

***Background Paper:
Improving public financial accountability
- the way forward -
enhancements in government reporting and public accountability¹***

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The focus of public financial accountability is shifting from expenditure to outcomes; from how money is spent to what was achieved by the expenditure. This shift in emphasis in accountability requires a shift in reporting.

In New South Wales, these changes have been manifested in the development of a performance management and budgeting system linked to the State Plan. Put simply, the performance management and budgeting system involves allocating agency budgets according to what outcomes the agency is to produce. The prioritisation of outcomes is set out in the State Plan, which identifies five areas of activity, 14 goals and 34 priorities. Funding proposals are judged according to their contribution to State Plan priorities.

Agency funding bids are now made through results and services plans which set out the outcomes the agency intends to achieve and outlines how any services to be funded will contribute to those outcomes. These plans are not publicly available, nevertheless, annual reports increasingly set out what has been achieved against the outcomes set out in the plans.

As budgets are allocated to produce outcomes, accountability for those budgets shifts from what was bought with that money to what was achieved with that money. This requires reporting of achievements. To facilitate this, the State Plan includes 53 targets against which the Government is to report progress throughout the life of the Plan.

At one level, this change in emphasis is clearly appealing. The primary concern of people is what their Government is achieving for them, not the detail of how money is spent. Managers within Government should have the freedom to spend money in the most cost-effective way possible to achieve results. However, the implementation of such a system is not straightforward. In particular, questions arise regarding how to set the desired outcomes or targets, how to effectively report on performance, and how to establish a system that encourages the provision of

¹ This paper is based on the findings of the NSW Public Accounts Committee's Inquiry into State Plan Reporting. For more information, please see: Public Accounts Committee, *Report on State Plan Reporting*, Report No 4/54 (No. 167), November 2008, at [http://www.parliament.nsw.gov.au/prod/PARLMENT/committee.nsf/0/8b63a58a8b986cdbca25750e011adff7/\\$FILE/Final%20Report%20on%20State%20Plan%20Reporting.pdf](http://www.parliament.nsw.gov.au/prod/PARLMENT/committee.nsf/0/8b63a58a8b986cdbca25750e011adff7/$FILE/Final%20Report%20on%20State%20Plan%20Reporting.pdf).

services that people actually want rather than creating a range of perverse incentives to achieve a bureaucratic target that is in conflict with good service provision.

To address these questions, the New South Wales Public Accounts Committee conducted an inquiry into reporting under the State Plan. Three themes arose from that inquiry:

- the need to manage the risks of a performance management system;
- the need for Parliament to develop systems to give appropriate consideration to performance information; and
- the need for an effective system for determining and setting community priorities.

Managing the risks of a performance management system

Key risks of performance management that were presented to the Committee included:

- failing to set meaningful targets;
- achieving targets at the expense of ultimate goals;
- achieving individual goals at the expense of other service delivery areas;
- failing to give due regard to the systemic nature of public policy challenges;
- “gaming” results to create an illusion of progress;
- failing to respond appropriately to poor performance;
- discouraging good performance;
- stifling innovation;
- reducing local responsiveness and accountability;
- costs of administration; and
- reducing morale.

The Committee identified the following strategies as a means of reducing these risks.

Enshrine the primacy of goals over targets

It must always be borne in mind that targets are a means to an end, and not an end in themselves. An example of managing to achieve targets at the expense of the goal comes from the imposition of performance targets for time to fix potholes in Washington DC. Workers were criticised for only filling 75 per cent of potholes within 72 hours of them being reported. In response, the workers changed their practices so that they met their target of filling 98 per cent within time, but the number of potholes reported increased. This was because in order to meet their performance target the workers abandoned their practice of filling potholes they found on the way to reported jobs.² Similarly, an Observer newspaper investigation suggested that ambulances in the UK had been keeping patients waiting for up to five hours outside hospitals so that emergency rooms could accept them when they were sure they could treat them within the target four hour window.³

² K Donaghue and S Kershbaum (Executive Office of the Mayor of Washington), overseas study tour meeting, Washington DC, 19 February 2007.

³ D Campbell, 'The human cost of forcing ambulances to wait', *The Observer*, 17 February 2008, accessed 1 October 2008, at <<http://www.guardian.co.uk/society/2008/feb/17/health.nhs>>.

