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MGSM WORKING PAPERS IN MANAGEMENT

**RECENT PUBLIC-SECTOR FINANCIAL MANAGEMENT CHANGE IN
AUSTRALIA:
IMPLEMENTING THE MARKET MODEL**

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**MGSM WP 2003-6
April 2003**

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ISSN 1445-3029 Printed copy
1445-3037 Online copy

MGSM WP 2003-6**Recent Public-Sector Financial Management Change in Australia:
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RECENT PUBLIC-SECTOR FINANCIAL MANAGEMENT CHANGE IN AUSTRALIA: IMPLEMENTING THE MARKET MODEL

For *Debating PublicSector Financial Management Reforms: an international study*, (eds)
Christopher Humphrey, James Guthrie, Olov Olson and Larry Jones,
Information Age Press, USA (2003)

draft 14

ACKNOWLEDGEMENTS: This work continues our ongoing interest in NPFM in an Australian context and builds on the authors' previously published work (Guthrie and Parker, 1990; 1998; Guthrie, Parker and Shand, 1990; Parker and Guthrie, 1993; Parker and Gould, 1999; Jones, Guthrie and Steane, 2001a; b; English and Guthrie, 2001; Guthrie and English 2002a; b). The authors are indebted to conference and seminar attendees' comments and critiques and would also like to express their appreciation to Professor Richard Laughlin (Kings College, University of London), Professor Jane Broadbent (Royal Holloway, University of London) and Emeritus Professor Allan Barton (Australian National University) for their helpful comments. The responsibility for the contents of this chapter nonetheless remains entirely that of the authors.

RECENT PUBLIC-SECTOR FINANCIAL MANAGEMENT CHANGE IN AUSTRALIA

1. Introduction

The Australian Public Sector (APS), like many others in Western democratic countries, has continued over the past decades to initiate significant and far-reaching change. All fundamental aspects of the operations of the APS (its structure, processes and underlying ideology) have been transformed. The winds of political, social and economic change that have swept through the APS have affected all Australians, irrespective of their geographical location or socio-economic status. This chapter explores several elements of the transformations wrought on the APS since the early 1970s, with particular reference to accounting and management changes that have become evident over the last five years. Our main objective is to document the key features of APS transformation, the conditioning influences that appear to have been at work, and to locate identified changes in the continuing trajectory of public-sector financial management reform in Australia. The fundamental changes in the organization and administration of the APS have emerged as direct responses to initiatives made by various federal, state and local governments. There has been a pronounced

philosophical drive for more “efficient”, “effective” and “accountable” public services (Jones *et al.*, 2001c).

Jones *et al.*, (2001c: 5) argue that the ‘new era’ of public management reform has been accompanied by all sorts of promises. These include: transition to smaller, less interventionist and more decentralized government; improved public-sector efficiency and effectiveness; greater public service responsiveness and accountability to consumers and citizens; increased choice between public and private providers of public services; an ‘entrepreneurial’ public sector more willing and able to work with business; and improved economic performance. It is clear why politicians have been attracted to and have implemented what has become known as New Public Management (NPM) and the associated New Public Financial Management (NPFM) technologies. However, some observers of public-sector reform, as well as citizens and public managers, are left wondering how many of these promises can be relied upon to deliver the multitude of benefits depicted so attractively. The primary focus of our attention in this chapter is the national (federal or commonwealth) level of government in Australia. However, we do draw on several state government examples for illustrative purposes.

The chapter is organised as follows. Section 2 overviews the general climate of reform in the APS. In section 3 we briefly analyse major changes in the Federal government’s approach to public-sector management from the mid 1970s, using Considine’s (2001) four governance models. Section 4 outlines the current state of ‘new public financial management’ (NPFM) reforms in the APS, whilst section 5 discusses the perceived impacts of the market model in Australia and overviews several debates between proponents of reform and its critics. Section 6 highlights two issues worthy of consideration in an international context. Future implications of reforms to APS financial management are addressed in the concluding section.

Consistent with the approach adopted by other contributors to this book, we concentrate on important contextual dimensions of organizational and social life, rather than on specific changes in accounting technologies. Broadbent and Guthrie (1992) outlined and assessed the limitations of the ‘technical’ approach in contributing to debate and in developing and implementing policies in the public sector. Prior technical literature has concentrated narrowly on financial management measurement techniques, reporting practices, and descriptions of formal structures manifest in rules and regulations. It is now recognised that public-sector accounting and management are

conditioned by, and in turn condition, social and organizational processes and practices (Laughlin and Pallot, 1998).

Accordingly, to understand recent historical changes in APS financial management, it is important not to focus upon technical practices viewed in isolation, but rather, to view accounting and management reforms as social phenomena embedded within their broad institutional settings (Guthrie, 1994a). All of these elements deserve attention and balanced treatment if we are to penetrate manifest practices and bureaucratic transformations to gain a deeper view of the underlying forces at work. It is only through a penetration of these practices and transformations that a more complete understanding of the import of APS financial management reforms and potential future directions can be gleaned¹.

2. Context of Australian public-sector change

Australia is a federation of six states and two federal territories and includes three levels of government - federal, state and local. The federal government sits in Canberra (in the Australian Capital Territory) and operates through two houses of parliament, the Senate (the upper house) and the House of Representatives (the lower house). The Federal Parliament's authority includes *inter alia* raising income and, more recently, applying goods and services (GST) taxation; national economic management; corporate and securities industry regulation; trade and commerce powers; international relations; defence; telephone and postal services; and social welfare, education and hospital services. The Federal government is the only level of government that has the power to impose income taxes and therefore it exercises authority over fiscal matters in Australia (Reid and Forrest, 1989).

Each state has its own parliament, executive government, and judiciary, and has the power to set laws on matters relating to the state. This is the second level of government. Where state and federal laws come into conflict, it is the federal laws that prevail. Revenues to state governments come from special-purpose grants made by the Federal government, the GST, and some income generated by payroll taxes, financial institutions duties, and the like. Each state plays a major role in the delivery of education, health care, policing and social services. The Federal government also plays roles either directly in these areas or indirectly through the terms and conditions it applies to funding grants to support such activities. The third level of government is local government at city, town, municipal or shire levels. Most local government revenue is raised through property rates,

general charges, and grants from state and federal governments. Key areas of local government authority include town planning, road systems, community and recreation facilities, and so on.

These levels of government represent a long-standing tradition in Australia. Some amalgamations of smaller local authorities into large-scale local authorities have taken place. A further development has been the growing number of government business enterprises (GBEs), at both federal and state levels, that are constituted as statutory authorities or companies wholly owned or controlled by government. These include telecommunications and health insurance businesses, and various utility companies and the like, primarily being treated as commercial and therefore as income-generating operations. In the last decade, state and federal governments have moved to sell off large portions of these GBEs, or to wholly privatise them (Guthrie and English, 2002b; Walker and Walker, 2001).

