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Improving governance and accountability including government corporations and heads of agencies

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PAPER—NEW ZEALAND

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Improving governance and accountability of public institutions

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While New Zealand is considered to enjoy a high degree of transparency and accountability of its public institutions, and relatively high quality governance,[1] there have been a number of high interest challenges in recent times to the quality of governance of public institutions in New Zealand.[2] This led to a call to strengthen a number of areas of New Zealand's public management system.

In attempting to strengthen our public management system, the challenge for Government was to develop new concepts and models of State sector governance while retaining the fundamentals of transparency and accountability which underpin the current system. Tantamount to the need for change was the desire that New Zealand remain at the forefront of setting the benchmark for public management. Thus the focus of change has been to create a more flexible and resilient public management system that

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1 See Petrie, Murray, "Transparency and Accountability in New Zealand: An Assessment", *Public Sector*, Vol. 24, No. 1, pps. 14-19, March 2001.

2 For example, in 1999 large sums of money were paid to departing members of the New Zealand Tourism Board. In 1998 and 1999 golden handshakes were paid to a number of senior executives of the New Zealand Fire Service Commission, and in 1999 the chief executive of the New Zealand Lotteries Commission resigned following public concerns at the amount he was paid.

will perform in the 21st century. The resultant changes to New Zealand's public management system have altered governance processes, redefined the criteria of policy effectiveness, and transformed the patterns and processes of accountability. This paper sets out briefly some of those recent changes to New Zealand's public management system.

Background—Review of the Centre

In July 2001, a Ministerial Advisory Group was appointed by the Prime Minister and Ministers of State Services and Finance to look at New Zealand's whole public management system to determine how it was responding to the needs and expectations of Ministers and of citizens, be they individuals, communities, or businesses. In its November 2001 report to Ministers, entitled *Review of the Centre,*[3] the advisory group's major finding was that New Zealand's public management system was providing only a reasonable platform to work from, and that some significant shifts in emphasis were needed to better respond to the needs of the future. The Review of the Centre suggested initiatives to improve our public management system without losing the system's current strengths of transparency, accountability, and financial management.

One of the main areas identified by the review to be addressed was the need to tackle the fragmentation of the wider State sector and improve alignment of our Crown entities with the Government's objectives. It is understood that fragmentation had occurred because of too many Crown entities and because of an inability by Government to ensure a unifying vision and purpose for these agencies, within which each could make its own contribution to the Government's objectives. This is because Crown entities are normally established under their own empowering legislation and such legislation is mostly silent on what role, if any, the Ministers of State Services and Finance might have to implement whole-of-Government interests.

Crown entities have various forms—statutory bodies or corporations (such as the Accident Compensation Corporation and the New Zealand Film Commission), Crown companies (such as Radio New Zealand and the nine Crown Research Institutes), and sole member entities (such as the Commissioner for Children). There are currently 2,780

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3 A copy of the Review of the Centre report can be viewed on the website http://www.ssc.govt.nz.

Crown entities in New Zealand comprising of 2,600 School Boards of Trustees and 180 Crown entities of other forms. These entities account for almost half of the State sector administrative budget and employ two thirds of the State sector workforce. Most are governed by boards.

The Review of the Centre recommended that to improve overall performance of the wider State sector an improvement in the governance of Crown entities would be needed. It was also suggested that a clearer relationship between Crown entities and responsible Ministers was needed to enhance overall accountability, improve performance, and ultimately achieve the Government's desired outcomes.

Since the release of the Review of the Centre, the Labour led Government has been proactive in working on procedures to strengthen New Zealand's public management system, making it even more transparent and flexible, with improved accountability. The steps taken include amendment of related legislation and non-legislative changes to the planning and reporting of departmental business.

Statements of Intent

A precursor to legislative change to the public management system was the departmental statement of intent. In December 2001 Cabinet approved the rollout of a departmental statement of intent approach to planning and reporting departmental business. One of the recommendations of the Review of the Centre was that Government agree to changes in departmental accountability and reporting systems to allow more emphasis on the achievement of high level objectives and priorities (outcomes) and provide Ministers with a stronger mechanism to shape departmental priorities. The mechanism for doing this is a departmental statement of intent which is tabled in Parliament.

Such an approach has provided for a re-balancing of elements of the public management system by departments now having to balance:

- a concern for the efficient production of outputs, for example, with an equal concern for the effective achievement of outcomes
- a focus on delivering outputs with a focus on the development, alignment and maintenance of organisational capability

- short and long term objectives.[4]

The major change is that now outcomes are included in all departmental planning and reporting and provide a clear pathway in departmental thinking and documentation. In particular, a department is now required to consider and document the outcomes it is seeking to achieve in terms of impacts on the community, how it proposes to pursue those results (including the outputs it will produce) and why it believes that this approach will be effective, what its priorities are, and how it will deal with uncertainty. A department now also has to consider the capability it needs in order to deliver its strategy successfully, the level of fit between current and required capability, and how it will make the required adjustments.[5]

Legislative change—Public Finance (State Sector Management) Bill

The Public Finance (State Sector Management) Bill (an amending piece of legislation) was introduced by the Government on 3 December 2003. The bill was referred to the Finance and Expenditure Committee for consideration. The committee reported its findings to the House on 6 September 2004.[6] The bill was enacted on 16 December 2004 and the amendments enacted came into force on 25 January 2005. This bill covered the main pieces of legislation that govern public finances and management of the State sector in New Zealand, namely the State-Owned Enterprises Act 1986, the State Sector Act 1988, the Public Finance Act 1989, and the Fiscal Responsibility Act 1994. The bill integrated the Fiscal Responsibility Act into the Public Finance Act, amended the Public Finance Act, the State Sector Act, and the State-Owned Enterprises Act. It also created a new Crown Entities Act.

