

Programme Review in Australia

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Overview

- Budget Structure and Trends
- The Programme Review Framework
- Lapsing Programme Review
- A Strategic/Targeted Approach to Expenditure Review
- The Way Ahead

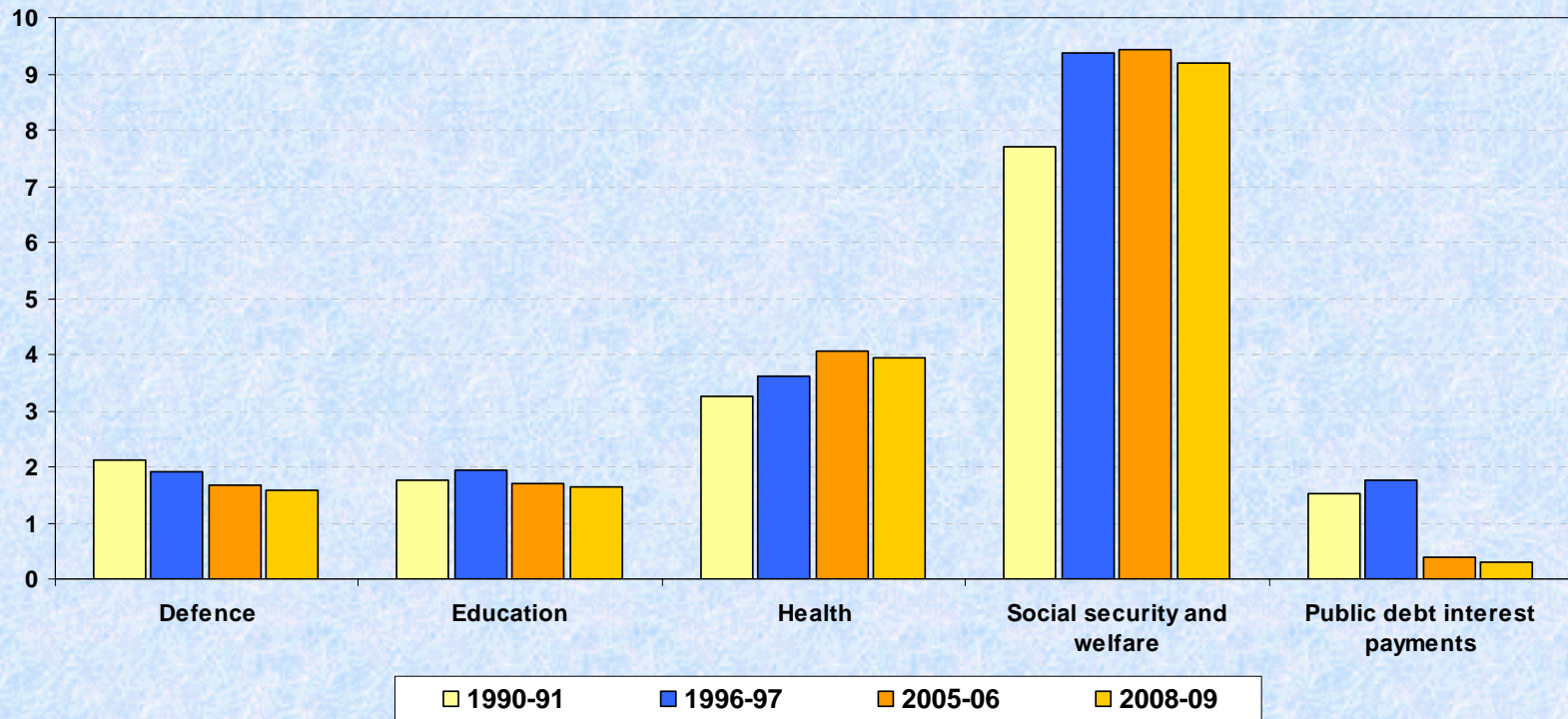