With respect to government revenue raising and expenditure, the federal government raises approximately 70% of total public revenue and directly expends approximately 50% of total government expenditure in Australia. In relation to Gross Domestic Product (GDP), through the 1980s, federal government expenditure rose from 16.7% to 18.5% of GDP, and since then has remained at less than 20% of GDP. State government expenditure has averaged a total of 20% of GDP over the same period, maintaining a fairly steady average across the years. When payments for social security are excluded, state governments are in fact the most significant direct purchasers of goods and services. However, as has been seen in other countries, there has been concern by both major political parties at levels of income taxation and related levels of government expenditure which has been reflected in the concerns of parliaments and governments at both state and federal levels in Australia. The mood has been one of attempting to restrict or indeed cut the growth in levels of direct government expenditure and of direct government involvement in many areas of service provision.

Associated with this growing philosophy of expenditure restriction has been the desire by a range of federal and state governments since the mid 1980s to now to revise and pursue more efficient and effective systems of managing public resources via 'improved' public-sector management (English and Guthrie, 2001). Indeed, from the mid 1980s, organizations within the APS have been transformed by major changes in public-sector management and accounting technologies. NPFM reforms include the presentation of forward estimates, budgetary processes in program format, the adoption of accrual accounting and related performance indicators for reporting and budgetary

purposes, the use of annual department and whole-of-government financial reports and the authorization of the both federal and state auditors-general to undertake performance audits (Guthrie, Parker and Shand, 1990; Guthrie, 1994b; Jones *et al*, 2001a; b).

3. From procedure to enterprise: a brief analysis of change in the APS

At the federal government level, the Royal Commission into Australian Government Administration (RCAGA, 1976) and the National Commission of Audit (NCA, 1996) were highly influential in establishing transformation in the public sector. At state level, various commissions of audit (VCA 1993, a; b) were also influential as harbingers of a reform movement that, by the mid 1990s, could be characterized as producing ‘new’ public (sector) management (NPM) policies (Hood, 1995). At least five different categories of change are apparent in this reform, referred to as NPFM (see, Guthrie *et al.*, 1999). These include changes to financial reporting systems; the development of commercially-based, market-oriented management systems and structures to deal with the pricing and provision of public services; the development of a performance measurement approach; the devolution or delegation of budgets; changes to internal and external public-sector audits, notably in terms of monitoring service delivery functions; and requirements for reviews of efficiency and effectiveness.

Considine (2001: chapter 2)² has identified four governance models that typify governance in the public sectors of what can loosely be termed ‘Western democracies’. Their adoption in Australia is documented in Table 1.

**Table 1 Four Governance Models Implemented in Australia
Identified by Considine (2001: 24)**

Model	Source of rationality	Form of control	Primary virtue	Service delivery focus	Implementation in Australia
Procedural governance	Law	Rules	Reliability	Universal treatments	From Federation in 1900 to early 1980s
Corporate governance	Management	Plans	Goal-driven	Targets	1980s to early 1990s
Market governance	Competition	Contracts	Cost-driven	Prices	Mid 1990s, still current
Network governance	Relationships	Co-production	Flexibility	Brokerage	Elements introduced selectively by some governments

The pre-1980s governance model, which was in existence in most Western democracies for centuries, can be classified as the procedural model, and is characterized by a recognized system of universal rules and ranks. Typically hierarchical and rigid in approach, procedural governance is achieved by a system of rules and statutes, a strong public service ethos, and public servants with professional training and specific experience in local systems of protocols and accepted practices. It is a model in which strong top-down managerial authority prevails, requiring layers of checking and auditing so as to reduce the likelihood of large errors (Considine, 2001: 24-26).

The RCAGA report (1976) argued that the structure of public-sector administration was excessively centralised and hierarchical and that a decentralised structure with a more managerialist emphasis could provide a more efficient system of public administration (Guthrie, 1994a). It recommended a system of 'accountable management' designed to promote 'management efficiency' and to achieve 'management accountability', and that the government's objectives and priorities needed to be established to enable implementation of coherent work plans for individual ministers, departments and agencies. This accords with Considine's (2001: 26-27) corporate governance model. RCAGA advocated a scheme of redesigning institutional arrangements, organizational forms, management processes and accounting systems. It also recommended that department heads be held responsible for management programs, for efficiency and economic administration, and that accounting officers' roles be oriented towards financial management (Guthrie and Parker, 1990).

As a result of RCAGA, the Financial Management Improvement Programme (FMIP) (Australia, 1983) was introduced at the federal level in 1985. The FMIP represented the culminating application of many of the recommendations of the RCAGA. FMIP, which heralded the introduction of the transitional corporate model, initiated the most significant and far-reaching changes hitherto experienced by the APS. Over time, the FMIP initiative switched the orientation of public-sector administration from a focus on the control of inputs to one on the pursuit of outputs and outcomes (NCA, 1996). By the onset of the early 1990s, the shift to 'managerialism' in the Australian public sector was accompanied by a discourse couched largely in financial terms, which was underpinned by a commitment to importing 'good' commercial practices from the private sector along with a pronounced tendency to adapt to market solutions wherever possible.

The market model of governance (Considine, 2001: 27-29) was adopted wholeheartedly at all levels of both conservative and labor governments by the mid 1990s. In this model, hierarchical governance is replaced by private ownership, and competition and market incentives replace some of the traditional notions of regulation by statute and reward through the career public service. In line with the model's underlying philosophy, competition and *quasi* markets are relentlessly introduced into the public sector, and contracts underpin relationships within the sector, and between the public sector and its private-sector suppliers and recipients of services provided by the state. Ministers become the planners and purchasers of services, bureaucrats the facilitators of service provision and monitors of contractual arrangements with suppliers, and citizens become clients for whom services are provided. Price becomes the determinant of service provision, and also the means of evaluating its provision. The political emphasis is on 'small' government, a reduction in government spending and debt, on 'doing more with less', on 'user pays', and on the provision of a welfare safety net on a needs basis, as opposed to universal welfare coverage (Osborne and Gaebler, 1993; VCA, 1993a; b).

The market model is typified by contestability in the provision of goods and services to the public, privatisations, and public private partnerships (PPPs) to build, maintain and operate large infrastructure projects on behalf of governments. The dependence on price as the prime determinant of supply, combined with the expectation of quality service provision, has several consequences, including the need for sophisticated reporting, costing, risk management and computing systems, and the attendant dependence on commercial accounting and related technologies and the professionals required to implement and manage them. In addition, price dependency can result in the provision of unsatisfactory services, which are ultimately costly in terms of political and social consequences.

The adoption of the market model re-specified public-sector management in terms of quantitative performance measurement. Financial and non-financial representations of output focused on the measurability of individual and organizational activity and a private-sector-inspired preoccupation with the bottom line. 'Economic rationalism', via its supporting private-sector accounting technologies, came to dominate policy, and associated debates and reporting systems. Quantitative information drove public-sector management agendas. Even in such traditionally qualitatively assessed areas as social welfare, professionals and managers alike found their activities being increasingly represented and subject to scrutiny in terms of quantitative performance indicators invariably expressed in accounting terms.

