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Once More into Surplus: Reforming Expenditure Management in Australia and Canada

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ABSTRACT: Canadian and Australian federal government budgets have returned to surplus. Over the past two decades both countries have undertaken financial management and budgetary reforms in an effort to control expenditure growth and public debt. They exchanged ideas, borrowed techniques, and shared reform experiences. Yet during the mid-1980s and early 1990s they displayed markedly different levels of success in expenditure control. This article explains why relatively similar instruments of expenditure control and financial management produced different outcomes in Australia and Canada. The analysis suggests that budgetary techniques will have marginal impact unless they are congruent with broader policy management systems and administrative cultures. The comparative analysis provides important lessons for budget reformers in all jurisdictions.

Australian and Canadian governments both announced surpluses in their 1998–1999 budgets. For Australia this was the fifth recorded surplus since 1987; for Canada it was only the first surplus since 1970. As a consequence, Australia's national debt has fallen to 1% of gross domestic product (GDP) after asset sales, while Canada's hovers near the 70% mark. In this article, we compare expenditure

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management in Australia and Canada to provide an explanation of these macrobudgetary outcomes.

While we focus on current practice, our analysis reflects the divergent evolutionary paths of the Australian and Canadian budgetary systems. This provides an enriched context within which to evaluate fiscal and budgetary reforms and an interpretation of the orientations of principal budgetary actors in both countries.

On the surface, expenditure management policies and practices are similar in Australia and Canada. Both countries are committed to responsible fiscal planning and sound budgetary management (Savoie, 1990; Keating, 1990). Both have experimented with a variety of expenditure-control reforms and techniques in recent decades (Forster & Wanna, 1990; Zifcak 1994; Peters & Savoie 1998). Both employ similar budget instruments. Producing surpluses has required multiyear exercises in expenditure reduction involving targeted program cuts and adjustments to statutory entitlements in both countries.

Yet, we argue that, while both countries intended to achieve expenditure restraint, the instruments they used have produced markedly different outcomes. Why have apparently similar instruments produced such different results? Do the individual components of their expenditure management systems account for these differences? More pointedly, can we attribute Australia greater macrobudgetary success to differences in budget practices and institutions and, if so, which ones? Finally, what can other nations learn from the Australian and Canadian experiences?

SIMILARITIES AND DIFFERENCES BETWEEN AUSTRALIA AND CANADA

Our arguments in this article are based on research comparing the patterns and systems of public expenditure management in Australia and Canada since the mid-1970s. Single-nation studies too often become overly insular or bounded. As a result, their findings assume dimensions of self-reinforcement and cannot be generalized. Employing a historical-comparative methodology enabled us to overcome some of these problems by combining the richness of historical data with thematic interests. The 30-year timeframe was sufficient to account for the impact of changing political and economic factors on institutional and procedural budget relations. As a consequence, we were able to identify the significance of various elements in the expenditure management systems and evaluate the success of specific tools and approaches.

Australia and Canada share more common features than most other nations. Political systems in both nations combine Westminster conventions with federalist structures and, as a result, their parliaments and other political institutions tend to mirror each other in organizational design. They are also relatively similar in terms of territory, population and demographics, indigenous issues, economic structure and gross domestic product, and relative size of government (OECD Economic Surveys Australia; and Canada, various).[1] This equivalence between Australia Canadian situation allows a "thick description" of the main factors contributing to observed outcomes (Rhodes, 1995).

Budgetary and expenditure-management systems also demonstrate a range of parallel features that can be loosely classified on the basis of political environment, budget institutions, and financial management techniques. The norms and processes of parliamentary practice and cabinet government shape budgetary and expenditure management systems. For example, all government revenue is deposited into one account—the Consolidated Revenue Fund—that can only be appropriated on the basis of annual legislative approval. Budgets are developed through separate revenue and expenditure domains that only come together at the end of each budget formulation cycle. In addition, the political arrangements of federalism imply that governments at all levels have to manage the on-going conflicts of fiscal federalism, intergovernmental relations, and diffuse accountability.

There is no single budget office in either jurisdiction (see Schick, 1997). Functional responsibility of both countries for expenditure management is divided between two central agencies: Treasury and the Department of Finance and Administration (DoFA) in Australia; Department of Finance (DoF) and the Treasury Board Secretariat (TBS) in Canada.[2] Budget relationships at both the political and bureaucratic levels accord with Wildavsky's (1964) "guardian-spender" dynamic–specialist budget agencies guard the public purse against the incursions of hoarding line departments! (For more on Wildavsky's contribution, see Jones, 1996).

Officials in the two countries freely exchange ideas on techniques and instruments of financial management and control. They share a common language of program budgeting; forward estimates; operating and running cost budgets; carry-overs; alternate service delivery; special operating agencies; and accrual accounting and benchmarking. More recently, both countries have moved from cash- to accrual-based accounting and reporting systems and intend to introduce accrual-based management and, perhaps, accrual budgeting[3] techniques in the near future.

