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‘Value for money’ lessons and challenges

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Contributors to this book cover a wide range of issues relating to public sector budgeting and financial management in three very different jurisdictions: Australia, the People’s Republic of China (PRC) and Taiwan. But, as is evident from the preceding chapters and the original commissioned workshop in Taipei, there is considerable common ground and it is possible to discern some common challenges and identify lessons relevant beyond the three jurisdictions concerned.

The concept of ‘value for money’

‘Value for money’ as discussed throughout this book is not a narrow economic concept nor the product of a set of technical processes for budgeting and managing public finances. It is inherently political, reflecting subjective judgments about the scope and role of government, priorities in allocating scarce resources and optimising impacts among competing policy objectives. It is also affected by institutional contexts, including those that reflect the respective expectations of government, markets and civil society, and the way authority is determined, exercised and held to account.

Budget and financial management processes in the three jurisdictions studied are intended to assist political decision-making, ensuring it is well informed and management decisions follow the policies set by legitimate authority. To use the Australian term, the processes are also aimed at ensuring the ‘proper’ use of public resources, meaning the ‘efficient, effective, economical and ethical’ use of resources. In all three jurisdictions, the processes are also aimed at providing feedback from measured results to guide both political and management decision-making.

Drivers of reform

In all three jurisdictions, budget and financial management reform has been one element of a much broader reform process involving economic and social transformations over recent decades. The reform of public finance has been a major contributor to those wider reforms and, in all probability, a prerequisite for their success.

For the PRC, public financial reform has been an essential consequence of its transition from a command economy as China’s government has allowed and encouraged the role of market forces and reinvented and restructured the role of government. The past decade has also seen growing appreciation of the need for social programs to build a ‘harmonious society’ with adequate social protection to dampen inequality. This has raised new challenges for financing, prioritisation and assessments of ‘value for money’. For Taiwan, public financial reform has been an essential consequence of democratisation, clarifying authorisation and accountability. It has also been affected by shifting community expectations as the population has become better educated and wealthier, demanding more of government. Australia has experienced its own ‘opening up’ agenda, particularly in the 1980s and 1990s, with the floating of the dollar and the phasing out of most barrier protectionism. Financial management reform focused on efficiency as governments recognised that global competition affected government activity as well as the private sector. Australia became a pioneer of New Public Management (NPM), emphasising ‘management for results’ and ‘making the managers manage’. This focus on performance management can also be seen in the measures subsequently taken by the PRC and Taiwan.

The reforms have also been affected by external shocks. While initial responses to the 2008–10 Global Financial Crisis (GFC) differed, all three jurisdictions have subsequently had to face serious budget repair challenges. Addressing shocks, and the risks of future shocks and longer-term social and economic change, has driven more disciplined approaches to budget control and increasing interest in risk management, including assessment of longer-term developments such as demographic change.

Sequencing reforms

The varying drivers of budget and financial management reform, despite some alignment, have affected the reform agendas of the three countries. The reforms have also been affected not only by the different institutional arrangements, but also by the varying degrees of maturity or stability surrounding jurisdictions' authorisation and accountability frameworks. The varying capacities to pursue reforms have also affected reform agendas.

The PRC continues to face a formidable task as it transitions to a market economy and moves towards a new stage of economic and social development, extending the role of government to introduce major social protection programs. It faces very substantial capacity constraints yet has made marked progress in building a comprehensive budget process incorporating all revenue and expenditures. The capacity constraint is most marked at local government levels, notwithstanding the major initiatives a number of provincial governments have taken, with considerable uncertainty over local government debt and the sustainability of revenue and expenditures. Despite the formidable agenda and limited capacity, however, China is not limiting its efforts to so-called core or basic reforms, but is also pursuing performance management and evaluation, including by drawing on third parties to assist and fill capacity gaps.

Taiwan now has a more settled institutional arrangement and mature budgeting and financial management arrangements. It is clearly giving priority to reforms that focus more on 'value for money' assessments through performance management, evaluation and auditing, but recognises the need for more capacity-building to be successful. Nonetheless, Taiwan is also at the frontier in experimenting with new participatory budgeting arrangements.

