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A system in adjustment: Australia's evolving public budget management system

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I met John in the 1990s, first at a conference at Griffith University, and then a bit later, when he asked for, and was granted, access to the Department of Finance, and to Finance people, to conduct some research. I was assigned to help him. To 'help' a researcher doing field work in a department might sound like a euphemism for 'minding' him – making sure he didn't do anything he shouldn't, and otherwise keeping an eye on him. It soon became obvious, though, that no minding was required. John wasn't interested in numbers, or policy proposals or state secrets of any kind. Instead, he was interested in things that people spent their time working on and with, but not as much time thinking about – the rules, practices and relationships at work in a central budget agency when it conducts its part of public financial management. Far from being a risk, this unusual interest could actually be a good thing, if it led to better formulated ideas and more intelligent practice. So, helping John was easy.

1 The views in this paper are my own and are not to be taken to represent those of the Department of Finance. I would like to thank John Wanna and Andrew Podger for their comments and Lembit Suur, Gareth Hall and Tracey Carroll for their advice on earlier drafts.

The multiple and changing roles of a central budget agency

There has rarely been much theorising undertaken in the Commonwealth to articulate what a central budget agency should be and what approaches should be applied to its work. The Department of Finance was created in a pragmatic political move in the 1970s, and it had at its core some very un-theoretical-sounding functions – 'supply divisions' and 'financial management' roles, carved out of Treasury. The very names of these roles should keep theorising at bay. But the department was also emerging in its own right as an important voice in the decision-making processes of government, which was the original intention. It was benefiting from the standing of its ministers, two important white papers of the early 1980s and the intellectual capacity of its senior people to innovate and drive change in a broader field – to see itself as an important contributor to public management, and to reshape what that meant, and to contribute to policy solutions.

If you wanted theory, you looked at New Zealand, which had implemented perhaps the most conceptually coherent approach to public sector management at the time, showing how to fit financial management within a broader system. They had imbibed public choice theory, but their emphasis on theory also seemed to reflect the fact that they needed to do something more drastic than we did, to meet their very serious economic and fiscal challenges. We could breathe a bit easier, seeing New Zealand as something to learn from without having to turn ourselves inside out as they had to do. The New Zealand approach also seemed to be relevant to the Victorians, who also had more of an interest in theory than the Commonwealth.

Pragmatism was no barrier to innovation, and John's interest in practice sat comfortably with both. Instead of having to work everything through from first principles, you could conceptualise the Commonwealth practice as operating at multiple levels. Public management, and public financial management in particular, interacts simultaneously, but in different ways, with macro-economic policy, micro-economic policy, organisational and service delivery design, institutional behaviour and incentives, and the management of the various levers of change in the public sector – rules, people, resources and technological possibilities. A central budget agency in the Finance mould is not one thing (e.g. a financial controller), nor is it even one thing, then another thing (e.g. a financial controller, then an enabler). Instead, it is many things simultaneously, in a perpetual process of renegotiation. The systems with which it concerns itself are not standalone, they are linked, and theory has only limited value in informing the process of articulating intentions, accommodating practice to circumstance and reflecting on experience as part of re-articulating intentions. Description, history and the stimulation provided by peers and exemplars are exactly the sorts of things that a department like Finance can best use. The open question is always, 'where do we need to work next?'

The open and shifting view I am putting forward sits uncomfortably with some well-known views. In 1997, for example, the Organisation for Economic Cooperation and Development (OECD) published a paper, written by Allen Schick, under the title *The Changing Role of the Central Budget Office* (OECD 1997). The opening to that work says:

> The traditional role of the central budget office is incompatible with the management reforms enfolding in various member countries. The traditional role of the budget office has been to function as a central command and control post … This role cannot coexist with the discretion accorded managers in the new public management. (1)

It goes on to say that the new roles of the central budget office, concerning institutions, integrating budgeting and management processes, and seeking to improve performance and evaluation, together with pursuing broader reforms of accountability and improved information technology, are 'likely to be a transitional phenomenon'. In the long run, the argument went, innovation needed to be undertaken by managers, not central policymakers. In the long run, too, the budgetary control role would be diminished by this new focus (OECD 1997, 4).[2]

In the long run, perhaps this argument will be right. But at least we should say that the transition is taking a long time. I would go a bit further, too: the transition isn't going to end any time soon. I think this is because Allen Schick's traditional characterisation of the budget task under three headings – aggregate fiscal discipline, allocative efficiency and technical efficiency – is reinforced by the depth of understanding of the public

2 Schick's recent views on such issues appear to have changed from this position, as shown in his contribution to this festschrift. Andrew Podger has noted that such criticisms were made at the time, but also more recently.

sector as a set of connected systems that active engagement in public management can bring. Indeed, Schick envisaged this, but nevertheless drew a different conclusion.

