1

How political institutions, history and experience affect government budgeting processes and ways of achieving ‘value for money’

Andrew Podger, Tsai-tsu Su, John Wanna,
Meili Niu and Hon S. Chan

All governments face the challenge of scarce resources, requiring budgetary management processes for identifying the resources required by and available to government, and then for allocating them and ensuring their use or deployment represents value for money. Such budgetary and financial management processes need to routinely inform decision-making and protect the integrity of the way public resources are used—with some public accountability to indicate that their uses are properly authorised and reflect the policies of legitimate government leaders. The processes ideally should also facilitate assessments of how well the resources have been used, and of whether and how efficiently expenditures have achieved the objectives of the policymakers.

These common challenges are, however, addressed in very different contexts: different institutional frameworks with different historical trajectories and notions of governance; different levels of prosperity and stages of economic development; different aggregates of spending or proportions of societal resources available to government and different societal needs and priorities; and different scales of population and

government administration. There is no ideal model, and even countries with the most advanced and mature economies and long-established political systems are under constant pressure to improve the systems and processes that help to balance priorities, impose reliable controls, ensure accountability and deliver efficient and effective services.

This does not preclude opportunities for different countries to learn from each other, but it should caution scholars and practitioners to first appreciate the different contexts and to recognise that any lessons drawn from other jurisdictions must be carefully adapted to the learning country's own context. Often in exercises in policy transfer, insufficient attention is given to the contextual contours. Another important aspect of transfer is the appreciation of pathways and sequencing—whether reform proposals can be implemented incrementally step-by-step or require radical punctuated changes to institutional arrangements, and what preconditions are required for reforms to be successful.

The chapters in this book explore budgeting and financial management in three very different jurisdictions: Australia, the People's Republic of China (PRC) and the Republic of China (Taiwan). These activist and, at times, innovative jurisdictions are keen to analyse and reflect on each other's policy achievements and patterns of public provision. They are keen to learn more about each other as their economic and social engagement continues to deepen. They are also conscious that fundamental differences exist in terms of economic development, global strategic positioning and levels and philosophies of political development; to an extent, these differences are representative of differences among countries around the globe.

While Australia as a continent is geographically large, its population (just over 24 million) is only slightly larger than Taiwan's. Australia's budgetary and financial systems are much more established and institutionalised than those of the PRC or Taiwan, which are relatively recent in origin. Its public budgetary processes present a comprehensive coverage of revenue and expenditures, it has firm controls to ensure accountability and to avoid fraud and corruption and it has extensive processes to promote efficiency and effectiveness. Its public finance operates within a political framework that was established more than a century ago, drawn from experience in the nineteenth century in both the United Kingdom and the United States, with a parliamentary democracy and a federal system of government. As a pioneer of budgetary reform, its resulting budgetary and financial management systems were extensively

refined in the 1980s and 1990s as Australia drew on and helped shape the ideas of 'New Public Management' (NPM), emphasising 'management for results' or value for money. Australia is a relatively wealthy country whose population has high expectations of what government should deliver. Many current demands on government relate to complex social, economic and environmental issues raising new challenges for budgeting and financial management as well as for longer-term policymaking. More recent developments within its internal systems try to address these challenges by, for example, adding much longer-term projections into the budgetary process and linking financial management not only to current performance, but also to organisational capability for future performance.

The PRC is huge both geographically and in terms of population (over 1.3 billion). It is in the process of a huge transition from its former command economy to a state-guided market economy with associated structural changes to the role of government and to the political institutions that control and manage government. It seems intent on maintaining its authoritarian one-party political system, delivering high rates of economic and social development while facilitating decentralised administration, allowing considerable discretion at provincial, municipal, county and district levels. China has become a middle-income country in an extraordinarily short period of time, but with wide dispersion of income and wealth, great pressures on government to manage urbanisation on an unprecedented scale and increasing demands for public services comparable with those in more developed countries. China has been building budget and financial management processes that can support these developments, strengthening controls over revenue and expenditures, ensuring more comprehensive coverage, better linking of policy with financing, addressing concerns about fraud and corruption and introducing aspects of performance management. The task is immense and the achievements to date remarkable, but the system has a long way to go to become openly transparent and publicly accountable. One implication of such a huge transition is the need to consider carefully the sequencing and adaptation of reforms to budgeting and financial management introduced elsewhere.

