ACCRUAL ACCOUNTING AND PUBLIC SECTOR REFORM:
NORTHERN TERRITORY EXPERIENCE

Ali Rkein

(Bachelor of Business and Finance, Master of Accounting Studies, Master of Business Administration in Finance)

School of Law and Business
Faculty of Law, Business and Arts
Charles Darwin University

A thesis submitted in fulfilment of the requirements for the degree of

Doctor of Philosophy

May 2008
Declaration

I hereby declare that the work herein, now submitted as a thesis for the degree of Doctor of Philosophy of the Charles Darwin University, is the result of my own investigations, and all references to ideas and work of other researchers have been specifically acknowledged. I hereby certify that the work embodied in this thesis has not already been accepted in substance for any degree, and is not being currently submitted in candidature for any other degree.

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Ali Rkein

May 2008
Abstract

The reform of the public sector has been a continuing challenge for many governments around the world. In recent years, this reform has become dominated by such terms as ‘new public management’, ‘managerialism’, ‘marketisation’, ‘privatisation’ and ‘commercialisation’. These terms reflect a broadly-based commercial direction that governments started taking in response to reform’s pressures resulting from a perceived crisis of legitimacy, responsiveness, efficiency and accountability in public sectors. A significant feature of this commercial orientation was the adoption of private sector practices and economic market models by governments and public sector organisations. The underlying principle was competition. Governments believed that competition plays a major role in improving organisational performance, and by subjecting government organisations to relevant forms of competition they would become more cost conscious and results focused, leading to increased efficiency, effectiveness and accountability.

In Australia, this commercial orientation has taken momentum with the introduction of the National Competition Policy, which advocated that to become more economic, efficient and effective, public sector organisations should operate on the same commercial principles as the private sector. In this regard, the policy required Australian governments to ensure competitive neutrality by eliminating resource allocation distortions arising out of government ownership, such as tax exemptions, regulatory advantages, discounted interest rates on loans, and cross-subsidization.

Accounting has been a key element of this reform process, with a change being required as the traditional cash accounting system was not capable of providing the additional financial information that was needed as a result of the commercial orientation. In this regard, governments in Australia have introduced a commercial accounting system through the adoption of accrual-based accounting, budgeting and reporting practices. At first, the adoption of these practices started in organisations that provide business-like services and are in competition with private providers. At a later stage, Australian governments started also to introduce the practices into their whole public sector.
While accrual accounting was believed to be useful in a competitive operating environment, this study aims to analyse its working in the Northern Territory of Australia where competition is very limited. The high cost of production resulting from a relatively small and dispersed population and the lack of economies of scale have resulted in a small private sector in the Territory. This has made the provision of many government services driven more by social imperatives than economic imperatives. In this regard, the study intends to assess the extent that commercial accounting practices have achieved their intended reform objectives.

This study highlights a number of findings based on an assessment of the Northern Territory public sector’s responses overall, supported by more detailed analyses of accounting changes in two departments. First, the small private sector in the Northern Territory has not supported the creation of a competitive market for most government goods and services. Second, although accrual accounting has been able to provide full cost information, the heterogeneity of some government services has resulted in a questionable full cost figure. The use of full cost in pricing has not achieved its intended benefits because of the absence of competitive market pressures. Also, the use of cost information in benchmarking has been fragile, mainly because higher costs of services are the result of ‘capital cost disabilities’ that exist in the Northern Territory and may have nothing to do with performance efficiency. Third, this study shows that accrual budgeting has not been used properly and therefore it has failed to achieve its objectives. Finally, while accrual reporting has improved the completeness of the accounting information available, especially at the whole of government level, it has not changed much from cash reporting in discharging accountability at organisational and whole of government levels.
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<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>AARF</td>
<td>Australian Accounting Research Foundation</td>
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<tr>
<td>AAS</td>
<td>Australian Accounting Standard</td>
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<td>AASB</td>
<td>Australian Accounting Standards Board</td>
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<tr>
<td>ABC</td>
<td>Activity Based Costing</td>
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<td>ABS</td>
<td>Australian Bureau of Statistics</td>
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<tr>
<td>ACT</td>
<td>Australian Capital Territory</td>
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<tr>
<td>AR-DRG</td>
<td>Australian Refined-Diagnosis Related Group</td>
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<tr>
<td>ATM</td>
<td>Accounting Theory Monograph</td>
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<tr>
<td>CHA</td>
<td>Central Holding Authority</td>
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<tr>
<td>COAG</td>
<td>Council of Australian Governments</td>
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<tr>
<td>CPA</td>
<td>Competition Principles Agreement</td>
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<tr>
<td>CTC</td>
<td>Competitive Tendering and Contracting</td>
</tr>
<tr>
<td>DCIS</td>
<td>Department of Corporate and Information Services</td>
</tr>
<tr>
<td>DHCS</td>
<td>Department of Health and Community Services</td>
</tr>
<tr>
<td>DP</td>
<td>Discussion Paper</td>
</tr>
<tr>
<td>DRG</td>
<td>Diagnosis Related Group</td>
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<tr>
<td>ED</td>
<td>Exposure Draft</td>
</tr>
<tr>
<td>FASB</td>
<td>Financial Accounting Standards Board</td>
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<tr>
<td>FMIP</td>
<td>Financial Management Improvement Program</td>
</tr>
<tr>
<td>FTE</td>
<td>Full Time Equivalent</td>
</tr>
<tr>
<td>GAS</td>
<td>Government Accounting System</td>
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<td>GBD</td>
<td>Government Business Division</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GFS</td>
<td>Government Finance Statistics</td>
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<td>GOC</td>
<td>Government Owned Corporation</td>
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<tr>
<td>GSP</td>
<td>Gross State Product</td>
</tr>
<tr>
<td>IASB</td>
<td>International Accounting Standards Board</td>
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<tr>
<td>ICD</td>
<td>International Classification of Diseases</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>JCPA</td>
<td>Joint Committee of Public Accounts</td>
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<tr>
<td>MBO</td>
<td>Management by Objectives</td>
</tr>
<tr>
<td>MLFR</td>
<td>Merrill Lynch and Fay Richwhite</td>
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<tr>
<td>NCP</td>
<td>National Competition Policy</td>
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<tr>
<td>NPM</td>
<td>New Public Management</td>
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<tr>
<td>NT</td>
<td>Northern Territory</td>
</tr>
<tr>
<td>Code</td>
<td>Description</td>
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<tr>
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</tr>
<tr>
<td>NZ</td>
<td>New Zealand</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<tr>
<td>PAWA</td>
<td>Power and Water</td>
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<td>PIPS</td>
<td>Personnel Integrated Payroll System</td>
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<tr>
<td>PMB</td>
<td>Program Management and Budgeting</td>
</tr>
<tr>
<td>PSASB</td>
<td>Public Sector Accounting Standards Board</td>
</tr>
<tr>
<td>RCAGA</td>
<td>Royal Commission on Government Administration of the Commonwealth of Australia (Coombs Commission)</td>
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<tr>
<td>SAC</td>
<td>Statement of Accounting Concepts</td>
</tr>
<tr>
<td>SFD</td>
<td>State Final Demand</td>
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<tr>
<td>TQM</td>
<td>Total Quality Management</td>
</tr>
<tr>
<td>TPA</td>
<td>Trade Practices Act</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>UPF</td>
<td>Uniform Presentation Framework</td>
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<td>WFO</td>
<td>Working For Outcomes</td>
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Chapter 1 Introduction

1.1 Background to the Study

This section provides some information that is necessary to gain a sense of what the thesis is about and to put the objectives in context. This thesis has four objectives that are discussed later in this section.

The public sector around the world has been under scrutiny for a long period and its reform has always been of great importance to governments, public and researchers. However, the failure of the public sector around the world to respond to some financial crises in the 1970s and to the problems of maintaining economic growth has made the reform inevitable. The public sector in Organisation for Economic Cooperation and Development (OECD) countries was too unwieldy and cumbersome to react in a coherent and measured way to the oil price hikes and the related stagflation of the 1970s. At first, the relatively large size of the public sector was viewed as one major reason behind this failure and therefore the increase of private sector investment in the economy was believed to be a remedial necessity. This view was influenced by the increasing belief that the private sector was more efficient and responsive than the public sector. In this regard, many countries have adopted new forms of organisational design, such as privatisation and outsourcing, to “reduce the role of government and increase the role of other institutions of society in producing goods and services” (Savas, 2000. p.3). These new organisational designs have gained increasing popularity as a remedy intended to help promote economic growth, and have raised a discussion about public/private sector service provision, and what services are better
delivered under the private sector and what services have to remain to be provided by the government.

The view that the private sector is more efficient than the public sector did not have its influence only upon the question of whether goods and services should be provided by the public or private sector, but it also extended to the management of the public sector itself. In this regard, the last two decades have seen a new wave of management techniques which mirrored the ones used in the private sector. This new wave was referred to as the New Public Management (NPM) and was defined by the infusion of market principles into the government (Savas, 2000) based on the justification that they are necessary to improve government performance (World Bank, 1995).

Governments’ adoption of the NPM has aimed to give the public sector a more commercial orientation by utilising economic market models for political and administrative relationships such as the purchaser/provider model, and by contestability\(^1\) through subjecting government services to competition. Governments believed that competition plays a major role in improving agencies’ performance by making them more cost conscious and pressuring them to improve their cost management, especially as they became more dependent on self generated revenues because of the decreasing funding from governments. Also, in adopting the purchaser/provider model, governments wanted to imitate the relationship that govern private sector businesses with their clients, in a way governments became the purchaser of goods and services and agencies became

\(^1\) Contestability means the introduction of competition in the provision of public services.
the provider, with important implications for the responsiveness of government activities to citizens as customers, clients and beneficiaries. This commercial orientation of the public sector was not limited only to competition and the purchaser/provider model but it also included several other concepts such as “performance-based contracting, service delivery, customer satisfaction, market incentives and deregulation” (Savas, 2000, p.318) all of which were justified on the basis of the improved efficiency, effectiveness, and accountability that would result (Hood, 1995a, 1995b; March & Olsen, 1989; Savas, 2000).

Accounting was at the heart of the NPM agenda with the aim of improving the efficiency, effectiveness and accountability of public sector management. The role of accounting in providing financial information was seen as an essential aspect of the reform process. However, the traditional cash accounting system that had always existed in the public sector was seen as incapable of providing a comprehensive range of information to support the reform process and a different system was required. Subsequently, governments introduced into the public sector accrual-based accounting, budgeting, and reporting practices that were in use in the private sector (Guthrie et al., 1999; Hood, 1995b; Olsen et al., 1998). These new accrual-based practices were believed to provide better measurement of costs and revenues, greater focus on outputs rather than inputs, more efficient and effective use of resources, better performance measurement and enhanced accountability. Overall, these new practices were believed to lead to a better public sector performance (Hopwood, 1992, 2000; Miller, 1992, 1994).

Accrual accounting is defined as a basis of accounting where “assets, liabilities, equities, revenues and expenses are recognised in the periods to which they relate,
regardless of whether cash is received or paid” (AARF, 1995, para. 8). The importance of such definition is the ‘more timely’ recognition of revenues and expenses and the accounting for the non cash expenses such as depreciation and provisions and in accounting for long-lived assets and obligations, which will all produce a more reliable figure of the full cost of goods and services provided by public sector organisations and therefore be more relevant for pricing decisions. Overall, governments expected that the adoption of accrual accounting would result in better decision-making, especially in asset management, receivables management, and liabilities management which are likely to result in improved efficiency, effectiveness and accountability of public sector agencies (Greenhall et al., 1988; Rowles, 1992). In this regard, one of the objectives of this thesis is to show the usefulness of accrual accounting for management decisions in government agencies and for the costing and pricing of goods and services, and also to highlight any difference in the extent of usefulness between different government agencies.

Also, in the process of public sector reform, governments became more interested in results achieved and aimed to achieve value for money for its citizens by emulating the functioning of private companies in competitive markets. In this regard, governments have tended to shift from cash budgeting to accrual budgeting, by which appropriations have become based on the full (accrual) cost of the provision of goods and services. They have aimed through the adoption of accrual budgeting to achieve better resource allocation, greater customer focus, and enhanced performance and accountability. Under accrual budgeting, governments purchase outputs (goods and services) from agencies and fund them for the cost of production of these outputs. To ensure that agencies do not try to
manage cost at the expense of quality and quantity, governments specify certain output performance measures (quantity, quality, and timeliness) and require agencies to deliver the outputs according to these measures. At the same time, agencies were given managerial autonomy to use their funds in the best way they could to achieve the prescribed outputs. Government saw that such an accrual budgeting system would shift the focus from managing inputs to managing outputs. However, the extent to which this system has been applied has been different between jurisdictions. This thesis intends to discuss the extent to which accrual budgeting has been applied in one Australian jurisdiction, and the extent to which its application has helped to achieve its intended benefits: better resource allocation, greater customer focus, and enhanced performance and accountability.

Similarly, government financial reporting was affected by the public sector reform process. As governments became more interested in results achieved rather than cash spent and agencies were funded for outputs rather than inputs, the importance of reporting has extended from its internal use by management to discharging accountability by departments to government and by government to parliament and the people. Subsequently, accrual output reporting was introduced where financial information and performance information became required to be reported to discharge accountability. In this regard, cash reporting was replaced by accrual reporting in correspondence with the accrual use of accounting and budgeting, and performance reporting has shifted from where cash has been spent to what has been achieved with it through the use of output reporting where agencies reported their performance in terms of their performance measures used as the basis of their funding, generally these are quantity, quality, and timeliness. This thesis aims to discuss the usefulness of accrual reporting in an Australian
jurisdiction in discharging accountability at both the agency and the whole of
government levels.