Yet, these common language and structures obscure some significant differences between the experience and operation of the two expenditure management systems.[4] Responsibility for on-going and new expenditures lies with one institution in Australia—DoFA; in Canada, it is shared between TBS and the DoF. The "estimates" are central to the Australian federal government's budget formulation and management system, while in Canada they are two quite separate elements of the expenditure management system.[5] Australia experienced a gradual tightening of budget discipline throughout the 1980s, unlike Canada where budget "drift" and slippage tended to characterize budgets, until abrupt expenditure reductions were implemented in the mid-1990s. Finally, quite different philosophies and cultural factors inform the systems of public expenditure management. In Australia, "the guardians" dominate the processes of expenditure management and policy review; whereas in Canada the demands and concerns of "the spenders" tend to persevere over successive budget cycles.

This in turn complicates efforts to promote the interchange of ideas, mutual learning and the sharing of "best practice" between the two countries. Instruments or techniques that have been successful in one country have not necessarily worked in the other. For example, Australia uses forward estimates as a discipline technique to enforce expenditure parameters; whereas, in Canada, forward estimates are used merely as projections—discussion, therefore, of forward estimates as controlling devices becomes quite meaningless in the Canadian context. Policy makers, therefore, need to account for the impact different behaviors, understandings, and cultural settings have on budgetary instruments.

What are the implications of these findings for expenditure management and control? In short, similar institutional patterns operate very differently in cultural settings. It is trite to claim that institutional patterns will necessarily "fit" a particular culture; or that there is an inevitable incremental tendency to adjust in accordance with prevailing cultures. If this were the case then management is simply a question of finding a miraculous reform instrument and plugging it in. It is also apparent that when political or administrative "reforms" are not synchronized with cultural norms they are likely to fail in terms of their original objectives (Schneider & Ingram, 1988).

CONTEXT OF FISCAL AND BUDGETARY REFORM

Both Australia and Canada have undergone considerable public-sector management reform (Corbett, 1996; O'Faircheallaigh et al., 1999; Aucion, 1997). The focus of expenditure management moved from a stewardship of inputs and fascination with detailed line-item controls, to greater focus on efficiency/effectiveness, flexibility, value for money, contracting-out and purchaser-models, and privatization. Reforms adopted during the 1980s emphasized aggregate expenditure controls and the need to enhance managerial performance. In the 1990s, the emphasis shifted to output budgeting, total cost accounting, incorporating measurement audits into budget deliberations, and wider performance issues. Specific reforms included enterprise bargaining, alternative service delivery, outsourcing, strategic procurement, and benchmarking (National Commission of Audit, 1996; Clark, 1994; Treasury Board Secretarial, 1996).

Both nations have pursued remarkably similar fiscal and budgetary objectives since the 1980s. They sought to limit aggregate expenditure growth and reduce the size of the public sector. The Australian government declared it intended to reduce *total Commonwealth spending* from 27% to 23% of GDP by 2001. Paul Martin

(Canadian Finance Minister, 1993–current) promised to reduce *total program spending* from 16.6% to 11.5% of GDP by 1999–2000. Both countries formulated more austere fiscal budgets by imposing top-down savings targets on portfolios or departments. The annual budget is increasingly conceived of as a tool to fight inflation and keep down the level of government demand-driven inflation (Martin, 1998; Costello, 1998).

Secondly, deficit-reduction strategies have preoccupied governments of different political complexions. Governments have eliminated deficits by relying on revenue returns, asset sales, and expenditure ceilings. Although Australia ran a large deficit in the early 1990s ($16 billion) this was reversed to achieve a $2.7 billion surplus in 1998–1999 (equivalent to 0.5% of GDP). The current Australian government has predicted increasing surpluses to $4.7b (or 0.8% of GDP) in 1999–2000. In Canada the deficit was planned to be 1% GDP or $9 billion by 1998–1999, but an improved position allowed the 1998 Budget to predict balanced budgets from 1998–1999 and for the next three years (if this were achieved it would be the first such result in 50 years). The deficit reduction strategies in both countries included top-down cuts; closing "windows" within the budget year; preventing "drift"; some manipulation of eventual deficit numbers; reducing or withdrawing the role of government in selected areas; and rising revenue receipts.

Thirdly, government debt levels have been deemed a political problem since the mid-1980s. Budget strategies in both Australia and Canada have established medium-terms plans to reduce debt levels by retiring debt or containing debt increases. This strategy has been more successful in Australia than in Canada. Australia's federal debt dropped from 20% of GDP in 1995–1996 to an estimated 1.5% of GDP by 1999–2000. Recent evidence from Canada suggests better debt containment, with real-debt levels still increasing but reducing as a percentage of GDP to $620 billion or 71% in 1998–1999. Surpluses of 3% per annum are calculated as required to stop the debt level rising.

Despite these comparable fiscal and financial objectives, there are important differences in the ways they are being pursued. In Australia expenditure management reforms were attempted after the onset of economic recession in the mid-1980s. The adoption of *portfolio budgeting*, *running costs arrangements* (RCA) and the *Financial Management Improvement Plan* (FMIP) was intended to restrict expenditure of government in "hard times" (Zifcak, 1994). In other words, Australian governments adjusted the public expenditure systems in a time of adversity and resource scarcity. Most of the reform activity occurred in a concentrated period and politicians generally led or drove the reforms (except in some technical areas of financial management)—but as yet, politicians have not been given much credit for their involvement (Wanna et al., 1996).