Australian reforms from the 1980s and 1990s clearly had the advantage of building on a strong platform of comprehensive budgeting and sound financial management and auditing. A lesson from Australia is the risk of some backsliding if bureaucratic and political leadership is wanting, although the Australian story is also one of (mostly) continuing enhancement, with its latest work on risk management and capability providing examples, and the refreshment of its main financial management legislation in the *Public Governance, Performance and Accountability Act 2013*.

Together, these three jurisdictional experiences both support the notion of sequencing and cast some doubt on exactly what fundamentals are required on which to build enhancements. They also suggest that, to some extent, enhancements can be pursued simultaneously with the more fundamental requirements of proper and accountable financing and spending.

Challenges of politics and administration

It is widely accepted among democratic countries that a degree of independence of administration from politics provides important advantages, ensuring administration is not only efficient and effective, but also fair and just and serves all citizens, while the political process ensures legitimacy through majority rule.

In Australia and Taiwan, where there is considerable formal separation of politics and administration, recent experience seems to be that budget and financial management reform has had limited impact on political decision-making other than in supporting control of the budget bottom line. The allocation of resources by political leaders generally reflects political factors, not the performance information generated by the reforms. The politicians are also seen to be risk-averse despite reform rhetoric about innovation and risk management. To the extent allocation is guided by performance information and risk analysis, this seems to relate to management decisions by administrators rather than ministers or other politicians, and even here the evidence presented suggests considerable risk aversion among the bureaucrats.

This picture is perhaps too dismal. It may be that the impact on political decisions is more significant than presented here, as performance information and independent analysis by agencies such as Australia's Productivity Commission and the growing number of external think tanks in Australia and Taiwan (and many other countries) inform public debate and indirectly influence political decisions. It is also possible the internal and confidential budget processes not examined in this book make greater use of professional bureaucratic advice than is apparent in public debates. Moreover, the impact on management decisions by administrators should not be undervalued. While there is some disillusionment with the progress of budgetary reform, few observers or practitioners—political or administrative—suggest winding back the budget and financial management reforms on the basis that the benefits are not worth the time and effort involved in gathering and analysing performance information. The challenge ahead is to more adequately align performance information with budgetary decision-making.

To the extent that politicians are not guided by the information and analysis of the reforms, the fault may not lie exclusively with the politicians. Notwithstanding the benefits of separating politics from administration, the separation can go too far. As emphasised above, 'value for money' is fundamentally a political matter. Performance and risk management are not purely administrative responsibilities. They require active engagement between political leaders and administrators, with administrators appreciating the importance of the dialogue with political leaders so that the political leaders are the ones who take responsibility for setting program objectives, endorsing the performance indicators to be used, acknowledging risks and articulating the government's risk appetite.

China, of course, does not separate politics and administration, at least in any formal way, with the Chinese Communist Party (CCP) maintaining control across all arms of government. Indeed, the CCP uses performance management for the career advancement of party cadres. There is increasing interest in applying performance budgeting and other financial management reforms to resource allocation decisions, and in giving more weight to professional expert analysis. Contributors to this book emphasise the need for local leaders—both those with more 'political' roles and those with more 'professional expert' roles—to embrace these reforms and not just pay lip-service to requirements imposed by central governments.

Institutional roles and relationships

An interesting observation that can be drawn from the book is that budget and financial management reform is not only affected by each jurisdiction's particular institutional framework, but also can help to shift or rebalance that framework.

In all three jurisdictions, the reforms have led to some strengthening of the role of the legislature and have been associated with greater transparency and capacity for civil society and the public to influence government decision-making. In Australia and Taiwan, this is demonstrated particularly by the changed role and increased capacity of the national audit office; and, in Australia, it is also evidenced in the creation of the Parliamentary Budget Office. In China, people's congresses are far weaker than the legislatures in the other two jurisdictions, but there is evidence nonetheless that they are playing an increasing role in budget oversight and review.