Proponents of and adherents to this reform movement demonstrate strong commitments to contestability, privatization, decentralization and individual-centred responses to public needs. These philosophical commitments signal a major strategic and cultural shift in the way advanced economies seek to define the public sphere and the roles of citizens and officials within it. Social protection has given way to risk management, and government has become less a matter of providing *things* than providing and managing *incentives* (Considine, 2001). Greater interest in specifying and exacting measured performance, comparing the achievements of agents, and increasing the flexibility, quality and quantity of public resources are common features of this public-sector reform movement.

According to Considine (2001), an observable outcome of these trends is for politicians and public officials to continuously fine-tune and adapt the market model over the longer term in the light of unintended outcomes. Over time they seek to blend and hybridize new strategies aimed at stimulating the performance of agencies and individuals.

They now invent new relationships, replacing single-purpose agencies with short-term, conditional relationships with suppliers, competitors and collaborators. This new flexibility creates a complex power structure in which the old hierarchies of state, market and civic agencies are forced to reconsider their relationship to the government and match the state's own self enterprising dynamic by reinventing themselves in radical ways.

(Considine, 2001: 9)

The key features of Australia's 'market model' together with strategies adopted to implement it, are depicted in Table 2 (Considine, 2001: 9-13; Alford and O'Neill, 1994: 4-5; Guthrie and English, 2002b).

Table 2 Implementing the Market Model – linking organizational characteristics with objectives and implementation strategies

Organizational characteristic	Organizational objective	Implementation strategies
Contractually-based activity within the public sector	<ul style="list-style-type: none"> • Ensure transparency of decision making & policy implementation • To focus ministers & agencies on core functions of government – policy development, 	<ul style="list-style-type: none"> • All relationships within and between the private and public sectors to be governed by contracts • Different types of contracts, each between different parties • Service delivery functions to be corporatized or sold

	<p>resource allocation, specification of services, standards setting</p> <ul style="list-style-type: none"> • Monitoring & regulation to be separated from service provision 	<ul style="list-style-type: none"> • Clear specification of outcomes and outputs required • Award contracts on basis of price.
Outcome focused	<ul style="list-style-type: none"> • Link political objectives in terms of outcomes with outputs provided to meet social objectives • Remove focus on inputs 	<ul style="list-style-type: none"> • Redefine roles within government & public service to separate policy making from policy implementation • Reporting and budgeting focus on outputs & outcomes, not inputs • Rejection of cash-based reporting & budgeting • Payment of agency running costs as a lump sum
Performance based management	<ul style="list-style-type: none"> • Management for outcomes & output • Adoption of methodologies to report & measure performance • Risk management 	<ul style="list-style-type: none"> • Existing reforms extended to include: • Recognition of liabilities • Reporting on an accrual basis • Whole-of-government reporting • Fully-costed inputs, including the cost of capital • Long & short-term corporate plans • Risk assessment and management • Accrual output-based budgeting • Program-based budgeting • Financial & non-financial performance indicators • Regular monitoring & reporting
Entrepreneurial activity	<ul style="list-style-type: none"> • Public organizations given responsibility to create own means of addressing problems & meeting demands 	<ul style="list-style-type: none"> • Existing tradition of contracting out strengthened by fewer rules relating to <i>how</i> suppliers should provide outputs, or the <i>type</i> of outputs to be provided to deliver contracted outcomes • Introduction of ‘efficiency dividends’
Principal/Agent separation	<ul style="list-style-type: none"> • Separation of policy making departments from service delivery agencies • Transparent, performance-based contracts to link policy with outcome-based service delivery 	<ul style="list-style-type: none"> • Skilled contract specification & management • Identification & transfer of risk • Government becomes purchaser of services, the public sector becomes the managers of contracts to supply services, & the private sector becomes the providers of services
Introduction of <i>quasi</i> markets	<ul style="list-style-type: none"> • Creation of artificial markets to increase competitive tendering in the public sector to reduce costs and increase responsiveness of service delivery 	<ul style="list-style-type: none"> • Empowering more than one tenderer to bid for & supply defined set of outputs • Contestability to expose government-funded activities to competition wherever possible • Individual private sector contractors • Corporatization of government-owned

		organizations <ul style="list-style-type: none"> • Privatization • Public Private Partnerships (PPPs)
Citizen responsibility & empowerment	<ul style="list-style-type: none"> • Recipients of welfare services to become more active on their own behalf • Adoption of service commitments • Creation of consumer choice 	<ul style="list-style-type: none"> • Those receiving services to contribute more (user payments & co-payments) • More carefully targeted welfare system to reduce costs, inefficiencies & ‘bludging’ • Allocation of funding to consumers rather than to suppliers • Providers and recipients of welfare services to enter into mutually binding commitments based on need(I can’t get rid of this extra space...)
Professional and business-like management of public agencies	<ul style="list-style-type: none"> • Devolution of managerial responsibility and authority • Risk management • Hands-on professional management • Explicit standards and measures of performance 	<ul style="list-style-type: none"> • Performance monitoring & appraisal • More flexible conditions & wage structures • Introduction of employment contracts and incentives • Improved financial and management reporting systems
Devolution of responsibility and decision-making	<ul style="list-style-type: none"> • Introduction of flexibility in decision-making • Empowerment of line managers to take responsibility for and be accountable for their decisions 	<ul style="list-style-type: none"> • Responsibility for budgeting and outcomes given to portfolio managers • Functions or tasks redistributed from central units to more dispersed units • Performance monitoring & appraisal at lower levels within public service
Minimizing bureaucracy	<ul style="list-style-type: none"> • Focusing departments on core functions of responsibility for service provision 	<ul style="list-style-type: none"> • Downsizing of public service • Reducing central controls to focus on outcomes & value-for-money

The final model proposed by Considine (2001: 29-31) is the network model. The recognition that more competitive allocations can undermine trust and long-term investment on the part of contractors and that government organizations might do better by moving away from price dependency towards entering longer-term relationships with stakeholders of valued services is the impetus behind the network model. Network governance is depicted as being more effective than other governance models in building up systems of quality service-delivery or in creating effective institutional linkages within policy sectors. In place of standard products, organizations participating in service networks are contracted to create sets of variable services that are deployed

according to the particular characteristics of customers, including their capacity to pay for or benefit from the service provided. In place of the previous attention to notions of transaction efficiency, cost reduction and planning, this emergent framework concentrates its attention upon the repeated processes through which services are tailored to individual or small batch clients, and costs are shared across an inter-organizational web of public and private agencies. In this governance system network, agents are local officials who take direct responsibility for establishing links between suppliers, producers and customers. Such a system may see the end of the dominance of 'accounting' and its associated technologies in the public sector as a 'softer', more human focus emerges.