In Canada, a flurry of program budgeting reforms occurred in the 1960s and 1970s during a period of sustained economic growth and public sector expansion.

Reforms such as Program Planning and Budgeting (PPB), Zero Based Budgeting (ZBB), and Policy and Expenditure Management System (PEMS) all sought to increase the influence of politicians over policy development, and to plan the growth of expenditures in accordance with policy priorities. Many of these adjustments were in place well before the later period of resource scarcity and therefore include implicit assumptions of continued expenditure growth. During the 1970s and 1980s, Canadian politicians (with few exceptions—for example, Finance Minister Michael Wilson, 1984–1989) were less prepared to go through with austerity reforms. In the mid-1990s, key financial ministers increased their relative political influence and became instrumental in capturing the national agenda with a strategic emphasis on deficit and debt reduction measures. Drastic reductions in expenditure have been achieved, first through policy review then Program Review (Martin, 1995). This has markedly increased public awareness of the fiscal problems and produced a tacit acceptance of austerity budgeting (especially in some provinces, although budget dependent sectors of society have shown some strong resistance); hence, fiscal and budgetary reform developed in the two countries in the context of specific institutional histories and according to different political, economic, and fiscal pressures. It is not surprising, therefore, that budget reforms displayed different emphases and resulted in divergent outcomes.

THE SIGNIFICANCE OF POLITICAL WILL FOR EXPENDITURE RESTRAINT

Successful expenditure restraint is not simply a matter of political will, despite anecdotal views to the contrary. Governments of both persuasions in both countries have regularly expressed formal commitments to control expenditure and reduce deficits. The commitment is bi-partisan, cross-national, and enduring. Successive ministers and cabinets have genuinely expressed their commitment to controlling budgets and expenditure growth, and continue to do so. Political will may be a necessary contributor to achieving expenditure restraint, but independently it is not sufficient.

Governments and key budget ministers repeatedly commit themselves publicly to very specific indicators of fiscal performance. In Australia, for example, Bob Hawke (Prime Minister, 1983–1991) declared a "trilogy" commitment: neither the deficit, revenues, nor debt would rise as a proportion of GDP over the years 1984–1987. In Canada, Paul Martin promised in the 1995 budget to cull $17 billion in program expenditure savings over three years and reduce the deficit to 3% of GDP. Although governments lack effective controls over these criteria they are still prepared to "sign off" on commitments to appease external forces (such as money markets, creditors, electors, their own departments and agencies, and other governments).

A different dimension of political will operates at the institutional level and is highlighted by contrasting the role of "guardian" agencies in Australia and Canada. Canada has only one effective budget guardian—namely, DoF (Savoie, 1990). The TBS is more concerned with developing realistic expenditure estimates for on-going programs and ensuring compliance with approved allocations. The TBS focuses almost exclusively on departmental program spending, which is only 20% of total outlays and does not assess expenditure for new budget initiatives. The Secretariat recently described themselves as the government's "management board", but this concept has been difficult to define or implement (Baker & Black, 1997). By contrast, there are two effective and competing guardians in Australia—Treasury and DoFA—with important input from the Prime Minister and his department. In Australia, both central budget agencies are involved actively in reviewing ongoing and new expenditure and producing general expenditure projections. Although they have complementary roles, both Australian guardians undertake reviews of selected areas of program funding and cost-recovery issues (health funding, industry policy, and employment programs). DoFA tends to focus on program evaluation and value for money criteria, while Treasury focuses on the impact of programs on aggregate expenditure.

The political will to constrain budgets can either be enhanced or impeded by the operations and hierarchical structures of cabinet (Kelly, 1999). In Australia, the Expenditure Review Committee (ERC) has survived in various forms for 25 years. It has a broad mandate to review both new and on-going government expenditure, is relatively small and workable, and is unconcerned with the questions of hierarchy in cabinet appearing as an inner cabinet. In Canada, the Priorities and Planning (P&P) committee (1968–1993) was large and inclusive but was still accused of acting as an "inner cabinet" (especially when it was subdivided into subcommittees, such as Expenditure Review). In 1994, Jean Chretien (Prime Minister, 1993–current) established an *ad hoc* Program Review Committee (1994–1995) to facilitate a drastic reduction of departmental expenditure. Unlike P&P, this committee operated with a specific mandate to reduce government spending. Although premised on a philosophy of "getting government right", the exercise proceeded within expenditure parameters set by the DoF. Budget Cabinet approved the decisions of this committee shortly before they were presented to the Parliament in Martin's 1994 budget: they had little opportunity to influence the decisions.

DIFFERENT EMPHASES IN EXPENDITURE MANAGEMENT

A principal point of contrast between the Australian and Canadian expenditure management systems is the very different emphasis placed on the nexus between policy development and expenditure restraint. We argue that such different emphases stem from different administrative cultures and underlie the system of expenditure management. Such differences can have major impacts on decision-making and outcomes within broadly similar institutional or procedural settings.