Limit the number of targets

Another criticism of the centrally determined target model is that when we create too many targets, we elevate the routine to the same level as the urgent. A recent World Bank study by the IMF's Richard Hughes, *Performance Budgeting in the UK – 10 Lessons from a Decade of Experience*, argues that:

One of the most common mistakes that countries make when moving to a more performance-oriented budgeting system is to have too many performance targets. As a result their performance management system becomes a further expression of, rather than a solution to, their inability to prioritize.⁴

A particular problem of too many targets is information overload. There is so much data to digest that important trends are lost. As Hughes writes of Ministers and senior bureaucrats:

Too often... they are presented with an unfiltered sea of figures and only discover how poorly the Government is performing when they read a more succinct and pointed summary in the following day's newspapers.⁵

Avoid gaming

At least one witness warned the Committee about the problem of "gaming" or, in other words, manipulating results to demonstrate good performance.⁶ In the UK, for example, a company was contracted to improve light rail services by ensuring that the time between trains was as even as possible. By using this target as the sole performance measure, the Government created an incentive for the contractor to hold back trains that were running behind a late train, as this was the easiest way to establish regular gaps between them and to thus create an illusion of good performance.⁷

Provide appropriate responses to results

The Committee was told that some governments had responded inappropriately to poor performance by automatically punishing agencies that failed to meet their targets.⁸ Cutting school funding for failing to improve student exam results was described as a 'classic' example of this.⁹

Promote local input and decentralised responses

John Seddon, a public sector management consultant and author in the UK, argues that targets have become a command and control model under which out of touch

⁴ R Hughes, *Performance Budgeting in the UK: 10 Lessons from a Decade of Experience*, Fiscal Affairs Department of the International Monetary Fund, 9 June 2008, p. 10.

⁵ As above, p. 13.

⁶ J Kelly (Senior Lecturer, Graduate School of Government, University of Sydney), Committee Proceedings, 30 April 2008, p. 1.

⁷ B Smith, *What Gets Measured: Contracting for Delivery*, Serco Institute, London, 2007, p. 12, accessed 7 October 2008, at <http://www.serco.com/Images/What%20Gets%20Measured_tcm3-21241.pdf>.

⁸ J Kelly, Committee Proceedings, p. 1.

⁹ As above.

bureaucrats develop one size fits all solutions to problems they do not understand. Instead of making public servants accountable to citizens, Seddon argues that 'deliverology' has only made them accountable to Ministers. It is a system that focuses up rather than down and, consequently, public servants may be meeting all of their top-down targets while services deteriorate beneath them.¹⁰

For Seddon, local representatives must drive improvements as:

No performance management system is going to reveal whether the marginal pound of taxpayers' money is better spent on a school book or an aircraft carrier as the answer depends on the relative value that citizens and their elected representatives place on education versus defence at the time.¹¹

Encourage innovation

Top-down service delivery runs the risk of stifling innovation among people on the ground providing the service as they feel compelled to follow the central agency's directives rather than apply ideas that they can see would more effectively serve the needs they are addressing. It can also result in devaluing the views of the recipients of the service and reduce local responsiveness and accountability. Seddon argues that if you measure success from the customer's point of view, then you create incentives for public servants to innovate in response to local and personal circumstances.

Maintain morale and ownership

A flow on effect from the above risks can be an adverse effect on the motivation of those providing services. This may occur if employees feel disempowered by a lack of authority to apply their own judgement and respond to the problems they encounter, or if they perceive significant aspects of their work to be irrelevant to what they are meant to achieve.

Be mindful of marginalised groups

A common concern in submissions was that performance measurements were too broad to provide effective information on progress among the most marginalised members of our society. This concern was expressed in relation to challenges faced in regional areas of NSW and among specific sectors of the population.

Ensure that benefits outway administrative costs

Performance management systems also place a burden on public services through their data collection and reporting requirements. The benefits from collecting information always need to exceed the cost of the administrative burden to avoid wasting public resources.

Seddon identifies some high profile failures where efforts to improve reporting and transparency against targets have markedly increased costs. Several reports mention the £320m spent on a "verification framework" which was subsequently

¹⁰ J Seddon, *Systems Thinking in the Public Sector: The Failure of the Reform Regime... and a Manifesto for a Better Way*, Triarchy Press, United Kingdom, 2008.

¹¹ As above, p. 19.

scrapped. According to Seddon, significant cost and inefficiency flows have left the civil service demoralised.

Establish a body that can carry out a single, authoritative, accessible appraisal of delivery against targets.¹²

In NSW, the Premier's Delivery Unit carries out this role.