Australia was at the heart of this worldwide reform of public sector practice and
accounting. Since the mid 1970s, the public sector in Australia has become
subject to more frequent calls for greater efficiency and effectiveness (Porter,
1992; Power, 1996). As a consequence, Australian governments have embarked
on a major reform agenda centered on NPM ideals to achieve greater
accountability, efficiency and effectiveness (Hopwood, 1990, 1992; Miller, 1994;
Young, 1994). The accounting change from cash to accrual was at the heart of this
reform agenda and was justified, as in the rest of the world, on the basis of a belief
of its ‘usefulness for decision-making’ and ‘enhanced accountability’ (Broadbent
& Guthrie, 1992; Carnegie, 2005; Christensen, 2002; Hopewood, 1990; Hoque &

The particular research site that was chosen for this study is the Northern
Territory (NT) of Australia. The NT represents a unique and special context to
study the application of accrual accounting in the public sector. Firstly, this is
because, it has been the last jurisdiction in Australia that adopted accrual
accounting, and the reasons for this late adoption and for the adoption itself both
constitute an important finding that may provide insights into why governments
adopt accrual accounting. Secondly, because the concept of accrual accounting
was developed in the private sector and its benefits were explained mainly in
terms of full cost information that is necessary in pricing where competition plays
a major role in driving efficiency and effectiveness. The NT is also an unusual
context for the application of accrual accounting given the very small, largely
non-competitive market that constitutes the NT economy. It is therefore likely to be interesting to see how accrual accounting is applied in the NT and what benefits are achieved in a non-competitive market. For this purpose, two government departments were chosen as the focus of this study, these are the Department of Corporate and Information Services (DCIS) and the Department of Health and Community Services (DHCS). These two agencies provide a useful context for the purpose of this study, as DCIS is a department that has no market dealing and it only provides services to other government agencies. DHCS, however, is an agency that is involved in business operations and subject to market forces to some extent as there are a range of other private service health providers in the NT, but its operations are heavily affected by its social responsibility. These two distinct agencies provide a good setting to distinguish the extent of usefulness of accrual accounting between one agency and another. In this regard, the thesis aims to highlight some of the aspects that affect the extent of usefulness of accrual accounting, budgeting and reporting.

1.2 Research Motivation
There are four main motivations for this study. First, although there have been several studies that discussed the adoption of accrual accounting in the public sector, none of these studies has addressed the usefulness of accrual accounting in an environment where competition and market forces are limited or largely do not exist. As mentioned in the previous section, accrual accounting was brought into the public sector as it offers comprehensive information that is necessary for operational management and full cost pricing that became necessary as governments subjected their businesses to contestability as part of their influence by the successfullness of the private sector. For this reason, the interest in
addressing the usefulness of accrual accounting to agencies that are not fully subjected to contestability and market forces constitutes the first motivation for this study.

Whilst there has been significant research enriching our understanding of how accounting has influenced public sector reform (see for example, Broadbent & Guthrie, 1992; Burns & Scapens, 2000; Carnegie & West, 2003; Christensen, 2002, 2003; Dixon et al., 1996; Evans & Bellamy, 1995; Funnell & Cooper, 1998; Guthrie, 1998; Hoque & Moll, 2001; Hoque et al., 2004), this study’s main contribution stems from the shortage of previous case study research in Australian government departments. A number of papers have been written in the context of local governments and some have discussed accrual accounting in the broader context of the public sector in general, but few have conducted an in-depth analysis of its workings in the context of government departments (see for example, Carpenter, 1986, 1990; Cavalluzzo & Ittner, 2004; Guthrie & Carlin, 1998; Christensen, 2002; Hoque et al., 2004). The second motivation of this study is therefore to address this gap in the public sector accounting literature.

The third motivation of this study stems from the lack of similar research in the context of the NT public sector. Whilst other jurisdictions in Australia have been subject to research in regard to the contribution of accounting change to public sector reform, the NT has been mostly excluded, even in studies that address the wider Australian public sector. This limitation of research in the NT extends to the information available about the NT across different research and statistical bodies such as the Australian Bureau of statistics to the extent that some may think that the NT is not a part of Australia or a part of the national reform process.
An extensive literature review of many accounting studies that are connected with the reform of the public sector revealed that no study has discussed practically and in-depth how accrual accounting has been useful in the decision-making process of public sector organisations. Filling this gap constitutes the fourth motivation of this study.

1.3 Research Questions

To meet the research objectives and to satisfy the motivations addressed in the previous section, four research questions are discussed by this study:

1. How has accounting been influenced by the public sector reform process?

2. What have been the reasons for the accounting change?

3. How has the working of accrual accounting been affected by the availability of competition?

4. Has the change achieved its intended objectives?

To address these questions and to meet the research objectives, this study takes the view that accounting is a social construct which is subject to institutional pressures and therefore the study of accounting change is best addressed in its context (Scapens, 1990). Therefore, an interpretive case study approach is used as a suitable approach for understanding accounting change in the public sector and the outcomes of this change. The importance of this approach is that it goes beyond the description of reality and allows for an understanding of the underpinnings of accounting change and its implications for performance in public sector organisations.
This case study approach uses a qualitative methodology for data collection, where primary data consisted of semi-structured interviews with staff from different levels of the hierarchy of the subject organisations in addition to some key senior managers and public officials across the NT public sector, and secondary data was obtained from government publications such as budget papers and annual reports.

1.4 Importance of the Study
The importance of this study stems from its contribution to the paucity of research about the working of private sector accounting practices in the public sector. It is therefore expected that this study would expand the growing body of evidence available for a review of the appropriateness of applying private sector accounting practices in the public sector in general and in the non-contestable public sector in particular. In addition, this study is important as it provides a rich analysis of the working of accrual accounting in a single jurisdiction but with a clear distinction between agencies in terms of their services provided (physical or nonphysical nature) and the context of their market (internal or external).

Also, this study could provide a basis for future research in the area of public sector accounting by discussing the applicability and usefulness of accrual accounting for agencies that do not have a market interaction,. In addition, the paucity of similar research in the wider context of the Australian public sector, and the nonexistence of research in the context of the NT have made this study important and unique in filling this gap in the literature and in becoming a valuable reference to future research in this context.
Finally, it is expected that the findings of the study may prove to be useful to professionals, policy makers, and others concerned with policy issues in public sector management, locally and internationally.

1.5 Outline of the Thesis

The remainder of this thesis is structured in seven chapters. Chapters 2 & 3 present analytical background information on the reform phenomena under study and establish a basis for the arguments in the subsequent chapters. Chapter 4 outlines the methodology used. Chapter 5, 6, and 7 present the research findings from the field study. Chapter 8 provides the conclusion of the study. Each of these chapters is briefly described below.

Chapter 2 introduces accounting as a key element of public sector reform, but from an international perspective. The chapter highlights the different pressures behind public sector reform around the world and the rise of NPM in response to these pressures. The chapter then describes how governments have responded to the reform pressures by adopting private sector practices into their public sectors. In this regard, the chapter discusses how accounting became seen as an important element of this reform process and that accounting change was needed to satisfy the reform objectives. Finally the chapter discusses the adoption of accrual accounting in place of the traditional cash accounting system.

Chapter 3 provides an overview of the Australian experience of public sector reform and, as such, constitutes a background to inform the case study chapters. This chapter starts with a description of the pressures for Australian public sector reform and the various reform responses in line with international trends and developments. The chapter discusses how organisational change took place in the
process of this reform and how accounting became seen as a mechanical tool to facilitate the reform objectives. The chapter discusses the perceived benefits from the adoption of accrual accounting on performance and accountability in public sector organisations.

Chapter 4 discusses the methodology used in this thesis with an underlying aim being to set the empirical basis of the study in the context of the international and Australian reform experience addressed in chapters two and three. The chapter provides an explanation of the appropriateness of the qualitative approach of this study. It deals with the data collection methods used. After that, the chapter discusses the importance of theory in accounting research. It introduces the different concepts and theories used to explain the research phenomena in this study. Finally, the chapter introduces the research site of this study.

Chapter 5, 6, and 7 provide the empirical findings of this thesis. These chapters present the findings and observations from the field study. The chapters use narratives and documentary evidence to demonstrate the research findings. Chapter 5 provides an overall analysis of how the NT responded to the reform pressures in the light of the NPM and the reasons behind the accounting change. Chapters 6 and 7 analyse the workings of accrual accounting and its impact on management practices in two agencies.

At the beginning, chapter 5 provides further background information about the research site, and then discusses the specific NT organisational responses to the reform process. This chapter provides a detailed analysis of the accounting change in the NT and the reasons behind the adoption of accrual accounting and an
explanation of its late introduction. Finally the chapter explains the working for outcomes framework that was introduced in the process of public sector reform. This framework constitutes the accrual accounting, budgeting and reporting systems as introduced by the NT Government.

Chapter 6 provides a detailed explanation of the actual workings of accrual accounting in the Department of Corporate and Information Services (DCIS). It is structured around three main themes: accrual accounting, accrual budgeting, and accrual reporting. Under accrual accounting, the chapter discusses the usefulness of accrual accounting to decision-making, especially for revenue management, expense management, asset management, receivables management, and liabilities management. The chapter elaborates on the rationale of the full cost information resulting from accrual accounting for pricing and as a performance measure. The chapter also describes the actual use of accrual budgeting in the NT and evaluates the benefits achieved, such as greater customer focus, better resource allocation, and enhanced performance and accountability. Finally in relation to accrual reporting, the chapter assesses the actual usefulness achieved from the use of the accrual basis of accounting for financial reporting and output reporting at the agency level and at the whole of government level, and whether this accrual output reporting has achieved the discharge of accountability and the focus on results.

Similar to chapter 6, chapter 7 provides an explanation of the workings of accrual accounting, budgeting, and reporting but in the Department of Health and Community Services (DHCS). The focus in this chapter is on the usefulness of these systems for the costing and pricing of health services. The chapter discusses
how actual costing and pricing takes place in the light of accrual accounting and how funding takes place under accrual budgeting. This chapter finally highlights how it is impossible, for a department like DHCS that has some commercial pressures and social responsibility in providing health services to the community, to operate on similar management practices as those followed by private providers that are profit oriented, especially within a limited budget.

Finally, chapter 8 provides a summary and discussion of the findings resulting from this study. It also presents some concluding remarks that address the research questions and the research phenomena under study.
Chapter 2 International Trends in Public Sector Reform

2.1 Introduction
The public sector has been under scrutiny for a long period. It has always been of great importance to both government and public around the world. The importance of the public sector starts from the role it plays in the development of the social and economic affairs of countries. Accordingly, the reform of the public sector has been a popular topic and a primary policy objective for many countries over the past two decades. The move to reform the public sector has also been of prime concern to social scientists in general and has received different names since its introduction: ‘new public management’ (Hood 1991); ‘market-based public administration’ (Lan & Rosenbloom, 1992); ‘the post bureaucratic paradigm’ (Barzelay, 1992); ‘entrepreneurial government’ (Osborne & Gaebler, 1992); or ‘managerialism’ (Pollitt, 1993). Despite the differing names, all these describe the same phenomenon, which is mostly patterned around the principles of managerialism, with considerable emphasis on the commercialisation of public sector activities.

Public sector organisations have always been pressured by a number of different factors to improve the service provided to the community (administrative, social, economic, technological, and political). But the failure of the public sector to respond adequately to financial crises in some countries in the late 1970s as a result of the oil and dollar crises and the phenomenon of ‘stagflation’\(^2\) made

\(^2\) Stagflation is where countries suffer simultaneously from high inflation and stagnation.
reform inevitable. In addition, rapid changes in global socio-economic, political and technological environments dictated that the public sector be transformed into a more active and responsive entity to assist governments in their quest for sustained economic growth and social development. In this regard, governments around the world have supported the reform process by issuing several initiatives adopted from the private sector, as it was viewed to be more effective and efficient. These initiatives aimed to give the public sector a ‘commercial’ nature like the private sector, through commercialisation, corporatisation and privatisation.

The pressures and initiatives for the reform have created a context within which new management and accounting approaches had to be developed. Consequently, public sector organisations had to reassess their management practices to become more accountable and efficient in their use of public sector resources (Ferlie at al., 1996; Funnell & Cooper, 1998). In this regard, accounting was expected to play a major role in providing financial information to improve the performance and accountability of the public sector in order to achieve the efficiency, effectiveness and economy that drove NPM (Aucoin, 1990; Barzelay, 1992; Hood, 1991, 1995a).

The objective of this chapter is to provide an overview of the thrust to public sector reform and how accounting plays a key role in this process. The chapter is divided into three interrelated parts. The first part provides an explanation of the importance of the public sector and outlines the pressures for its reform. It then provides an explanation of the worldwide responses to such pressures. Part two discusses organisational change in the public sector as a key concern of the reform
process. Part three provides an analysis of how accounting is implicated in the reform process and how it is used to improve the performance of public sector organisations.

2.2 Public Sector Reform, an International Perspective

People have encountered public sector reform in a variety of different contexts all over the world and every generation tends to give different meanings and names to this phenomenon. An important implication of this is that older or more familiar concepts such as ‘administrative reform’ and ‘administrative change’ are not a true reflection of what actually happens in practice and these terms became outdated. Increasingly, there is a strong preference for the terms ‘public sector reform’ which has come into popular usage in recent years. In addition, ‘public service reform’, ‘public enterprise reform’, ‘health sector reform’, and ‘local government reform’ can all be regarded as sub-elements of public sector reform.

In this thesis, public sector reform is about strengthening the way that the public sector is managed to ensure efficient and effective service delivery. It may be useful to further sub-divide the two components, namely ‘public sector’ and ‘reform’ to analyse it separately.