The main purpose of the bill was to strengthen the wider State sector. Taken as a whole, the elements of the bill transpire to:

- achieve a better integration of the services delivered by government agencies and which are better focused on the needs of the people requiring these services

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4 See Robinson, Mark, "The Public Service and Statements of Intent", *Public Sector,* Vol. 25, No. 1, pps. 6-9, March 2002.

5 *Ibid.,* p. 7.

6 A copy of the Finance and Expenditure Committee's commentary on the Public Finance (State Sector Management) Bill and the amendments proposed by the committee to the bill can be viewed on the website http://www.parliament.clerk.govt.nz/selectcommittees.

- address the fragmentation of the wider State sector and improve alignment of our State sector agencies with the Government's objectives
- build a strong State sector, with an enhanced capability and strong leadership based on values and standards.

The specific new measures to improve transparency and accountability include:

- a stronger differentiation between the Budget Policy Statement (BPS) and the Fiscal Strategy Report (FSR) so that the BPS focuses more on the upcoming budget while the FSR concentrates on the Government's short and long-term fiscal objectives
- a requirement on the Treasury to report every 4 years on the fiscal outlook and risks over the next 40 years with specific reference to the implications of an ageing population
- inclusion in the budget of a statement on the impact on revenue flows of recent Government tax decisions
- requiring departments, Offices of Parliament, and Crown Entities to report to Parliament annually not just on their finances but also on their intended and actual performance and applying these reporting requirements.

While the bill included measures to improve transparency and accountability, it also provided for greater flexibility by:

- allowing more than one Minister to be responsible for a Vote while making it clear which Minister is answerable to Parliament for each appropriation
- making it easier for departments to deliver, or contract services, on behalf of each other
- enabling Ministers to make fiscally neutral adjustments between departmental output classes covered by the same appropriation without further reference to Parliament while maintaining accountability by requiring performance reporting on the individual output classes.

Reporting by departments

The bill set out reporting requirements for departments. It was reiterated that the chief executive of a department is responsible for the financial management and financial performance of the department and for ensuring that the department complies with statutory reporting requirements.

The bill also set out a new legislative framework for non-financial reporting by departments including:

- outlining the broad nature of the non-financial information that departments must provide for the budget (and after the end of the financial year)
- defining the responsibilities of a department's chief executive and Responsible Minister in relation to the provision of the information
- extending reporting requirements to all departments.

These new requirements provide that a department's annual report must now provide information that is necessary to enable an informed assessment to be made of the department's performance during the financial year (including an assessment against the information provided by the department on its future operating intentions).

Special reporting requirements

The bill set out special reporting requirements for any entity (including departments, and Crown entities) that is required to provide an annual report to the House of Representatives which includes audited annual financial statements. The bill provided for modified reporting requirements for newly-established entities and for entities that are disestablished or that cease to be entities that must report to the House of Representatives. It also set out reporting options in cases where some, or all, of an entity's functions are transferred to another entity.

Powers of State Services Commissioner in wider State sector

The new legislation has extended the powers of the State Services Commissioner by enabling that officer to exercise some functions which currently can only be exercised in relation to departments, to be exercised in relation to the wider State sector. In particular, the commissioner's powers to conduct inspections and investigations and make and receive reports when he or she provides advice and guidance to employees within the core State sector on matters, or at times, that affect the integrity and conduct of employees have been extended.

In addition to the commissioner's extended roles, the Prime Minister and the Minister responsible for any part of the State Services can direct the commissioner to perform in

the relevant part of the State Services any of the functions and exercise the powers that apply to the Public Service. The head of any part of the State Services can also make this request to the commissioner.

Code of conduct

Prior to enactment of the bill, the State Services Commissioner could only issue a code of conduct covering the minimum standards of integrity and conduct that are to apply in the core New Zealand Public Service. The bill extended the commissioner's powers in this respect to provide that the commissioner may now also set minimum standards of integrity and conduct for employees of Crown entities, the Parliamentary Counsel Office, and the Parliamentary Service.

New Crown Entities Act

The purpose of the new Crown Entities Act is to provide a consistent framework for the establishment, governance, and operation of New Zealand's Crown entities. In particular, the bill:

- set out consistent governance and accountability requirements for Crown entities
- clarified relationships between Crown entities, their board members, the Crown, and Parliament, in relation to their roles, duties, and procedures for appointment and removal of governing body members
- provided for different categories of Crown entities depending on the degree to which the Crown entity is required to give effect to, or to be independent of, Government policy
- clarified the powers and duties of board members in respect of the governance and operation of Crown entities, including a duty to ensure financial responsibility
- provided mechanisms for Government direction of Crown entities when necessary.

