, government finances and operations. Their deliberations and audit reviews of compliance and performance occur in public in the implementation and evaluation stages of the budget cycle. Estimates hearings have a wide brief to question ministers and officials on policy issues as well as intended expenditure plans. A Joint Committee of Public Accounts and Audit regularly examines the financial activities of government focusing not only on issues of compliance but also managerial practices, efficiency and effectiveness in public administration. It relies on expert opinion from the Auditor-General on the financial statements of government and agency performance. The committee receives reports from the Auditor-General and is regularly briefed by the Auditor-General and staff of the Australian National Audit Office. The committee has also closely scrutinised the role of auditing in terms of audit independence, integrity, and the use of private sector auditors within the public sector. A major overhaul of the audit and financial legislation was undertaken in the early 1990s largely at the behest of the public accounts committee.

The last actor arguably with an eye to accountability is the media and some interest groups with a concern in holding the government to account. Their dissection of the political and financial aspects of government budgeting can provide a powerful and testing forum, simultaneously allowing government to sell its message while subjecting it to criticism or approval. These actors have no formal role and their interest may be variable from time to time, but they assist in the accountability of public budgets.

The discussion in this chapter presents the Australian budgetary system as it currently operates. Although the basic constitutional constraints were in place from federation, many of the elements of this system have emerged since the 1960s. It is argued that the 1960s represents an important watershed in the development of government budgeting in Australia. It is to the 'great expectations' of the 1960s that we now turn.
References


### Topic 4: Required Reading


### Outcomes Arrangements

#### How the Outcomes Arrangements work

Outcomes, Programs and departmental activities form the basis of the Commonwealth’s budgetary framework and documentation. Outcome statements define the purpose of appropriations in the Budget Bills, and Programs and departmental activities are detailed in Portfolio Budget Statements to explain these appropriations further.

The process of appropriating funds for the purpose of an Outcome, the delivery of Programs and departmental activities in support of this Outcome, and the subsequent reporting against this structure is presented in the figure below:

![Diagram of Outcomes Arrangements](image)
As the figure above illustrates, the framework works as follows:

- government (through its ministers and with the assistance of relevant agencies) specifies the Outcomes it is seeking to achieve in a given area
- these Outcomes are specified in terms of the impact government is aiming to have on some aspect of society (e.g., education), the economy (e.g., exports) or the national interest (e.g., defence)
- Parliament appropriates funds to allow the government to achieve these Outcomes through administered items and departmental activities
- items such as grants, transfers and benefit payments are administered on the Government’s behalf by agencies, with a view to maximising their contribution to the specified Outcomes
- agencies specify and manage their activities to maximise their contribution to the achievement of the Government’s desired Outcomes
- performance indicators are developed to allow scrutiny of effectiveness (i.e., the impact of Programs and departmental activities on Outcomes) and efficiency in contributing to the achievement of the Outcome. Indicators will also enable the system to be further developed to improve performance and accountability for results.

What are Outcomes?

Outcomes are the intended or proposed results, consequences or impacts of government actions on the Australian community. They identify the purpose for agency actions and provide the basis for assessing agency contributions to government policy goals and objectives.

Annual administered funds are appropriated to agencies on the basis of the Outcomes sought by the Government and Parliament.

Purpose of the Outcomes Arrangements

The Outcomes Arrangements help address three fundamental questions:

1. What does government want to achieve? (Outcomes)
2. How does it work towards achieving this? (Programs and activities)
3. How does it monitor its progress towards achieving this? (performance reporting)

The Government delivers benefits to the Australian community (Outcomes) primarily through administered items (Programs) delivered by agencies. Agencies apply inputs (e.g., finances, human resources, capital equipment) to the activities and processes that generate products and services. These inputs include the funds appropriated to them from the Budget or revenue from other sources, such as payments for services, sales, levies and industry contributions.

The Outcomes Arrangements aim to improve the understanding and knowledge of those outside the agency who have an interest in its performance, including ministers, parliament, external accountability bodies such as the Auditor-General, and the public. Managing through Outcomes aims to help improve decision making and performance by focusing attention on the fundamental questions outlined above.

It is important that Outcomes are structured in such a way as to maximise consistency in preparations between agencies. This enables comparisons and benchmarking within and across portfolios.
Who must have Outcomes?

Government policy requires all GGS agencies to use Outcomes as a basis for budgeting, measuring performance and reporting.

When do Outcomes need to be established?

There are two circumstances when Outcomes need to be established:

i. new Outcomes need to be approved for new functions that are not within existing Outcomes; and

ii. revised Outcomes need to be approved for changes to existing Outcomes – including where there are refinements to policy objectives, strategy or desired results for agency activities, to clarify desired results or improve precision for measurement.

How are Outcome Statements developed?

Every agency must have at least one Outcome, with many agencies having more than one Outcome. They are to be written succinctly and precisely, and will mostly run no longer than one to two sentences in length.

The existing guide to Outcomes is provided below.

The Outcomes & Outputs Framework Guidance Document [304 KB]

The Department of Finance and Deregulation (Finance) is finalising additional guidance to supplement and update this advice. The additional guidance can be expected on this page during the course of July 2008.

Outcome Statements and the Portfolio Budget Statements (PB Statements)

PB Statements form part of the suite of information available to describe Budget appropriations and agency activity.

As Outcomes provide the basis for the appropriation of money from the Commonwealth, they also provide an important role in the reporting of information, such as how an agency plans to spend its appropriations in the pursuit of government goals.

The role of Outcome statements in PB Statement reporting is set out further in the Portfolio Budget Statements Constructors Kit [1.3 MB].

What is the process for obtaining a new, or changing an existing, Outcome statement?

The Minister for Finance and Deregulation (Minister for Finance) is responsible for approving all changes to existing, and the establishment of all new, Outcomes.

Finance provides advice to the Minister for Finance on all Outcome change requests, and so plays an important role in ensuring Outcomes are developed inline with government policy.

Requests to change or add Outcomes should be made by way of letter from the relevant Portfolio Minister responsible for the agency to the Minister for Finance. Before this occurs, however, agencies should seek officer level agreement with Finance. A flow-chart outlining the process can be found below:
Approval Process Flow Chart [30 KB]

The timing of these requests is very important, and runs to a tight timetable due to the work required by Finance in processing numerous requests.

All Outcome changes must be processed before the Federal Budget each year. An indicative timetable for the processing of Outcome change requests is presented below (note that the exact dates are issued by Finance each year through an Estimates Memorandum):
1. The minimum amount of information provided should include:
   - Background information on the driving force of the change
   - Proposed wording of new outcome statements
   - Materiality of old and proposed outcomes
   - Mapping of the proposed outcomes to programs and appropriations for incorporation in CBMS

Approval Process Flow Chart [30 KB]

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<table>
<thead>
<tr>
<th>Process Step</th>
<th>Budget Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Notification</td>
<td>Before Strategic Budget Committee (October / November)</td>
</tr>
<tr>
<td>2. Information and Consultation</td>
<td>November / December</td>
</tr>
<tr>
<td>3. Finance Officer Level Approval</td>
<td>Finance officer level approval in December. Portfolio Minister to write to the Finance Minister after Strategic Budget Committee (December / January).</td>
</tr>
<tr>
<td>4. Final Consultation and Formal Notification</td>
<td>Mid January to Mid February</td>
</tr>
<tr>
<td>5. Ministerial Authorisation</td>
<td>Late February</td>
</tr>
<tr>
<td>6. System Changes</td>
<td>During March (before Expenditure Review Committee)</td>
</tr>
</tbody>
</table>

Contact for information on this page: Budget_Framework@finance.gov.au