The public sector is that part of a nation’s social and economic activity which is traditionally owned and controlled by the government. That is to say, the public sector is composed of public organisations which provide utilities and services to the community (Broadbent & Guthrie, 1992). The provision of public utilities and services has been characterised by the heavy involvement of government in both policy-making and funding. Within this context the public sector includes a wide variety of organisational components such as national and provincial departments,
state-owned enterprises, local authorities and other components, including universities, schools, hospitals and marketing boards (Alder, 2000).

Reform is a loaded term and has deeply imbedded political connotations. It has been associated with alternative terms such as ‘transformation,’ ‘reinvention’, ‘modernization’, and ‘improvement’. All these terms strongly imply that the existing political and administrative structures do not satisfy the needs of citizens. In other words, it means a deliberate move away from a less desirable state of affairs to a more desirable one (Barselay, 1992; Halligan & Adams, 2004; Halligan & Power, 1992; Shacter, 2000; Wilenski, 1986).

Public sector reform is seen as an integral part of the changing role of government. Also it is a response to problems arising from domestic and external pressures for change. For the purpose of this study, public sector reform is seen as a deliberate policy that requires alteration to organisational structures, processes and behavior in order to enhance organisational efficiency and effectiveness and to increase accountability.

2.2.1 Reform Pressures
The public sector has been under scrutiny for a long period. It has always been of great importance to both government and the public around the world. The importance of the public sector starts from the role it plays in the development of the social and economic affairs of countries. The public sector implements policies and programs that aim to fulfil the government’s broad economic and social objectives (Shacter, 2000). For example it makes economic and social policies, designs and implements public programs, provides infrastructure, raises revenue, and manages accountability.
The failure of the public sector to respond to financial crises in the 1970s and 1980s, such as the 1973 oil crisis and the dollar crisis and ‘stagflation’ that followed, in some countries questioned the capabilities of the extant public sector and made it clear that the public sector could no longer function in the traditional mode. It was widely recognised that governments needed to develop a different way of doing business. In addition to such failure, rapid changes in global socio-economic, political and technological environments dictated that the public sector be transformed into a more active and responsive entity to assist governments in their quests for sustained economic growth and social development.

The review of the public sector literature revealed that the reform of the public sector was a result of a number of pressures or factors that pressured governments to undertake such reform over different stages in the last four decades.

**Fiscal Problems:** Fiscal problems or financial and economic crises were seen as the most important drivers behind the public sector reforms of most of the OECD countries. In 1971, the demise of the fixed exchange rate system of Bretton Woods had begun and not too long after that governments around the world were shocked by the quadrupling of the price of oil. Most of the developed countries, especially the G-10 countries, suddenly realised that their future largely depended on oil. The sudden and extraordinary oil price increase was an outcome of the Arab-Israeli war of 1973 and the decision of the Organisation of Petroleum Exporting Countries (OPEC) to use its economic muscle to influence global policy. As a result of the price increase, oil importing countries encountered the twin devils-stagnation and inflation. Stagnation occurred as purchasing power was transferred from their economies to the economies of the oil exporting countries,
and simultaneously inflation was increased as the effects of higher oil prices struck, which impacted every sector of their economy and raised the prices of their commodities (Rehman, 1998).

In addition, from the 1980s onward, some countries began to face economic problems after their rapid growth. For instance, political and popular awareness of the federal deficit grew in the United States during the 1980s, the deficit grew because of the high levels of defence spending under the Reagan administration and a failure to cut back on social programs. Similarly, the Australian public sector relied significantly on deficit spending. By the 1980s, Australia’s economy was less able to withstand the pressure from a more competitive global economy. As with other countries, the main driving force for these changes was the changing economic situation. In the late 1970s and early 1980s, the New Zealand economy was near the point of bankruptcy because of the collapse of protectionism, the cost of its extensive social safety net, and the changed economic relationship with the United Kingdom. Similarly in the United Kingdom, fiscal and exchange rate problems led to International Monetary Fund intervention, followed by criticism from politicians and dissatisfaction from its citizens.

**Administrative factors:** Governments around the world were concerned about the ability of the state’s administrative arm to efficiently and effectively achieve its mandate. Issues of the size of the public sector and the expenditure on the state sector were being questioned on whether value for money is provided to the general public.
First and foremost was the dilemma experienced by governments in the competing demands of budgetary pressures on expenditure and the public’s interest in maintaining, and even improving, the existing level of government services. In an environment of shrinking budgets and increasing demands of constituents, there was a perception that the government’s delivery of public services was too costly and ineffective, due mainly to the constraints of public sector administration and its status as a monopoly provider (Barrett, 2000a). In simple terms, a vast amount of money was spent relatively inefficiently by the public sector, on programs that were not meeting the needs of the public.

**Economic factors:** Over the last two decades, there has been a shift in global economic relations towards the establishment of mega trading blocs and economic unions. This, coupled with developments in information technology, has resulted in the formation of a ‘global village’. This changing world economic environment and the formation of trading blocs have been associated with a decline in the sources, and quotas of aid, grants and other funds made available to developing countries. The developed countries were also faced with the challenge of utilising their resources in a manner that benefits their citizens. It was therefore essential that the public sector undertake a review of existing policies and procedures. Some of the areas of concern were: recruitment and selection processes; structures, functions and operational relations with the public as well as departmental mechanisms for ensuring efficient and courteous service to the public; accountability, monitoring and evaluation systems; productivity, waste reduction and control operational costs; techniques for measuring performance; human resource development and utilization; a changing organisational culture; and continuous organisational review.
Technological factors: The later part of the 20th century leading into the 21st century has been characterised as the information age, as increasingly organisations have been harnessing, improving and managing information in order to secure competitive advantage and be more effective and efficient in delivering goods and services. This has called into question the existing structure, policies, processes and mode of relationships which existed between the public sector and other organisations. Under such conditions, the public sector needed to develop new and innovative policies, structures and processes in order to respond to various clientele and to deliver the quality of goods and services expected of a modern public sector.

Political factors: The past decade has seen demands made by donor agencies, such as the World Bank and International Monetary Fund, and also other bodies for a reduction in the role of the State, from an active participant in economic activities to a facilitatory and regulatory one. This together with Government’s belief that there are now activities which can be best handled by the private sector and other non-governmental agencies motivated government to divest itself of some of its responsibilities. The partial withdrawal of the State from some activities necessitated new forms of institutional arrangements to guide the relationship between Government and these agencies.

Social factors: Increasingly, citizens were demanding greater participation in the affairs of government, as well as quality public goods and services. The call for better governance and transparency in the operation of the state challenged the historical approach to information, communication and citizen-participation.
In addition, the increasing demands for better government came about as a result of criticisms from politicians and the dissatisfaction of its citizens. Politicians began to suggest that poor government policies caused the stagnation of economies. Citizens demanded more responsible government and better services. For example, as early as the 1960s, Fulton argued that the traditional British civil service was incapable of dealing with the problems of an increasingly complex society (Barberis, 1995). The situation was worse in the United States of America. Compared with most European countries, the USA was only a ‘thin’ welfare state, leading to many criticisms from its citizens. Since the 1970s, US public opinion has tended to be increasingly critical of both the motive and the competence of the federal government as many Americans came to believe that the federal bureaucracy wasted huge sums of money. As a consequence, the USA experienced strong anti-government rhetoric and low public trust. By the end of the 1980s, there were signs of a real collapse of morale within the federal government service (Farazmand & Pinkowski, 2006). Even though there was no evidence of popular opinion against the size and efficiency of government in Australia and New Zealand, it was clear that the public was unwilling to put up with poor services or economic crises. They demanded improvements in the economy, more efficiently managed public expenditures, and the provision of better services which together pushed governments toward public sector reforms.

These pressures and problems resulted in an increasing belief that the public sector was in crisis of legitimacy, responsiveness and efficiency and that reform is inevitable (Thynne & Wettenhall, 2004). As a result, the recent years have seen new direction of public sector management. This new direction was variously portrayed by such terms as ‘new public management’, ‘managerialism’,

2.2.2 Reform Responses
In recent years, and as a result of the pressures faced by governments around the world, the public sector was perceived as inefficient and ineffective in responding to challenges that it became faced with in the last three decades. Governments and the public have perceived the public sector as being highly dysfunctional because of bureaucratic inflexibility, lacking incentives to maximise efficiency while minimising costs, and missing any systematic procedures to ensure good performance and value for money are being achieved. In this regard, there were increasing calls for making the public sector more responsive to the needs of government by increasing accountability, promoting a culture of performance, adopting a customer focus, encouraging comparative benchmarking, and promoting competitiveness (Boxall, 1998; Dixon & Kouzmin, 1994; Management Advisory Board, 1997). So, in recent years, the public sector management started to take a more commercial direction in the light of an increasing belief that commercial management practices can improve public sector efficiency, effectiveness and accountability as they have proven in the private sector. This commercial direction of public sector management is a central element of a package of initiatives referred to as NPM or ‘managerialism’. Managerialism was
quite widely used until NPM was popularised by Hood (1991). In this thesis the two terms are used interchangeably.

According to Hughes (1998, p.148), NPM is “a concerted program of public sector reform aimed at replacing administration by management, replacing formal bureaucracy by markets or contracts as far as possible, and reducing the size and scale of the public sector”. Inherent in this there was seven aspects of the managerial concept of the NPM. First, the focus on management should be the manager and should be empowered. Second, there should be explicit standards for performance measurement and benchmarking. Third, there is a need to separate units in the public sector and establish quasi-independent organisations. Fourth, there should be greater emphasis on outputs and results rather than inputs. Fifth, competition must be emphasised in the public sector. Sixth, efficient use of resources must be established to minimise public expenditure. Seventh, private sector practices must be adopted in the public sector.

These aspects have raised several themes about the structuring of political and administrative relationships for service provision. These themes are:

- **Policy/administration**: while policy formulation and implementation were usually fused, there were calls for them to be separated organisationally. So, government maintains the policy setting role and agencies get the implementation and administration role.

- **Principal (owner)/agent**: a new relationship started to arise between the government and agencies, under which the government becomes the principal as owner of agencies and agencies act as an agent on its behalf.
• Purchaser/provider: in addition to the owner role, the government plays the role of a purchaser of agencies’ goods and services, where agencies have the responsibility as a provider to provide the goods and services within the agreed requirements.

• Input/outputs and outcomes: the focus of governments became shifted from input to outputs and results achieved as outputs and outcomes.

• Contestable markets/non-contestable markets: governments saw that efficiency can be improved in contestable markets and therefore they had to increase competition.

• User pay/tax funding: in increasing competition, governments tended to minimise its subsidies and introduce user-pay charges that are cost reflective.

• Centralisation/decentralisation: governments tended to take a decentralised approach as it was believed that efficiency would be improved.

• Management from on high/managerial autonomy: governments also tended to decentralise the decision-making process by giving managers at different levels the autonomy of their management.

• Public/private: underlying all of the above, many discussions have arisen as to what services can better be provided under government control and what services should be moved to the private sector.
Most of the OECD countries accepted these themes of NPM but at different levels. The United States of America was characterized by a ‘business-oriented’, ‘free enterprise’ culture, and both the Republican Party and the Democratic Party had been willing to build a more ‘businesslike’ government. These factors made it easy for the US public sector to accept concepts from the private sector, and the federal administration has shown enthusiasm towards many of the contemporary management techniques. The United Kingdom became part of the world of managerialism since the government of Mrs. Thatcher focused on public service reforms. She hired Derek Rayner, a businessman, as her first efficiency advisor and brought many other managers into government in various advisory capacities. New Zealand also firmly embraced the new concepts and began an extreme program of commercialisation, corporatisation and privatisation in the 1980s. In Australia the concepts began to have a direct and powerful influence with massive deregulation of the economy occurring under the Hawke Labor government from 1983 and this was followed by the Howard Liberal-National Government which came to power in 1996.

Many scholars take the view that NPM or managerialism emerged in the UK when the government initiated a range of administrative and economic reforms under the Thatcher administration (Ferlie et al., 1996; Lane, 2000; Pollitt, 1993; Thomas, 1999; Zifcak, 1994). These reforms were aimed at reducing the size of the public sector, reasserting political control, improving management, and eliminating waste and inefficiencies (Conservative Central Office, 1979). The financial management initiative (FMI) and the subsequent Next Steps Review are perhaps, the most widely acknowledged of these reforms (Humphrey et al., 1998).
While many governments around the world have accepted the NPM and the managerial aspect of public sector management, the essence of their adoption have concentrated on ‘commercialisation’ which is about the adoption of private sector financial methods for conducting business into the public sector. This has necessitated a context of organisational change through which different measures have become adopted. These are decentralisation, corporatisation, deregulation, and privatisation (Doolin & Lawrence, 1997; Guthrie & Parker, 1990; Mathews & Crewal, 1997; Paterson, 1997). These forms of organisational change were considered means to achieve efficiency, effectiveness and accountability in the public sector as they require a change in the management practices and the operational structure of organisations. This change includes strategic planning, the shift to outcome focused resource allocation, an increased focus on performance measurement and performance improvement, accrual accounting and annual reporting, the linking of pay to performance, total quality management, and the use of competitive tendering and contracting out. These management techniques and practices are thought to be the key to achieving greater efficiencies in the public sector (Funnell & Cooper, 1998; Yeatman, 1997b).

2.3 Organisational Change as a Key Component of Public Sector Reform
Organisational change has been defined in a variety of ways in the literature, in essence, Van de Ven & Poole (1995, p.512) describe change as “… an empirical observation of a difference in quality of state over time”. The organisational change literature shows that organisations do change, but the drivers for change could differ from one to another. Generally, change can occur as a response to external pressures (i.e., competition, government, professional groups,
technology, customers…) or internal pressures (need for efficiency, professionalism, a change in the power dynamics of the organisation, change in the size and complexity of the organisation, pursuit of organisational strategies) (Carruthers, 1995; Lawrence, 1999; Scott, 1998;). Moreover, change can occur as a result of multiple internal and external pressures Deegan (2002). Deegan (2002) contends that there could be many other motivations, other than those listed above, which would also drive the change but all these motivations are interrelated and interconnected.