The new Crown Entities Act is regarded as an umbrella statute providing generic rules for all Crown entities. It will apply to all Crown entities except to the extent that their own Acts vary the new rules.

Classes of entities

The distinct categories and types of Crown entity established by the new Act are:

- **Crown Agents** (non-company Crown entities that have a close working relationship with the Government of the day)
- **Autonomous Crown Entities** (non-company Crown entities that do not need to have a high degree of ministerial control but are still required to have regard to the policy of the Government of the day)
- **Independent Crown Entities** (non-company Crown entities that operate at arm's length form the Government, either because they are quasi-judicial or because they must operate, and must be seen to operate, independently)
- **Crown Entity Companies** (which are established under the Companies Act 1993 and wholly-owned by the Crown)
- **School Boards of Trustees.**

The new Crown Entities Act provides standard governance requirements for each class of entity such as the appointment and removal of board members. A Minister's power to direct an individual Crown entity now depends on an entity's classification. For example, a Crown Agent will be required to give effect to direction on Government policy in its area of business, but a Minister will have no power to direct an Independent Crown Entity on its statutory independent functions.

Parliamentary perspective

Democracy entails accountability of the exercise of power. Such accountability has a number of facets, one of which is executive government being answerable to Parliament for its use of public resources to achieve specified outcomes. The Public Finance (State Sector Management) Bill was considered to be instrumental in establishing or redefining the mechanisms that enable Parliament to carry out effective scrutiny of executive government.

In view of this, the Clerk of New Zealand's House of Representatives chose to make a submission on the bill to the Finance and Expenditure Committee to highlight how certain areas of New Zealand's public management system should be structured to enable effective scrutiny by Parliament. With some careful consideration of the parliamentary perspective, the bill was shaped to get the desired behaviours and at the same time preserve those fundamental processes which are still the cornerstone of the parliamentary process.

Without consideration of these aspects the outcome of the changes to New Zealand's public management system could have had a profound impact on the traditions of parliamentary scrutiny, be it of core Government departments or Crown entities.

Conclusion

I am confident that the recent changes, both legislative and non-legislative to New Zealand's public management system have strengthened it and created a more flexible and resilient system that will perform in the 21st century. The steps taken to address Crown entity governance issues will address those issues of fragmentation of the wider State sector. The changes also represent continuous improvements to keep New Zealand at the forefront internationally with regard to its public management system. The traditions of parliamentary scrutiny of the executive have been maintained and the public are assured as to the integrity of New Zealand's public institutions.

There are also important economic and broader political and social benefits to New Zealand for the existence of highly transparent and accountable public institutions. This is an issue that has not been explored in this paper, but may be an issue for further discussion.

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Risk management - issues about evaluation and effectiveness of outcomes including contracting out

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STANDING UNDER THE ARCH:

ACCOUNTABILITY AND EVALUATION ISSUES IN THE PUBLIC SECTOR INCLUDING THE ISSUE OF CONTRACTING OUT

"The ancient Romans had a tradition: whenever one of their engineers constructed an arch, as the capstone was hoisted into place, the engineer assumed accountability for his work in the most profound way possible: he stood under the arch."[1]

A feature of recent decades has been the public's increased level of interest in the workings of government. There is a growing expectation that governments are able to provide a range of goods and services and tackle societal ills in the most economically efficient way possible. The public now expects not only private sector efficiencies and value for money, but a greater degree of transparency in terms of public expenditure

Governments are essentially in the business of public good; "...ensuring the provisions of public goods and services for the safety and security of its population and to promote harmonious living conditions and the general welfare and well-being (some would say happiness) among the people it is serving".[2] Elected governments in Western society are entrusted with authority and public resources to manage the operation of society and ideally to improve the lives of its citizens. To that end governments develop public policy and utilise society's resources in pursuit of these policy objectives. It is through its agencies that Government provides goods and services (outputs) that are calculated to support its policy goals.

The public sector reforms of recent decades have focused on improving government functions, which implies "...not only improving the efficiency and cost-effectiveness of public sector functions and operations. Equally, if not more, importantly, it also means improving overall effectiveness of the public sector so that government policies and programmes function well, are better delivered, achieve the stated, desired objectives, treat recipients with respect and dignity and positively affect the people that they are designated to reach while minimising any negative distortionary side effects".[3]

As public sector reforms have enabled governments to better fulfil the public's economic expectations, the need and expectation of effective accountability structures has also become prominent. The nature and extent of accountability has, arguably, become the distinguishing factor between the contemporary public and private

sectors. A key concern of good governance is being able to more effectively manage and meet the public sector's accountability obligations.[4]

It is within this environment of increased accountability that Public Accounts Committees face major challenges, particularly in terms of ensuring their continued relevance in the effective investigation and evaluation of the stated and perceived outcomes of individual government agencies.

Understanding Accountability

Accountability is commonly acknowledged as a fundamental component of democratic systems. However, there is not always a clear understanding of what accountability is and why it is important. Accountability is a complex notion with a myriad of understandings but no universal definition.