Make use of existing audit institutions

Seddon argues that audit institutions should "develop themselves into guardians of taxpayer value."¹³

Make use of parliamentary committees

Committees "provide a forum in which to call Government officials and Ministers to account for performance against their stated objectives."¹⁴

Embrace the enthusiasm of NGOs

NGOs "bring a passion for the subject together with an ability to put the latest developments in a context that parliamentarians, journalists and the interested public can understand."¹⁵

Parliamentary systems for consideration of performance information

With the development of new forms of reporting for financial accountability, the Parliament needs to ensure that it has appropriate structures and procedures for considering that information. Such procedures need to be adapted to both the importance of the information and to dealing effectively with the type of information provided.

Traditionally in New South Wales, procedures exist for the detailed consideration of the budget and financial accounts. Debate on the budget is given extended time limits and estimates committees have the capacity to undertake further scrutiny. For financial accounts, the Public Accounts Committee has a broad remit to consider issues arising and the *Public Finance and Audit Act* gives the Auditor-General broad powers to audit the accounts and report to Parliament.

Similar provisions do not exist for performance information. The State Government has promised to produce an annual report on State Plan performance and to submit this report to the Auditor-General for auditing, but there is no legislative requirement that this occur. To date, a State Plan annual report has not been released despite the intention that it be produced last year. Also, when such a report is produced, there is no requirement for it to be tabled in Parliament nor any procedure for it to be subject to special scrutiny. The Parliament will need to develop procedures in accordance with the importance of this information and to ensure the Government is accountable for its expenditure.

¹² R Hughes, *Performance Budgeting in the UK*, p. 13.

¹³ As above, p. 16.

¹⁴ As above, p. 17.

¹⁵ As above.

Any procedure for examining performance reports needs to support an effective examination of the information provided. Comprehensive performance information can be a powerful tool for management and public accountability. However, performance information can also be misleading without careful analysis. This can occur by:

- attributing a cause to an outcome without sufficient evidence (eg, ascribing a bad outcome to a government program without taking into account other factors such as a general economic downturn);
- treating a fluctuation over the short term as indicating the long term trend;
- ascribing results to particular programs or changes before those programs or changes have had time to take effect; or
- isolating particular measures as an indication of a general outcome while ignoring related measures that give a different result.

To minimise misinterpretation, the Parliament needs processes that develop Members' expertise in working with performance information and that are adapted to take account of the medium to long term view.

The NSW Public Accounts Committee has recommended that the State Plan annual report be referred to it to provide a detailed examination to the Parliament.

Determining and setting community priorities

Performance budgeting requires clearly articulating what outcomes are to be achieved through expenditure. This involves some process for determining community goals and priorities. Also, ongoing engagement is required to ensure that the performance data received reflects people's experiences and perceptions and that targets are driving the intended results. Public engagement therefore becomes a vital part of performance budgeting as it is intrinsic to both defining and measuring performance.

Such engagement does not occur according to a set methodology or single purpose. In contrast to the mathematical precision of accounting for expenditure, defining and assessing performance involves social interaction, which needs to be adapted to the particular context. Public engagement can have a range of purposes, including:

- **Determine public priorities** —engagement can be used to determine what it is the public wants, and how much it wants it.
- **Develop better-informed policies** — policy development can often be enhanced when those affected by a policy, or who are experts in the field, have relevant knowledge not otherwise available to those developing the policies. Tapping into this knowledge can result in better policy.
- **Resolve “wicked” problems** — many problems in public life have no ready solution but involve making and living with trade-offs and changing

behaviour. With such problems, resolution may only come as the affected community itself confronts and deals with the problem.

- **Educate officials** — public officials who administer programs and develop policies can often benefit from the increased understanding of the people they serve and the effects of their services that can be obtained through direct engagement.
- **Educate the public** — engagement can provide information to the recipients of a government service, increase their understanding of the policy direction of government and the services available, explain the reason certain decisions are taken and raise awareness of important issues.
- **Foster ownership and support** — engagement can promote support from the community and agreement with government directions. This can arise from greater understanding of the issues involved, or from the belief that an individual's views and interests have been taken into account.
- **Obtain the social benefits of public participation** — engagement can have flow on effects on how the community operates by fostering a greater level of community involvement and increasing social cohesion.
- **Promote public participation as an end in itself** — greater community participation in public decision making can be seen as an end in itself.

At the highest level, the setting of priorities can be guided by representative democratic government, by which the Government is formed and remains accountable to the elected representatives of the people. However, while parliamentary accountability remains the foundation for the Government's development of its performance targets, more direct engagement can provide greater detail on community priorities.

Engagement may occur through peak bodies and community organisations that lobby directly or are invited to comment. Accessing their expertise can enhance policy development and provide feedback on the effect of Government programs. However, while such organisations may effectively represent particular sectors of the community, they cannot be taken to be representative of the community at large.