The Australian expenditure management system is principally restraint-weighted (i.e., the operation of the system favors the guardians). It tends to result in the imposition of regular arbitrary or top-down cuts, hard-resource ceilings, and cash limits. DoFA's main role is expenditure restraint, and within that a focus on productivity issues and guarantee that value for money is delivered. Spending departments have often come to regard this central budget agency as control-oriented with a "command post" mentality, and operating from a somewhat punitive disposition (Schick 1997, Andrews et al., 1998). The DoFA has attempted to build trust relations with other portfolios in the endeavor of achieving cost reductions and efficiencies, but is increasingly moving to "price output–based budgeting", as well as competitive tendering and contracting-out.

In the Australian cabinet, a "troika" of economic ministers imposes restraint by setting aggregate expenditure totals and savings targets that shape ensuing budget discussions. Then, in conjunction with other senior ministers, the six-member Expenditure Review Committee (ERC) acts as the central committee in cabinet's budget decision-making process. It distributes expenditure between portfolios, reviews on-going expenditure programs, and approves/considers new expenditures and programs. The committee's culture is highly adversarial and competitive, and it has acted frequently as a Star Chamber or "court of budgetary execution". Spending ministers appearing before ERC act as advocates for their portfolios (departments and agencies), and present arguments supported by internally produced portfolio-wide expenditure plans. However, funding requirements must first be in accordance with the portfolio's overall spending and saving aggregates, and second to succeed must typically counter expenditure increases with offsetting cuts (remaining budget neutral). The Minister of Finance and Administration (a "permanent" member of the ERC) presents alternative arguments attempting to highlight inconsistencies or misleading aspects of the spending ministers' plans, and may propose alternative means of policy-delivery (these are based on DoFA's own briefing notes called *green papers*). The budgetary implications of each decision made by the ERC are immediately included on DoFA's running database—the Cabinet Expenditure Review Committee Information System (CERCIS)—which is used to produce "scoresheets" presenting budgetary aggregates (revenue, expenditure and a balance) at the end of each day during the budget formulation process. The overall aim of this adversarial system is to maintain tight fiscal discipline within the frameworks set out by the troika, whilst preserving considerable flexibility for ministers within their portfolios.

Nevertheless, ERC's influence over the budget fluctuates periodically. During periods of expenditure growth, the committee's capacity to maintain fiscal discipline declines, but in periods of fiscal crisis as the need for toughness is more generally appreciated and ERC can dominate the budget process (see Walsh, 1995: 101–168 for discussion of 1986–1987 budget). In the future, proposals to adopt "policy costing" methodologies in Australia means that both new and on-going expenditure programs must have their cost estimates approved by DoFA before they will be considered by cabinet for inclusion in budget negotiations. The aim of this measure is to address the problems of "budget lock-in" and "budgetary creep" and to increase capacity to revise expenditure priorities within constant aggregates.

Conversely, the Canadian system is weighted more toward policy-development and review; and central budget institutions address expenditure management from a policy priority perspective. The cabinet budget system disperses responsibility for decision-making about expenditure matters; it has tended to devolve responsibility to policy-based cabinet committees. While these policy committees have been influential during periods of expenditure growth, they have lost influence in times of fiscal crisis or tight austerity (i.e., process preceding 1995 budget). These committees generally focus on policy development and coherence, and are often more collegial than their Australian counterparts. In other words, policy integrity characterizes the Canadian budgetary system far more than expenditure restraint.

In Canada, the allocative process begins with policy development and initiatives, whereas the budget's capacity to provide for expenditure growth remains secondary. While the two must coincide in each formulation process, policy concerns still tend to guide spending rather than vice versa. Indeed, policy costing is not a central part of the policy development process through cabinet; costing figures for new policy are considered by TBS only after the relevant approval has been given by a cabinet policy committee, and once such momentum has started it is often difficult to control.

Hence, the TBS is, compared with DoFA, a more facilitative-oriented budget agency, which some regard as almost engaged in "nannying" client departments. They have a far greater formal commitment to the principles of policy evaluation and performance information than their Australian counterparts. While the TBS has many formal roles in expenditure management, it is cognizant of the concept of policy integrity and the relationship between planning, expenditure provision, and results. In many ways, the severity of the Program Review exercise of 1994–1995 was a long overdue reaction to the policy-integrity concerns of central budget offices and the apparent lack of tight discipline in the Canadian expenditure management system. But after this one-off review exercise, a fundamental question remains: Will the Program Review exercise have to be repeated to maintain budgetary discipline, and, if so, can such a repeat exercise be sustained by the various players and the wider public sector? The policy focus of existing decision-making processes would suggest otherwise. Ministers and backbenchers are already urging a relaxation of the purse strings as the budget runs into surplus—spending the so-called "fiscal dividend".

Importantly, these alternative emphases in the Australian and Canadian systems are not entirely absent in the other; it is a question of relative weighting and alignment. In both systems, different mindsets can be detected, which permeate the political and institutional players involved in setting and containing expenditure budgets. Such distinct political and bureaucratic mindsets explain different outcomes. To illustrate this point, we came across many senior budget officials in Canada who found it inconceivable for governments to set hard expenditure limits before policy was designed. In Australia, by contrast, expenditure limits are typically the starting point for policy design in both central agencies and spending departments.