Budget Structure and Trends

Budget Structure

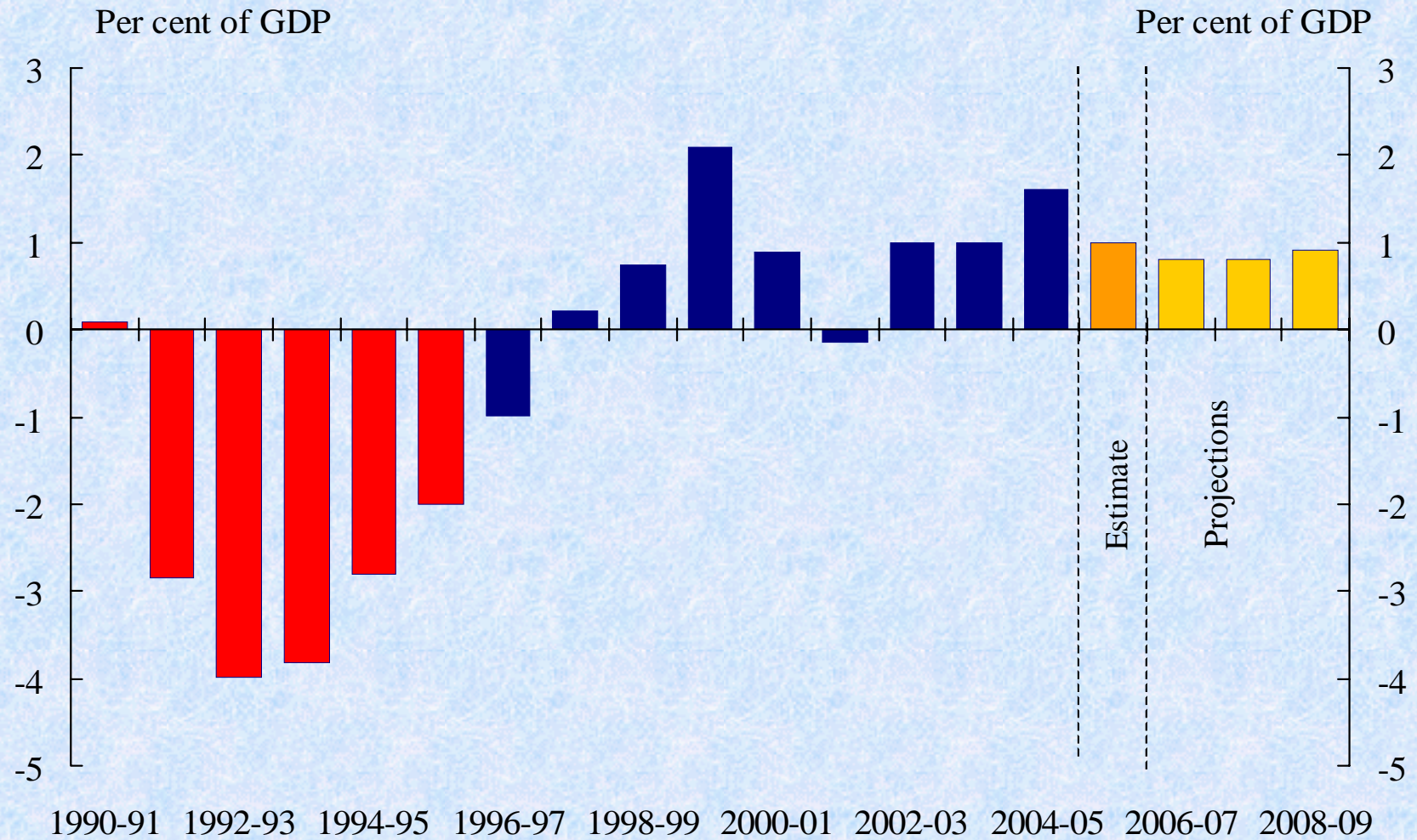
- Total Revenue: \$215 billion, 23.1% of GDP.
- Total Expenditure: \$206 billion, 22.2% of GDP.
- Expenditure Shares:
 - Social security and welfare (42.5%)
 - Health (18.2%)
 - Education (7.6%)
 - Defence (7.6%)