Taiwan is also a young country in transition, although it is now firmly an upper-middle income successful democracy (possibly the most free and democratic society in Asia), with reasonably comprehensive if traditional budget systems and reliable financial management controls linked to its particular (relatively new) political institutions. It is, however, still in the process of matching government revenue to the expenditures necessary to

meet the demands of a more wealthy population. The country is not large geographically or in terms of population (just under 24 million), and government is not as decentralised as in the PRC (and it does not have a federal structure like Australia's), so the financial control framework is in many respects relatively simple. The country is now enhancing the system, drawing on developments in more developed countries, such as more performance-based approaches. It is also experimenting in such fields as participatory budgeting aimed to complement the democratic political framework it has established.

Budgeting approaches

Factors that contribute to successful public sector budgeting include:

- the comprehensive coverage of revenue and expenditures that ensures decision-makers can set macroeconomic fiscal policies and also determine priorities across all government activities
- the reliability of estimates of revenue and expenditures in the budget year and beyond
- the quality of analytical support to inform budget decision-making and ensure policy and financing are firmly integrated
- political-administrative cultures or disciplines of budgetary control involving important internal and external strictures
- the monitoring and scrutiny processes that ensure expenditure is consistent with budget decisions
- the regular monitoring and evaluation of performance, ensuring budgetary processes promote performance and value for money
- robust processes that ensure the accountability of those in authority to the wider public.

John Wanna in Chapter 2 presents a description of Australian budgeting as it operates in practice, going beyond official formal descriptions. He draws attention to the federal structure under which each of the six sovereign states (and two territories) has its own budget process separate from the Commonwealth's. There are nonetheless strong similarities and long-shared histories, and a considerable degree of coherence is promoted by the extent of revenue transfers from the Commonwealth and by the intergovernmental machinery that helps to align key policies and promote fiscal discipline.

Key strengths in the Australian system(s) include the comprehensive coverage, reliability of the estimates, extensive analytical capacity to support decision-makers, processes to ensure accountability to the legislature and the public and the monitoring and scrutiny process. Wanna suggests, however, that performance information is not nearly as influential in budget decision-making as might be inferred from Australia's efforts over more than 30 years to pursue NPM's emphasis on program budgeting and managing for results. Rather, the main emphasis continues to be on aggregate expenditure control and the overall fiscal balance. Performance information perhaps has more impact on management decision-making than on political decision-making. Wanna also identifies weaknesses in the legislature's oversight of the budget and of the performance of government agencies and programs, notwithstanding the recent establishment of the Parliamentary Budget Office.

Mike Woods in Chapter 3 examines Australia's recent efforts to go beyond a medium-term approach to budgeting (budget year plus three forward years) to draw on much longer-term projections. These efforts draw on New Zealand initiatives and are similar to those in a number of other Organisation for Economic Co-operation and Development (OECD) countries; they are aimed at informing decision-makers of longer-term forces and promote consideration of early action that might ameliorate their fiscal impact. In the Australian context, the main focus has been on demographic change and its likely impact on social security, health and aged care expenditures. A key initiative has been the regular publication of an intergenerational report (IGR), but Woods is concerned that this has increasingly become a political document to support the ruling government's existing policy prescriptions rather than an objective analytical report to inform the public as well as the government and the legislature and to promote sound discussion and debate. Some senior government officials suggest that the IGR documents have not been as influential as they were expected to be, but this may reflect the lack of receptivity from recent governments rather than flawed processes. Woods suggests nonetheless that the IGR be more comprehensive in its coverage, including state as well as Commonwealth budget implications, be prepared by a more independent authority and be systematically updated as a platform for debating such key long-term policy agendas as productivity reform.