The network model has not yet taken hold in Australia, although 'networking' elements have been grafted onto some Federal welfare service delivery systems. For instance, the radical reforms introduced progressively since 1994 (by bipartisan governments) to reduce unemployment, exhibit strong competitive elements, but also some networking elements (see Considine, 2001: chapter 6). By 1996 the federal government had completely corporatized the public delivery of employment matching services, and ensured that the former Commonwealth Employment Service, renamed Employment National, competed aggressively with private-sector employment contractors. The incentives facing both the unemployed and private-sector employment agencies have radically changed the welfare landscape. The developing model promises an interesting new form of governance at ground level, whereby clients are called upon to help produce their own program effects, rather than being consumers of pre-existing, or finished services. Incentives to help the long-term unemployed find work have included individual case management, negotiated self-motivated employment search, and compulsory training, with payments to both the unemployed and to contractors linked with meeting agreed performance targets, some of which are imposed by government, others of which are agreed between the parties at the grass roots level. However, while the theory may be sound, there have been numerous examples of unintended consequences such as contractors concentrating on 'payable outcomes' in order to maximize their income from government contracts. For instance, it has recently been reported in the press (O'Loughlin, 2002) that one Job Network Contractor has offered employers incentives, such as the possibility of winning a flat screen television, a gold watch, or a trip to the Barrier Reef, if they give work to disadvantaged job seekers (as the chronic unemployed are now termed) for at least 13 weeks, which, in turn, earns the employment contractor a \$4000 service fee from the government. The additional \$2000 fee to find the disadvantaged work for 26 weeks is relatively less attractive for Job

Network contractors, resulting in the most common period of employment for the disadvantaged being 13 rather than 26 weeks.

4. NPFM reforms: perceived impacts/outcomes/consequences of the reforms

The transformation of financial management in the APS over the past two decades has been both radical and significant. The fundamental elements of the financial management reforms adopted in the APS over the period are a full accrual approach to planning, budgeting, resource allocation decisions and reporting; fully-costed service provision; a focus on the outputs departments provide; and a change in incentives underlying management of total resources available to departments. The recommendations relating to transforming institutional rules and relationships were intended to realign governance structures (organisation) and concomitant incentives underlying them, more closely with private-sector arrangements (methods) and markets.

Acceptance of the thrust of the reform process, by both major political parties, within the public sector and by the community at large, may be the product of the overwhelming influence of the ideology of smaller government, restricted taxation, the adoption of private-sector practices in the public sector, the ‘user pays’ philosophy, public distaste for ‘welfare bludgers’, and pressure from global capital markets for ‘well-managed’ economies (i.e. those whose governments show fiscal restraint, balance budgets, repay national debt and are members of the international club that receives ‘good reviews’ from organisations such as OECD, the World Bank, the International Monetary Fund and so forth) (see, Jones *et al.*, 2001c).

Parker and Guthrie (1993) argued that the unique characteristics of the public sector suggest the need for differentials in structures, philosophies and processes from private sector organizations. For example, parts of the public sector provide services to clients who are captives of those services and cannot pay for them (e.g., recipients of welfare and unemployment benefits). Public-sector service provision is often driven by supply (in the form of available taxation dollars) rather than demand. Government is responsible for services to the disadvantaged and other special-needs groups, and for ensuring equity of access to public services across the nation. Compared with private-sector organizations, public-sector organizations are often subject to government legislation and regulations that limit their activities or financing arrangements. Public-sector organizations have aspects of their structural processes determined by the accountability needs of public representation and public scrutiny, as well as by the multiple community objectives that they must satisfy.

Such characteristics of public-sector organizations would appear to differentiate them from private-sector ones, and also to affect their structures, processes, accountabilities and administration (Guthrie, 1993; English, 1992). Nevertheless, much contemporary practice and discourse appears to ignore these differences and continues to accept the use of private-sector models for accounting, auditing and accountability. This emphasis has resulted in public-sector management discourse largely being captured by a private-sector financial and managerial discourse, in which professional accountants have been drawn more centrally into public-sector power structures. These professionals inevitably reflect their university and continuing professional development training, which is dominated by private-sector accounting, management and finance models. The world view of Australian accounting professionals is further reinforced by the Australian approach to financial reporting which insists that there is no conceptual difference between the sectors (Barton, 1999; McGregor, 1999), and hence that there should be no difference in the financial reporting, and, by implication, management in the public sector. These factors contribute to obscuring the underlying differences between public- and private-sector organizations and consequent differences in required management and accountability approaches that have been, at times, ignored by the politicians and senior civil servants swept along by the ideology underpinning NPM.

Probably the most penetrating critique of public-sector change has suggested that public-sector organizations grapple with a more complex and contestable world than the private sector. Managers in the public sector must consider not only economic and technical matters, but also meet formally imposed or expected political, ethical, social and other objectives. Theirs is a task of maintaining a difficult balance between professional standards, economic imperatives, social values, and technical constraints. They are called upon to respond to, at times quite rapid and marked, shifts in public opinion and political priorities. The public-sector manager's environment is therefore often one of turbulence that has now been extended to include not only the external environment but also a changing internal public-sector organizational environment. The pendulum may yet swing so far towards an intense preoccupation with minimizing unit operating costs and maximizing quantitatively measurable performance outputs that the public at large may begin to protest at any perceived loss of access to services, loss of control of 'community' assets, and reductions in quality of service delivery.

5. Implementing the Market Model in Australia: issues and concerns

Australian governments, both federal and state, have embraced NPM and NPFM reforms and, overwhelmingly, adopted (and adapted) the market model to implement them. The network model does not appear to have registered as an alternative possibility on the political radar. All major political parties continue to endorse the thrust of the managerial changes accompanying the implementation of NPM, heralding increased visibility of financial and economic discourse. However, there has also been a groundswell of criticism of some of the outcomes of NPM. In general, the implementation of NPM reforms has raised concern about the issues outlined in Table 3. As indicated in the discussion that follows, these issues and the concerns they raise are interdependent and integrated, and not discrete as may be suggested by the layout of Table 3.

Table 3 Implementing the Market Model in Australia: issues and concerns

Issue	Concerns
Value-for-money	<ul style="list-style-type: none"> • Does the arrangement with the private sector really deliver additional benefits in terms of long-term economy, efficiency & effectiveness relative to retaining delivery of the service in public hands? • Is price the most appropriate arbitrator of supply? • Are appropriate costing methodologies adopted to compare in house & external supply?
Risk management	<ul style="list-style-type: none"> • Have risks been adequately identified, assessed and managed? • Does the contract adequately specify required levels of service delivery? • Are appropriate penalties in place to penalise poor performance? • How successful has the government been in transferring risks to the private-sector operator? • Can all risks ever be transferred to the private sector? • If not, what risks can be realistically transferred?
Transparency & accountability	<ul style="list-style-type: none"> • Have commercial-in-confidence clauses been used to unnecessarily restrict public scrutiny of contractual obligations? • Which party, the government or the private-sector service provider, is ultimately responsible to users for service provision? • Is the chain of accountability specified? • Are standards of constitutional accountability eroded? • Are the differences in accountability between the public and private sectors too stark to be bridged?
Accounting & reporting	<ul style="list-style-type: none"> • Is internal and external decision-making supported by appropriate information? • Is the appropriate accounting policy used to report transactions in financial reports?