Budget Trends

Expenditure Trends (per cent of GDP)

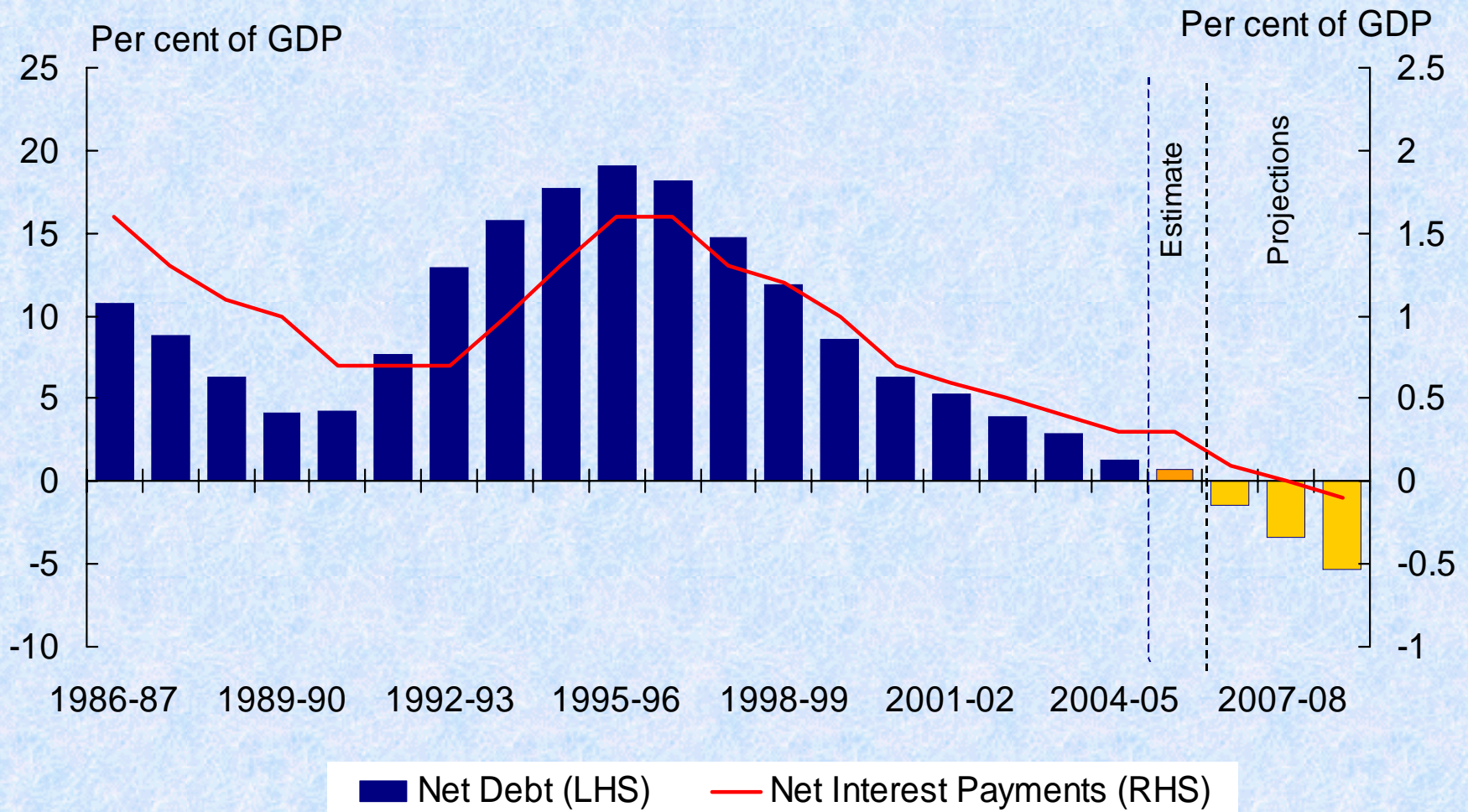


Budget Balance



Source: 2004-05 Final Budget Outcome, Table C1 and 2005-06 Budget Paper No. 1, Statement 13, Table 1.