In the public sector, organisational change occurs as a result of all these reasons. Public sector organisations had to change their structures and management systems as a result of external pressures: globalisation, competition, fiscal problems, social factors, economic factors, technological factors, and political factors (all discussed in the previous section). These external pressures have led to other internal pressures such as the need to achieve efficiency, effectiveness and responsiveness. Also, organisational change in the public sector occurs in order to achieve economic rationality, to comply with legal requirements that were necessary to achieve reforms, and to comply with community expectations and achieve their satisfaction.

In general, organisations are both influenced by and can influence the society in which they operate (Deegan, 2002). Thus, by paying close attention to the external environment and being aware of all the pressures for reform of the public sector it is possible to understand how and why public sector organisational change occurs. In this regard, a focus on the social contract between the organisation and the society is important. This social contract is believed to
represent the expectations of the society. So, public sector organisations change their management practices and adopt ones that are legitimate to the society (DeMaggio & Powell, 1983, 1991; Meyer & Rowan, 1977). This implies that when societal norms and values change, the managers of a public sector organisation will work to preserve the organisation’s legitimacy by incorporating, or appearing to incorporate the new norms and values (Dowling & Pfeffer, 1975; Milne & Patten, 2001). Milne and Patten (2001) suggest the organisation then goes to great lengths to communicate to external constituents the alignment between their norms and values with those of society. An example of this is the dissatisfaction of citizens and governments with public sector management practices and the adoption of new ones from the private sector as they were considered more legitimate and effective. In other terms, the successful private sector management practices become an institutional pressure on public sector organisations to also have such practices in place. On the other hand if the organisation is not viewed as legitimate its survival is thought to be at stake (Dowling & Pfeffer, 1975).

These internal and external pressures on governments around the world to reform their public sectors and the thrust to adopt NPM ideals have in one way or another led to organisational change across different levels of public sector organisations. Under the pressure to become more efficient and effective in their services, many governments around the world have started to rethink their role in the delivery of public services and started to make changes to the way they provided these services and to the range of services they provided. For this, governments around the world adopted different interrelated measures – including decentralisation, deregulation, corporatisation and privatisation – to make their public sectors more
like the private sector that was perceived as more efficient and productive than the public sector (Guthrie, 1993). Consequently, governments through public sector organisations have tended to concentrate on core functions and tried to consider alternative methods of delivery for the other incidental or non-commercial services.

Decentralisation is about abandoning a highly centralised, tightly controlled often paternalistic and authoritarian bureaucratic system. It reflects efforts to promote government responsiveness to citizens, by bringing decisions closer to the community, and to promote economic competitiveness by encouraging developmental over redistributive investments. Therefore, decentralisation provides a mechanism that enables the community to participate in the process of governance, as well as a framework for allowing the community’s interests to be represented in government decision-making structures. It also makes it possible to ensure a certain equity of access to public resources and to encourage the formulation of development policies that take into account the needs and priorities of the regions and of local communities (UNDP, 1996: 2). The principle of subsidiarity (Hentic & Bernier, 1999), which ought to be at the heart of decentralisation reforms, stipulates that a given public service should be entrusted to the lowest government level that is capable of effectively delivering the service. So, by devolving certain powers and responsibilities to other levels of government, decentralisation can make it possible to improve tax efficiency by generating local revenues and rationalizing costs. Moreover, it establishes an environment that is favourable to the provision of public services suited to people’s requirements.
Deregulation has also played a key role in the reform process. Many governments have eliminated laws that impose restrictions on businesses both with regard to the provision of the service, charges levied, etc, and with regard to conditions of work and employment. So, laws were amended according to the changing public sector environment facilitating business and increasing competition that is a key efficiency driver. The deregulation process has provided a legal framework for the public sector reforms toward better performance and accountability.

Corporatisation is a sound strategy in circumstances where it has been necessary to retain public ownership of commercial enterprises. It represents and involves the process of adopting specific commercially-oriented management practices from the private sector to improve the efficacy of government activities (Fisher, 1998). Through this process the trading activities of government organisations were transferred to government owned corporations. Although the ultimate ownership of these activities does not change under corporatisation, the form of the ownership structure does. Corporatisation is in simple terms the creation of a corporate form, whether a company under the general companies legislation, or a statutory authority under its own legislation. In either case, it is an organisation that is established to manage an operational activity or activities, with its own board of directors responsible for making decisions about the performance of its functions and the delivery of its services. Many governments around the world have used this governance structure to corporatise a wide range of government activities such as postal services, banking, aviation and shipping.

Privatisation can be seen as one of the important structural redesigns destined to improve the functioning and efficiency of economies. Privatisation broadly
involves the withdrawal of the government from the ownership of the production of goods and services by transferring to the private sector some public assets and becoming more attuned to market forces and citizen needs. Privatisation is not limited to the sale of public assets, but also includes a variety of measures that reduce the role of government in business, such as deregulation, de-monopolisation, and contracting with private sector providers (Siggel, 2005).

In recent years, many governments have gradually withdrawn from the provision of some services, and privatised the government organisations involved. This was applied particularly to the corporatised businesses operating in the commercial sphere, such as banks, airlines, defence industries. Governments have often used contracts (privatisation by contract) in relation to their most important and problematic activities, such as infrastructure monopolies (electricity, water, telecom) and major exporter and revenue earners (tea in Sri Lanka, gold in Ghana, and hotels in Egypt). In addition to privatisation by contract, governments have also privatised a substantial part of their assets through divestment, and so mass privatisation efforts were begun in the world in the 1980s, especially in UK, New Zealand and Australia, as well as in Eastern Europe and the republics of the former Soviet Union (Prizzia, 2003).

These different forms of organisational redesigns have been applied in different proportions between the governments that adopted them. As privatisation, decentralisation and deregulation have not in themselves totally resolved all the public sector deficiencies, governments have tried to imitate the private sector by adopting its management practices within existing organisations. This adoption has had its impact on both corporatised and non-corporatised organisations.
2.4 Organisational Performance: Accounting & Accountability

2.4.1 Elements of Performance

The word ‘performance’ appears to mean very different things to different people (Otley, 2001). Otley (1999) recognised performance as an ambiguous term, and not capable of a simple definition. In particular, he said, the term does not specify to whom the organisation is delivering its performance. He (1999) considers that an organisation that is performing well is one that is successfully attaining its objectives.

Despite much research that discussed performance from different views, Performance remains to be a challenge to public sector managers in terms of whether it entails behaviour, results, or both. Campbell (1990) subscribes to the premise that performance is behaviour and should be distinguished from the outcomes because they can be contaminated by system factors, which are outside the control of the performer. What is implied in Campbell’s argument is that performance measurement can only focus on an individual/group’s final output, if and only if, system factors are controllable. In contrast, Edis (1995) argues that performance is something that the person leaves behind and that exists apart from the purpose.

In the context of the public sector reform movement that was underway in the last two decades, performance systems had to adapt to the organisational change that took place in order to correspond with the intended objectives of the reform. Governments around the world intended, from the reforms, to be able to deliver their services in an economic, efficient and effective manner. Therefore, in the
context of public sector reform, performance has to be considered in a way that is able to measure the three ‘E’s of performance, namely: economy, efficiency and effectiveness (Otley, 2001; Palmer, 1993). Economy is defined as acquiring resources in appropriate quantity and at least cost. Efficiency is defined as maximizing output for a given set of inputs, or minimizing inputs for a required output. Together, economy and efficiency are consistent with notions of financial accountability to both government and the community. Effectiveness is defined as the extent to which the defined task has been accomplished (Jackson & Palmer, 1988; Otley, 2001; Palmer, 1993). Effectiveness is consistent with notions of non-financial accountability to the community. Economy and efficiency are usually measured in financial terms, and data such as costs, volume of service and productivity are relatively simple to measure (Palmer, 1993). But determining effectiveness is problematic, given the unmeasurable nature of the outputs and outcomes of many government departments’ services.

Viewing the performance in such a way means that it entails both behaviours (process) and results (outcomes) (Bromwich, 1990; Mwita, 2000). Conceivably, behaviours and results are inseparable and interdependent variables. They are all important in performance systems. Such a comprehensive view would mean also that performance became defined in accordance with the NPM ideals where the focus of performance extends from the financial measures to the non-financial measures also (Emmanuel et al., 1990; Evans & Bellamy, 1995; Kloot, 1999; Otley, 1999). The focus of the traditional performance system on financial measures only was inadequate for strategic decision-making and indeed for full internal control and external management and control (Atkinson & McCrindell, 1997). Financial measures alone measure only limited aspects of an organisation’s
performance. In general, financial measures were adequate at that time for the performance system as they were required for issues of probity and control. However, as stated before, with the public sector reform movement, new issues become important such as efficiency and effectiveness (Pollitt, 1986). In this regard, the performance system has to embrace the focus on such elements (Dixon, 1992):

- Inputs: the cost, quantity and quality of human, financial, technological and physical resources used in work processes, including quality costs.
- Processes: the organisational environment in which activities take place and the way activities are undertaken.
- Productivity: the relationship between inputs and outputs.
- Outputs: the quantity of what processes produce.
- Quality: the quality of what processes produce.
- Outcomes: the extent to which processes achieve organisational objectives and user satisfaction.

With the shift of performance measures in the public sector from input-based performance to outputs and outcomes-based performance, public sector organisations had to transform their management practices, processes and culture. In this, they have developed performance systems that relate to the organisation’s strategy (Adams & Embley, 1988; Anthony & Govindarajan, 2001; Kaplan & Norton, 1992, 1996; Kloot, 1999; Otley, 1999; Williams, 1998) to ensure organisational objectives and goals are achieved (Hughes & Sohler, 1992). In this relation and in the whole of this change, information becomes a key determinant of the extent to which a particular performance is achieved or not. Information
becomes important about what is being achieved (outputs) and what this is costing (inputs), information also become important for resource allocation purposes (funding), decision-making and control purposes. The availability of performance information is important as it provides a judgement of the extent to which operations are contributing to the effectiveness and efficiency of activities, which in its turn could help in further performance improvement.

Viewing performance in terms of the NPM responses to public sector reform and appreciating the importance of information available in achieving the objectives of the reform, would all suggest that the accounting information system in place is of great importance to the success of the reform process.

### 2.4.2 Accounting as a Key Element

Accounting in the public sector has always been seen as a neutral component of decision-making and accountability. However, over the last two decades, academics and researchers have explored accounting from a broad perspective, seeking to explore the applications of accounting practices in their context. Within this broad perspective, accounting has become more readily understood as a socially constructed practice (Hines, 1988), even to the point where some researchers have argued that there is no fixed domain to which accounting practices should be applied (Miller & Napier, 1993; Power, 1994, 1997). That is, accountants, in choosing what to account for and when and how to account for it, shape contextual factors (eg. society), which in turn impact on the form of accounting chosen. Although accounting does not dominate in these reflexive processes, it does influence them. Therefore accounting is not socially, politically or economically neutral (Broadbent & Guthrie, 1992).
Accordingly, the public sector reform and the organisational change associated with it have had an impact on the accounting systems used in public sector organisations. The underlying assumption of this impact is that accounting is socially constructed and therefore it is subject to institutional pressures both internal and external (Miller, 1991, 1998a, 1998b; Miller & Napier, 1993; Power, 1997). As a consequence, the pressures to reform the public sector and the organisational change have resulted in accounting change within public sector organisations. More precisely, the level of performance, as discussed in the previous section, to be achieved as a result of the reform has necessitated the availability of a wider range of information than was available from the existing accounting information system at that time. Rather, the accounting change represented by the adoption of accrual accounting, reporting and budgeting techniques has become an important part of a broad based public sector reform, whereby old discourse ideals and methods of management and accounting have been gradually superseded by the NPM principles and other market-based activities (English et al., 2000; Parker & Guthrie, 1993).

In seeking to study reform and change in the public sector a focus on accounting is likely to be instructive (Broadbent, 1992) because accounting plays an important role in monitoring the reform and motivating employees during and after periods of reform (George, 1983; Johnson, 1992; Parker, 1976). So when an organisation changes, the accounting system often changes to motivate employees to continue to behave in a manner that is conducive to the new means of achieving organisational goals (Broadbent, 1992).
From the literature, it is evident that over the years the public sector and the role of accounting have undergone several transitions. These transitions are due to the growing need for better and improved reporting and pressure from donor and international organisations such as the International Monetary Fund and World Bank. There was a recognition that the role of governments had changed over the years and the public sector had evolved to a point where it controlled significant levels of public sector assets, particularly large infrastructure assets, and had incurred material long term liabilities (Carpenter, 1990; Guthrie, 1998; Ryan, 1998, 1999). So, more effective means of accounting and reporting to the community on these assets and liabilities had to be developed. In general, the organisational changes that have taken place as a result of public sector reforms such as corporatisation, decentralisation and even privatisation, have impacted on the accounting systems in place and pressured public sector organisations to adopt financial and management accounting practices that conform with the ideals and objectives of the NPM in order to achieve efficiency, effectiveness and accountability of public service delivery (Hood, 1991; Pollitt, 1990). Therefore, accounting has needed to develop new practices that concentrate upon outputs, measurement, efficiency, cost saving, productivity, and accountability (Broadbent & Guthrie, 1992; Guthrie, 1995), and more generally practices that improve performance to achieve the objectives of the reform.