	<ul style="list-style-type: none"> • Are internal controls appropriate and enforced? • Have all assets and liabilities been reported? • Are accrual-based budgets realistic and useful? • How effective has the adoption of accrual accounting in the public sector really been?
Performance monitoring	<ul style="list-style-type: none"> • Have appropriate performance indicators been developed and applied? • Are they applied consistently and over time? • Has the private-sector contractor fulfilled all obligations under the contract, in full and on time? • Has the public sector effectively monitored performance according to contractual arrangements? • What information does accrual finance/reports for government agencies actually present?

These concerns emerge as a common theme irrespective of the *type* of public-sector activity under consideration, the *entity* (public or private) engaged to deliver services, or the *level of government* for which the service is delivered. For instance, whether one is examining the management of an outsourcing project, the operations of Government Business Enterprises (GBEs), the contracting out of services to the private sector, privatizations, or public private partnerships (PPPs), some or all of these factors come into play.

Value-for-Money

Economy, efficiency and effectiveness of service delivery, or value-for-money in service provision, have been major drivers of NPM reform. The decisions to outsource service provision, to sell off public assets, or enter into a partnership with the private sector for the procurement of services through the construction, maintenance and/or operation of infrastructure assets (PPPs). All these involve the need to compare the costs and efficiencies between existing (public) supply and supply involving the private sector as contractor/purchaser/partner. In theory, such decisions are made on the basis of appropriate NPV or similar mathematically-based calculations, using established and credible methodology. However, while the methodology may be relatively straightforward, there have been numerous criticisms across the board of their application, typically, in ‘in house’ *versus* ‘outsource’ decisions (Johnstone and Gaffikin, 1996; Carlin, 2000). Much of the criticism relates to the overpricing of public supply in relation to private-sector tender prices, selling off assets too cheaply or contracts that are written to favor the private-sector contractor at the expense of the government and taxpayers. In addition, it is common for the costs of contracts to blow out once the

deal has been ‘done’, making a mockery of figures that formed the basis of the initial decision to outsource.

However, for citizens, and presumably governments, the provision of services is not just about realizing lowest prices and associated efficiencies. In the Australian historical, social, economic and political context, it is also about adequacy, quality and accessibility of services provided, maximizing overall value for money, ensuring proper accounting for the use of public resources, and the achievement of agreed results that often involve a significant non-monetary element. Thus, considerations of public interest are also relevant to outsourcing decisions (Parker and Gould, 1999; Barrett, 2000c; English, 2002).

Risk Management

Risk management issues relate to both *management of risks* within the inner budget sector, and the appropriate *transfer of risk* to private contractors under contracts written by governments. The Commonwealth Auditor-General has nominated risk management as one of the most pressing issues facing the public sector in Australia. Management of risk assumes that risk is identified and managed appropriately. Risk can be political, social, reputational and/or economic. One unintended consequence arising from the downsizing of the public service under the market model has been the ‘loss of corporate memory’ within the sector, reducing its ability to identify and manage risk (Barrett, 2000c). A recent report by the New South Wales Auditor-General found that state-owned businesses and agencies are failing to plan for risks. According to the report, 27 percent of GBEs surveyed did not have a documented risk management policy, and 45 percent did not have a risk management plan. These GBEs include water authorities and electricity distributors (Hepworth, 2002).

The assumption that risks, once identified, can be transferred to the private sector through contracts has also proved to be somewhat illusory. In general, the public sector seems to have a poor record at risk identification and transference. Many private-sector contractors (including former government employees) have made significant financial gains at taxpayers’ expense, and in many cases, seem to have benefited from commercial risks being underwritten by the government, invariably through commercial-in-confidence clauses in contracts that shield crucial terms and conditions from public scrutiny (ANAO, 1999; Parker and Gould, 1999; PAEC, 2000a). All too frequently citizens only discover the guarantees within contracts when projected cash flows fail to eventuate and the government has to make up shortfalls. Examples include the rail service

constructed between the city and the airport for the 2001 Olympics and a state government-built national wine centre that now requires public funding of sizeable operating losses.

Similar criticisms relate to the quality and cost of service provision based upon long-term contracts. For instance, governments frequently discover that contracts fail to guarantee adequate maintenance of public infrastructure assets such as roads and rail networks, and/or the reliability of bus and train services. Ultimately, no matter how contracts are written, it is arguable that governments cannot realistically transfer economic risk because they cannot transfer political and social risk.

According to Barrett (2000c), advocates of NPM reform see risk management both as an opportunity to improve performance, primarily to achieve better results, and as an element of internal control for accountability purposes. However, the dilemma is that the perceived needs for and of accountability can impact adversely on the achievement of economy, efficiency and effectiveness; particularly where the achievement of effectiveness is at odds with principles of transparency, equity of treatment and probity of public resource management and use. As noted earlier, these observations are valid irrespective of the model – whether it be individual private-sector contractors, corporatization, privatization, or PPPs – chosen by government for service delivery.

Transparency and Accountability

Accountable governance in Australia has been characterized as an ensemble of three interrelated concepts and practices: responsibility, accountability and responsiveness (Uhr, 1999). Responsibility and accountability refer to two different aspects of one activity: the delegation and supervision of authority. Responsiveness, according to Uhr (1999), relates to both governments and bureaucracies being more responsive to citizens (that is, client-focused) in decision-making and policy implementation. Responsiveness can be summed up as governing in the ‘public interest’. In the values-based Australian public sector (Barrett, 2000a; b), “claims about public interest trump normal commercial, or for that matter, administrative considerations” (Uhr, 1999: 100). Australian administrative law formally recognizes that public servants have accountability obligations in relation to the public interest. Governing in the public interest requires that the *processes* of public administration should be honest, open, proper, fair, transparent, impartial, equitable, professional and ethical (Niland and Satkundan, 1999; Barrett, 2000a).