The concept of accountability is often discussed in terms of being answerable for performance, obliged to account for actions, as a process in which an organisation is held to account, or even a mechanism for minimising abuse of power. Narrow definitions add little to a meaningful understanding of this concept. The use of accountability interchangeably with responsibility is one point of confusion. Accountability can be associated with blame and simply following rules of compliance, and responsibility viewed as a positive value with a more formal and subjective nature allowing individuals to embrace the concept of effective management rather than fearing blame. Whilst in other understandings the reverse is maintained.

In Chapter 2 of the recently released CCH manual *Public Sector Governance – Australia*, Bartos states:

"A more helpful definition is: accountability happens when a person or organisation reports on its performance to a person or organisation authorised to express a view, form a judgement, or take action on that performance."[5]

It is essential that relationships, expectations and consequences are all clearly established if any accountability process is to be effective. The parties involved need to know what is expected of them (their responsibilities), who they are obligated to report to, the nature of information they are required to provide and the possible negative or positive consequences for their actions.

There is certainly a lot involved in pursuing and achieving accountability, but why is it important? In answering this question, Aucoin and Heintzman make three points: [6]

(1) To control potential abuse and misuse of public authority,

(2) To provide assurance regarding the use of public resources and adherence to public service values, and

(3) To encourage and promote learning in the pursuit of continuous improvements in government and public sector management.

Governing techniques have changed. Governments have become more and more involved in the lives of its citizens while at the same time the list of activities traditionally regarded as core business of government has been shrinking. The public sector is no longer directly providing the amount of goods and services it did in the past. Governments are still making and setting policy and are ultimately responsible for the activities of their departments, but recent decades have seen the private sector creep into the intermediate stages. The public sector reform performance emphasis and the resultant privatisation trend – including the rise of private sector contracts and partnerships – have challenged the public sector to develop a new style of management.

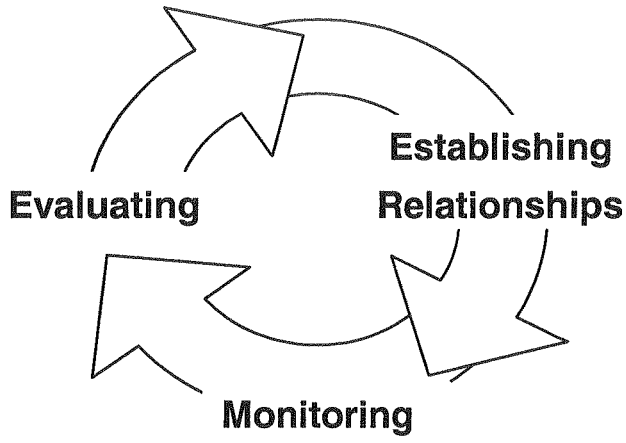
Systems of accountability in government have traditionally been depicted in terms of a *chain of accountability*, based on the Westminster principle of ministerial responsibility in which government (ministers and public servants) operate in a hierarchical system. Public servants had to answer to superiors, who in turn were accountable to Ministers who themselves were accountable to parliament for actions taken by their departments, and in this way ultimately to the electorate who will respond accordingly at the next election to perceived governmental mismanagement.

In recent decades, substantial reforms of the Australian Public Sector have occurred. The new face of the public sector, with its increased focus on performance, efficiency and value for money have posed new challenges for accountability principles and relationships. Accountability demands frameworks that allows the work of governments to be adequately monitored, reported and evaluated.

Accountability loop

The traditional notion of the chain of accountability has proven sufficiently robust to support the evolution of the *accountability loop*. The accountability loop is a conceptual model of the responsibilities and obligations of those involved in the provision of outputs. [7]

Figure 1: The Accountability Loop



Accountability demands that relationships be established in such a way that all parties are aware of what is expected of them and to whom they must account for their actions or failure to meet these expectations. The second element, monitoring, involves the capacity to access information about operations that facilitate performance measurement. The third element of the accountability loop, evaluation, involves analysing the performance information and considering it in terms of outcomes and the relevant policy objectives.

As the notion of the loop suggests each component makes the next possible. The importance of establishing relationships and monitoring public service activities should not be underestimated. If clear relationships and guidelines are not established then monitoring is made difficult or even impossible, and a situation may prevail in which no one really understands who or what should be monitored. In the absence of reliable guidelines and results of monitoring, evaluation is not feasible and can provide little useful information to feed back into the cycle of public sector operations.

It is the responsibility of the public sector to oversee and facilitate all the elements of the accountability relationship. It is only when the accountability loop is working well that performance can be satisfactorily measured and outcomes assessed.

Evaluation

Evaluation is crucial, not only with regard to public sector accountability but also efficiency and effectiveness. Pubic sector reforms are aimed at overcoming the inefficiencies of public sector monopoly. It then follows that evaluating outcomes is particularly crucial to determine whether methods – such as contracting out – are delivering the cost-efficiency, effectiveness and value for money projected by public sector reformers.