I draw the opposite conclusion to Schick, for two reasons. Firstly, the control model of a central budget office involves incentives that entrench information asymmetry; engagement does not eliminate it, but it does mitigate it. Secondly, at least in Australia, the innovation that Schick thought should come from managers is only possible with the active engagement of central institutions. This is because innovation is made possible or, alternatively, frustrated, by the systems of accountability and risk that operate across the public service. Innovation is enabled, or not, by the resource framework and by the practical arrangements that are put in place to support it.

Balancing 'devolution' and central control

At the same time as our own central budget office was changing its role, there was a strong emphasis on what was called at the time 'devolution', to be contrasted with 'central control'. In fact, devolution was always the wrong word for it, because (as a number of key players kept emphasising at the time) devolution is primarily about the exercise of authority. What took place, instead, was a type of localised responsibility for administration, under the banner of devolution.

What we ended up with was a system that often placed authority for decision-making closer to the point of delivery, but also produced fragmented sets of administrative arrangements. The varying resources and circumstances of individual agencies could produce inconsistency, duplication and inefficiency across the sector, built on systems and processes that may themselves have lost their original rationale. As resources have tightened in recent years, the ability to sustain or improve these arrangements has itself come into question.

For the past decade, in the Commonwealth at least, we have been slowly, and often uncomfortably, unpicking this patchwork and seeking to put in place centralised or more standardised arrangements where this makes sense. There is no theory to say what the sweet spot is for the balance between the centre and individual agencies in the sector, but across areas such as procurement, human resources, planning, accountability and process design, the centre is being built again, in the interests of allocative and technical efficiency, scale and innovation. What hasn't been done yet is to re-articulate a modern account of devolution, which puts the emphasis back on authority, and drops the idea that this is the same as localised administration.

Only a few years after Schick's paper, John Wanna co-edited a volume with a similar title: *Controlling Public Expenditure: The Changing Roles of Central Budget Agencies – Better Guardians?* (Wanna, Jensen and de Vries 2003). In that volume, he identified a list of 13 possible functions for a central budget agency, including Allen Schick's three, but explicitly excluding some functions then, and subsequently, delivered by the Australian Department of Finance (Wanna 2003). Finance was described as having undertaken four main roles since 1901, including when certain functions were part of Treasury: bookkeeper, expenditure controller, budget resource manager and policy analyst, and strategic adviser on investment and related matters (Wanna and Bartos 2003). While these were represented as distinct phases, not just roles, I think it would be better to characterise them as elements that are present to varying degrees at different points in time, but perhaps never entirely absent.

When Finance took on more of an investment orientation in the late 1990s, it didn't lose the other functions; it did them in a different context, and with a change of relevant impetus. Today, we are all of those things that John identified, but we also see our role as a leading contributor to achieving a modern and adaptable public service, which operates as efficiently as possible. We see ourselves as a leading partner within the broader context of the public sector, alongside other organisations. If you want a label, let's label it the 'strategic partner' model: the system offers more than its parts. We share the challenge of building Australians' trust in their institutions and the capacity of governments to meet the needs of citizens in a rapidly changing international and economic environment.

Custodian and steward of government systems

Governments exist to meet non-financial purposes, whether these are economic, social, environmental or security-related, in varying emphases and combinations over time, as governments themselves interpret and respond to community circumstances and aspirations. A central budget agency, however it is constituted, is part of reconciling these changing (and sometimes contradictory) interests at a point in time, but also over time, between generations. The systems that enable this to occur need to have a permissive or enabling character, as well as a directional or translation aspect (e.g. from high-level aspiration to local impact). They also need aspects of control and accountability, at aggregate and lower levels, particularly given that there are public resources and public interests at stake.