As governments focus more on chasing economy, efficiency and effectiveness, the underbelly of the market model is revealed. As the use of extensive contracting outside government increases, there are growing concerns about the accountability of governments to parliament for their constitutional responsibilities, and the continued relevance of administrative protections for individual citizens (Funnell, 2001: viii; PAEC, 2000 a; b; English, 2002). For instance, public accountability has been weakened through the act of contracting services out by confounding rights of access to information. Alternative modes of delivery have permitted governments to hide behind commercial-in-confidence clauses in contracts to avoid their own responsibilities and accountabilities. While it is acknowledged that substitution of private providers for government provision has the potential to provide the public with superior services, a wider choice of service providers, and, possibly, cheaper prices, it has also been observed that contractual arrangements often do not satisfactorily specify accountabilities. Just as risk transfer to the private sector has proven to be somewhat problematic, so too is the transfer of accountabilities because, ultimately, the government is responsible for service provision and accountable to citizens for the quality of its provision, irrespective of the contractual obligations of providers. Thus Funnell (2001:ix) has noted that citizens have the right of appeal to ministers as a last resort in cases in which GBEs or private providers fail to respond to public expectations of accountability. It is the constitutional basis of public accountability, the importance of public interest processes in public administration, and the political dimension of public-sector decision-making and service delivery, which explain the key differences between accountability in the public and private sectors (Barrett, 1999; Guthrie, 1993).

Funnell (2001: 76) also notes that the public has become especially suspicious of privatization programs because the process designed to take a government not-for-profit entity from commercialization to corporatization results in commercially profitable operations being sold off, while loss-making community service obligations “become easy targets for disparagement”. Some commentators have argued that many privatizations sold off public assets too cheaply (Walker and Walker, 2001). However, notably in Victoria and South Australia, there is evidence that the state government extracted uneconomically high prices for their electrical and water assets, leaving new owners with excessive debt levels and customers facing price rises to help meet interest obligations. At all events, there has been a general community belief that, post privatization, service levels go down and prices go up. There is also growing community disquiet at the juxtaposition of GBEs, or government majority-owned enterprises, announcing record profits and massive redundancies in the same breath.

The structure and shape of public-sector accountability in Australia has also arguably shifted towards greater complexity and increasingly differing forms. The focus has shifted from political and public accountability to a primary focus on output accountability expressed in financial terms and increasingly oriented towards ‘customers’ for public-sector goods and services. This is a fairly direct reflection of the market model dominating the Australian public-sector scene. The emphasis has also arguably shifted in Australia from accountability to the public at large for multiple dimensions of probity, equity and service to accountability to the internal public-sector managerial hierarchy for financial outcomes (Parker and Gould, 1999).

Accounting and Reporting

The adoption of accrual accounting and budgeting techniques has been part and parcel of broad-based public-sector reform, whereby old discourse ideals and methods of management have been gradually superseded by new managerialism, contracting, and market-based activities (Parker and Guthrie, 1993; Olson, Guthrie and Humphrey, 1998; English and Guthrie, 2001).

In the latter half of the 1990s, governments at all levels in Australia adopted accrual accounting for financial reporting purposes, and all now report on a whole-of-government basis. Governments at state and federal levels have also implemented accrual output-based budgeting (AOBB). In general, governments seem to believe that budget formats and procedures are important because they influence policy outcomes (Carlin and Guthrie, 2001b). AOBB is not an end in itself, but a means of shifting emphasis of the budgetary process away from cash inputs towards outputs and outcomes for purposes of achieving greater efficiencies, and hence, better outcomes for governments and citizens (Carlin and Guthrie, 2001b). AOBB is seen “... as a process through which agencies are funded and monitored on the basis of delivery (performance) of outputs which have been costed on a full accruals basis” (Queensland Treasury, 1997). The budget shift to ‘outcomes’ has meant a focus on ‘outputs’, ‘prices’, ‘agreements’, flexibility in suppliers’ and ‘performance benchmarking’ which form part of the *de jure* theory supporting AOBB (Carlin and Guthrie, 2001b).

However, the work of Carlin and Guthrie (2001a; 2002b) suggests that desired political outcomes may not have eventuated from the adoption of AOBB. For instance, they state that over different jurisdictions “... there is a high degree of observable consistency in the degree to which a gulf arises between the promised results of AOBB systems, and their ability, upon implementation, to deliver those promises” (Carlin and Guthrie, 2001a: 97). Their work suggests there is a lack of rigor

in the definition and measurement of outputs, and an almost total lack of reflexive, performance-measurement feedback mechanisms to provide an indication as to the impact of purchased outputs on policy-driven outcomes. More tellingly, they also state that they could detect little difference between documentation supporting AOBB and the cash budgets they supposedly superseded, and questioned the extent to which internal management processes had actually changed as a result of the introduction of AOBB. In essence, Carlin and Guthrie's observations suggest that cash-based figures are simply inserted into accrual-based output budgets, implying that, contrary to claims made about it, AOBB has not resulted in fundamental change. This echoes a fundamental tenet of institutional theory which points to an organizational tendency towards a decoupling between budgetary targets and actioned outcomes, and to the budget's primary role as an external legitimizer portraying a rational process, while actual underlying rituals of operational practice continue unchanged as ever (Pettersen, 1995).

Other concerns have been raised about the adoption and implementation of accrual accounting in the APS. Awty (2002) reports that the deputy chief minister and treasurer of the Australian Capital Territory (ACT) believes that, despite all its benefits, many public servants and politicians are confused by aspects of accrual accounting. Criticisms include the appropriateness of charging depreciation on heritage assets that do not generate income and whose 'benefits' are not 'consumed' over time. The criticism that heritage assets cannot be treated and accounted for in the same manner as commercial assets has particularly been championed in Australia by Carnegie and Wolnizer (1995; 1997; Barton, 2000). Similarly, attempts to recognize notional 'borrowing costs' to support capital investment and service provision decisions are often made at unrealistic imputed interest rates considering the real cost of government borrowing.

For instance, Australian governments have begun to charge an imputed cost of capital at 'commercial rates'. At federal level the cost of capital was charged at 12% till 2001 and reduced to 11.5% in 2002, a level significantly above prevailing market rates available to private contractors. Government entities, including inner-budget departments, are expected to earn an equivalent return on their net assets, which are valued at 'fair value'. In effect, the government pays entities the cost of capital on the value of opening non-current assets at the beginning of the fiscal year, and expects entities to repay the cost of capital on the value of closing non-current assets. This policy is purportedly designed to encourage effective utilization of assets. However, its actual effects are two-fold: it encourages entities to reduce their non-current assets (often through sale and lease back

arrangements that are not reported on balance sheets); and, also enables them to invest the cost of capital received which simultaneously places the government in deficit until the money is 'repaid'.

Underlying these concerns is a belief that, despite governments reporting balanced budgets over time on an accrual basis, their ability to generate sufficient cash flows to meet demands for future government expenditure is what is actually critical, and remains unreported. For instance, unfunded superannuation commitments can result in a reported budget surplus, but a declining level of unencumbered cash. The fact that operating activities are not separated from long-term cash requirements means that governments can 'hide' a declining ability to meet future cash commitments.

Performance Monitoring

Publication of performance indicators is generally governed by reporting requirements within individual jurisdictions. New South Wales Treasury (Treasury Circular No. TC96/10: 3), for instance, requires that performance indicators reported should be:

- externally focused on key issues rather than on internal or technical procedures;
- measurable against a clear standard or criteria; and
- manageable in number so as not to overload the reader with information.