Christine Wong highlights in Chapter 4 the enormous challenges now facing the Chinese leadership under President Xi Jinping, with the country having reached middle-income status, no longer able to rely on exports and investment for growth and facing increasing domestic pressures. The agenda for ‘deepening reform’ set by the leadership in late 2013 is aimed at further restructuring the roles of government and the market and modernising governance. A key element is reform of China’s fiscal system, including a standardised and transparent budget management system, tax reform to support new policy priorities and clearer division of responsibilities between central and local governments.

Wong describes earlier measures taken to develop a more comprehensive budget management system with more centralised control of revenues and a new financial management information system, but implementation at subnational levels, where 85 per cent of public expenditures takes place, stalled, perhaps because administrators were simply overwhelmed by the task as revenues grew exponentially and the central government decided to greatly expand expenditures in support of a ‘harmonious society’. The 2013 agenda is intended to correct the situation, with the new Budget Law (BL) aimed to rein in local government debt and extrabudgetary revenue, improve transparency and strengthen accountability. Central to the BL is its comprehensiveness, but its success is dependent both on the analytical capacity at the centre and on implementation at subnational levels. Broader fiscal reform is also highly dependent on realigning and rationalising intergovernmental fiscal relations—an agenda requiring strong and sustained support from the top.

Tsai-Tsu Su identifies a number of problems with Taiwan’s public budget system today in Chapter 5. The system has been through major reforms associated with the country’s democratisation and, subsequently, with a drive for increased efficiency through NPM ideologies. The system is carefully controlled by the centre (the Directorate-General of Budget, Accounting and Statistics and the Ministry of Finance) and, while the legislature has further to go in reviewing the executive’s budget proposals, it has made great strides since the authoritarian era in budget review, promoting transparency and open government. Similar to the Australian experience, in Taiwan, the budget control emphasis remains on the aggregate bottom line rather than on performance despite the NPM agenda, although a key challenge remains for the country to increase revenue so that government is able to meet more of the legitimate demands

of a high- to middle-income country. Budget execution controls and accounting and audit also focus more on the legality of the expenditures rather than performance or value for money.

While local government has a degree of autonomy in Taiwan, it is regulated by the centre and comes under the *Budget Act*, *Financial Statement Act* and the *Audit Act*. Moreover, its budgetary and accounting personnel are appointed by the central government, which also issues instructions on budget preparation and execution. On the other hand, the reliance of local government on revenue transfers from the centre and the willingness of the centre to provide financial support to prevent bankruptcy seem to discourage local government from expanding its own revenue or exercising fiscal discipline, and hence may justify the centre's imposition of tight controls. This dilemma is not unique to Taiwan, as evident from the earlier chapters on Australia and the PRC, but may be particularly acute in Taiwan, which does not have the degree of local autonomy seen in the PRC or Australia's federal system.

Su also draws attention to two examples of recent budget reform initiatives. The first concerns local government trials of 'participatory budgeting'. Different models have been used, each aimed to provide opportunities to involve citizens in budget priority setting. There are risks of 'pork-barrelling' for political gain, but also opportunities for genuine and informed public involvement in selecting local projects. The second initiative concerns a shift to performance auditing, described in more detail by Fang and Su in Chapter 10.

Financial management systems

Financial management systems complement the budget processes, ensuring expenditures are lawful and consistent with the purposes for which they were authorised, and that those responsible for those expenditures are held accountable. Increasingly, financial management is also designed to promote value for money—that performance as well as compliance is given priority. Associated with good financial management are organisational capability and governance arrangements that support current and future performance through continuous improvement.