Within the executive, finance departments appear to have become more powerful, exercising their traditional 'challenge' role with increased information on line agencies' performance. Devolution of detailed financial management controls has not meant reduced central power, but a shift in the way it is exercised. Finance departments still have considerable control over budget aggregates despite line agencies having more flexibility in allocating their resources, but finance departments also play a strong role in advising the political leadership on policy choices, taking advantage of performance information and their capacity to develop alternative policy options. Having final control over budget estimates and ownership of the financial management framework also gives considerable power to finance departments.

The success of the reforms depends, nonetheless, on cooperation and mutual respect between finance and line agencies, in all three jurisdictions. Overreach by the finance department may just lead to lip-service by line agencies; in extreme situations, it may also lead to gaming and worse.

The impact on intergovernmental relations seems to vary. In both the PRC and Taiwan, where there are differing degrees of decentralisation within what are formally unitary states, the impact parallels that of the impact on central and line agency relationships. The central finance department has increased power, but success is dependent on cooperation and mutual respect, and there are dangers of gaming and worse if this is

missing. Success is also dependent on capacity at the local level, including the strength of horizontal relationships; this involves also the capacity and authority of both the local executive and the local legislature.

In Australia, where the provincial governments have considerable sovereignty, including quite powerful legislatures, budget and financial management reforms have not been driven solely by the national government, but also by each government in the federation. There has nonetheless been ongoing debate about the extent to which the national government can or should apply performance (or other) conditions to the revenue transfers it provides to provincial governments, and whether the national audit office should have audit authority in this regard. Significant moves have been taken in this direction, but on the understanding that objectives and performance measures be agreed across jurisdictions.

In all three countries, local governments rely to a significant extent on revenue transfers from the centre, and this is unlikely to change. While this may offer scope for national governments to impose firmer performance conditions on the moneys, or other forms of control, the evidence presented in this book shows there are practical limits and the risk of counterproductive responses.

Increasingly, it seems, the reforms are associated with increased roles for outside organisations. In part, this was inevitable as NPM reforms in all three jurisdictions led to some public sector activities being managed by non-governmental organisations, both for-profit and not-for-profit, on the grounds of efficiency and/or effectiveness (particularly in Australia, but much less so in the PRC and Taiwan). But the processes of performance review and evaluation are also involving external organisations including universities, think tanks and for-profit organisations. As mentioned, China's foray in this respect has involved a conscious attempt to address capacity problems within government. In all three jurisdictions, this seems likely to better inform the public, with the potential for wider and more considered public engagement. Whether this potential is being realised is another matter. Taiwan is actively experimenting with participatory budgeting and this may assist the government in selling its budgetary provisions. However, there is little evidence that public discourse in Australia is better informed than in the past—quite the reverse, perhaps, as it appears distrust and disinterestedness in government are increasing, according to social surveys. In China, the push to adopt 'social accountability' seems to have strengthened in recent years, but it remains under close supervision by the CCP.

Leadership

A message in a number of chapters, including ones on each of the three jurisdictions, is the importance of leadership, at both the political and the administrative levels, if the reforms discussed are to be successful. Leadership is also an essential ingredient for building a culture of integrity across the public sector and a commitment to serve the public. Such a culture takes time and effort to develop and nurture, and needs to be supported by both the institutional framework, with its formal rules, and the informal arrangements that accompany that framework. Such a culture can very easily be undermined by lack of good leadership. The many technical advances described in this book will only be successful if leadership commitment is sustained.

Concluding comments

Appreciating the different institutional contexts is essential to understanding the budget and management reforms in each jurisdiction, but there do appear to be some common drivers, challenges and lessons. Apart from the points raised above, it is also important to recognise that 'reform' is not an event but a work in progress, whether in regard to budgeting and financial management or in regard to wider economic, social and political change. Much has been achieved in these three jurisdictions, but the journey is by no means over in any one of them.

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