In New South Wales, following the US Governmental Accounting Board's model to report on service efforts and accomplishments (SEAs), the Council for the Cost and Quality of Government (COCQOG), in an ambitious initiative, has attempted to ensure that performance indicators give information about the quality, quantity and targeting of services provided within the community and with the efficiency with which services have been delivered (Walker, 2001; COCQOG, 2001). This approach ignores line and function within programs or agencies so as to get around the problem of government restructurings or changes in administrative functions within agencies. Instead of concentrating on performance within agencies, the SEAs approach adopts a 'helicopter view' of the activities of government. It recognizes that policies, such as those to help the unemployed or to protect and educate children, for instance, may be delivered by a number of different agencies in numerous different and perhaps conflicting manners. Accordingly, the focus is on outputs and outcomes, and what government activities are actually achieving in the community. Consequently, most indicators concern program (as opposed to agency) impacts on the community.

COCQOG's efforts have resulted in reports on twelve broad policy areas of government service provision. These range from law, order and public safety to education, health, social and community services to transport and communication. Its reports contain:

- An introduction to SEAs reporting
- Contextual information about the policy area, locating the NSW government effort within a broader context
- An overview of performance reporting in the policy sector, including reference to developments within NSW and nationally, that may impact on the development of performance indicators
- Reporting of performance information for groups of related outputs and outcomes, including contextual information, data and interpretation
- Future directions where an assessment is made of the coverage of expenditure in the policy sector; appropriateness and relevance of indicators reported; the extent to which corporate planning and performance reporting systems are integrated; the state of management information and data systems; the quality of reported data; the extent to which trend and benchmarking data are used; gaps in data reported; and suggested indicators for future reporting.

The COCQOG draws its indicators from various sources, including budget papers, individual agency annual reports, the Australian Bureau of Statistics and the Steering Committee on Commonwealth/State Service Provision's Report on Government Services. About half the indicators have been sourced from NSW government agencies directly. Indicators necessarily change as the format and content of the report evolves over time (COCQOG, 2001). To alleviate this problem COCQOG reconciles former with new indicators over time. Unfortunately, the ambitious NSW attempt to measure performance on the basis of policy areas is not followed in other jurisdictions in Australia. Despite its achievement in compiling and reporting the SEAs, it is difficult to ascertain the *impact* of the Council's reports on government policy, planning and performance.

Victoria represents the approach more commonly adopted in Australia to reporting and monitoring performance indicators. In Victoria, the 'official' position is that agency performance and accountability should be measured and monitored in 'output' terms as indicated in AOBB and related performance indicators, however, Carlin and Guthrie (2001b) have found that the reality does not reflect the rhetoric. They find that there is little real difference in reporting between cash-

based and accrual-based budgets, leading them to question how much management practices can change if reporting for decision-making is unaltered. They found that the quantity of non-financial and performance indicator disclosures in budget papers outweighs the quantity of financial disclosures. They also question the usefulness of additional disclosures, especially as a result of the apparently low ‘survival rates’ for performance indicators. The Victorian Public Accounts and Estimates Committee (PAEC) have also raised concerns about the reliability and consistency in the reporting of performance indicators (PAEC, 2000b). In December 1999, the Victorian parliament amended the *Audit Act* to provide the auditor-general with a mandate to audit performance measures and to express an opinion as to whether they are: relevant to the stated objectives of the agency; appropriate for the assessment of actual performance; and fairly represent actual performance. However, the current Victorian Auditor-General has not taken up this legislative challenge, stating (VAGO, 2002, 4.1.19): “We have formed the view that it [the performance-measurement framework] has not yet been sufficiently developed to enable audit opinions to be issued regarding the relevance, appropriateness and fair presentations of performance indicators. We have also identified a number of areas relating to the framework which need to be addressed, to achieve a sound public reporting regime”.

Concern with budget papers is not confined to Victoria. The Commonwealth Joint Committee of Public Accounts and Audit recently reviewed the effectiveness of the current budget documentation and options for enhancing its format and content. Further evidence of interest in these issues by various jurisdictions can be found in the report of the 2001 conference of the Australasian Council of Public Accounts Committees held in Canberra (ACPAC, 2001).

Recently, it appeared that the federal government quietly abandoned its commitment to accrual budgeting. Without comment, the 2002 Federal Budget moved away from accrual fiscal goals, instead reporting a cash-based budget surplus of \$A2.1 billion, when the accrual-based figure was a surplus of \$A200 million (Harris, 2002). Similarly, there are also indications that the Australian Accounting Standards Board may also be moving away from its former commitment to insisting on the wholesale adoption of accrual accounting in the government sector. For instance, the implementation date for the controversial standard requiring the valuation of land under roads has been dropped and the standard remains unenforced.

6. Key issues for consideration in an international context

Irreversible change in the public sector

The extent to which some public-sector organizations have been (and are continuing, albeit at a slower rate) to be privatized suggests that some structural changes within the APS appear to be irreversible. Indeed, in Victoria, the election of a Labor Government at the end of 1998 (in a landslide victory) did not signal the end of the commitment to the NPM reform movement, or a dismantling of any aspect of the market model, despite the unpopularity of the previous government and some of its policies (English, 2002). Similarly, the 2002 election loss by the South Australian State Liberal government due to similar electoral disaffection with its commercialization and privatization policies has signalled a reduced momentum but not discontinuance of such policies by the new Labor government. Indeed, the basic features underlying the market model (as summarized in Table 2) have not been dismantled at any level of government in Australia.

The adoption of the market model denotes a major and permanent shift in the source of provision of public services, and in the size, scope and organization of the public sector itself. The past twenty years has been characterized by tangible evidence of a significant and continuing trend towards outsourcing government functions to private and not-for-profit sector organizations (e.g., waste management, some welfare services, plant and equipment provision, maintenance, prisons management, infrastructure services such as water supply and management, and more recently the payment of welfare services, including programs to help the unemployed find work). While public and electoral reactions may set limits to public-sector change, there appears no sign of a community or political will to turn the clock back to recreate a public sector of the size, structure and philosophy that dominated Australia in the first half of the 20th century.

Increased visibility of financial and economic discourse

Throughout this period, the onset of 'economic rationalism' and its by-products - 'managerialism' and 'marketization' - has ensured the dominance of the financial and economic discourse within the Australian community, within the federal and state parliaments, and within the public-sector organizations that report to them. This prominence has received further stimulus through growing interest in global capital markets and a belief in their ability to 'reward' good economic management. The primacy of economic and financial discourse has been moderated to some degree by the emergence of 'green' issues that concern communities and, consequently, have begun to concern politicians. Nevertheless the signs are present even now that the dominance of 'economic rationalism' will continue, notwithstanding an impending reassessment of wholesale adoption of accrual accounting in the government sector.