However as anything else in life, when a need for a new accounting practice emerges, existing practices would start to face criticism when compared with the new ‘supposedly better’ ones. According to Rose and Miller (1992), the existing practices would start to be portrayed as not suitable for their intended purpose or deficient in a particular way. In such cases, some practices would rise claiming
that they can address the perceived defects and that they offer something better than what is in place now (Miller, 1991, 1998b). This process was occurring in public sector accounting during the 1980s. As is known, the accounting system that always existed in the public sector was cash-based accounting, but with the rise of the NPM movement and the increasing pressures for a more accountable, efficient and effective public sector this system was widely criticised and accrual accounting - the new accounting system in the public sector - was portrayed as the ‘solution’ to the problems and weaknesses of the cash accounting system.

For many years, the cash accounting system had served governments around the world very well. Governments were satisfied with the information provided by the cash accounting system. Information on cash collected and cash spent met their needs for both internal management and external accountability. However, the demands by governments and external financial report users for more complex information have grown. Increasingly, users of governmental reports expect governments to provide information on assets and liabilities, and the impact of current consumption on the stock of net assets held by a government. That is, in addition to the increasing importance of accurate costing of public sector services for competition and cost saving purposes. Cash accounting is not designed to meet these information needs. Its objectives are clear: to report cash inflows, cash outflows and changes in the cash balances held.

Cash accounting records cash receipts, payments and balances at the time of the cash transactions, irrespective of when the related goods and services are produced or received. Accrual accounting recognizes revenues and expenses in the accounting period in which they have been earned or incurred, irrespective of
when cash is received or paid. All working capital elements (particularly loans, accounts receivable, inventories, work-in-progress and accounts payable) are carefully adjusted at the end of each reporting period. Accrual accounting matches the incurrence of liabilities and the consumption of assets (such as inventory) to the period in which they occur. In accrual accounting, the cost of a physical asset is not added to the operating costs in the year it is acquired. Instead, physical assets are depreciated over their useful lives and the annual amount of depreciation is added to the operating costs as a cost for that year.

Cash accounting focuses solely on cash flows within the current reporting period. It ignores other resource flows which may also impact upon the ability of a government to provide goods and services now, and in the future. Nor does it record the benefits obtained from assets over a number of accounting periods. For these reasons cash-based information may be less relevant for some decisions faced by some decision makers.

During the 1980s criticism of the cash accounting system in the public sector was widespread. The system was criticised for not enabling the timely recording of accrued revenues and accrued expenses as well as for not encompassing non-cash expenses such as depreciation.

Advocates of accrual accounting typically asserted that cash accounting does not provide information about the costs of services provided which are necessary for any assessment of performance (Greenhall et al., 1988), nor it does “provide an accounting for the assets (apart from cash) and liabilities of government” (Greenhall et al., 1988, p.50). In addition the “timing of the cash flows which
result from many transactions, and therefore the information disclosed, are capable of manipulation” (Greenhall et al., 1988, p.50). As a result, this system of accounting was claimed to provide insufficient information or an incomplete picture about the financial position and financial performance of government agencies and therefore insufficient information for better accountability, performance management and evaluation. As a consequence, the cash accounting system was criticised for not adequately providing information for what was expected to be ‘better decision-making’ as evidenced in the following extracts:

Objectives of financial reporting which require the disclosure of information useful for an assessment of financial status, performance and compliance call into question the appropriateness of the cash basis of accounting” (Sutcliffe, 1985, p.25).

Financial reports prepared on a cash basis are simple to compile and may provide information of relevance for decision-making, particularly by management, and for accountability purposes. However, such reports do not disclose information about the costs of services provided (necessary for any assessment of performance) nor do they provide an accounting for assets (apart from cash) and liabilities of the local government (Greenhall et al., 1988, P,50).

The strong reliance upon cash based accounting and reporting as currently applies suggests that all of the State’s resources are not necessarily being effectively managed. In addition, full program costs are not available publicly (Carpenter, 1986, p. 16).

what we presently focus on (under cash accounting), because there is really no other information, is the cash deficit which, of course, is very important, but does not measure the movements in our net wealth and whether that net wealth is increasing or decreasing (Humphrey, 1987, P.123)

I consider the specific issues are that pure cash accounting and, to some extent, modified accrual accounting result in the reporting of incomplete information and can:
• Lead to the misallocation of resources;

• Not adequately disclosing the size of assets and liabilities;

• Cloud the full cost of programs and cost fluctuations in program costs from year to year;

• Impose burdens on future taxpayers by deferring the bringing to account of liabilities such as long service leave and employers’ deferred superannuation contributions; and

• Impose burdens on future taxpayers, by changing in full each year, the costs of assets purchased rather than capitalizing such expenditure and spreading costs over their useful life to bring to account each year the cost of using the assets employed” (Robson, 1987a, P.7).

The problems with only having cash accounting systems make a clear case for accrual accounting for government entities and can be listed as follows: the costs of operating the program are not clear. Thus performance cannot be fully measured. (Shand, 1988, p. 45).

As is evident from the above extracts, advocates of accrual accounting focused on the inability of cash accounting to capture the total costs incurred by public sector agencies and the inadequacy of such systems for reporting the periodic performance of those agencies. As a result, and although cost management is not the only purpose behind the preparation of the financial reports of public sector organisations, the cash accounting system was widely asserted to be unable to meet the accountability requirements and the specific financial and non financial information needs of the financial reports users (Funnell & Cooper, 1998; McBride & Peirson, 1996; Ranby, 1997). On the other hand, accrual accounting is said to improve accountability and decision-making by providing information on the full cost of operations and the resources used to deliver services to the public. Accrual accounting gives government the opportunity to minimise their costs through cost identification (Guthrie, 1999). Generally, accrual accounting will
lead to better support of program reviews, business planning, budgeting, expenditure management and decision-making processes. It will facilitate accountability for program and financial results by improving estimates and performance reporting to Parliament.

The ability of accrual accounting to provide information on the full cost of operations has been used in output (product) costing systems by enabling the organisations to measure the full costs of each of the outputs (products) they deliver to the community. This full costing information was seen as a powerful tool with which to drive efficiency improvement. It is supposed to deliver unit product cost information which can then be used for performance measurement, benchmarking or market testing purposes (Robinson, 2000).

Accrual accounting, also through output costing, has impacted on the funding of public sector organisations. In the past government departments were funded based on their inputs but now they are funded based on the cost of producing their outputs. In addition, the ability of accrual accounting to provide full cost information has impacted on pricing in public sector organisations especially in government business divisions that operate commercially like private sector organisations.

Accrual accounting has also made a change to the way assets are accounted for, especially long term assets. Under cash accounting, purchased assets were recorded and accounted for when money was paid out. No subsequent account was taken as assets were being utilised and amortised in value. Such an account provides information of whether the asset is still in use, has reached end of its
useful life, or has been sold. With accrual accounting, the cost of the asset is distributed over its life of usage. In addition government agencies developed asset registers that provide detailed information on the assets’ available (cost, life estimate, depreciation rate, location, date of purchase), that has increased the accountability of the managers responsible for those assets.

A lot more information was provided as a result of the difference between cash and accrual accounting but depreciation and its role in costing and capitalisation of assets were the two main innovations.

Budgeting and financial reporting were another two main accounting practices that have changed as a result of the NPM movement and the consequent move from cash to accrual accounting (Guthrie, 1995). Accrual budgeting and accrual reporting have been introduced in public sector organisations as part of the reform. Accrual budgeting and accrual reporting refer to the preparation of budgets and financial reports according to accrual concepts. Guthrie (1999, p.145) suggests that the primary reason for the move to accrual budgeting is the inconsistencies between measuring the full cost of a program in inflated accrual terms when the cash allocated by governments is in smaller absolute dollar amounts.

2.4.2.1 Accrual Budgeting
Traditionally, governments and public sector organisations have developed budgets and appropriations based on the cash system. This was one of the factors which led to the predominance of the cash basis in public sector accounting. The popularity of the cash basis in public sector accounting arose from the need for Parliament, or other representatives of the electorate, to monitor the collection of
taxation receipts and the subsequent spending of those receipts by the government each year. The cash basis focuses on the flow of cash within an accounting period and thereby provides a basis for comparison with appropriations.

In the past two decades, the public sector has undergone a significant change in financial management practices (Guthrie & Parker, 1998) which impacted on the way governments budget. Governments introduced accrual based budgeting practices in place of the cash based ones and tended to focus in their budgeting on outputs rather than inputs.

Under accrual budgeting, a government agency is funded at an agreed price for its outputs, including non-cash items such as depreciation. Thus the amount an agency is appropriated in any one year may exceed its cash expenditure. Any unspent amount is supposedly accumulated for use in future years. Departments, as a result, have realised the benefits of linking their resources to their objectives. And so, they have developed a set of planned outcomes (the intended results for the community of the Government’s work) and outputs (services delivered by the department to, and on behalf of, the Government). That is why some governments introduced accrual budgeting in conjunction with or after the introduction of output-outcome frameworks.

Governments around the world, expected accrual budgeting to produce a more accountable public sector by more closely relating budgets, estimates and appropriations to costs and revenues anticipated during the year, regardless of when paid or received. In addition, agencies’ managers would be more accountable based on the more comprehensive accrual financial information than
they had traditionally been. Also, budgeting and forecasting would be based on anticipated economic events, revenues and operational costs in the financial year not anticipated receipts or payments in the financial year (Verspaandonk, 2000).

Accrual budgeting was not highlighted as an end itself, but rather, as a means of shifting the emphasis of the budgetary process away from cash inputs, towards outputs and outcomes, in the hope that this will result in greater management efficiencies, and hence, better outcomes for governments and the communities they service.

2.4.2.2 Accrual Reporting

Accrual reporting means the preparation of financial reports in accordance with accrual concepts (Guthrie, 1999). That means that the financial position and operating results of the agency are measured by the flow of economic resources.

In the past and more generally, public sector organisations were preparing and publishing annual accounts on an income and expenditure basis (cash reporting), sometimes including accruals for current receivables and payables, but excluding capital depreciation costs (examples are statements for expenditure by activity and program, statements for expenditure by category of cost, statement of receipts). It was not possible to prepare meaningful balance sheets under cash accounting because of the lack of detailed information on the quantity, specification and value of capital assets. In the last two decades several governments have shifted from cash reporting to the accrual reporting basis as a result of the increasing demands by communities and other financial information users for standardized and detailed financial information about the activities of public sector agencies. Also this was seen as a response to calls for more accountability of public sector
agencies since the financial reporting arrangements in the public sector provide the basis for accountability statements of the financial operations of the agencies to the parliament and the public. As a result, these governments adopted or developed reporting framework that are similar to the ones available in the private sector and as a consequence several financial statements became produced, these generally being a balance sheet, an operating statement and cash flow statement.

The statement of financial position (balance sheet) details all assets, liabilities and equity of the entity at the end of the period; the statement of financial performance (income statement) details the revenue and expenses incurred for the period; the statement of cash flows details all the inflows and outflows of cash for the entity for the period. These financial statements when reported in the annual reports of an agency were followed by ‘explanatory notes’ which provide a detailed explanation of the accounting base used to prepare these statements.

The reporting frameworks were different to some extent between the different countries and sometimes even within the same country between the different levels of governments (local, state and federal) or even within the different legislatures but they are all based on the accrual basis, for example some countries used private sector accounting reporting standards; some others developed special reporting standards for the public sector.

Accrual accounting, budgeting and reporting were promoted through various means including: public lectures, conferences and research papers published in quasi-academic and professional journals. The theme of such a promotion was always that the performance and accountability of public sector organisations
would increase through the use of accrual accounting and accrual reporting. But until today there is no evidence of the extent to which this theme has been achieved or to whether accrual accounting was necessary and suitable for all public sector entities, especially as most of the public sector agencies that adopted the change were coerced by their governments through the accounting standards into a rapid and widespread adoption of the system. In addition, there are concerns about the applicability of accrual accounting practices in public sector organisations that do not have a commercial orientation but typically have cultural, welfare and social objectives, and as a result, they are distinct in the ways in which they can demonstrate accountability for the resources with which they are entrusted (Carnegie & West, 2003; Carnegie & Wolnizer, 1996; Parker, 1996). In such instances, presenting and assessing accountability and performance for such organisations in general purpose financial reports does not reflect the fundamental reason for the existence of the organisations concerned. That is why governments may have to consider developing accounting standards that reflect the unique nature of the public sector, the services it provides and the characteristics of its assets (Guthrie, 1999) and in addition within the same public sector the social responsibility of the agency. Definitely, that requires a considerable amount of money and time to be invested in changing the management accounting system so it can produce financial reports within the accrual basis (Guthrie, 1999). And maybe that is why some authors and researchers have questioned the viability of accrual accounting in the public sector given its cost and the time needed to implement and institutionalise the system.
2.4.3 Underlying Significance of Accountability

The objective of this thesis is not to discuss the best accountability system that should exist in the public sector or to discuss what constitutes the best accountability system, but rather to explain how accountability in public sector organisations has been impacted by the reform movement, especially the impact of the accounting change. Enhancing accountability in public sector organisations was one of the explicit aims of the public sector reform movement as a way of achieving efficiency, effectiveness and economy. In this regard, the public sector reform process was concerned mainly with the ongoing debate about the nature of accountability that existed in the public sector, and the implications of new accounting practices such as the adoption of accrual accounting was expected to strengthen accountability arrangements in public sector organisations.

In general, accountability has not been the same thing through time. It has undergone several changes through the years, and it has developed with the changing structure of the state and its representative hierarchical structures (Normanton, 1966). Accountability remains difficult to be determined and measured, although in general terms it can be seen that to be accountable means “there is an obligation to answer for one’s actions and decisions which arises when authority to act on behalf of an individual or body is transferred to another” (Funnell & Copper, 1998, p. 81).