Evaluation is also sociologically desirable. Peter Baume argues that:
"Society requires evaluation ... to help satisfy the need for trust in government: the community needs to know whether government deserves to be trusted, and part of that knowledge derives from evaluations of the success rate of government programs. What constitutes 'success' is itself a political issue, and no amount of fancy managerial footwork can disguise the fact that evaluation is intended to help clarify political options, not just measure organisational efficiencies". [8]

Evaluation is defined as an examination of "...the effects of politics and programs on their targets – whether individuals, institutions or communities – in terms of goals they are meant to achieve. By objective and systematic methods, evaluation research assesses the extent to which goals are realized and looks at the factors that are associated with successful or unsuccessful outcomes". [9]

It is further observed that:
"[E]valuation is not an objectively technical, nor neutral process. It is inherently and intensely political, because it offers judgements regarding the appropriateness of utilising public resources in specific ways, of employing public servants in particular tasks, of allocating funds to programs, of providing clients and groups with public benefits". [10]

The evaluation process involves a number of stages. Firstly, the need to identify the objectives behind public sector actions. This represents the first challenge to evaluators. Policy goals may not be readily identifiable. Governments do not always

clearly state their objectives, have conflicting goals, or there may be gaps between official (policy statements) and operational objectives (staff pursing personal goals). In addition to these internal public sector challenges there is also the issue of stakeholders. Evaluators must ask themselves: what credence should be given to objectives identified by relevant – often multiple – stakeholders? Stakeholders may include recipients of goods and services and other non-government groups involved in the delivery of these goods and services. Some of these stakeholders may have different ideas about why and how these good and services should be provided and what is or is not being achieved by the relevant government program or policy.

Secondly, evaluators must select an appropriate approach to observe how the policy/program is operating and its effects. As public sector commentators concede, evaluation methodologies are not value neutral tools. It is very difficult to establish causal relationships between policies and the effects being observed. It is also important to keep in mind that much of the information with which evaluators must work are provided by the agency/arena under scrutiny.[11]

Thirdly, it reaches the stage where evaluators are essentially making judgment calls with regard to "...what extent the observed effects represent progress towards the specified goals" and proffer explanations as to why goals were – or failed to be – realised.[12] The inherent danger at this final stage and indeed of the entire evaluation process, is the independence and objectivity of those engaged in evaluation. In one respect, it is important for those responsible for implementing policy and conducting the programs to actively participate in the evaluation process. An agency will be more inclined to consider and positively utilise resulting evaluation feedback to refine and improve its operations if it has engaged in the evaluation process, rather than receiving an edict or list of suggested improvements from an external scrutineer.

However, the value of an independent and objective evaluation cannot be overlooked. Agencies, naturally, operate with a degree of self-interest. For their (funding) survival they need to be recognised as viable public sector bodies who are efficiently and effectively carrying out government's policy implementation and meeting policy objectives. This recognition of the importance of independent and objective assessment of public sector operations is reflected in the expansion of the audit function of Auditor-Generals.[13]

Evaluation is important, but because no evaluation formula exists into which variables of observed changes can be fed, it is a subjective exercise. Too little, too much or poor evaluation can all be harmful.[14] As with other aspects of public sector operations, the evaluation process requires a balancing act. But with no clear 'unit of measurement' regarding public sector functions, what can evaluators use to attempt to measure and judge public sector/agency achievements or failures?

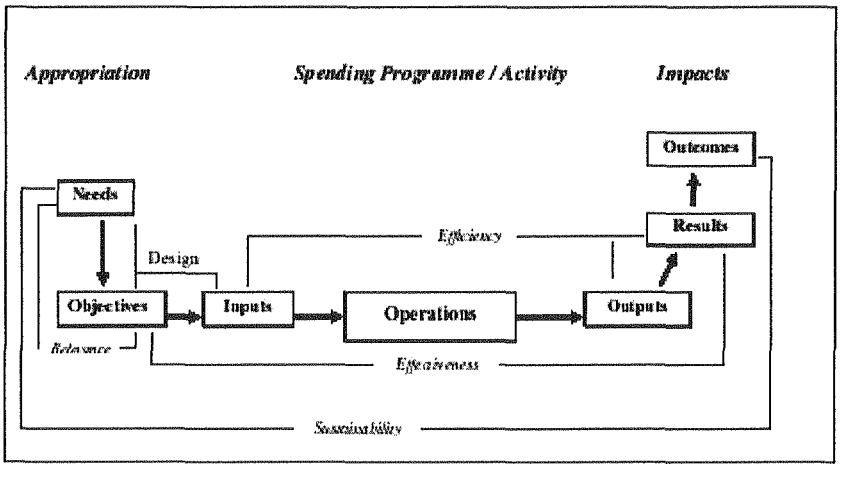
Measuring performance

The very nature of the government's role is such that it invites ambiguity when it comes to assessing its performance and holding it accountable.[15] It can be very difficult, if not impossible, to hold agencies and individuals accountable for outcomes that are influenced by so many socioeconomic and political variables.

Prior to public sector reforms, government and agency performance was often assessed primarily in terms of inputs or outputs: How much money did the agency take in? How many arrests or prosecutions? How many hospital beds filled or patients treated? Information of this nature may certainly reflect that an agency has been busy, but not necessarily what it was trying to achieve by providing these goods or services and how successful it was in achieving these aims.

In Figure 2[16], Webber graphically depicts a useful overview of the core components of the public sector process, through which departmental priorities are determined, resources are allocated, and impacts measured and assessed.