Andrew Podger in Chapter 6 describes the evolution of Australia's financial management system, particularly since it first gave more emphasis to performance and 'management for results' in the 1980s. The most recent development is the *Public Governance, Performance and Accountability Act 2013*, which replaced earlier legislation to provide an umbrella for the financial management of all Commonwealth organisations (state government developments vary but generally follow a similar trajectory). This umbrella ensures consistency by articulating common principles or objectives and by promoting cooperation across government while allowing variations in governance structures and the way the principles are applied. The accountability arrangements are closely integrated with the budget cycle and emphasise performance. It is also intended to enhance performance by granting degrees of 'earned autonomy' whereby organisations with a strong performance record may face less onerous central controls. A key development in the new legislation is the requirement for corporate plans that promote organisational capability for future as well as current performance. Another development is increased emphasis on risk management.

Podger confirms the many strengths of the Australian system, which has been a model of NPM since the 1980s, but notes that reality has not so far fully reflected the rhetoric of 'management for results'. There are significant potential advantages in the latest legislation, but risks also that that practice will continue to fall short of intentions. A key challenge is to achieve a public sector culture of high performance and a focus on learning and results that is not easy given political factors that impose strong incentives for short-term, risk-averse behaviour. Like Wanna, Podger identifies a disconnection between politicians and administrators, with performance information seeming to have limited impact on political decisions and mainly informing decisions by managers. Perhaps there is insufficient appreciation by both politicians and administrators of the need for political leaders to determine the performance indicators that reflect their political objectives. Podger also stresses the extent to which Australia's reforms since the 1980s have built on sophisticated systems of civil service and financial management established and maintained over the previous 80 years that have nurtured a professional culture of integrity and accountability.

In Chapter 7, **Meili Niu** explores the use of performance-based budgeting (PBB) at the municipal level in China, addressing some of the concerns Christine Wong identifies in Chapter 4 about the implementation of

financial management reforms at subnational levels. While encouraged by the central government, PBB reform has mostly been a bottom-up exercise led by local-level finance departments without direct powers over the local line departments. Niu examines the case of the education department in municipal Guangzhou (a city with a population of over 10 million). PBB reform in China focuses on ‘program spending’, which mostly involves capital projects such as construction, renovation and purchasing major equipment; the other categories of expenditure—employee costs and ‘operational expenses’—are still determined centrally by the human services department that controls staffing and by formulae linked to employee numbers. For the education department, program spending still represents around 20 per cent of its budget (down from 40 per cent), although the city’s population growth is slowing. Niu’s research shows that, notwithstanding directions from the finance department to apply PBB to program spending, line agencies tend only to ‘adopt’ the policy, paying lip-service to the requirement rather than taking the policy seriously in their internal decisions on which projects to pursue. For a while, however, the education department went further, ‘implementing’ the policy by applying more rigorous evaluation techniques and using external expertise to improve their own resource allocation decisions. The key contributing factors were the leadership attitude within the Department of Education and the respect it had from the finance department for its expertise and experience. When these changed, PBB was no longer pursued seriously by the education department.

Hanyu Xiao in Chapter 8 examines the problem of misuse of public resources by public officials through extravagant position-related expenditures—on travel, cars and hospitality. He finds that informal rules or culture often outweigh the formal rules in China, undermining efforts to curb this misuse. He recommends action to ensure formal and informal rules complement each other, requiring on the one hand that the formal rules do not take frugality too far, making it hard for officials to do their jobs, and, on the other hand, that a culture of excessive deference to authority and excessive emphasis on personal material gain must also change. The financial management framework and stronger rules on position-related consumption represent an essential discipline in promoting efficient and effective use of public resources and ethical behaviour. The Australian financial management legislation’s emphasis on principles, and its explicit requirement for ‘economic, efficient, effective and ethical’ use of resources, is intended similarly to influence informal as well as formal rules to promote ethical behaviour.

Performance auditing and evaluation

The audit function is critical to accountability, informing the legislature and public whether expenditure has been lawful and proper and in line with the purposes for which it was authorised, and whether it has been accurately and fully reported. The independence of the audit function is critical to its credibility. Around the world, there has been a shift in the role of audit to go beyond compliance to also address performance and value for money, presenting a number of challenges for audit offices. This shift is the subject of chapters here on Australian and Taiwanese experience.