A central budget agency is a custodian and steward of these systems, seeking to adjust them from time to time. It isn't alone, however. One of the most important inputs to the system in the past decade has been the High Court. In the two *Williams* cases, notionally about whether the Commonwealth could pay for school chaplains, and in the more recent *Australian Marriage Law Postal Survey* cases, the court has exerted significant influence. In the *Williams* cases (*Williams v Commonwealth of Australia* and *Williams v Commonwealth (no. 2)*, respectively [2012] HCA 23 and [2014] HCA 23), the court overturned the Commonwealth's 110-year-old understanding of the place of appropriations in the system of financial management. It held that the making of a constitutionally valid appropriation is not in itself enough to support a spending activity. Instead, spending activities need to be referrable to a head of power in the Constitution, and there has to be parliamentary authority for the activity, in addition to an appropriation. That reading has important implications for how parliament and the executive operate, and for how financial management has to be undertaken in the Commonwealth.

In the *Australian Marriage Law Postal Survey* cases (*Wilkie v Commonwealth; Australian Marriage Equality v Minister for Finance*, [2017] HCA 40), the court supported the Commonwealth's view and clarified an issue about which there had been speculation over several decades. It held that the Advance to the Minister for Finance in the annual appropriation acts is an authority within the appropriation acts for the minister for finance to vary certain appropriations, if he is satisfied that certain criteria are met. This is important, because it makes clear that the issue with the advance is not one, as some have thought, about the use of an amount of money seemingly appropriated to the minister for finance without further constraint, but about the criteria under which the flexibility that exists within the system of appropriations is used.

Performance management and budgeting systems

In my mind, the High Court's decisions not only deal with these specific questions, but they ought to put an end to another long-running debate – about whether the appropriations framework can or should drive public sector performance in some other way. This is the argument that, if appropriations are constructed on a particular basis, they would provide an incentive to manage on that basis. There is some merit to this argument, seen from the negative. A system of appropriations that works at a detailed level, such as the postage and phone call level that prevailed up until the reforms of the 1980s, will clearly put constraints on management. A system that appropriates at a more generic level, as has existed from the late 1980s onwards, particularly for the ordinary annual services of government, better handles changing choices of input type in pursuit of a consistent outcome. The benefits of trying to tie the appropriation basis tightly to a performance framework are, however, marginal. This is because appropriations have a basis in the Constitution and are laws made by parliament, classified into different types (e.g. annual or special), with particular constraints and requirements applied to them, whereas performance frameworks need to range across the types. The alignment of appropriations to 'outcomes' in the Commonwealth's appropriation acts is clear only in relation to the annual appropriation acts. To understand the impact of government activity on an outcome in the sense of its social, economic or environmental impact, however, it is necessary to look at multiple appropriations and diverse sources of funds and how they work together. The appropriation framework can never, therefore, fully align with the needs of the performance framework. It can assist, but not drive. The appropriation framework has to be oriented to its primary job – authorising the flow of resources, under the Constitution, against a head of power and subject to other legislative requirements.

A performance framework, then, needs to have other underpinnings. Governments undertake activities primarily for policy purposes, rather than for financial purposes. Financial objectives are supportive of, and constraints to, broader policy purposes. From that perspective, the framework used to articulate policy objectives, and performance against those objectives is just as important as the financial framework. In practice, though, performance frameworks are a relatively recent creation, beginning with the Financial Management Improvement Program in the 1980s, and going through a number of iterations to the present day. In one sense, the technical aspects of each of these frameworks are simply variations on a central theme. That theme is that governments pursue policy agendas, that those agendas are about achieving something for the community, which can be articulated, whether it is social, economic, environmental or something else, and that the impacts of those policies can and should be assessed in forming views about whether to continue them, amend them, replace them or abandon them. Everything else is just technicalities, whether the articulation is through budget papers, corporate plans or both, or whether assessment is by formal evaluation, reporting against performance criteria, impressionistic or measurable. The judgements made on the back of those assessments ought to meet a number of purposes – public accountability, resource allocation from lower-impact to higher-impact initiatives, ongoing improvement of programs and implementation, and ensuring strong governance.

