

Part 2: Budgeting and financial management

Several Dialogue workshops have explored recent developments in Australia, the PRC and Taiwan to improve budgeting and financial management and to enhance both performance and accountability.

The 2015 workshop entirely dedicated to this topic led to a book, *Value for Money*, published by ANU Press (2018), which demonstrated the shared interest in performance budgeting, linking resources allocation to policy objectives and performance targets, and also in promoting performance in budget implementation and accountability through evaluation. While Australia has been pursuing this approach since the 1980s (via ‘managing for results’) and steadily enhanced its framework, it still faced challenges in getting politicians and not just bureaucrats to focus on performance. Reforming financial administration to enhance performance and managerial accountability is much more recent in both the PRC and Taiwan, and for both jurisdictions such reforms can only be pursued after more fundamental governance changes—‘opening-up’ in the PRC and full democratisation in Taiwan—have become more settled. Both jurisdictions have nonetheless shown interest in moving beyond post-hoc financial reporting and been actively reviewing international experience, looking to adapt it to their own institutional frameworks.

The 2018 workshop complemented the earlier one by exploring how institutional structures might also be used to enhance performance and accountability. A second book, *Designing Governance Structures for Performance and Accountability*, was published by ANU Press in 2020. While the book again demonstrated shared interest in reform drawing on international experience, including to improve citizens’ engagement and draw on external capacity, the differences in the institutional frameworks have led to quite different approaches in each jurisdiction. Australia, with its Westminster-style separation of politics and administration within the executive, uses an array of organisational governance structures involving different degrees of independence from the political executive depending on the function involved. Taiwan also distinguishes between politics and administration but does so within its unique five ‘separation of powers’ structure of government (independent arms of administration or ‘Yuans’) rather than the standard distinction between the executive, legislature and judiciary more commonly used in democracies. The PRC, of course, does not believe in or intend to separate politics from administration: rather the roles are conterminous and the CCP (Chinese Communist Party) plays an active role across all arms of government (and beyond).

In this section, the first two chapters set out the context today in which budget and financial management reform is now proceeding.

Christine Wong highlights the scale of the reform task in China since the ‘opening-up’ began in 1978. When Xi Jinping took over the leadership in 2013, an ambitious plan for comprehensive reform of the fiscal system was set out, to be completed by 2020. The first phase began in 2014 with a new Budget Law which, over the following six years, has extended budget control over all fiscal resources, improved budget transparency and strengthened monitoring and supervision. The second phase, focusing on tax reform, has successfully reformed the value-added tax introduced in 1994, but it has not delivered additional revenues to local governments which are struggling to meet their expenditure responsibilities. The third phase, focusing on intergovernmental fiscal reform, has also faltered. With economic growth slowing and COVID-19 debt pressures, local government is being squeezed from all sides, threatening to undermine the government’s goals of improved public services and rebalancing the economy towards consumption.

Henry Ergas and **Joe Branigan** explore Australia’s financial management challenges post COVID-19. The pandemic shut down the Australian economy and ended Australia’s almost three decades record run of GDP growth. But Australia’s past reforms and generally prudent budgeting delivered considerable resilience and the capacity to adjust to shocks. While some questions remain as to whether Australia ‘overdid’ its response to the pandemic, there was a strong case to compensate for the restrictions imposed by government actions to contain the pandemic, and the fiscal expansion did result in a V-shaped recession in 2020 (though the impact of COVID was also softened by continued high overseas demand for Australian resources and bulk commodities). There is a need now to return public policy to more careful budgeting and financial management, particularly if Australia is now on a slower growth trajectory. Among the areas needing attention, Ergas and Branigan highlight Australia’s weakness in assessing major infrastructure investments.

Meili Niu and **Peipei Zhang** describe how China’s Budget Performance Management (BPM) system has evolved since it was first initiated in 2003. While in the last two years BPM has begun to explore performance in terms of outputs and outcomes, it has not so far been a permutation of the Western version of performance budgeting. Instead it has focused on establishing systematic budgeting control over line agencies at each level of government and using evidence to assess how well this control is operating. In essence,

China is building the 'basics' before attempting to establish a performance budgeting system, consistent with the advice Allen Schick provided to developing countries in the late 1990s (Schick 1998). Particularly interesting in this study is the way China uses experimentation at local government levels (particularly the city level) to develop and enhance the BPM.

Jie Gao also shows how the PRC has drawn on but greatly adapted international interest in performance management. She examines the performance management system in the PRC, highlighting how the 'target responsibility system' (TRS) is entwined with cadre management, rather than organisational or program performance per se, and is not linked to the budget or financial system. The TRS embraces performance in achieving both program (or policy) targets such as economic growth, environmental goals and education participation levels, and political targets such as social order and stability and party building. Gao explores the way the system has mixed principal-agent and stewardship approaches, the former seeming to be receiving higher priority under an almost contractual arrangement before Xi Jinping; Xi's greater emphasis on stewardship, however, is premised on adherence to party ideology and gives more weight to party building. (**Shuo Chen** and **Hon Chan** explore further China's attempt to develop a 'political meritocracy' in the next section on the civil service.)

Wendy Jarvie examines how the Australian Department of Foreign Affairs has used evaluations to support its financial management, particularly for its foreign aid budget. The department's approach was based on a framework established by the former AusAID organisation, which had a degree of independence from ministers. It made use of independent external expertise together with considerable internal effort. When AusAID was absorbed by the department, the evaluation arrangement initially continued with support from senior departmental management. However, this was not matched by support at the political level and in recent years, Jarvie reports, independent involvement in evaluations has ceased, resources for evaluation have reduced and the systematic approach to evaluation has been put in jeopardy. Such a lack of political commitment to evaluation has been evident elsewhere in Australian government but now is evident in a department with one of the best records in objective evaluation, reflecting the broader politicisation of the public service described by **Andrew Podger** and **John Halligan** in the next section.

Key conclusions to draw from these chapters include:

- The continuing effort under President Xi to improve budget control, and the scale of the task to encompass all fiscal resources across all levels of government in the PRC;
- The PRC's borrowing of ideas about performance budgeting and management, but adapting these to its own framework including the central role of the CCP and its cadres across government, a role being strengthened by President Xi;
- Despite Australia's long history now of attempting to link budgeting to performance and to promote 'managing for results', and the scale of the challenge of fiscal management following COVID-19, there remain political obstacles to the use of objective evaluation techniques and public reporting.

Budgeting and financial management developments are highly relevant not only to intergovernmental relations but also to the following sections of the book on the civil service and service delivery (particularly given budgetary pressures from public expectations of enhanced services such as aged care and disability care).

Reference

Schick, Allen (1998). 'Why most developing countries should not try New Zealand's reforms', *World Bank Research Observer* 13(1):123–31. doi.org/10.1093/wbro/13.1.123.

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