Hallmarks of that continuity can be found in the commitment to these philosophies by all governments, irrespective of their political persuasion. It is only the minor parties (with little prospect of forming a government) that regularly and stridently question the effects of economic rationalism on the community. In short, despite some questioning of the implementation of accrual accounting and AOB, there has been a sea change in the underlying philosophical approach of governments and parties in opposition to the size, scope of services and *modus operandi* of public-sector organizations.

The continuing sway held by managerialism, and now markets, in public-sector financial management may be subject to certain limitations, which in the recent Australian public-sector history have lain somewhat dormant. In the first instance, at least to some degree, electorates have registered their desire to draw limits, such as in changes of government witnessed in recent years in Victoria, the Northern Territory and South Australia. In addition, the mandate of auditors-general (at both federal and state levels) to monitor and report on compliance and probity remains an ongoing limitation to potential contraventions induced by an aggressive focus on the bottom line, that might result from a myopic pursuit of the managerialist philosophy. Again, in recent years there have been some high profile examples of auditors-general reporting to parliaments on costs and inefficiencies, improprieties, and overestimated or unfulfilled benefits flowing from commercialisation and privatisation ventures. Their revelations have proved to be uncomfortable for, and unpopular with, governments in power, irrespective of their political persuasion.

Limitations to managerialism and markets may also be triggered by community perceptions of the appropriate balance of infrastructure ownership. As public-sector infrastructure asset and service sales to the private sector have gathered momentum in Australia, signs of community disquiet and questioning are only now beginning to emerge in media feedback and public debates. This has been particularly evident at both state and federal levels of government where there have been vigorous public debates and community disquiet about governments selling off public assets such as all or parts of telecoms, airlines, power companies, and water management organizations. Finally, social perceptions of the appropriate balance between taxation levels and levels of available social and health services may ultimately set limits to efficiencies pursued.

These potential sources of limitation to the commitment to and impact of managerialism are likely to be subject to national cultural influences. Levels and quality of public-sector welfare services to

the community in Australia for example, may be quite different to those expected by the community in the USA or Sweden. What balance is struck between quality/availability of service and cost may therefore be a function of historical expectations, social philosophy and economic pressures. Thus limits are likely to be situationally determined and changeable over time and varying circumstances.

7. Summary and conclusion

This chapter has outlined and critiqued the public sector and accompanying financial management reforms implemented in Australia over the past twenty-five years. It has also identified key elements of these reforms, the contextual variables shaping them, and related technical practices being promoted in the name of ‘managerialism’ and ‘marketization’. The current trajectory of public-sector financial management change in Australia remains set in the directions that were formulated in the mid 1970s and early 1980s. There are few signs of withdrawal from the private-sector modelling/financial outputs orientation. Past private-sector corporate failures and associated questions raised about management processes, accountability reporting and auditing, appear to have made little impact on public-sector financial management change. Those responsible for the introduction of reforms in and changes to management in the public sector have paid scant attention to the voices of critics and the warnings of observers.

From an institutional theory perspective (Meyer and Rowan 1977; Di Maggio and Powell 1983), the continuing momentum of public-sector change in Australia reflects ongoing processes of both coercive and mimetic isomorphism. Coercive isomorphism has manifested itself in electoral pressures for reduced taxes and greater individual freedom of choice of services, and in the pressure upon the public sector brought to bear by neo-liberal political ideology that has captured both sides of the Australian political debate. Mimetic isomorphism has manifested itself in the public sector’s imitation and adoption of many private-sector business structures, values, objectives, accountability systems, strategies and performance indicators – in concept, language and action (Parker and Gould 1999).

Given this ongoing march of NPM in the APS, it is probably too soon to answer Jones *et al.*’s (2001c) questions: ‘what works, what doesn’t, to what extent, in which contexts and why?’. We would agree with one of their major observations, namely that the implementation of NPM in market models of governance involves continuous adjustment and steering by governments, despite the ideal that governments should be removed from the daily activity of the public sector enunciated by Osborne and Gaebler in 1993. As one would expect, given its three levels of

government and a number of different players at both state and local levels, significant experimentation and differing institutional forms and arrangements exist simultaneously in Australia. There is broad general approval of the thrust of NPM reform and NPFM implementation by both major political parties, and a persistent belief that the state can only provide the standard of services demanded, if governments continue to clamp down on costs.

Opposed to the conventional wisdom to which parties on both sides of the parliamentary house now seem to subscribe, stand some growing countervailing community concerns. First, some question the need for further privatization in the face of evidence which suggests the commercial success of former government-owned businesses. Two large and high-profile former GBEs have demonstrated their ability to outperform their private-sector competitors in the marketplace. Telstra has maintained its dominant position in the Australian telecommunications industry, while Optus, its government-created private-sector rival, effectively failed and was sold off to new interests. Qantas, Australia's international airline now jointly owned by British Airways and private investors, has also maintained dominance in its home market and achieved higher performance levels than many international carriers. At the same time, Ansett, its longstanding private-sector rival, has collapsed. Second, there is growing evidence of community disquiet at the level and cost of provision of some services such as access to telecommunications in the outback, cost and reliability of power provision, the treatment of asylum seekers in detention centres run by private-sector contractors, and the security of prisons managed by private companies. Signs of growing community opposition to further privatizations, and increasing criticism of PPPs are evident, in part due to an implicit recognition that risk transfer is unrealistic because governments cannot politically afford to let PPPs fail (Sheil, 2002).

Within the Australian public sector, it might well be concluded that ideologues in government and central agencies have driven the NPM concepts and accompanying structures and strategies, while public-sector managers themselves have driven the NPFM changes to financial management and associated performance measurement. Thus political philosophy has driven practical change, but often structural and processual change has been initiated in isolation from any prior consideration of potential pitfalls or discussions of the means of avoiding them. Observations of actual outcomes of change processes have been largely limited to those made by the initiators themselves, while formal independent studies of public-sector change impact have been few and far between.

In some senses therefore, the apparent unanimity of political parties and the electorate with respect to a moderately conservative view of the Australian economy and society stands in marked contrast to the fractured concerns and involvements of the various potential parties to the planning and implementation of change in public-sector structures and practices. This in itself may prove to have been a contributor to some of the disappointing outcomes of public-sector financial management change. To date, the discourse has been largely split between proponents who have focused on economic outputs and critics who have focused on social and equity issues. The Australian public may yet decide to employ the power of the ballot box to chart a longer-term middle path that establishes a socially and politically acceptable balance between the countervailing tensions between governing in the public interest and economic dimensions of public-sector performance.

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¹ In presenting what is essentially a contemporary historical study, we are concerned to tell a story that results from our selection of events, ideas, interactions and influences, portraying a perspective of *what* occurred as well as *how* and *why* it appears to have occurred (see Carr 1987).

² The discussion in this section of the paper on governance models is based on Considine (2001), Chapters 1 and 2.