These administrative cultural orientations are important for expenditure management because incentives that conform to the prevailing mindset are more likely to be successful than those conflicting with this mindset. This will occur for two reasons. First, the selection and championing of particular solutions to fiscal problems will be biased toward those that accord with the established conventions. Second, if a solution which does not accord with the underlying logic is chosen, it is unlikely to be successful because it will run counter to the "way of things", perhaps generate perverse effects, or may become adapted in such a way that its central features are lost.

THE SEMBLANCE OF DISCONTINUOUS CHANGE

David Shand (formerly DoFA and the OECD, and more recently with the World Bank) once remarked that "financial management reforms were more a pilgrimage than a destination"; evidence would tend to confirm his observation. Despite the proliferation of reforms over the past decades, there does not appear to be any prospect of a steady state in budgetary and expenditure management. Life in this area is seemingly one of perpetual change: sometimes gradual, continuous evolution; other times discontinuous incrementalism, followed by occasionally abrupt changes of direction. Examples of such discontinuous change include the adoption of the special operating agencies in Canada, and proposals to jettison the existing running cost arrangements and the central determination of forward estimates as accrual budgets are adopted in Australia.

Optimists will defend the constant changes as evidence of institutional learning and adaptation, the fruits of experimentation with benefits coming from the borrowing of ideas cross nationally. There is also an opportunistic and convenience element in many of the techniques adopted. Pessimists or skeptics tend to be critical of the proliferation of systems and new techniques. They feel the magnitude and speed of changes leads to reductions in collective memory, important skills, and staff morale. There is also a danger of agency staff suffering "reform fatigued" wherein staff develop low morale and are skeptical (and may even block) of any reforms.

In the remaining sections of this article, we provide a comparative assessment of these discontinuous changes with the object of drawing lessons from the experiences in both countries.

TOWARD AN ASSESSMENT OF THE COMPARATIVE EXPENDITURE MANAGEMENT INITIATIVES

Improvements to Current Practices

Many reforms have improved expenditure management from the perspectives of the various actors involved. For instance, both countries now have far more latitude and flexibility in resource management through devolution and one-line budgets. Almost no "nominal-line" items are identified within departmental allocations in Australia, with all administrative running costs given as a single appropriation—including property, salaries, senior executive staff levels and executive remuneration. In Canada, one-line program appropriations allow spending agencies considerable latitude over both program and administrative spending. Aggregated one-line budgets (essentially constituting portfolio budgets) have provided departments and agencies with ample scope for managerial flexibility and alternative service delivery options. Managers are now considerably more capable of shaping their resource usage, administrative arrangements, and delivery systems to suit the nature of the activities and political priorities. Spending ministers have greater flexibility within portfolio budgets to impose their own preferences through strategic and business plans. The accompanying improvement in transparency across both systems has aided trust relations and good management. Hence, within Canadian agencies there is a far more scope for the conscious use and deployment of resources in accordance with the stated program objectives. How far this scope has been used remains an issue; there is much unevenness in the innovative use of resources. To date, an awareness of the "bottom line" and the total costs of policy commitments have resulted in a re-evaluation of the broader responsibilities of government in both countries.

The use of annual cuts to operating budgets (called intermittently the "efficiency dividend", across-the-board operating and program cuts, and "nickel and diming") has been a moderate success in that it has focused agencies on efficiencies without curtailing their operations markedly. In Australia, the annual efficiency dividend is applied routinely at the portfolio level, allowing ministers and departmental secretaries/deputy ministers to make internal decisions about where the cuts fall. They need not be across the board. But not many departments actually take up this opportunity to be selective in cuts, and many prefer to opt for the easy way out and impose cuts across the board.

The routinization of *offsets* (savings within existing allocations in the budget process) to pay for new initiatives forces agencies to participate in expenditure restraint and allows them discretion to reprioritize (informally or within house) without attracting public attention. This mechanism has become an important attribute of control within the concept of one-line budgeting. Many cost-recovery initiatives are associated with the notion of resource offsetting, as are arguments that selected public goods are partly private goods and should be funded by recipients.

The identification of Special Operating Agencies (SOEs) in Canada and the negotiation of resource agreements with Australian agencies are both new initiatives designed to allow greater resource flexibility beyond that normally provided to departments under annual cash appropriations. The status of the special operating agency combines resource flexibility within a more strategic organizational context—and some enjoy multiyear expenditure authorizations. The Australian resource agreements once negotiated with DoFA provide some measure of guaranteed medium-term funding (over such items as workload changes, information technology upgrades, property management, and revenue retention arrangements) for a variety of public-sector entities, including departments. These agreements have been relatively popular with agencies anxious to "invest" funds in the short term to reduce workload or costs in the longer-term.