Australian Government Net Debt



Source: 2004-05 Final Budget Outcome and 2005-06 Budget Paper no. 1, Budget Strategy and Outlook, Statement 13, Table 3

Budget outcomes supported by:

- **Sound Fiscal Framework**
 - Legislated principles of sound fiscal management
 - Medium term fiscal strategy
- **Strong Economic Growth**
 - Sound macroeconomic policy framework
 - Economic reform
- **Sound Budget Process**
 - Senior Ministers (supported by central agencies) play a critical role in priority setting and decision-making – including about programme reviews.

*The Programme Review
Framework*

Evolution of Programme Review

- 1987 to 1996: rolling programme evaluations
 - Mandatory annual Portfolio Evaluation Plans prepared by spending agencies and scrutinised by central agencies (mainly Finance).
 - However, this process became driven more by ‘process’ rather than critical evaluation.
- 1997: mandatory Evaluation Plans replaced by a principles-based, good practice approach
 - Finance prepared a set of good practice principles on evaluation.
 - The main reason for changing the approach was to enable Agency heads to take charge of performance management in their organisation.

Current Review Framework

- Systematic approach for review of ‘new policy proposals’ within context of Budget process.
- Move towards a more targeted approach (both within and outside the Budget process).
- Complemented by other mechanisms for review, mostly outside the Budget context (e.g. reviews of Specific Purpose Payments to the States; the Cabinet Implementation Unit; Productivity Commission inquiries).

Lapsing Programme Reviews

Lapsing Programme Reviews

- New Policy Proposals (NPPs) are considered by the Government in the Budget context.
- Decisions on NPPs will generally establish whether they are ‘on-going’, ‘terminating’ (have a defined end-date), or ‘lapsing’ (where the Government’s commitment is expected to continue, but the Government has not provided on-going funding).

Lapsing Programme Reviews

- Lapsing programmes are subject to review after 4 years before the Government will agree to extend funding.
- Such reviews are to be completed by October of the fiscal year (ends 30 June) in which the programme funding lapses.
- Lapsing programmes generally do not include those based on legislated entitlements (e.g. age pension; unemployment benefits).

Lapsing Programme Reviews

- Under revised arrangements introduced in the context of the 2005-06 Budget, reviews of lapsing programmes take one of two forms:
 - *a major review* (e.g. where a programme involves significant expenditure and/or the merits of its continuation need to be assessed against government priorities); or
 - *a departmental report* (e.g. where the aim is to assess how effectively a programme is achieving its objectives).

Lapsing Programme Reviews

- Any ‘terminating’ programmes which spending Ministers wish to extend are subject to the same requirements as ‘lapsing’ programmes.
- In the 2005-06 Budget process, the Expenditure Review Committee agreed to:
 - 9 major reviews (7 lapsing programmes and 2 terminating programmes seeking continuation); and
 - 63 departmental reports (48 lapsing programmes and 15 terminating programmes).

Lapsing Programme Reviews - Major Reviews

- A major review:
 - must be prepared in consultation with the Central Agencies (Finance, Treasury and Prime Minister and Cabinet);
 - requires agreed terms of reference addressing the programme's appropriateness, effectiveness and efficiency; and
 - must include a future evaluation strategy.
 - (refer standard terms of reference – Attachment A)
- The Review is considered by the Expenditure Review Committee (ERC) of Cabinet.

Lapsing Programme Reviews – Departmental Reports

- A departmental report:
 - is a streamlined report prepared in consultation with Finance
 - assesses the effectiveness of the programme.
 - (refer Departmental Report Proforma – Attachment B)
- The Report is considered by ERC.