Zahirul Hoque and **Des Pearson** explore in Chapter 9 the shift in Australia, which has been one of the pioneers of this international development. They highlight the contribution of performance auditing not only to the promotion of value for money, but also to the capacity of the legislature to oversee the executive and hold it to account for its performance. This is facilitated by the close relationship between the auditor-general—technically operating within the executive arm of government—and the legislature and its public accounts committee (the Joint Committee of Public Accounts and Audit, or JCPAA, as it is known in the Australian Parliament). The shift to performance auditing in Australia was gradual, the initial, small steps taken in the 1970s, and it was built on the auditor-general's strong reputation for compliance auditing. It required significant restructuring of the audit organisation to gain the necessary expertise and to build new relationships with the organisations being audited. It was also not without its critics who were concerned about the subjectivity of performance auditing and the risk of the auditor-general becoming embroiled in political debates. Hoque and Pearson refer to efforts in Australia to avoid this risk by focusing closely on the policy objectives as articulated by the government and by assessing performance strictly against these, without commenting on the policies themselves.

Hoque and Pearson identify some of the contributions made by performance auditing to improve performance management and reporting by government organisations in Australia, including at the state level as well as the Commonwealth. They also draw attention to the way the auditor-general's own performance is evaluated and reported on to the legislature. They see the Australian experience as providing some lessons

for other countries, but also note areas where the Australian practice could be improved further, including through more systematic follow-up by the legislature of executive responses to performance audit reports.

Kai-Hung Fang and **Tsai-tsu Su** in Chapter 10 present a description of Taiwan's move to performance auditing, highlighting similar challenges to those identified by Hoque and Pearson. The shift in Taiwan has been more recent than in Australia and the National Audit Office (NAO) is still building the necessary expertise and the new relationships that are required with the organisations subject to audit, but significant progress is being made under the current leadership of the NAO. The challenges emerging parallel those faced in Australia, relating not only to expertise and relationships, but also to managing the subjectivity of performance auditing and the need to avoid politicisation. So far, Fang and Su report that feedback both from within the NAO and from outside has been mixed. The NAO's leadership, however, is determined to take the shift further, from 'oversight' (compliance) to 'insight' (performance) and on to 'foresight' (using performance to identify emerging trends and help agencies to address longer-term issues). In the meantime, more effort seems to be required to improve the quality of the performance audits rather than emphasise quantity, and to improve relationships with audited organisations by the NAO presenting itself more as a trusted independent management consultant offering advice rather than an authority issuing firm judgments and instructions.

The Taiwanese approach is also affected by its unique political institutional arrangements. Separate from the executive, legislative and judicial arms (or 'Yuans') of government, Taiwan has a Control Yuan (focusing on the efficiency of executive agencies and fraud and corruption) to which the NAO is responsible, and an Examination Yuan (which regulates the merit principle in the civil service). The NAO's independence from the executive is arguably a little firmer under this arrangement than that of the auditor-general in Australia; its relationship with the legislature is through the role of the Control Yuan, which is appointed by the president and approved by the Legislative Yuan.

Capital and municipal financing

While the two chapters in this section of the book focus only on Taiwan's experience, the issues involved will be familiar to practitioners and scholars in Australia and the PRC, and in other countries struggling with infrastructure investments and managing decentralised or federated government systems.

Resource allocation must reflect political judgments, but these do need to be informed by expert analysis and should not be distorted by intergovernmental arrangements that blur accountability. That said, distinguishing the respective responsibilities of different levels of government is not easy, and central governments worldwide are taking more responsibility to collect taxes and then 'buy-in' to policy fields that might otherwise be left to subnational governments. Managing shared responsibilities has become an increasingly important challenge.