Paul (1991, p.2) argues that “Accountability means holding individuals and organisations responsible for performance measures as objectively as possible. Public accountability refers to the spectrum of approaches, mechanisms, and practices used by governments to ensure that their activities and outputs meet the
intended goals and standards” . Stewart (1984) and Broadbent et al. (1996) discuss accountability in terms of a ladder. At the lowest level is accountability for probity and legality: funds have been used in an appropriate manner. The next level is process accountability: where actions follow due process. Performance and programme accountability together provide an account of the total work programme in terms of specific goals. Finally, policy accountability complements performance by accounting for outcomes in broad policy terms in relation to the goals.

In public sector organisations, traditionally accountability was mainly for both probity and process. But this has changed as NPM emphasised results and outcomes, and accountability has moved from accountability for process to accountability for results (Guthrie et al., 1999; Hood, 1995a). The focus on results has meant a requirement of an accountability system that is capable of measuring, evaluating and assessing performance. For this, accounting has been viewed as providing the backdrop for accountability so that it can be demanded, policed and enforced (Chambers, 1992). Subsequently, most governments around the world have made large investments to develop accounting systems related to their accountability requirements (Kloot, 1999; Osborne et al., 1995). The requirements have led to formal systems of accountability being built into legislation and rules and regulations for government bodies (Hyndman & Anderson, 1995).

As performance has shifted from inputs to results because of the NPM ideals, the accountability for inputs has changed to a keener focus on outputs and outcomes. And so it became necessary for performance to be measured by financial and non-financial measures. A concentration only on financial measures is inadequate
Non-financial measures have a significant role in managerial control and in ensuring that organisations are managed according to their objectives. They are important for both internal and external accountability (Kloot, 1999). They are particularly important when an organisation has a mix of social and financial objectives.

The move from cash to accrual accounting has also contributed to enhancing public sector accountability. There was a concern that cash accounting could be manipulated to achieve management objectives, arguably in a manner contrary to Parliamentary accountability and strict funding, as distinct from funding, intentions of government as this example explains:

One hospital radiology budget holder proudly told us how, anticipating in the current year that his budget was going to be underspent, he had purchased a second year’s supply of X-ray film to have in stock in case the next year’s budget turns out to be too tight. Cash accounting showed all this as one year’s costs, whereas full accruals accounting would have distributed the costs between the years according to actual resource consumption (Perrin, 1998).

Accrual accounting, on the other hand, is said to improve accountability and resource management (McBride & Peirson, 1996; Funnell & Cooper, 1998; Ranby, 1997) especially because accrual accounting provide information on the full cost of operations and the resources used to deliver services to the public (McBride & Peirson, 1996). The move to accrual budgeting has also meant to improve accountability in the public sector since funding was meant to become based on outcomes and results achieved. In this, funded agencies would have to ensure the achievement of results in order to secure the funding. Accrual reporting was meant also to improve accountability, by reporting more information to
general financial report users (more information on assets, liabilities, full costs, expenses, revenues and cash flows).

Although accrual accounting, budgeting and reporting have meant to enhance the accountability of public sector organisations the extent of this enhancement is not known at this stage. In addition, this improvement could vary between different agencies especially as there are several government agencies that have social and cultural objectives and determining their accountability based on the accrual financial terms only would raise questions.

2.5 Conclusion
Over the last four decades, public sectors around the world have been under pressures for reform. However, in the 1970s and after and the failure of some economies to respond to financial crises as a result of the oil and the dollar crises the call for reform has increased and the need has become inevitable. In addition, during the 1980s and 1990s public sectors were subject to several political, economic, social and technological pressures. These pressures dictated a need for improved efficiency and effectiveness, and strengthened systems of accountability. In response to these pressures governments around the world started to adopt principles of the NPM wave that was spreading at that time. The adoption of the NPM ideals involved the commercialisation of public sector organisations and the adoption of private sector management practices evolved as the private sector was perceived as more efficient and successful than the public sector. In the process of this adoption, governments around the world have applied several new organisational redesigns to their public sector organisations. Decentralisation, deregulation, corporatisation, and privatisation were the main
organisational measures that were applied in order to achieve a responsive public sector.

As a result of these organisational changes and in accordance with the NPM reform movement new management and accounting practices were introduced from the private sector into public sector organisations. These new practices were expected to thrust performance forward by achieving efficiency and effectiveness in the public sector. At the heart of these new practices it is argued in this chapter that accounting is a key element for performance as it is a key information source which facilitates resource allocation. The chapter argued that accounting is socially constructed and has changed to adapt to the public sector reform process. The need for more information has evolved and the old cash accounting system was not capable of providing such information. Accrual accounting was adopted from the private sector as it offers more comprehensive information which is necessary for better decision-making purposes. It offered a more complete picture about the cost of services and the financial accountability for outputs and results achieved. The use of accrual accounting was also reflected in reporting and budgeting where more precise information was prepared and presented.
Chapter 3 Public Sector Reform: Australian Responses

3.1 Introduction
This chapter provides an overview of the Australian experience of public sector reform in the light of the international developments addressed in chapter two. It constitutes an essential background to the case study chapters as it addresses reform developments from an Australian perspective that the Northern Territory was part of. The chapter is divided into three parts. The first part provides an overview of the reform drivers and responses; the second outlines the different organisational changes that occurred as part of the reform process; and the third part discusses organisational performance and the accounting role in improving it.

The review of the literature on the Australian public sector revealed that Australia generally has not been any different from the rest of the world in relation to pressures for public sector reform. Globalisation and other social and economic pressures have forced the Australian government to embark on reforming its public sector (Argy, 2004; Dixon & Kouzmin, 1994; Rivlin, 1996; Wensing, 1997). Therefore, part one of this chapter is further divided into two sections. The first section outlines the different drivers that pressured governments to reform the public sector. The second section describes how governments responded to the reform pressures and it specifically focuses on the initiatives issued in this regard with an appreciation of the role leadership and legislative commitment have played to push these initiatives forward.

The second part of the chapter discusses the different organisational measures that were introduced in the process of the public sector reform. It focuses particularly
on the adoption of commercial practices in the public sector in response to the commercialising direction that governments have opted to take. This adoption has its implications for the existing management practices in the public sector. The third part of this chapter is divided into two sections. The first one discusses how governments’ interest in performance has affected the reform process by making it more results oriented. The second section provides a detailed discussion on how accounting was seen as a key mechanical tool to achieve the reform objectives. It discusses the accounting changes from cash to accrual accounting and the perceived effects of that on performance and accountability systems in public sector organisations.

3.2 Public Sector Reform, an Australian Perspective
The public sector in Australia at the Commonwealth and state levels establishes and maintains the legal and administrative environment through its institutions, legislation and regulatory policies, in which economic and social activity takes place (Australia, 1983). Governments believe that the effective management of their systems will have a direct impact on the broader economy by influencing economic efficiency, innovation and the direction and speed of structural adjustment (Marshall et al., 1999). That is why the public sector in Australia and its reform have become an important topic for research and attracted much attention in last two decades (Broadbent, 1999; Broadbent & Guthrie, 1992; Hood, 1990a, 1990b, 1995a, 1995b; O’Faircheallaigh et al., 1999).

3.2.1 Drivers of Reform
In the post-war period, Australia experienced an economic boom, and became one of the countries with the highest living standards. Even Australians thought of
themselves as the ‘lucky country’ (Horne, 1965). During that time, Australia had experienced a remarkable period of economic development characterised by high economic growth, very low unemployment, and continuous increases in both real wages and real household income. This period of widespread and sustained prosperity gave rise to a set of community aspirations and expectations that anticipated faster growth, but these aspirations contributed to rising inflation, which when added to the fiscal policies of the Whitlam Labor Government (1972-75) and to the problems faced by the international economy in the early 1970s, resulted in a serious recession in 1974 (Dixon & Kouzmin, 1994). Subsequently, from the mid-1970s, the public sector started to rely significantly on deficit spending. By the 1980s, the economy was suffering from stagflation, and industry competitiveness and living standards were both falling behind the rest of the world (Argy, 2004). The Australian economy was less able to withstand the pressure from a more competitive global economy. In 1983-1984 the federal government deficit amounted to 4.27 percent of the gross domestic product (GDP) (Australian Government, 1996), and efforts to reduce spending intensified. The need to restructure the economy and to correct the country’s fiscal imbalance was necessary but at the same time it exposed the public sector to greater reform pressures. These pressures are summarised by the following:

**Fiscal problems:** Fiscal problems or economic crises were seen as the most important drivers behind the Australian public sector reform. From the 1970s on, Australia began to face economic problems after its rapid growth. High levels of unemployment, rising inflation, growing public debt, falling living standards and comparatively decreasing competition all contributed to the recession in 1974 (Argy, 2004). The Australian public sector started to rely significantly on deficit
spending. By the 1980s, Australia’s economy was less able to withstand the pressure from a more competitive global economy. As with other countries, the main driving force for these changes was the changing economic situation.

**Technological developments:** The social and economic impacts of globalisation required government to respond quickly and appropriately to world competition. Technology was seen to bring positive changes to the public sector environment in Australia. Networked personal computers, email and powerful spreadsheets have reshaped the work environment and lifted productivity in the private sector and were expected to make a more efficient and effective service delivery in the public sector, which in turn would satisfy and enhance the expectations of citizens (Beazley, 1995).

**Political factors:** Reforms in the public sector were also driven by the Labor party’s concern with political control. By the time the Labor party came into power in 1983, there was a growing consensus that the public service elite had become too much of a ‘law unto themselves’, and there was an appetite for reassertion of political direction (Pollitt & Bouckaert, 2000).

**Public demands for better government:** Increasing demands for better government came about as a result of criticisms from politicians and the dissatisfaction of its citizens. Politicians began to suggest that poor government policies caused the stagnation of economies. Citizens demanded more responsible government and better services and were unwilling to put up with poor services or economic crises. They demanded improvements in the economy, constrained
public expenditures, and the provision of better services which together pushed government toward public sector reform (Argy, 2001; Marshall et al., 1999).

In addition, through the 1970s and 1980s a spate of books was published popularising the ideas of management specialists. They reinforced the view that traditional approaches to public administration suffered from inertia and ossification, and were in need of reform. More flexible and innovative approaches to management in all sectors were required. On this basis, and due to the fiscal and economic problems, there was a global wave of generic managerial ideas that began to develop in Australia from the late 1970s, including management by objectives (MBO), total quality management (TQM), downsizing, benchmarking, re-engineering, and so on. These various ideas had a major influence on the thought and practice of the Hawke and Keating governments (Orchard, 1988) and even more influence after the Howard Liberal National Government came to power in 1996 (Pollit & Bouckaert, 2000).

Overall, these pressures were related to each other and became the main drivers that made the need for public sector reform more apparent and inevitable to become more effective, efficient and accountable for the use of publicly generated funds (Rivlin, 1996; Sansom, 1997; Wensing, 1997).

3.2.2 Reform Responses

As a result of the pressures exercised on governments in Australia, the past two decades have seen widespread interest in the management of the public sector (Broadbent, 1999; Broadbent & Guthrie, 1992; O’Faircheallaigh et al., 1999). By the end of 1970s it was clear to everyone that providing effective public services and improving local communities are central challenges facing the Australian
governments into the 21st century (Marshall et al., 1999). In preparing to meet these challenges, and similar to other OECD countries, governments in Australia became motivated to improve the efficiency of the public sector and so lift the nation’s productivity performance and the well-being of Australians (Argy, 2001), and for that they have issued several initiatives at both federal and state levels in order to respond to the reform pressures exercised on the public sector. These initiatives constituted of several reviews, papers, agendas, and new acts that were issued to thrust the public sector reform forward. They were necessary to modernise budgeting, financial and management practices in order to improve decision-making and government effectiveness. Also, they were seen as mechanisms for developing a management framework which is more suited to the increasingly competitive global economic environment (Hughes, 1994). These initiatives are described later in this section.

The introduction of these initiatives was mainly driven and supported by the ‘leadership’ and the ‘legislative commitment’ of the consecutive governments. Without these two elements, the reform process was not going to be emphasised. Leadership support for public sector reforms in Australia came from both a political perspective and the administrative perspective. All four Prime Ministers during the period covered in this research (Fraser: 1975-1983, Hawke: 1983-1991, Keating: 1991-1996, and Howard: 1996-2007) put their efforts toward better performance and accountability (Halligan, 1997). Clear political leadership can also be found at the state level. For instance, during the election period in 2001, Geoff Gallop, who later became the Premier of Western Australia, put ‘honest, accountable and inclusive government’ as his number one priority (Gallop, 2001).
Also leadership support came from senior executives in the public sector. The Senior Executive Leadership Capability Framework for example not only established the core criteria for Senior Executive Service selection, but also made the administrative leadership support realistic in terms of strategic thinking, achieving results, cultivating productive working relationships, exemplifying personal integrity, and communicating with influence.

Legislative commitment was also a critical factor of the Australian public sector reforms over the past 20 years. Laws that support the reform were issued and passed at both federal and state levels, and sometimes they were amended according to the changing environment. These laws have provided support to the reform by consolidating it and ensuring its continuity. Legislative support has provided a legal framework for the Australian public sector reforms, sometimes making the reform not just an initiative of a single government, but making it a nation-wide and lasting initiative aimed toward better performance and accountability.

The initial spark for public sector reform at the federal level was the Royal Commission on Government Administration of the Commonwealth of Australia, known as the Coombs Commission (RCAGA, 1976). The commission provided the first comprehensive review of the federal bureaucracy for more than fifty years, delivering its report in 1976. It examined all administrative aspects of the federal bureaucracy, including its resources, procedures, accountability and efficiency and made 337 recommendations (Maley, 2002). The inefficiency of government and its impact on the community was one of the major problems identified by the commission. It became apparent that in any given area of
government, a number of different agencies and levels of government may be involved, and their separate operations may cut across one another. The weakness in the public sector was seen to be a product of the system, which put too much emphasis on inputs and due process (Halligan, 1997). This review has made clear that Australia’s traditional administration was not adapting sufficiently to deal with the changing situation. The new administrative laws\(^3\) that were introduced in the 1970s did not offer solutions to broader problems. Also many of the recommendations of the Coombs Commission were not implemented (Halligan, 1997). All these and the failure of the 1970s experiences and processes indicated the need for a new and more effective reform package.