Figure 2: The Expenditure Management Process[16]



A government's first role is to assess and prioritise the needs of its citizens, identify the means by which to address these needs, and to articulate the approach in the form of public policy. A government must then determine the best ways in which to utilise its resources to address society's needs. Operations involve strategic coordination and management of public resources as government pursues its objectives through the provision of various goods and services to society.

Northern Territory Treasury defines **outputs** as "...the services provided or the goods produced by an agency for users external to the agency", and **outcomes** as "...expressions of the intended results, impacts or consequences on the Territory community of outputs provided by agencies".[17] Results, also termed intermediate outcomes, relate to those short or medium term impacts that can be identified as direct consequences of policy programs.[18]

Webber depicts a clear and logical hierarchy flowing from outputs to results and then to outcomes. However, it is in this step from results to outcomes that a myriad of other elements may enter to distort, for better or worse, the wider societal impacts of government action. Figure 2, provides a basis by which to develop and establish a clear focus of institutional accountability.

Input, output and efficiency measures are all critical components of performance measurement. They provide the public sector – and the public – with a perspective on how resources are being used, how efficiently and what is being produced and provided. Outcomes focus on wider societal implications of the action and activities of governments and those acting on its behalf, including private sector providers.

Outputs are usually more readily measurable and easier to cost than outcomes. When it comes to the issue of evaluating outcomes and accountability: agencies, understandably, prefer to be judged by achievements or effects over which they have organisational control. Evaluating performance and accountability based on outcomes achieved can sometimes seem like a case of judging governments/agencies by situations over which they have little control. [19] However, outcomes are important because outputs do not necessarily tell the whole story.

In conjunction with the adoption of accrual accounting methods by the Australian Public Service has come the focus on outputs and outcomes. In the Northern Territory context for example, on 1 July 2002 the *Working for Outcomes* framework, a financial

and management reform initiative, commenced in the Northern Territory Public Sector. This framework focuses on outputs, performance measurement and accrual accounting, reporting and budgeting as its core elements, and provides agencies with the tools to more effectively monitor and evaluate outputs, performance and ultimately outcomes.[20] In a survey of approaches taken by various jurisdictions to outcomes budgeting, Australia was credited with establishing coherent links between overall aims/aspirations and outputs, but not to the extent that allow direct connections to be made between the output expenditure and the achievement of outcomes.[21]

Effectiveness

In the paper *Improving Public Sector Effectiveness*, the United Nations Expert Group states:

"Measurement is essential for improving public sector effectiveness...[it is]...necessary to evaluate if goals are achieved, to hold managers and politicians accountable for service delivery and policy changes, and to keep government action transparent with the public properly informed ... The fundamental criterion for assessing public sector effectiveness is whether social benefits of a programme of public sector action exceed its social costs to ensure that net social benefit is positive."[22]

Webber warns that the *"...measurement of outcomes cannot, however, provide a particularly useful indicator of either the efficiency or effectiveness of individual agencies or expenditure programmes...[and]... should play only a background role in assessing the effectiveness of policies and therefore in the accountability framework of [a] department".*[23]

Contracting Out

Today, the public demands maximum quality at minimum cost. When interpreted broadly, the privatisation trend encompasses a range of initiatives undertaken by governments in their pursuit of greater efficiencies. These initiatives may include: the sale of public assets, transfer of certain functions to the private sector, and contracting out (outsourcing) the provision of various goods and services to private organisations. The reasoning behind this shift was an attempt to meet the private sector challenge.[24]

It is clear that contemporary governments are not – as they have in the past been accused – merely hierarchical systems made up of ministers and agencies staffed by career public servants who placed more emphasis on process and protocol than efficiency and effectiveness. The relationships that comprise the public sector today are multi-faceted and far-reaching:

"The public sector can be defined as those entitles owned and/or controlled by government, as well as all the entities and relationships are funded, regulated or operated solely or in part by government. This includes government departments, ministries, agencies, statutory bodies and public enterprises; it also includes contractual and other relationships with the private and voluntary sectors. Through these entities and relationships, governments produce various 'outputs' in terms of public goods and social services."[25]

The traditional view was that governments had certain core business to undertake and other peripheral activities could potentially be contracted out. Public sector reforms reflect an inversion of this traditional assumption, with all activities now potentially subject to contracting out unless they can be justified as core public sector operations.[26] APS core activities now centre around policy development, legislation implementation, contracting and oversight of service delivery.[27]

A distinguishing feature of the new face of the Australian Public Sector is the "...outsourcing of functions which, it is judged, the private sector can undertake more efficiently".[28] Contracting out is regarded as making better business sense for governments and has, on average, resulted in cost reductions for agencies. However, "...the fact that contracting out reduced the budgetary costs of a given agency does not necessarily imply that there is an equivalent net social welfare gain". Quiggin further suggests that the flipside of cost reductions may be wage reductions, increased work intensity, a reduction in quality, cost shifting and abandonment of community service obligations.[29]