Gradually, both nations have placed increased emphasis on performance reporting and monitoring. The Canadian system of performance reporting to parliament in the fall is much further advanced than in Australia, where the main focus is on making departments provide useful and comparable performance information in their annual reports (with some governments considering producing half-yearly reports, as well). There is still a long way to go to incorporate performance evaluation into the budget formulation processes. The current suspension of the Canadian Improved Reporting to Parliament Project (IRPP) is evidence that this issue is far from complete and has many hurdles to overcome—not least, the political risks in reporting performance outcomes and the likelihood of short-term opportunism from the opposition and media.

More Ambivalent Achievements

Some expenditure management initiatives have met with less success. These have often consumed time and effort on projects of dubious worth, increased administrative costs, and some have even been counterproductive. For example, the obsession to identify and eliminate the end-of-year expenditure surge was costly in terms of time expended, and the exercise did not achieve its objectives. In Canada, the Auditor General concluded some time ago that this issue was not a substantial problem, but some politicians in both countries still have yet to be convinced. However, political concerns about splurge-spending in both countries provided a context that facilitated the introduction of carry-forward provisions in annual cash budgets. This initiative was almost entirely due to the foresight of budget officials rather than politicians.

While both countries remain committed to program management and budgeting (PMB), the program *budgeting* aspect has not generally been used for determining allocations or appropriation purposes—although Canada formally appropriates on a one-program, one-vote basis. Estimates are still driven by an incremental bottom-up methodology rather than on the basis of program priority; hence, program labels for budgets are often used more for presentation than actual resource information. The rigid identification of programs with individual departments and agencies (rather than conceivably across various agencies) tends to underline the bottom-up counting exercise through which allocations are decided. In Australia, the notion of a separately appropriated running-costs budget explicitly cuts across the idea of program budgets, and such administrative appropriations are still made entirely on an institutional basis. There is growing evidence that senior management also feel that the program-budgeting initiative has really evaporated (Halligan et al., 1996).

Budgets include various symbolic and ritualistic elements that become untenable or disbelieved (especially under conditions of greater transparency). Some symbolic instruments have a short or limited shelf-life. For example, budget parameter assumptions that are consistently calculated too low/too conservatively may be initially accepted, but increasingly discounted and classified as "prudence factors": spending agencies may come to expect conservative projections and play them accordingly. There is emerging evidence that spending departments in Canada "disbelieve" the conservative (overly prudent) projections of Finance in relation to economic indicators and the size of the planned deficit.

The progress of devolution within departments and agencies has been uneven to date. A major report evaluating the success of the public service reforms of the 1980s and early 1990s concluded that much of the centrally provided flexibility and devolved responsibilities were not being passed down in operating departments. Some felt the time was not ripe, others felt insufficient training or experience was available. But the report was highly critical of the entrenched "meso-centralization" persisting across many departments.

The vexed issue of motivating the public service via the provision of performance pay for staff (and particularly management) has proved problematic. Not only are there many obvious downsides to collective performance inherent in such schemes, but also the methodology and selection criteria for the award of performance bonuses are fraught with problems and contradictions. To date, governments have tended to use these mechanisms sparingly, although they have been spectacularly used for major downsizing operations in Victoria, Australia. On the whole, however, such performance pay schemes have not operated as intended, worked to lift performance generally, and have often been divisive and counterproductive.

Similarly, the initial rounds of public sector enterprise bargaining in Australia have not proved an unqualified success (Australian Journal of Public Administration, 1998). There is an emerging view, especially in the Australian states, that enterprise bargaining in the public sector may be effective only when local bargaining takes place within the confines of central determinations or only when such negotiations are confined to the conditions and terms of employment not salaries. Canada's wage freeze of public service salaries has contributed to demoralization (and undermined enterprise bargaining), but pay may perhaps not be the prime cause of such attitudes.

Pending Agendas

Parliament in both countries has, until recently, been bypassed in budget formulation and incapable of performing the role often expected of elected legislatures. This is not to say that parliament has been deliberately excluded, as budget agencies have often attempted to increase parliament's involvement in the process and their role in authorizing and scrutinizing expenditure. Appropriation of public money legally requires parliamentary authorization, and parliament also scrutinizes financial reports and public accounts. In Canada, attempts to incorporate parliamentary committees into the budget deliberation processes have, to date, been largely symbolic. In Australia, parliament has little role in budget formulation except for scrutinizing predetermined estimates and some horse-trading by the Senate over specific items. In both systems, parliament remains essentially an add-on to the budget cycle, and this role cannot develop greatly without challenging the confidence of the government. Canada's IRPP scheme aimed to enhance the role of parliament and the information available to it, and efforts have also been made to increase parliament's involvement in budget formulation. Links between departmental business plans (as intentions) and performance reporting (results) are also being developed in Canada. In Australia, the links between corporate plans, business plans, and performance reporting are, at best, implicit. As yet, there is little evidence to suggest whether these or other schemes designed to improve the standard of reporting to parliament have been systematically effective.

The trend toward accrual accounting and the reporting of public finances in accrual terms has experienced many teething problems. The nature of the information is often at a high level of generality in publicly available forms, and scrutiny may be more difficult with accrual presentations, especially when the range of possible inclusions is ambiguous. Moreover, governments faced with negative equity may resort (as the New Zealand government did when it reported a $8 billion negative net worth) to recalculating the assumptions and asset valuations to come in within "expectations" or at least figures that are politically satisfactory. There is also the issue of whether governments will retain cash-limits within budget years even if they produce accrual statements for accountability purposes.