Lapsing Programme Reviews – Advantages and Limitations

- Advantages
 - A systematic process for regular review.
 - Standardised approach and terms of reference for each type of review provides consistency across programme reviews.

Lapsing Programme Reviews – Advantages and Limitations

- Limitations:
 - Cover only a small part of the Budget (does not capture the large entitlement programmes such as social security and welfare; health).
 - Have not yielded much in savings (i.e. the process has not been very effective in cutting back the number of programmes or yielding savings in extended programmes).
 - Can be costly in terms of agencies' resources engaged in reviews.
 - Has lacked 'strategic' approach to programme review.
 - Risk of reviews becoming 'mechanical' exercises.

*A More Strategic Approach to
Expenditure Review*

Emerging Fiscal Pressures

- Emerging fiscal pressures due to population ageing and growth in healthcare spending
 - these pressures identified in the Australian Government's first *Intergenerational Report (IGR)*, released in the 2002-03 Budget.
 - under the principles for sound fiscal management legislated in the *Charter of Budget Honesty (1998)*, the Government is required to produce an IGR at intervals not exceeding 5 years
- Gave rise to the view that there was a need to adopt a more strategic approach to managing government expenditure and to address the emerging fiscal pressures.

The Intergenerational Report (IGR)

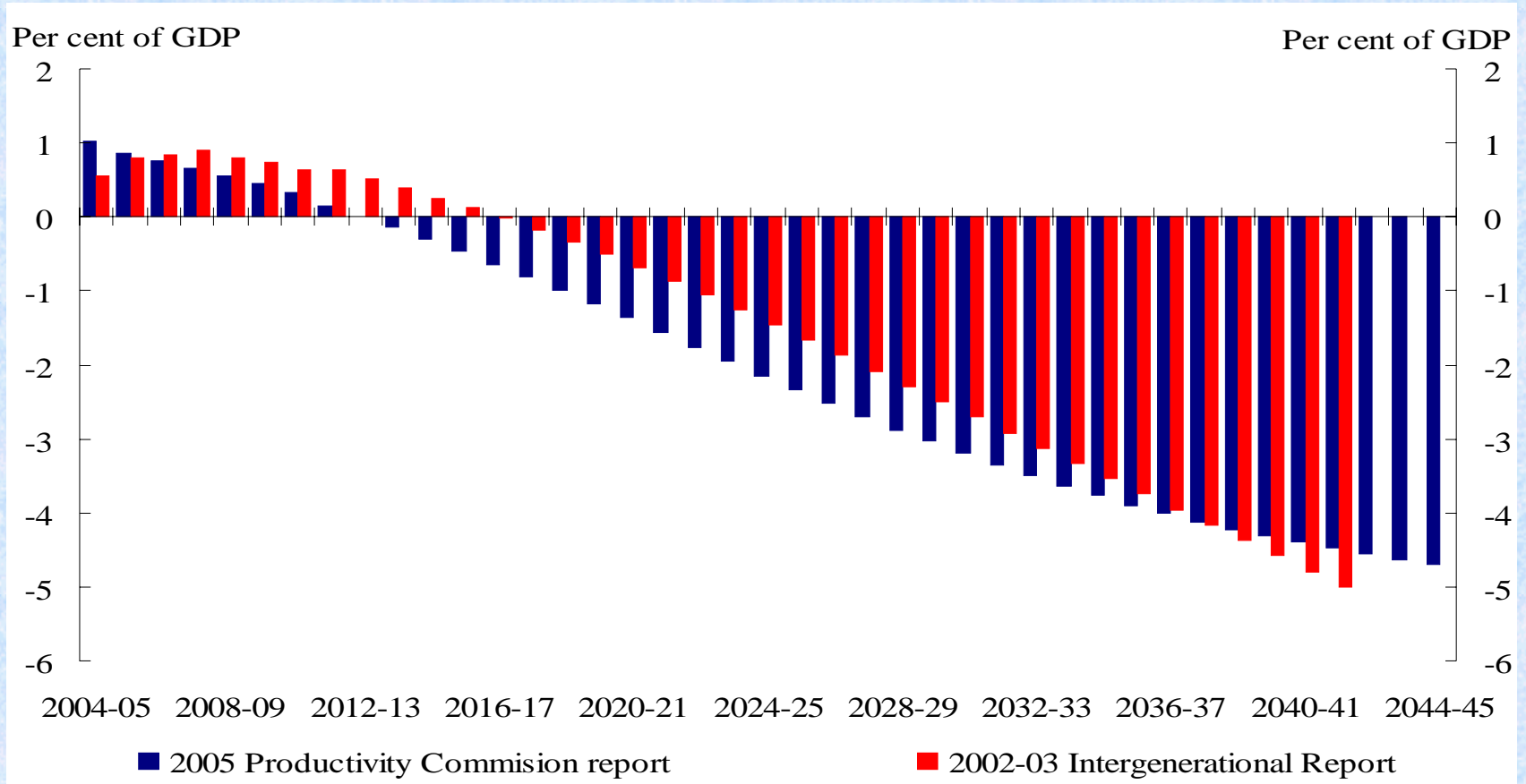
- The IGR projected a fiscal deficit opening up in around 12 years (around 2017 - 18), growing to about 5% of GDP by around 2040 and continuing to rise thereafter (*chart*).
 - The recent Productivity Commission report *Economic Implications of an Ageing Australia* (April 2005) projected a wider fiscal gap of around 6.4% of GDP by 2044-45.
 - Compared with other OECD countries, Australia faces relatively moderate long-term fiscal pressure.
- The IGR also projected a slowing in annual real GDP growth per capita from about 2% in the current decade to around 1½% in the next decade and beyond.
 - The corresponding slowing in annual real GDP growth is from a little above 3% to about 2%.