Contracting out has been credited with providing a greater focus on outcomes. In the absence of direct control over the provision of outputs, both ministers and public sector managers are forced to focus more on defining and articulating policy goals and desired outcomes.[30] Government officials have needed to rise to the challenge of effective contract preparation and management in order to deal with the inherent risks of contracting out.[31] Contract managers must be aware of the hidden costs associated

with contracting out. Outlays are not limited to the production or service costs of the outputs provided by the contractor, there are the underlying cost of administration, contracts and performance measurement processes, which form the basis for evaluation and accountability. More complex relationships and outputs pose an even greater challenge for CEOs and contract managers.[32]

New link in the accountability chain

Contractors represent a new link in the accountability chain and as a consequence "...the 'golden thread' of accountability that binds the Australian Public Service does become strained." Commercial-in-confidence and issues of that ilk have stemmed the flow of information available to public sector managers and evaluators when it comes to assessing performance and satisfying accountability requirements.[33]

Richard Mulgan maintains that:
"Contracting out inevitably involves some reduction in accountability through the removal of direct departmental and ministerial control over the day-to-day actions of contractors and their staff. Indeed, the removal of such control is essential to the rationale for contracting out because the main increases in efficiency come from the greater freedom allowed to contracting providers. Accountability is also less likely to be reduced through the reduced availability of citizen redress".[34]

Public sector commentators are, however, quick to emphasise that contracting out does "...not obviate or limit the need for accountability to stake holders...[and that]... the fundamental principles of accountability have not changed: information still needs to be readily available to allow reviewers to make their own assessments about the legal and proper use of inputs and the ethical behaviour of the people involved in the processes. Managers cannot simply claim that the ends justify the means".[35]

It is even the case that accountability "...may on occasion be increased through improved departmental and ministerial control following from greater clarification of objectives and specification of standards. Providers may also become more responsive to public needs through the forces of market competition. Potential losses (and gains) in accountability need to be balanced against potential efficiency gains in each case".[36]

Stuart Macdonald's conceptualisation of the accountability for outcomes has application for all governments:
"Accountability means that government agencies have a responsibility to influence outcome results. This does not mean writing into a contract or performance that you are going to be 100% accountable for ...[X, Y or Z outcome]...by a given time. It is a matter of recognising that there's a responsibility to influence the outcome result that's being sought".[37]

Further, the New Zealand State Services Commission states:
"Causality is almost always impossible to determine...[but]...if the correlations between an activity and the desired outcome are high, and if plausible alternative explanations can be ruled out, then there is a reasonable basis to argue that an intervention was effective".[38]

The prevailing consensus amongst public sector commentators that evaluation is important must be tempered by an awareness that evaluation can be costly, time-consuming and of little practical value if not conducted properly and objectively. With the accountability loop in mind, it is outcome evaluation that enables the public sector to 'loop the loop'.[39] Good evaluation can reflect when public sector activities (outputs produced) positively contribute to specified outcomes; and help refine policy, enhance practical management and the production of outputs, ultimately benefiting outcomes.

Meeting the challenge:
Increased demands by the public for accountability has placed government in a similar position to that of the ancient Roman engineers. Should government fail in its ability to provide effective outcomes in relation to public expenditure it will surely be crushed by the arch at the next election. Similarly Public Accounts Committees are just as accountable to the public for the way in which they maintain a watching brief on the activities of government.

Given the myriad of issues relating to accountability, particularly in terms of evaluation and effectiveness of public sector outcomes and contractual arrangements, are Public Accounts Committees adequately resourced to effectively meet the demands of complex enquiries? Membership of Public Accounts Committees comprises a wide range of experience and expertise. However, there may be gaps in knowledge when considering some of the more complex issues that Committees are required to address. The challenge for Committees must surely be to address these

gaps in a way that ensures that they remain an effective and viable force in the investigation and evaluation of the expenditure and related outcomes of individual agencies. The importance of this requirement is particularly highlighted when considering the increased role of outsourcing of, what was considered previously core activities, to the private sector.

To meet this challenge there are two areas which need to be acknowledged and supported by respective governments, thereby ensuring that the role of Public Accounts Committees remain relevant and their activities are effective.

Firstly, Committees must be adequately resourced to enable them to increase and expand their own knowledge base through ongoing training calendars which focus on contemporary management issues within the public and private sectors. Secondly, for specific enquiries Public Accounts Committees should be in a position where they can utilise relevant external sources including the secondment of independent experts from both the public and private sectors, to ensure that the Committee is fully briefed and in a position to comprehensively investigate and report on the accountability of agencies.

Public Accounts Committees are in themselves just an output of the parliamentary process that strives to achieve the primary outcome of ensuring parliament is fully informed. This provision of comprehensive bipartisan advice is only achieved through the tabling of thoroughly researched and meaningful Committee reports. To that end, Public Accounts Committees must keep abreast and knowledgeable of contemporary public sector reforms and current issues impacting on the private sector to ensure that they remain a relevant and dynamic force within the democratic process.

End notes

[1] Quote by Michael Armstrong, http://en.thinkexist.com/keyword/accountability/

[2] Report of a summary of the Discussion held by the United Nations Expert Group Meeting, convened in preparation for the 42nd session of the Commission for Social Development Priority theme: *Improving Public Sector Effectiveness,* Dublin, Ireland, 16-19 June 2003, Department of Economic and Social Affairs, Division for Social Policy and Development, United Nations, New York, p.4

[3] ibid, p.5

[4] Bartos, S., Accountability in the Public Sector, *Canberra Bulletin of Public Administration No. 111,* March 2004, p.27

[5] ibid.