In Australia, the issue of the role of the Senate has been much debated in recent years, especially since the "aggressive" treatment meted out to the 1993 budget (Young, 1997). The executive has attempted to formalize preliminary budget negotiations with minor parties that hold the balance of power, but, to date, such initiatives appear ad hoc and have been honored more in the breach than compliance. In the longer-term bilateral or even multilateral protocols, to involve parties in budget negotiations are increasingly likely to appear.

The auditor's capacity to be an effective player in resource management has been under consideration in both countries. While not necessarily appreciated by the executive, the auditor performs an essential role for the parliament. The auditor's role is still largely limited to after-the-event auditing and compliance, and is constrained by resource and authority limitations. Auditors in both countries possess few effective weapons in their arsenal for holding governments to account. Moreover, the mandate and scope of auditor independence has been the subject of executive pressure in some jurisdictions, most noticeably in the conflict between the Victorian Premier and the state Auditor-General. Similarly, at the Commonwealth level the relations between the executive and the auditor have in the past been marked by tension over the boundaries of "policy" and audit orientations to efficiency scrutiny reviews.

Other long-standing problems of coordination have been magnified as a consequence of greater devolution and managerial autonomy within departments and agencies. There is now more likelihood of a clash of priorities or objectives between government-wide policies and requirements, and the needs or orientations of specific organizations. Certainly, emerging conflicts may find public expression more readily than previously. These clashes of discretion may involve terms of employment and conditions, administrative law, community service obligations, and public good responsibilities. They are unlikely to be mitigated by agency-style provisions in Canada. In Australia, some commercialized agencies are actively exploring business and policy protocols between the minister and the agency—intended to codify and limit the "interference" of the minister in the operations of the agency.

The employment of budget contingency funds as insurance, or as planned emergency funding, traditionally did not work as expected. Because of its deficit problems (and some criticism of the way the reserve was regarded) Canada abolished its policy reserve for two years, but replaced it in 1995–1996 with a contingency reserve at around $3 billion per annum. Mostly, this reserve is not consumed by unforeseen changes in economic performance or in increases in program expenditure. Since 1995, the government has remained committed to a policy of folding back any residue to reduce the final reported deficit figure. In Australia, there is less concern with contingency budgeting either at federal or state levels. Governments use small but variable contingencies as "holding pens" against which last-minute changes can be offset for the budget year (i.e., the contingency amount which can be positive or negative represents a net adjustment to the bottom line, not a policy reserve). The Finance minister has access to an "advance" of $175 million for urgent expenditures, but this advance operates under very restricted criteria and is primarily reserved for emergencies and natural disasters. However, in Australia larger carryover provisions within each portfolio (up to 10% of running costs) allow some agency-level contingency planning and provision for unforeseen expenses.

The limitation of the annual (cash-voted) budget cycle periodically comes in for discussion. Constitutional limitations are significant here, and parliamentarians as a whole are often loath to permit the executive "more rope" in the form of budgetary flexibility. Nevertheless, some initiatives have already occurred in both countries, which enhance provisions for multiyear authorizations subject to annual appropriation. The two-year running budgets approved for the special operating agencies represents a case in point, as does the return to triennium funding frameworks for special authorities in Australia (universities, public broadcasters, indigenous affairs commissions). The chance of constitutional changes being approved by the electorate to facilitate multiyear appropriations seems remote.

Finally, Australia is in the process of attempting to introduce additional statutory requirements concerning the presentation of accurate financial and economic information—including information the leading up to elections. In part, these measures originate from new governments having a surprise deficit sprung on them in the days after an election victory. Some critics label these initiatives as gimmicks—especially as the figures remain unaudited reports. The legislation to introduce a *Charter of Budget Honesty* (ostensibly to demonstrate the books are accurate in the lead up to and including an election—at regular intervals over the term of a government) also provided for the official costing of the policies and platforms of all political parties prior to an election. Not surprisingly, given the government's control of the central budget offices and the potential to manipulate the costing of the platforms of one's political opponents—the opposition and minor parties combined to reject this provision. The bill was amended and passed in 1998, but in the 1998 election while the opposition and minor parties agreed to have their commitments costed, the government paradoxically refused to have its own policies costed.

LESSONS AND CONCLUSIONS

Similarities between Australia and Canada mean that much can be learned from the way budget and expenditure management systems work in practice. Despite borrowed ideas and similar reform instruments the actual operation of such measures displays some important differences. The Australian budgetary system operates with a relatively strong executive at the center, which has impressed on the various component parts of the system the need for tight expenditure management. The Australian system can be characterized as driven by expenditure restraint. By contrast, the Canadian system has had to grapple with a far more serious deficit and debt problem. The magnitude of the Canadian plight eventually led to the schedule of major budget cuts announced in the 1995 budget after the Program Review exercise. The essential character of the Canadian expenditure management system as policy-driven may not be much changed by this top-down and *ad hoc* exercise. The degree to which the principles of program review and the tighter fiscal discipline shown by the Ministry of Finance will flow through into the regular norms of public budgeting in Canada remains to be seen.