Yu-Ying Kuo and **Ming Huei Cheng** examine in Chapter 11 Taiwan's recent experience in employing public-private partnerships (PPPs) for investing in infrastructure. Taiwan's approach has been systematic and highly expansionary, aimed at both economic stimulation after the 2008 Global Financial Crisis (GFC) and providing high-priority infrastructure needed for the next stage of Taiwan's economic growth. The processes have been set out in legislation and a large program of major projects announced by the government and included in national budgets. PPPs are also supported by tax incentives and planning concessions. The 12 projects in the 'i-Taiwan' program involve a total budget of nearly NT\$4 trillion (or over A\$150 billion) of which 30 per cent is private investment. The legislated processes provide a sound basis for decision-making, and Kuo and Cheng conclude that PPPs have saved the government significant money and made better use of public land and existing infrastructure, delivering better public services while stimulating the economy. They identify some problems and weaknesses, however, particularly from trying to implement so many projects simultaneously and not properly evaluating projects on completion to see that they delivered the cost-benefit advantages claimed at the approval stage. They also express some unease that the attractiveness of private investment may lead budget-constrained governments to relax scrutiny, with a risk of increased costs to the public in the future.

Hsin-Fang Tsai explores Taiwan's fiscal decentralisation reforms in Chapter 12 and how they have operated in the climate of austerity since the GFC. From studies of five municipalities, she finds strong resistance to measures to reduce services to the public or to raise taxation despite central government pressure for municipalities to take more responsibility for their fiscal position. Instead, the municipalities prefer to rely on central government transfers and grants, and central government decisions on taxes and services, and to focus their efforts on less controversial measures such as increasing user-pays charges, changing land use to promote development and generate revenue and relying more heavily on private investment for infrastructure (via PPPs).

The Ministry of Finance's 2014 'Local Fiscal Consolidation Project' promoted local fiscal autonomy and better control of debt, presenting strategies to increase self-financing and reduce expenditure and debt, and offering financial counselling. However, with local governments' own revenue averaging around 50 per cent of their total revenue, resistance to the finance ministry's agenda was perhaps not unexpected or surprising; it was always going to be easier for local government to blame the centre for insufficient transfers and grants. Nonetheless, some improvements were made through non-tax revenue increases and through expenditure restraint without direct cuts in services. Also, the increased transparency about local debt included in the finance ministry's approach has also imposed a useful discipline allowing closer media scrutiny of local governments' fiscal performance.

Evaluation of policy implementation to improve results

As countries look to give more emphasis to performance in their budgeting and financial management arrangements, the role of policy evaluation is critical, along with the related question of how evaluation is linked to resource allocation decision-making. Examples presented demonstrate practices in the three countries, identifying both strengths that might be replicated more widely and gaps and weaknesses that need to be addressed.

Wendy Jarvie and **Trish Mercer** describe in Chapter 13 Australia's experience in the case of employment services. These were outsourced to private providers and community organisations nearly 20 years ago, at that

time both improving outcomes for unemployed people and reducing costs to government. Jarvie and Mercer explore the monitoring and evaluation processes used over the following years to ensure continuous improvement in results and value for money, and to help the Department of Employment address changing labour market conditions, client needs and the behaviour of employment service providers. Among the lessons they draw from this mostly positive experience are: the importance of a long-term approach to data collection, monitoring and evaluation; high levels of in-house and contracted analytical expertise (addressing the risk that outsourcing ‘hollows out’ internal capacity for informed purchasing); regular use of performance data by decision-makers; strong audit and fraud controls; and transparency of the performance management system and the confidence of the providers in its integrity.

Important for those in other countries looking to similar reforms is that the Australian success did not come easily. It required a complex system of management with an intense focus on the performance of the outsourced providers, and an acceptance of experimentation and risk management. It seems likely also that this drew on the experience of the earlier regime of government provision. Podger’s findings in Chapter 6 also suggest that the positive experience revealed by Jarvie and Mercer has not been widely replicated across Australian departments and programs and is rightly now a priority for further effort.