In practice, the simple idea of a sound performance framework, meeting multiple needs, has been achieved only in part, and that level of achievement has been variable over time, depending on individuals, organisational cultures and the interest or lack of interest of key stakeholders, including the parliament. The interesting question is why the achievements have been only partial. It used to be said that this is because it is hard – the public sector does not have simple objectives like the private sector does, the impact of policy is difficult to entangle from other factors, and so on. These arguments have some force in a performance framework that only permits metrics. It is much less forceful in a performance framework that puts the question differently – not, 'how do you measure it?', but 'what evidence do you take into account when you form the view whether things are working well, or not?'

I think we need to look for other reasons for the partial success of the various performance frameworks. These go partly to culture, and partly to use. The cultural issue is that Commonwealth bodies with corporate structures have typically been more attuned to themes such as performance and risk management. They have boards, with directors drawn from a variety of fields and with a mix of skills and expertise to apply to questions of governance and risk. The organisations themselves have developed skills and expectations in these areas, and in governance more broadly, which reflect the relative autonomy they exercise and the clear remits within which they operate. In non-corporate bodies, the situation has been relatively less stable. There are frequent changes of function and role, through machinery of government or policy means, and the role of any one organisation is often redefined relative to that of others. This makes it hard to achieve meaningful and consistent approaches to purpose and performance that hold over several years. There may be information relevant at a point in time, but that point in time might pass relatively quickly. The investment, personal and organisational, that is needed to develop a robust approach to performance may therefore deliver lower returns in the short run than an approach that simply focuses on activity and deliverables.

The second issue is that of use. Organisations and managers respond to the signals they get about what is valued and what is of use. Again, where a board is the primary user of information, a robust approach to performance will develop. Where ministers or parliaments are the primary intended users, there can be both inconsistent levels of interest and conflicting interests at play. Information about performance can be used out of context, or to make some point, rather than to improve a program or illuminate potential future decisions. Parliamentary scrutiny can be a strong driver of improved performance, but it can also focus primarily on individual activities or topical issues. Finally, and increasingly significantly, decision-making in government needs to be timely and respond to changing circumstances, whereas formal performance assessments can be slow processes, and the information difficult to relate in a timely manner to upcoming decisions. There can therefore be a disconnect that reduces the potential impact of information about performance on the workings of government. This disconnect is exacerbated when decision-making takes place at a significantly different level of detail and disaggregation than the level at which performance information is focused.

The most recent iteration of a performance framework for the Commonwealth tries to make inroads on both culture and use. Under the *Public Governance, Performance and Accountability Act 2013* (Cth) (PGPA), there has been a conscious move to strengthen the emphasis on performance, by embedding relevant duties and obligations in legislation governing all of the public sector, other than a very small number of institutions. Underpinning that, the performance framework itself allows for the temporal dimensions of government activity, rather than being focused purely on the near term, and welcomes evidence of performance in whatever form it comes, rather than being limited to metrics. An explicit role has been created for audit committees to take a continuing interest in the way individual organisations approach their planning and performance. The development of an institutional user outside the direct line of responsibility and accountability ought, over time, to allow other potential and more intermittent users to have confidence in the performance material and in its relevance to the goals articulated in forward-looking documents such as *Portfolio Budget Statements* and *Corporate Plans*. By itself, this approach will not, though, address all the relevant questions of immediacy.

Information systems for timely decision-making

Currency and immediate relevance is particularly important in decision-making processes, rather than for the purposes of accountability or authoritative record. At any one time, public management, and financial management in particular, can be seen from a political, communications, macro, micro or sector management perspective. The information requirements for decisions at each of these levels is quite different. For example, the aggregate level of transfers in the economy, and the level of targeting of those transfers, is clearly an important macro consideration, although not one that changes rapidly from year to year. Judgements about such matters need a different information base compared to micro-level decisions about incentive effects and policy interactions.[3] Financial and budget decision-making typically operate at this lower level, and financial frameworks are typically framed to address these lower levels.