In the 1980s, a new stage of public sector reform emerged in Australia. This new reform has focused on building a more efficient, effective and accountable public sector by adopting management practices that are more results and outcomes oriented. The new reform can be seen clearly through the several initiatives that governments around Australia have introduced after that time, these initiatives have focused on increasing public sector efficiency, making it more effective, increasing its responsiveness and emphasising value for money. For example, in 1983, the Reid Review recommended that changes be designed to increase public sector efficiency, devolve responsibility, make public servants more accountable for their actions, free up recruitment procedures for senior managers and increase ministerial control over departments. The Reid Review was seen as the first reform initiative in the Australian public sector reforms (Reid, 1983).

Also in 1983, the newly elected Hawke Labor government issued a White Paper entitled Reforming the Australian Public Service (Hawke, 1983), which emphasised a public sector that is:

- More efficient and effective; and
- More responsive and accountable to ministers and Parliament.

But in June 1984, many of the measures outlined in the 1983 White Paper were legislated through the Public Service Reform Act, 1984 (Australian Attorney-General’s Department, 1984). Both the White Paper and the Act have been termed ‘the most wide-ranging reforms of the Australian public service since its creation at the time of federation’ (Wilenski, 1986).

Also in 1984, the Australian government issued the White Paper ‘Budget Reform’, which had three major themes. The first was focusing and streamlining budget decision-making by government. The second was improving the information base and processes for parliamentary and public scrutiny of government performance. And the third was upgrading the financial management programs. For this, the paper aimed to develop better means of identifying and setting government priorities; focus attention on the goals and objectives of programs, in relation to the resources they use; develop and apply specific techniques aimed at improved performance and more efficient resource use (for example, devolution of financial management responsibilities and the introduction of a new system of program budgeting); and set up machinery to ensure that the effectiveness and efficiency of programs were reviewed regularly, and that such reviews were used in setting budget priorities.
Along with the White Paper Budget Reform, there was a set of documents known as Portfolio Budget Measures Statements, containing an overview of each portfolio's objectives, program structure and resources along with a discussion of budget measures. Also, agency’s annual reports to ‘make a fully informed judgment as to the effectiveness of the agency in meeting its program objectives’ were issued several months after the statements. These budget statements and annual reports have become the main accountability vehicles by which Ministers reported to Parliament and the public on the effectiveness of the programs for which they are individually responsible.

In 1984, all previous initiatives, especially the Coombs review (1976) and the Reid review (1983) which both had raised issues of efficiency, effectiveness and performance of public administration have resulted in the introduction of the Financial Management Improvement Program (FMIP). The FMIP was a mechanism to assist the implementation of managerial and financial reforms throughout the Australian Public Sector. This mechanism aimed at the governmental level to streamline the budget formulation process and simplify and update the rules regulating public financial management. In addition, it aimed at the departmental level to improve the system by which departments and agencies make decisions, manage and evaluate achievements (Australian Department of Finance, 1994a, 1994b).

The basic rationale of the FMIP might be aptly summed up as managing for results. In emphasising the results, the aim has been to focus management attention on the purposes of programs and the achievement of cost effective
outcomes rather than simply on inputs and processes (House of Representatives Standing Committee on Finance and Public Administration, 1990b).

The FMIP stressed that it was imperative to “let the managers manage” (Funnell & Cooper, 1998, P.84; Shand, 1990a, P.66). This implied a move to a more devolved structure (Funnell & Cooper, 1998). In particular, the FMIP highlighted the need to create a more comprehensive and timely budget process by focusing on improved standards and practices, through improved management systems encompassing corporate management, program management, organisation design, and management information and evaluation (Shand, 1990a, 1990b). All in all, the FMIP was seen to provide a comprehensive framework for improved resource management (Guthrie & Parker, 1990).

Also, and within the same direction, in 1987, the government issued the Program Management and Budgeting (PMB) framework which was intended not only to contribute to improved parliamentary and public scrutiny, but to make staff feel responsible for the results of the programs they were administering (Management Advisory Committee, 2004). The key elements of this information framework were the establishment of program structures in agencies, clearer statements of agency and program objectives (strategic and outcome-oriented), and the determination of appropriate performance indicators. Under PMB, expenditures were classified on the basis of a hierarchy of programs, subprograms and activities, each related to purposes and objectives (as opposed to the line-item budgeting system previously in use). Management reporting systems to monitor and report on program achievement were based on this program structure. As
well, the program format enhanced the alignment of the annual parliamentary appropriations with program management.

In 1994, the Labor government brought forward three legislative proposals bearing on the financial management and control framework for the public sector, to replace the Audit Act (1901). These were: the Financial Management and Accountability Act; the Commonwealth Authorities and Companies Act; and the Auditor-General Act. These bills were finally passed in 1997, providing a new legislative framework for financial management and accountability. The intent behind the Financial Management and Accountability Act (FMA) was to modernise the legislative base for financial administration (Australian Attorney-General’s Department, 1997). The Commonwealth Authorities and Companies Act aimed to implement a standard framework for reporting, auditing and ethical requirements for directors of federal government statutory authorities and government business enterprises. The Auditor-General Act was intended to enhance the Auditor-General's effectiveness, scope and independence from government. The Act defined the powers and functions of the Audit Office to support its functional independence from government through parliamentary involvement in the appointment of the Auditor-General, by giving the Auditor General the right to report to Parliament on any matter, and by clarifying and strengthening his mandate.

Also in 1994, the council of Australian governments agreed to reforms set out in the National Competition Policy (NCP) which came into existence as a result of efforts started in 1992 with Prime Minister Paul Keating. The NCP provided financial incentives for states to undertake reforms to introduce or increase the
level of competition in areas of traditional state-owned monopolies, in other terms, the NCP reinforced the push towards commercialisation and corporatisation in individual jurisdictions (Kruk & Bastaja, 2002).

The NCP aimed at improving the use of resources in the public sector through increased competition. It did this by subjecting public sector agencies to market principles (Funnell & Copper, 1998; O’Faircheallaigh et al., 1999). It broadly advocated that to become more economic, efficient and effective, public sector entities should operate on the same commercial principles as the private sector (Aucoin, 1990; Barzelay, 1992; Hood, 1991; 1995a; Hoque & Moll, 2001), as it was considered that public services would be provided more efficiently and effectively with greater client satisfaction, in a more market oriented environment which provides greater flexibility for management decision-making and introduces the discipline of competition (Barrett, 2000). In economic terms, there would be a better use of national resources. The public sector reforms would improve the efficiency of the public sector and so lift the nation’s productivity performance and the well-being of Australians (Argy, 2004).

The NCP represented a long-term policy commitment. It was built upon a long term process of microeconomic reform that has been underway in Australia since the early 1980s. Consequently, a series of financial and administrative reforms have been introduced. The financial reform agenda included such things as financial reporting, accrual accounting, full cost pricing, purchaser/provider agreements, and asset management. The administrative reform encompassed but was not limited to structural reforms, labor reforms, the review of information systems and accountability reforms. These reforms were centred on managerial

Since the introduction of the NCP in 1995, state and territory governments made significant changes with respect to their respective public sectors. Some of these could be considered more radical than others. In particular, Victoria has been the state heralded as leading the charge in the application of market-oriented reforms, going beyond the management reforms of the 1980s (Halligan, 2005; Halligan & Power, 1992). At the federal level, in 1996, the Howard government came to power with a commitment to ensure the application of private sector principles to the public sector. Also in South Australia, the government issued its new Public Sector Management Act in 1995, which provides an increased focus on issues of management and accountability. In addition, in 2003, the government considered several recommendations directed towards achieving improvements in public sector efficiency, effectiveness, workforce capacity, and leadership. Other states were not any different, and they have introduced several changes to their public sector management by issuing initiatives that aim to increase the efficiency, effectiveness and accountability of their public sector.

In addition to these initiatives, a series of major program and policy reviews were initiated in the 1993/1994 budget. These reviews focused on areas of rapid expenditure growth and have emphasised value for money and finding ways of doing things better for the same or reduced cost (Broadbent, 1999). Approaches to efficiency improvement included benchmarking, commercialisation and cost recovery. Many reviews entailed the collection of new evaluation information;
others involved the synthesis of a range of available evaluation and review findings.

In 1996, the government issued its Public Service Reform Agenda, which set out the directions for change. The agenda indicated the legislative, industrial and administrative flexibility to provide the Australian public sector leadership with the freedoms that were necessary to pursue more innovative ways of seeking high performance. The Agenda also identified a range of initiatives that might serve to improve public accountability for performance, increase competitiveness and enhance leadership. These initiatives included Government Service Charters, public performance agreements for Agency Heads, the replacement of out-of-date hierarchical controls with more contemporary team-based arrangements, greater devolved responsibility to the agency level, giving agencies flexibility to decide on their own systems for rewarding high performance, and streamlined administrative procedures. A strategic approach to the systematic management of risk was to be encouraged. Enhanced public accountability was to ensure that taxpayers' funds would not be used fraudulently or wastefully (Reith, 1996).

One element in this agenda was the Public Service Act which was issued in 1999. The Act (Australian Attorney-General’s Department, 1999), intended to provide a legal framework for APS to achieve a balance between improved accountability and devolved responsibility so as to maximise the efficiency and effectiveness of the Australian public sector. It intended to improve the quality of people management in the Australian public sector, which, in turn, was expected to translate, among other things, into:
• More efficient, effective and ethical use of the Commonwealth’s resources;
• Responsiveness to Government in providing timely advice and implementing the Government’s policies and programs; and
• Fair, effective, impartial and courteous services for all Australians.

3.3 Organisational Change
The initiatives issued by Australian governments in response to reform pressures have provided a context within which new organisational measures have been adopted into the public sector as the basis for achieving a more efficient, effective and responsive public sector (Parker & Bradley, 2000). These are decentralisation, outsourcing and contracting out, corporatisation, and privatisation, (Cameron, 2004; Halligan, 1997; Hogget, 1996). These organisational measures were based on the principle of adopting a more market-oriented approach in public service delivery and introducing more business like methods to public sector management, in addition to making state owned organisations subject to competitive pressures. The contention in Australia for the adoption of such an approach was based on the belief that the public sector will become more effective and economical and this will improve the productivity and efficiency of the economy (Parker & Bradley, 2000).

Although all these organisational measures were adopted, governments in Australia have accepted that not all public services have to be provided by them. Some services could be better provided competitively with government maintaining a necessary level of regulation and control without ownership. The intended benefit of this is that governments would be able to concentrate on
outcomes and outputs instead of inputs and this would encourage suppliers to provide innovative solutions and cost savings as a result of market pressures. In this regard, Australian governments have generally divested some services, contracted out some other services, and corporatised others where divestment and contracting-out were not possible. In addition, they have made the rest of the public sector organisations – the non-corporatised organisations – subject to market and competition pressures in order to achieve better quality and cost savings (Parker & Bradley, 2000).

Accordingly, Australian governments have gradually withdrawn from the provision of some services, and privatised the government agencies involved. Over the last decade, Australia has been one of the most enthusiastic privatisers in the world and has had one of the largest privatisation programs in the OECD countries, second only to UK in dollar terms and to NZ as a percentage of GDP. Sales of federal government assets and businesses began in 1986 and escalated during the late 1990s. During this period, Australian governments, state and federal, have sold off nearly $100 billion worth of government assets. Some states, like Victoria, have sold nearly all their electricity businesses, prisons and ambulance services. At the commonwealth level many government enterprises (eg. Commonwealth Bank of Australia, and Qantas) have been sold off and the Howard government was planning to fully privatise Telstra (Argy, 2001). In particular, the last 10 years has seen an increased focus on privatisation of government business entities, with approximately $50 billion raised by the federal government through such asset sales over this time. In addition to raising significant cash proceeds, asset sales provide an opportunity to transfer risks to the private sector and have been argued to offer the potential for improved
business efficiency (Barrett, 2000). The proceeds of these asset sales were paid into the respective government’s consolidated revenue accounts, thus benefiting the taxpayer. In cases of business monopoly where government ownership was seen as essential, governments argued that the public interest can be protected by better regulation. This has allowed the sale of some assets without significant risk of the monopoly being abused. This is how the federal government has sold the major city airports and similarly many utilities have been sold by state governments. It was expected that such sales would produce better management, with less constraints on its capital needs.

Another organisational measure that was used to improve public sector efficiency and effectiveness is outsourcing and contracting out. This refers to an arrangement with a private sector provider performs an activity that was previously undertaken by a government organisation. Under such arrangement, the organisation retains overall responsibility and accountability for the activity irrespective of the service delivery method. Governments in Australia have embraced this organisational measure but they involve market testing through a competitive tendering and contracting (CTC) process. Such process was seen as a means of delivering more client-focused services while achieving savings and maintaining accountability.

In Australia, outsourcing and contacting-out have extended beyond things like construction, maintenance, garbage collection, cleaning and catering to research and internal corporate services, such as IT and administration. It is also used to deliver employment services, manage prisons and hospitals and even deliver defence support services to the front line. For examples the Defence Department’s Commercial Support Program that was introduced in 1991, also more recently, the
Commonwealth has undertaken its most significant outsourcing to date, that of employment services (Barrett, 2000). In addition, in 1997, the Commonwealth government announced its in-principle agreement to the outsourcing of IT infrastructure across budget-funded agencies through the undertaking of a competitive tendering process to increase efficiency and provide broader access to technical expertise and technology support. State and territory governments have also embraced outsourcing to varying degrees. For example, during the early 1990s the state government in Victoria was one of the most enthusiastic supporters of outsourcing. It outsourced major toll road construction and operation, hospitals, prison construction, and the city train and tram public transport services.