The IGR (cont'd)

- The IGR's projected growing fiscal gap is a result of a growing gap between an increasing rate of growth in expenditure and a slowing rate of GDP growth.
 - Health expenditure accounts for a large proportion of the projected growth in total expenditure.
 - Most of the projected growth in health expenditure is due to non-demographic factors (particularly the rising cost of new technology).
- Revenue as a percentage of GDP projected to remain unchanged: i.e. revenue projected to grow at a slowing rate in line with slowing GDP growth.
- The projected slowing in real GDP per capita (and aggregate real GDP growth) is largely due to a decline in the workforce participation rate (due to demographic change);
 - also partly due to a projected slowing in productivity growth.

IGR: Fiscal Gap Projections

2004-05 to 2044-45

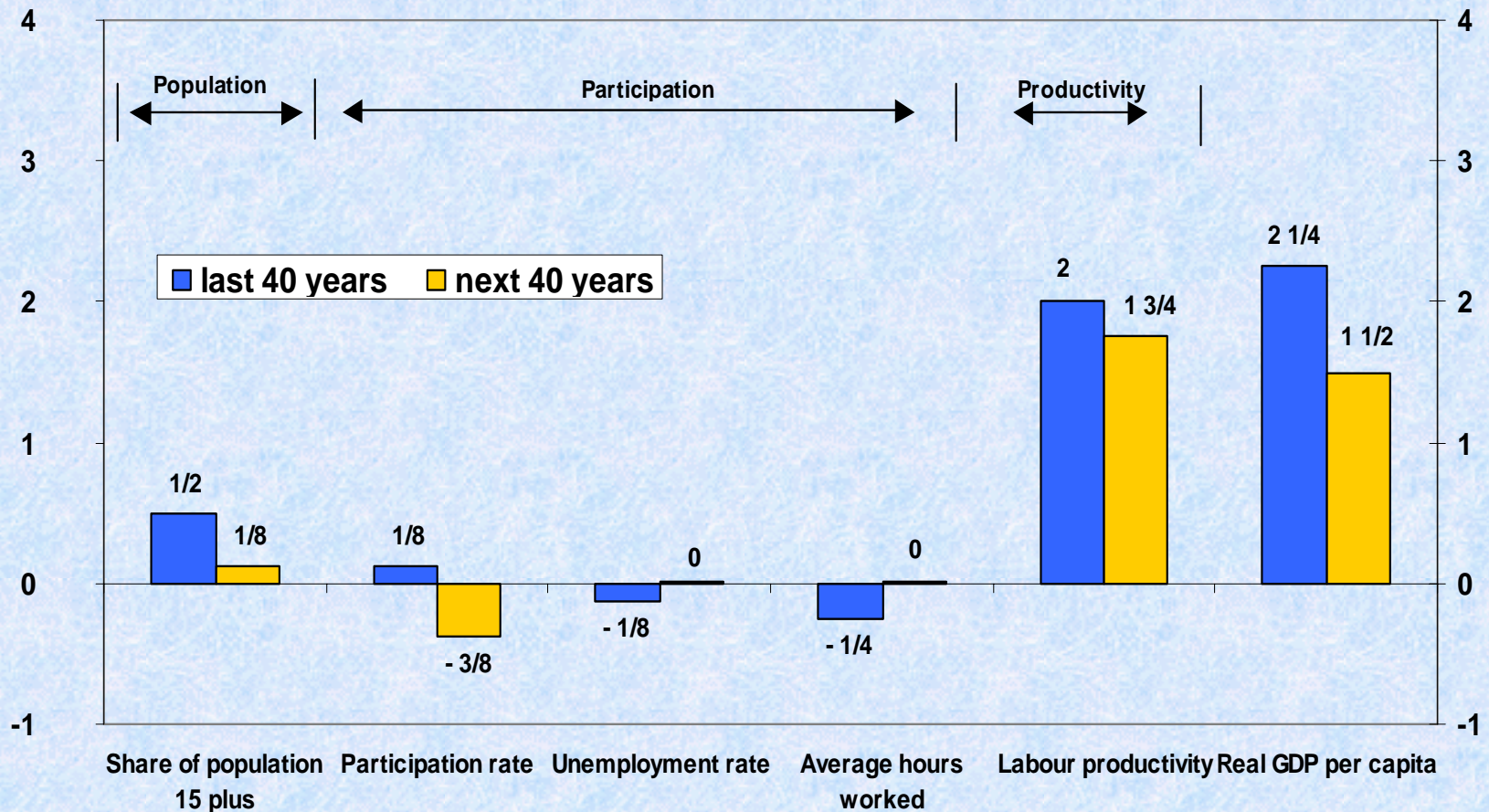


Sources: 1. Productivity Commission Report, *Economic Implications of an Ageing Australia*, April 2005

2. 2002-03 Budget Paper no. 5, *Intergenerational Report*.

Note: 'PC' projections assume that specific purpose payments (SPPs) 'to' the States grow with service needs.

Contributions to GDP per capita growth



Australian Government Priorities in Response to Emerging Fiscal Pressures

- Implementing reforms aimed at raising the rate of economic growth above that projected in the IGR
 - *through raising the workforce participation rate (with a focus on reform of welfare programmes); and*
 - *through raising productivity growth (through economic reforms)*
- Reviewing large and fast-growing expenditures
 - *in particular, healthcare spending*
- Raising the rate of national saving
 - *e.g. by raising incentives to private saving through changes to retirement incomes policy (superannuation arrangements); and establishment of a Future Fund*
- Improving processes for reviewing government spending
 - *through introducing a Targeted Reviews process*

Program Reviews to promote Workforce Participation

- 2005-06 Budget included a significant *Welfare to Work* package aimed primarily at raising workforce participation
- The package was developed following fundamental reviews of a range of welfare/ social security programmes
 - Programme reviews focussed on the recommendations of the McClure Taskforce established in 1999 to provide a framework for the reorientation of Australia's welfare system
- Focussed on measures designed to provide social security payments beneficiaries with:
 - improved personalised assessment and service;
 - increased opportunities for training and work experience;
 - better financial incentives to work; and
 - increased obligations to find work, increase their earnings or contribute to their communities