Zaozao Zhao provides case studies in Chapter 14 to describe and analyse the important role of third parties in China’s performance budgeting reform process. This provides essential expertise where it is lacking in-house, allowing local governments in China to successfully introduce performance-based budgeting when many other developing countries have struggled to do so. The use of third parties also ensures a greater degree of independence of the evaluations and means the process is not just internal to the relevant government and finance departments, but also acknowledges the importance of a broader public and political dimension to resource allocation decisions. There are nonetheless challenges for the third parties in exercising independence in their evaluation work, and for departments in fostering greater transparency and public participation given the central role of the Communist Party in China’s authoritarian framework.

Nonetheless, the challenge of having both objective evaluation and political decisions of priorities is common to all three jurisdictions and by no means confined to authoritarian regimes. In theory, balance is achieved in democratic regimes such as Australia's and Taiwan's by a degree of separation of politics and administration: administrators are required to be professional and impartial but also responsive to the (elected) government and subject to its lawful direction, including on policy priorities. Transparency also helps to ensure political decision-making is properly informed and does not disregard objective evaluation and analysis. Like China, Australia makes extensive use of external experts to assist with performance evaluation, but there are commercial and political pressures to constrain the level of independence of evaluation findings; there are also often pressures on internal advisers to tailor evaluations and advice to the preferences of political leaders.

Ping Zhang, Zizhou Bu, Youqiang Wang and Yilin Hou provide a case study evaluation in Chapter 15 to illustrate how evaluation could greatly improve resource allocation in China. Their example concerns the equity of funding in China for school education. They use data from local counties across China to analyse the factors that affect intraprovince equity of education funding. They find that recent measures by the central and provincial governments aimed at improving equity have had some positive impacts in terms of dampening the growth in inequality, but disparities are still growing between developed and less developed counties. The study reveals that, if the transfers are to do more than just dampen growing inequality, they will need to be increased. While the authors note the need for more research, the analysis provides an important demonstration of the potential value of careful evaluation of government policies in promoting greater effectiveness and efficiency.

Hsini Huang and Nailong Kuo also provide a case study evaluation, in Chapter 16, their case being the effect of public research and development (R&D) subsidies on private R&D investment in Taiwan. They report how previous research has influenced policy in Taiwan, shifting R&D subsidies from tax incentives to direct support because this was shown to be a more effective means of addressing the market failure that constrains R&D investment. Huang and Kuo's research suggests the government should now go further, better tailoring the direct subsidies to sectors and activities where the 'additionality' effect of the subsidies is more certain. The evidence they present suggests this is most likely in high-technology

fields and where the agency distributing the funds has considerable expertise in the fields concerned. Responding to this evaluation evidence will require further policy development and administrative effort, and consideration in future budget processes.

Lessons and challenges

In the final chapter (Chapter 17), **Andrew Podger** provides a summary of the challenges common to all three jurisdictions (and probably therefore to other countries) that can be drawn from the book, and identifies some of the lessons that can be shared. These cover the very concept of ‘value for money’, the drivers of reform, the question of sequencing reform measures, the relationship between politics and administration, institutional roles and relationships and the importance of leadership.

Conclusion

While the contexts vary significantly, all three jurisdictions are placing considerable effort on improving budgetary and financial management processes to deliver better value for money. The trend in all three is towards a greater focus on performance and associated arrangements for monitoring, evaluation and auditing, although there are marked differences in how far each country has gone so far.

In all three, these reforms are closely linked to broader economic, social and/or political transformations and, indeed, are proving critical to their success. Accordingly, it is important to look further than the many technical advances described in this book. They, and the broader agendas to which they are contributing, will only be successful if both political and administrative leadership commitments are sustained, and if appropriate cultures are in place and continuously nurtured.

This text is taken from *Value for Money: Budget and financial management reform in the People's Republic of China, Taiwan and Australia*, edited by Andrew Podger, Tsai-tsu Su, John Wanna, Hon S. Chan and Meili Niu, published 2018 by ANU Press, The Australian National University, Canberra, Australia.

[dx.doi.org/10.22459/VM.01.2018.01](https://doi.org/10.22459/VM.01.2018.01)