Detailed engagement with individual citizens can be very effective in determining the priorities of the people across the State and setting directions for what is to be done to address those priorities. Such engagement needs to be informed so that the opinions expressed meaningfully consider the issues at hand rather than reflect misconceptions or ignorance regarding the background or implications of alternative options and the trade-offs involved. It also needs to be representative to ensure the inclusion of the whole of the community, not just those with the ready capacity to be involved.

The Committee considered a range of models of community engagement that may assist with determining community priorities. Dr Lyn Carson and Prof Janette Hartz-Karp articulated three elements that are crucial for successful engagement:

- Influence
- Inclusion; and
- Deliberation

Influence

The process should have the ability to influence policy and decision making. The use that will be made of any public input needs to be clear in order to encourage participation, gather useful information and manage outcomes, including what is open for consideration and what is already fixed. Public engagement can be a high-risk activity as it can raise expectations which, if frustrated, can lead to disappointment, disengagement and hostility.¹⁶

Inclusion

The process should be representative of the population and inclusive of diverse viewpoints and values, providing equal opportunity for all to participate. Only by including representation from all relevant sectors can one be confident of giving due consideration to the full breadth of issues and interests. Also, only by being seen to do so can a process gain general acceptance and ownership.

Three elements of inclusiveness emerged from the evidence received by the Committee:

- including the whole of the community, not just those with the ready capacity or interest to be heard;
- including the range of interests or perspectives involved in an issue; and
- including the relevant experts.

The Committee noted that a mixture of random selection, direct invitation and public invitation proved to be a powerful combination when dealing with planning issues in Western Australia. Dr Carson told the Committee:

Alannah MacTiernan often uses a combined system of selection, so she has a third of people who self-nominate—so they are like me, the incensed and the articulate—and she has a third who are stakeholders or government people who, in your case, know a great deal about health—and you know who they are because you have already identified them—and a third who are randomly selected. So she gets back to the wisdom of crowds. She gets that specialist and non-specialist combination. You can do it in each of those areas. You can have a very sweet combination of those three groups. Part of the way she does that is that before they even begin, they start to understand where they are each coming from so that they get the level of expertise that each

¹⁶ Influence, inclusion and deliberation are the three essential elements of an effective deliberation process outlined by Dr Carson and Prof Hartz-Karp in L Carson & J Hartz-Karp, 'Adapting and Combining Deliberative Designs: Juries Polls and Forums', in *The Deliberative Democracy Handbook: Strategies for Effective Civic Engagement in the 21st Century*, J Gastil & P Levine (eds), Jossey-Bass, San Francisco, 2005, p. 122.

brings into the room. They get the strengths that they bring into the room, and then they work from there.¹⁷

While Government agencies have a fair degree of experience in engaging with experts, stakeholders and those who put themselves forward to be heard on an issue, their degree of experience in engaging with a representative cross section of the community is more limited. However, the benefits of engaging with 'ordinary people' should not be underestimated. As the Executive Director of the Premier's Delivery Unit, Mr Ben Keneally, noted in relation to the consultations that took place during the development of the State Plan:

The ability to get beyond the gatekeepers of what local opinion is was really powerful, and 'ordinary people' actually have a better understanding of the notion of a budget constraint and that you cannot do everything than a lot of people who were there to push particular barrows. So you got some very good conversations going on around discussion group tables about what really is our priority locally? It is not to do everything.¹⁸

Any process needs to be cognisant of barriers to participation and do what it can to address them. Key strategies include:

- building confidence in the process;
- communicating the purpose of the process;
- creating incentives for involvement;
- having an inviting approach and space;
- accessible locations;
- childcare; and
- subsidising costs.

Deliberation

The process should provide open dialogue, access to information, respect, space to understand and reframe issues, and movement towards consensus.¹⁹ Effective consultation requires that those being consulted engage with the issues under consideration. According to Dr Carson:

Deliberation is discussion based; you are working towards some common understandings of problems; and you are looking at the strengths and weaknesses. It can take days when it is done at its best...²⁰

Deliberation goes beyond expressing an opinion and requires individuals coming to terms with the different aspects of an issue and facing the trade-offs involved in pursuing various options. Deliberation requires:

¹⁷ L Carson, Committee Proceedings, p. 15.

¹⁸ B Keneally (Executive Director, Premier's Delivery Unit), Committee Proceedings, 27 October 2008, p. 6.

¹⁹ L Carson and J Hartz-Karp, *The Deliberative Democracy Handbook*, p. 122.

²⁰ L Carson (Associate Professor in Applied Politics and Academic Program Director, Applied Science, University of Sydney), Committee Proceedings, 30 April 2008, p. 10.