*Reviews of Healthcare Spending:
ensuring the sustainability of the healthcare system*

- **Pharmaceutical Benefits Scheme (PBS)** – a major programme that provides subsidised drugs to Australians
 - The IGR and Productivity Commission reports, and an earlier inter-departmental review, identified the growing cost of the PBS and a need to address its sustainability
 - Reviews resulted in an increase in PBS co-payments (a charge on consumers)
 - A further inter-departmental review to examine the effectiveness and sustainability of the scheme has been commissioned.
- **Community Pharmacy Agreement (CPA)** – sets the remuneration pharmacists receive for dispensing PBS medicines
 - Savings achieved following a 2004 inter-departmental review focussed on long-term reform of the remuneration system (which linked payments to pharmacists to the cost of PBS medicines at potentially great cost to the Budget)

Economic Reform to raise Productivity Growth and Workforce Participation

- Economic reforms have helped increase Australia's productivity performance and economic growth (recent review of National Competition Policy by the Productivity Commission) – which in turn helps maintain fiscal sustainability.
- Economic reform processes can also lead to reviews of significant areas of government expenditure.

Economic Reform Processes

- Under the umbrella of the Council of Australian Governments, The National Competition Policy (NCP) and the National Reform Initiative (NRI) working groups bring together the Australian Government and the State governments to explore the scope for and implement a range of reforms.
- The NCP reform agenda currently focuses on the transport sector, the energy market, infrastructure regulation and business regulation with the aim of increasing productivity, efficiency and competitiveness.
- The NRI agenda focuses on options to develop the capabilities of the workforce through reforms in the areas of health, education and training, and work incentives.
- Consideration of reforms in these areas is likely to involve significant and broad-ranging review of government programs in various forms.

Targeted Reviews

- A process of ‘targeted reviews’ introduced in 2004 (in addition to other existing processes for programme review)
 - stems directly from the Australian Government’s response to the IGR findings on emerging fiscal pressures

Targeted Reviews process reflects:

- An important step for a broader, more strategic review approach that:
 - provides a vehicle for reviewing major areas of government expenditure (largely not covered by lapsing programme reviews); and
 - can better identify options for change to programmes that are consistent with government policy priorities.
- Judgement, based on past experience, that a mechanistic process involving a rolling cycle of reviews of all non-lapsing programmes is not the best approach to help manage emerging expenditure pressures.

Targeted Reviews - Process

- Areas for review are identified jointly by the three Central Agencies for Senior Ministers' consideration.
- Reviews consist of:
 - short-term reviews feeding into the annual budget process – led by Finance; and
 - long-term reviews conducted over one to two years – led by a Central Agency or external agency.
 - These allow for a fundamental examination of any area of expenditure that is expected to make a significant call on government finances into the future.

Targeted Reviews – Process (ToR)

- Reviews involve terms of reference focussing on a set of broad principles:
 - the extent to which the expenditure has been confined to the intended beneficiaries;
 - the cost effectiveness with which the purpose has been achieved;
 - the scope for tighter targeting or for larger contributions from individuals who benefit;
 - the cost effectiveness of service delivery; and
 - the extent to which there are other programmes with similar objectives and target groups, and scope for reorganisation and consolidation.

The Way Ahead

- A strategic approach to program review allows targeting of priority areas for the Government and can be very effective in managing government spending.
- Systematic programme review processes remain a potentially effective mechanism for containing growth in government spending.
 - The challenge is preventing such processes from becoming mechanical exercises yielding only a marginal benefit to the sustainability of the Budget.
- Australia is currently assessing its program review processes to consider ways in which they might be enhanced; – with the aim of complementing the broader and strategic approach to program review.

The End