An important test for the health of a public management system is how well information and thinking about different time periods are integrated. In better practice models, there is a close link between a thorough understanding of actuals and what is driving them, and the construction and updating of forward estimates.[4] Over longer time horizons, trade-offs that might need to be made in relation to international risks, for example,

3 There is a continuing trade-off between the use of financial means to achieve policy objectives, compared to the use of regulation. One means by which these trade-offs can be made more explicit, at least conceptually, is the development of regulatory budgets. There does not seem to have been, at least in Australia, much practical interest in this field, and in how regulatory budgets and financial budgets might interact.

4 There is an apparent corollary of this: the discount applied to advice from Treasury/Finance departments is a function of the size of the gap between prognostications about the future (positive or negative) and actual revenue collections/spending.

will appear differently if our focus is the short term, or 10 years out, or 30 years out. A strong decision-making framework needs ways to think concurrently about how risks differ over these time frames, based on very different information – solid information about past performance, robust modelling of the short-to-medium term and scenario-based analysis of the longer term.

'Bottom-up' and 'top-down' budget control: The role of the forward estimates

Viewed on a comparative basis, Australian approaches to decision-making, particularly around budgets, tend to involve relatively high levels of bidding or 'bottom-up' proposals, generally exceeding capacity many times over when seen against a set of budgetary aspirations or aggregate targets. They are not usually shaped 'top-down', against a set of specific policy or sectoral goals and financial parameters that have been established outside the budget process itself. Rather, priorities are shaped by and emerge in the decision-making process; 'themes' are more likely to be settled at the end.

In any budget process, bidding can have the effect of keeping unrelenting pressure on financial aggregates, in the absence of significant improvements to the financial position arising from economic or other circumstances. There is an upwards bias, even as economic circumstances vary, because future needs and costs are imperfectly understood; when they emerge, they clamour for attention. Over time, what was discretionary in earlier years becomes more non-discretionary because it is part of a set of expectations. Decisions taken in one year often have consequences that require further decisions to be taken in subsequent years; decisions about savings sometimes lead to later arguments that new spending is needed to offset their effects.[5]

Against this background, a strong and well-developed forward estimates system (now linked in the Commonwealth to corporate planning and the performance framework) is clearly important in managing a government's financial position and sustainability. It provides a baseline and a system of

5 The use of portfolios as the default organising principle for budget framing and decision-making, for saving as much as for spending, raises the question of how best to manage cross-portfolio and whole-of-government issues. Multi-agency ideas and big shifts of emphasis across sectors can be more difficult to achieve when the focus is at portfolio level.

accountability for changes to that baseline, whether these arise from policy decisions or from changes in other parameters. Commentary often focuses on the policy variations and 'measures' that a government introduces from time to time, but these are usually only a very small percentage of spending and revenue. They are almost always outweighed by 'parameter and other variations'. One way to think about these is that movements of this type represent the implications of decisions made in prior years. Commentary, however, very rarely asks interesting questions about these items, questions like: 'How well are the implications of previous policy settings understood? Are the implications accepted or not? To what degree do the policy decisions that a government makes from time to time vary the drivers, and not just the dollar value, of a program or policy setting?'

It is important to remember that forward estimates, in the way we understand them today, as part of a system of management, only date to the 1980s. The origin of forward estimates was as a source of discipline, even if some of the later uses reshaped announcements on spending to add across multiple years. They originated on the 'outlays' side of the budget and only later developed into a full set of estimates covering revenue and the balance sheet. In fact, Tasmania, rather than the Commonwealth, takes the credit for being the first to produce a full set of forward estimates (Challen 2011, 55–60; see also Wanna, Kelly and Forster 2000, especially 177–180, 319–322).

At the time they were introduced, forward estimates made a significant contribution to bringing predictability and aggregate management into what had been largely year-to-year processes that started from ambit claims.[6] New initiatives take time to set up, and time to reach maturity, particularly in terms of their full cost. In the absence of forward estimates, the implications of government policy settings in their mature operation would not be visible. In short, before forward estimates there was a 'year one' problem – what issues lurked beyond the budget year? For over three decades we have had four-year forward estimates, which means the system has a 'year five' problem – what happens in year five? In a 10-year forward estimates system, in addition to the inherent uncertainty of projecting over a longer time frame, there is a 'year eleven' problem, and so on. Whatever the time frame of the forward estimates, there is the risk of significant gaps, if low costs in the forward estimates period mask rapidly

6 During discussion at the festschrift, Andrew Podger recalled that the introduction of forward estimates at the Commonwealth level was initially proposed by Finance, but opposed by Treasury.

growing costs beyond it. Similarly, small contributions today can seem to make too insignificant an impact in the short term, leading to calls for interventions on top of interventions, without the first set of impacts having yet been felt.