[6] Franceschet, M., Public Accountability and Access to Information, *Report 6 – Access to Information Review Task Force,* November 2001, Government of Canada

[7] Manitoba Health, *Achieving Accountability,* August 1999, Government of Canada, http://www.gov.mb.ca/health

[8] Saunders, P. & Fine, M. *Evaluation and Research in Social Policy,* Social Policy Research Centre Discussion Paper No. 62, December 1995. Presented at the Annual Conference of the Australian Evaluation Society held in Sydney, 27 September 1995. p.2

[9] O'Faircheallaigh, C., Wanna. J. & Weller, P. (1999) *Public Sector Management in Australia: New Challenges, New Directions*, 2nd Edition, Macmillan Education Australia Pty Ltd., p.194

[10] ibid., p.193

[11] ibid., p.195-7, 205-6

[12] ibid., p.194

[13] Presentation to the ICAA – Members in Commerce Group on *Accountability Issues in the Public Sector,* delivered by New South Wales Auditor-General, Bob Sendt, 1 March 2000. http://www/audit.nsw.gov.au/speeches/agspeech/ICAA010300.htm

[14] *Looping the Loop – Evaluating Outcomes and Other Risky Feats*, Occasional Paper No.7. State Services Commission, June 1999. Prepared as part of the SSC's "Improving the Quality of Policy Advice" project, examining the extent of outcome evaluation in the New Zealand Public Service. http://www.ssc.gov.nz/Op7

[15] Schacter, M., *Policy Brief No. 3 – April 1999, Means...Ends...Indicators: Performance Measurement in the Public Sector*, Institute of Governance, Canada, p.1. www.igvn.ca

[16] Webber, David (2004), *Managing the Public's Money: From Outputs to Outcomes - and Beyond*, New Zealand Association of Economists (Inc.), 2004 Conference Paper No.5., p.12. Available at: http://www.nzae.org.nz/conferences/2004/5_Webber.pdf

[17] Available at: http://uluru.nt.gov.au/ntt/budget/wfo_framework.shtml

[18] Webber, op. cit., p.14; Schacter, op. cit., p.4.

[19] Schacter, op. cit., M., pp.4-5.

[20] Source available at: http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/structuring_outcomes__outputs.html

[21] Webber, op. cit., p.12.

[22] United Nations Expert Group Meeting, op. cit., p.30.

[23] Webber, op. cit., p.15.

[24] The private sector challenge resulted from the comparison that was commonly made between the private and public sectors, in which the latter was unfavourably viewed in termed of cost-efficiencies and effectiveness.

[25] United Nations Expert Group Meeting, op. cit., pp.6-7.

[26] Quiggin, John. "Competitive Tendering and Contracting in the Australian Public Sector" in *Australian Journal of Public Administration*; September 1996, Vol. 55 Issue 3, p.49, 9p

[27] Speech delivered by Auditor-General of Australia, Mr P. J. Barrett, *Balancing Accountability and Efficiency in a More Competitive Public Sector Environment.* Delivered at Government Excellence Summit 2000 – Reinventing Government, 25 May 2000. www.anao.gov.au/WebSite.nsf/ Publications/4A256AE90015F69B4A2568FD002564F5

[28] ibid.

[29] Quiggin, op. cit.

[30] Available at: http://www.finance.gov.au/budgetgroup/Commonwelath_Budget_-_Overview/structuring_outcomes__outputs.html

[31] Speech delivered by Auditor-General of Australia, Mr P. J. Barrett, *Balancing Accountability and Efficiency in a More Competitive Public Sector Environment.* Delivered at Government Excellence Summit 2000 – Reinventing Government, 25 May 2000. www.anao.gov.au/WebSite.nsf/ Publications/4A256AE90015F69B4A2568FD002564F5

[32] Quiggin, loc. cit.

[33] Barrett, op. cit.

[34] Ibid.

[35] ibid.

[36] Mulgan, Richard. (1997) 'Contracting Out and Accountability', Discussion Paper 51, Graduate Public Policy Program, Australian National University, quoted in a speech delivered by Auditor-General of Australia, Mr P. J. Barrett, *Balancing Accountability and Efficiency in a More Competitive Public Sector Environment.* Delivered at Government Excellence Summit 2000 – Reinventing Government, 25 May 2000. Available at: www.anao.gov.au/WebSite.nsf/ Publications/4A256AE90015F69B4A2568FD002564F5

[37] *Looping the Loop – Evaluating Outcomes and Other Risky Feats*, Occasional Paper No.7. State Services Commission, June 1999. Prepared as part of the SSC's "Improving the Quality of Policy Advice" project, examining the extent of outcome evaluation in the New Zealand Public Service. http://www.ssc.gov.nz/Op7

[38] ibid.

[39] ibid.

ACPAC 2005 – 8th Biennial Conference
Day 2 – Session 1

Keynote Address – Accountability of non-profit organisations: the Queensland Chart of Accounts project

Presenter: Associate Professor Chris Ryan, A/Head of School of Accounting, Queensland University of Technology and Professor Myles McGregor-Lowndes