The lessons flowing from this comparative study suggest that central budget agencies cannot be presumed to be guardians simply on the basis of their position or mandated role. Nor can equivalent agencies in different countries be considered comparable in their performance even when they fulfill similar functions and responsibilities. Rather, comparison requires a study of the dominant organizational norms and operational emphases, and an examination of the agencies' role in budgeting and expenditure management. This study highlighted substantial differences in mandates, and different mindsets between the Australian DoFA and the Canadian TBS. Our findings challenge general assumptions that these two guardians control and manage public expenditure in similar ways. Unlike its Australian counterpart, the TBS does not actually operate as a guardian in the expenditure management or budget processes. It may be useful, therefore, for observers in other countries seeking to impose more discipline in their public expenditure management systems, to consider the central guardian role as a more problematic one. If the dynamic of budget systems rests on guardian-spender relations, there is ample latitude for guardian agencies to reinvent their roles. Where a guardian central budget agency does not perform as expected, the fundamental dynamic of the budget relationship is displaced.

The study also shows that public expenditure management reforms cannot simply be borrowed across jurisdictions. Budget management systems devise institutions and procedures that become context-specific. So, for example, when the Canadians borrowed the idea of an expenditure review committee from Australia, the committee established displayed a very different capacity to impose discipline in the context of Canada's policy development approach. Consequently, apparently similar reforms have met with divergent degrees of success. This implies that not only do reforms need to adapt to other circumstances, but discipline instruments must be organically and fundamentally integrated into the prevailing budget cultures.

Our comparative study indicates that rules and routines of the cabinet and bureaucracy shape the capacity of ministers to translate political will into action and achieve greater fiscal discipline. The highly centralized systems of Australia's

ERC and Canada's Program Review Committee both proved successful mechanisms in this regard. Despite some operational differences, these committees first imposed fiscal reduction targets on departments or portfolios and then reviewed the detailed proposals for achieving the targets presented by "spending" ministers. In both cases, the respective central budget agency provided committee members with alternative proposals and assessments of departmental plans. Such institutions processes and routines provide senior cabinet ministers with both the motivation and the capacity to undertake detailed expenditure review.

Other countries can benefit from the lessons and successes in the Australian and Canadian reform. The trend to devolve responsibility for detailed financial management to spending agencies has not necessarily reduced fiscal discipline. Moreover, top-down fiscal decision-making (even if it is most stringent) is compatible with increased financial and resource management flexibility. Given such latitude to prioritize within allocations, ministers and bureaucrats expend less effort squeezing relatively small increases in funding and focus instead on managing their available resources. Australia requires that many new policy initiatives be funded from offsets (identified by either the department itself or DoFA since the mid-1980s) and this forces departments to conduct internal reviews of on-going expenditures. The fact that DoFA advises ERC on further possible sources of savings in each portfolio also acts as an incentive to line departments to conduct a rigorous internal review. This component is missing in the Canadian arrangements.

Some of the less successful reforms in these countries reinforce the importance of ensuring reforms can be implemented fully. Multiyear budget flexibility to "draw-down" resources have not been widely used (but agencies often tend to save and carry-forward to the limit of their entitlements). Furthermore, the full benefits of devolving financial and resource decision-making are yet to be achieved due to conservatism in some departments with managers being unwilling to release central control. The practicalities of defining priorities in program budget terms has tended to mean that traditional bottom-up practices have survived, meaning that the system of program budgeting only vaguely resembles the theory.

Finally, the range of reforms these two countries have embarked on over the past three decades highlights the observation that many reforms have strictly limited life spans. Designed to address particular problems or pressures of the day, reforms can quickly become defunct or dysfunctional as the political or fiscal environment change. Once in place, the reforms alter behavior in ways both anticipated and unexpected—and spending agencies often devise ways to get around the intent of the controls. Consequently, despite new reforms being heralded with much fanfare and statements of best practice, over time they generate new problems for the managers of public expenditure and guardians of the public purse. Canada and Australia may be once more into surplus, but in neither case is the surplus secure—and neither country can rely on its present budget processes alone to deliver surpluses into the future.

NOTES

1. Nonetheless, Canada generally prefers to compare itself with other G7 nations (see, for example, Canada's 1998–1999 Budget Speech which claims Canada outperforms the other G7 nations in budget indicators; Martin, 1998: 1) despite the fact that these countries are considerably differ from Canada in terms of size and economic composition.
2. Departmental titles in Australia are the reverse of those in Canada. Finance in Canada is the macroeconomic policy agency, whereas Treasury occupies this role in Australia.
3. This, despite the fact that an operational definition for accrual budgeting is yet to be developed (see Western Australia, 1997). Of late, Canadian TBS officials have become more cautious in their attitudes to the introduction of accrual budgeting.
4. This supports Neustadt's (1985) arguments that similarities of nomenclature often disguise real differences and his warnings against confusing "form" with "function".
5. Compare descriptions of Australian process by Keating (1990) with description of Canadian process by Segsworth (1994); see Wanna, Kelly, & Forster (in press) for more detailed comparison.

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