Other approaches to address temporal issues: The role of accrual accounting

To address these limitations, a number of governments have introduced a range of longer-term projections. For example, the Commonwealth's periodic *Intergenerational Report* goes out 40 years. That is a way to deal with the time frame issue, and to draw attention to underlying trends; it doesn't, though, provide a planning or management framework. In addition, new institutions such as the various parliamentary budget offices often have remits that allow them to undertake analyses on an ad hoc basis, not constrained to any particular time frame.

Since the late 1990s, the problem of how to reflect and to analyse the impacts of decisions and policy settings has been given new dimension through the widespread adoption of accrual accounting. This has enriched the information available, although it has also multiplied the challenge of understanding and communicating that position. Victoria was the first to publish an accrual budget.

In the accrual world, a clear understanding of a government's financial situation and commitments does not come from focusing on a single set of numbers (surplus/deficit, however defined) across a particular time horizon. Rather, since financial management is a 'repeat game', it is like seeing a movie twice. The first time you see the movie you might be focused on the stars and the main events in the plot. The second time, you might pay more attention to the fine ensemble cast that has been put together, and the way they frame the whole production. By all means, look at the surplus or deficit, but then, turn your mind to the ensemble cast. For example: 'What is happening to debt, in terms of ratios as well as absolute values? What are the trajectories of particular components of the financial position over time? What items are expressed as present values on the balance sheet? What scenario modelling has been provided or made possible by new data and new ways of making it available? How well do the system of targets that a government has set support each other

– do they cover recurrent as well as capital, liabilities as well as assets, taxing as well as spending, the size of government as well as the functions or services of government?'

Before, when there were only cash numbers, there weren't as many things to track, or as many angles through which you could understand a decision. The label 'cash' even sounds comforting, like something to which every household can relate. That was always a bit of an illusion, however – for example, the term 'underlying cash' looks much more complicated when you talk about what it actually is trying to measure (the cash investment–saving balance) or how it is measured.[7] In fact, modern households work all the time with accrual tools like credit cards, and have a concept of wealth that looks at their assets and liabilities (e.g. a home and a mortgage). They would be surprised to think that their economic activity should be measured principally when they transfer cash to meet their obligations. Yet, that is often the lens through which Commonwealth activity is seen. By contrast to the Commonwealth, states and territories have the conceptual advantage that they run significant physical assets, which depreciate over time, and consequently need to maintain a clear focus on a capital program as distinct from operating commitments alone.

An alternative way to solve the problem of understanding the implications of government decisions is not to seek an ideal time frame for the forward estimates, but to bring present value to bear in the analysis. That is, long-term implications appear immediately in the financial position of the year in which the decisions are made. The development of forward estimates systems was the product of a cash world, and, at least initially, simply a spending world. The shift to accrual accounting, something where Australian jurisdictions were among the early movers, came a decade or more later. We can now see that this has given a much richer perspective on a government's financial position, by including a perspective on

7 At the time of the festschrift, the definition was: net cash flows from operating activities *plus* net cash flows from investments in non-financial assets *equals* ABS GFS (Australian Bureau of Statistics Government Finance Statistics) cash surplus/deficit *less* net acquisitions of assets acquired under finance leases and similar arrangements, *less* net Future Fund cash earnings (but only until 1 July 2020) *equals* underlying cash balance. (See, for example, Budget Paper Number 1, 2018–19, Statement 10, 10-38.) Since December 2019, following the introduction of revised accounting standards for leases (AASB 16), the '*less* net acquisitions …' line is now '*plus* Net cash flows from financing activities for leases' (AASB 2016). (See, for example, Budget Paper Number 1, 2019–20, Statement 9, 9-38–39.) This approach preserves the consistency of the time series. The point I am making is not about the definition, but simply that the term 'cash' makes things sound less complex than they are.

revenue and expenses, not just spending, and by developing a balance sheet covering assets and liabilities that were barely visible in the cash-only world. This has made possible a system of constraints, rather than a reliance on a single set of numbers to provide that constraint.

Australian jurisdictions are much more sophisticated now in relation to how they manage physical assets, particularly at the state and territory level. They often have asset replacement and investment programs that cover a decade or more, increasingly take a life-cycle view and sometimes budget for capital in a way that disentangles investment needs from recurrent commitments. All Australian jurisdictions now clearly identify their financial liabilities, such as their defined benefit superannuation schemes. The move, over the past two decades, to replace defined benefit schemes with accumulation schemes makes much less sense in a cash world, but is very important in an accrual world. From a cash perspective, replacing a defined benefit with an accumulation scheme can have a negative cash impact in the early years, and the real benefits only emerge decades later. From an accrual perspective, the positive impact on the balance sheet is, however, immediate, because the balance sheet shows the present value of obligations as at a particular point in time, and closing a defined benefit scheme significantly reduces this. Interestingly, though, the accounting world has in some senses struggled with government issues – a case in point is the issue of the discount rate used to value long-term liabilities. Accounting standards have landed on the spot-rate at a point in time. When this is applied to a forward estimates model, it creates considerable volatility between budget and actuals.[8]

In other respects, big issues that were initially seen as limitations when accruals were first introduced in government may come, over time, to seem within reach of a sensible outcome. The key example here is obligations arising from the welfare system, whether in the form of pensions or other supplements. These have long seemed out of scope from the perspective of bringing them to book on the government's balance sheet (and regardless of whether or not revenue can be treated in an equivalent way). Nevertheless, the topic remains under active professional consideration by standard setters and practitioners throughout the world. The recent interest in taking an actuarial approach to social welfare, such as in New Zealand, offers considerable prospects over the long term. Looking at this

8 The alternative, to use an actuarially determined rate, is not currently accepted.

issue from a very high level, welfare obligations ought to be expressible in present value terms – we know the population at a certain point in time, its relevant characteristics and life expectancies. We know what the policies are at any given time, and can assess longer-term economic conditions, and apply appropriate discount rates. Variations to that present value over time ought also to be expressible as arising from policy or other parameters.

Future challenges and directions

I stated earlier that the open question for a central budget agency is: 'where do we need to work next?' Public financial management is changed both by waves, such as the introduction of accruals, and by iteration, such as the focus on performance. The next changes might be more like waves than iterations, although they may be many years in the making. Data and real-time analysis of options will help to close the gaps between reliable information and immediacy. They will meet both accountability and decision-making needs. They will open up the potential for better integrating scenario analysis, and therefore the longer term, into decisions taken in the here and now. We need also to consider how well the traditional focus on linear decision-making and on a major event known as the budget will meet the expectations of governments and the community into the longer term.[9] To meet rapidly changing needs, we might be better served by greater clarity on overall financial parameters to set the constraint within which trade-offs can be made, while allowing decisions to be made in a more timely and responsive manner. This might over time mean slightly less focus on major set-piece accountability documents and more room for a continuous disclosure approach, with key thresholds driving the disclosures. The Australian Securities Exchange listing rules, with their emphasis on materiality and a reasonable person test, would provide an interesting starting point for such thinking.[10] Where might such ideas take the public sector?

9 John Wanna has drawn my attention to similar arguments made about budgets in the US – see Smith and Thompson (2012, 53–66), which argues, among other things, that budgets do not do what they are supposed to do.

10 See, for example, the relevant guidance note: www.asx.com.au/documents/rules/gn08_continuous_disclosure.pdf (ASX 2020).

At the start of this chapter, I mentioned two attempts at a taxonomy of what central budget agencies do – one by Allen Schick, and the other by John Wanna. In talking about developments over the past few decades, I have started out from the assumption that understanding the role of central budget agencies should involve understanding systems in their continual process of adjustment. It is a matter of contexts and relationships. The pragmatic approach to understanding central budget agencies and their roles, with which John has been so closely associated, has enriched discussion because it has paid attention to possibilities and actualities, not taxonomy narrowly defined.

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