Corporatisation has also been embraced by governments in Australia, where organisations are established to manage operational activities with their own boards of directors responsible for making decisions about their operational performance and the delivery of their services. These organisations have either taken the form of a company under the general companies legislation, or a statutory authority under its own legislation. Australian governments have used this organisational form to corporatise a wide range of public service providers to the extent that this has become a standard practice (Argy, 2001). Some of these providers have been longstanding monopolies, like postal services, telecommunications and water and electricity provision, and some have been in areas where government has operated alongside private providers, like banking, aviation, and shipping. These corporatised entities were given a set of ‘commercial’ objectives and were free to use whatever management techniques they like to achieve the objectives (Argy, 2001). The government has only
provided them with broad policy direction, set targets and used its ownership to ensure community service obligations are met.

In addition, governments in Australia as part of their commercialisation process, have injected market principles and adopted private sector management practices into many areas of public policy and administration including their core public service departments, such as policy advice, research and regulation (Argy, 2001). These practices include regular performance evaluation, performance incentives and rewards, flexible working arrangements, enterprise bargaining arrangements, results-oriented program budgeting and targeting, and the promotion of accrual financial reporting and budgeting (Argy, 2001). It is important to bring to attention that there is not much difference between corporatisation and commercialisation except that a corporatised entity is considered a separate legal entity and operates under the direction of its own board of directors (Hoque & Moll, 2001).

These organisational measures were seen as a process of managerial revolution or management reform in the public sector (Halligan, 1997; Hogget, 1996). A number of benefits have flowed from their introduction: for example, privatisation has reduced the budget deficit, while outsourcing and contracting-out appear to have led to significant cost savings in the short term. Corporatisation and the use of market principles were believed to lead to increased accountability (Curtin, 2000; Hood, 1990b).
3.4 Organisational Performance and Accounting Change

3.4.1 Organisational Performance
Governments in Australia have given performance considerable attention during the public sector reform process as it is related to the organisation’s ability to become more efficient and effective (Emmanuel et al., 1990; Evans & Bellamy, 1995). Achieving better performance was an essential objective for public sector organisations. Evans & Bellamy (1995) considered performance as the major thrust of the NPM reform movement and its commercialised direction. So in the last two decades, performance in Australia has changed to adapt to the organisational change that took place as result of the reform process. With the adoption of commercial market practices in the public sector, performance has shifted its focus from one that is based on managing inputs and costs to one that gives more attention to results and outcomes and meets the needs of the community (Argy, 2001; 2004). This means that performance has become more results oriented in adaptation with the changing public sector environment that has become largely linked to outputs and outcomes. In this shift, the availability of performance measurement, performance information, performance evaluation, and performance indicator systems, in addition to a successful human resource management system, all constitute parts of an improved performance for public sector organisations. In this regard, and in the process of adopting private sector management practices into the public sector, public sector organisations have imported performance-related management practices that are more results oriented as they were developed in private sector companies. Results based management, total quality management, balanced scorecard, benchmarking, and performance based budgeting are just to name few.
At first, public sector organisations at both the federal and the state levels have focused on developing measuring systems. The measures were of all types, both qualitative and quantitative, including inputs, workloads, outputs, service quality, and outcomes, but the emphasis was on the development of outcome measures. Two examples of these measures were the ‘Managing for Outcomes Model’ of Queensland and the ‘Output-Based Management’ of Western Australia. These measures were considered as a means of allocating scarce resources (Evans & Bellamy, 1995). Performance measurement was an important part of achieving good performance as it promoted accountability and supported the management to follow a certain vision or strategy (Faucett & Keliner, 1994; Osborne et al., 1995).

Also, performance evaluation was a topic of much debate and concern among Australian Government policy makers and practitioners (Evans & Bellamy 1995), because the problem of reconciling two potentially conflicting aims: letting managers both manage and monitor value-added activities (as a result of the Decentralisation direction), and satisfying the statutory requirements in a formalised reporting system to Parliament (as part of increasing accountability). Historically, the performance evaluation process in the Australian public sector has involved the use of financial accounting systems to produce accounting statements that reflect historical, short-term results. Evaluation has been limited to line item budgets (inputs) which have no relationship to either the activities (processes) or the performance (outputs and outcomes) of the participants. However, the introduction of programme and outcomes management in the Australian public sector has shifted the focus from inputs to successful outcomes through strategic planning and that was reflected in the performance evaluation techniques used.
Associated with the notion of performance evaluation, is the total quality management (TQM) approach which was introduced into public sector organisations. TQM is a strategic integrated management philosophy based on the concept of achieving ever-higher levels of customer satisfaction in response to customer demands. It is not a short term, morale-boosting and efficiency programme. TQM is seen as a set of concepts and tools that focus on individuals, groups and organisations for continuous performance improvement (Hoque & Alam, 1999). The Australian Government, through its Department of Industry, Technology and Commerce’s National Industry Extension Service (NIES), has produced a national model of TQM, which is defined as follows: “Total quality management for continuous improvement is the management approach that sustains a competitive advantage by consistently exceeding the current and future expectations of customers, based on continuous improvement in all processes, goods and services, through the creative involvement of people” (Australian Department of Finance, 1992).

In addition, performance indicators have been implemented in Australian public sector organisations as they are essential information and a management tool (Taylor, 2001), as well as being claimed to bring about numerous benefits for improving accountability and planning.

Also, a focus on performance information is essential for better performance as it is considered the backbone of the performance system. Without performance information, it would be difficult for organisations to manage their performance. In this regard, public organisations have focused on collecting, reporting, reviewing, and using the performance information. Annual reports, for example,
as the key performance reporting documents were required to be developed by public sector organisations as they provide information to enable Parliament to make fully informed judgements on departments and agencies. Since the mid-1990s, annual reports have included performance information that can be benchmarked against budget documents. Annual reports were also required to focus on outcomes and to reduce the amount of activity-related information.

In general, performance information was used by public sector organisations in the achievement of statutory accountability requirements defined by the Parliament. Under the federal legislative framework, public sector organisations are required to demonstrate the efficient, effective and ethical use of resources. Performance information was considered an essential tool in this process, allowing organisations the opportunity to make an accurate appraisal. Thus, performance information was structured in a way that shows how an agency’s outputs contribute to the achievement of the outcomes sought by the government. Outcomes performance information therefore was related to the quality, quantity and price of the agency’s outputs, i.e. its goods and services, to determine the specific impact those outputs have had on the community relative to those planned by the government. This was primarily through the development of key performance indicators to assess the extent to which program objectives are being achieved.

In addition, efficient human resource management would play an important role in improving the performance of the Australian public sector by building better labor and management relationships, staff training, and performance-based payments. In this regard, laws have been passed to ensure that recruitment to the public
sector is based on merit and performance. Training has been provided to staff from all levels of the public sector. For instance, the Middle Management Development Initiatives of the early 1990s focused on those managers with substantial people management responsibilities, while the Senior Executive Leadership Capability improved the performance of senior managers and executives. Also, the development of a performance-based pay system had been a key element of improving performance ever since the early 1980s, before it finally became a special feature of the Australian public sector (O’Donnell, 1998).

Performance-based Budgeting has also played a key role in improving performance in the public sector. In this regard, governments and organisations have linked budgeting to performance through outcome and output budgeting. Departments and agencies were required to report the outcomes against the inputs, and this performance information was used in the budget process.

Finally, the success of all these previous performance systems relies on building a performance culture which includes changing the way government works and changing the way people think. With the progression of public sector reform, governments in Australia have been building a performance culture where leaders, managers, employees, and citizens truly understand and believe in the performance concepts. In this new culture, the emphasis of management changed from focusing on inputs to focusing on outputs and outcomes. Also, employees were allowed to make suggestions for improvements in the practice of government. In summary, a more outcome-focused, citizen centred, and performance-oriented culture was being built in Australia.
3.4.2 Accounting Responses

The organisational change that took place in the Australian public sector within the commercialisation process of the NPM movement, especially through the application of private sector practices, has had substantial implications for accounting in public sector organisations. These implications started to appear in the 1980s and became more widespread in the 1990s. As explained in the previous chapter, accounting systems are often implicated in the wider processes of organisational change, providing a vehicle through which changes can be promoted (Otley, 2001). So, in Australia, significant changes took place in accounting methods and processes in the public sector (Gowland & Aiken, 2005).

The focus on accounting systems in this thesis follows arguments that the accounting systems are the only means from which managers can show that they have satisfied the financial expectations of governments (Funnell & Cooper, 1998). In the reform process, accounting was needed as it plays a key role in all the new practices that were introduced into the public sector as a result of the commercialisation of public sector organisations. Efficiency, effectiveness and improved performance were not to be achieved in the public sector without the information that accounting is able to generate. The focus on results management, performance evaluation, performance measurement, cost saving, and improved decision-making were all depended on the quality and quantity that accounting can offer (Broadbent & Guthrie, 1992; Guthrie, 1995).

As with the rest of the world, traditional accounting in the Australian public sector focused on inputs and the control of expenditure. However, achieving the reform objectives required a shift in the role of accounting to one that is focused on accountability and the efficient allocation and use of resources to ensure better
performance. This implies that accounting should concentrate on producing information that is necessary for achieving better results, outcomes and cost savings (Broadbent & Guthrie, 1992). This has required some new accounting mechanisms, such as accrual accounting, accrual reporting, and accrual budgeting to be employed within public sector organisations (Guthrie, 1995). Subsequently, public sector organisations have imported these accounting mechanisms from private sector organisations in order to shift the focus to results and outcomes rather than simply focus on inputs and process, and this change should theoretically lead to a more efficient and effective public sector.

As mentioned before, the major change that took place in the public sector accounting arena in the last two decades was the shift from cash to accrual accounting. The promotion of accrual accounting in the Australian public sector could be traced back to early 1980s and specifically to the development stage of the Conceptual Framework for the accounting profession. The history of the development of the conceptual framework is important in this thesis to illuminate how the primary form of accounting in the private sector, accrual accounting, was transferred into the public sector.

The findings of the RCAGA inquiry and the other inquiries, discussed earlier in this chapter, were considered to be significant for increasing the general awareness of the need for enhancements in the accountability and performance of public sector organisations (Halligan & Power, 1992; Kent, 2000; Parker, 1977; Ryan, 1998). Most of these inquiries were critical of the perceived inefficiency and inadequate accountability of government organisations (Chua & Sinclair, 1994; Parker & Guthrie, 1993; Power, 1990). Some of these inquiries have made
specific recommendations in respect to reforming accounting practice in the public sector in Australia. For example, the RCAGA (1976) emphasised the importance of improved financial reporting by Commonwealth departments, but it did not, however, formally recommend the preparation of standardised financial reporting, nor did it specifically recommend the adoption of accrual accounting in government reports. Some other inquiries, on the other hand, at the state level especially in Victoria (Bland in 1975), South Australia (Corbett in 1975) and New South Wales (Wilenski in 1977) have specifically acknowledged the need for public sector accounting reform and have recommended the adoption of accrual accounting in their respective public sectors.

By the late 1970s, there was limited confidence about the accounting profession’s ability to reform itself (Chua & Sinclair, 1994). There was a need for a formalised and generally accepted theoretical framework that could legitimise existing accounting practices. Accounting practices were perceived as a residual of an arbitrary and political process rather than the outcome of the application of a rational knowledge base. The absence of a suitable knowledge base underpinning accounting practices has increased criticism at the performance of the accounting profession in a range of liquidators’ reports from a series of collapses during the 1960s and 1970s. The perceived failure of audited financial reports to warn investors and others of pending corporate failure, as well as the ongoing difficulties faced by the accounting profession in ensuring future compliance with accounting and auditing practices have all increased the level of this criticism (Chua & Sinclair, 1994; Gibson, 1979). So it became clear that there was a strong need for a conceptual framework in order to enhance future accounting standards.
as well as to improve the structure and content of financial reports through adherence to these standards.

During this time, the accounting profession in Australia formed the Australian Accounting Research Foundation (AARF)\(^4\) in 1965. The main purpose of the AARF was to improve the quality of financial reporting in Australia (AARF, 1966). In 1973, the Financial Accounting Standards Board (FASB) in the USA has introduced a conceptual framework which was defined as:

\[
A \text{ coherent system of interrelated objectives and fundamentals that is expected to lead to consistent standards and that prescribes the nature, function and limits of financial accounting and reporting (FASB, 1980s, P.i)}
\]

In Australia, a similar framework was pursued by the AARF with the first spark in 1974 when Alan Barton, a Professor of Accounting at the Australian National University, produced the Accounting Theory Monograph ‘Objectives and Basic Concepts of Accounting’ which was published in 1982. Also, in May 1980, Kevin Stevenson who was the AARF’s technical director prepared a document ‘Towards a Conceptual Framework for Accounting Standards’ which outlined how the AARF could develop such a framework. The document suggested that the AARF could develop such a framework by relying on the FASB conceptual framework (Burrows, 1996).

\[^4\] The Australian Accounting Research Foundation (AARF) was established by the Australian Society of Certified Practising Accountants (ASCPA) and The Institute of Chartered Accountants in Australia (ICA) and undertakes a range of technical and research activities on behalf of the accounting profession as a whole.
During this period, some government inquiries provided different viewpoints on the extent to which the accounting profession should be involved in the regulation of public sector accounting and also there were professional concerns about the applicability of professional accounting standards within the public sector (Chua & Sinclair, 1994; Kent, 2000; Stevenson, 1982). For example, the Joint Committee of Public Accounts (JCPA) in 1982 warned that professional accounting standards are not in themselves a sound, complete basis for the construction of public sector reporting standards (JCPA, 1982). In addition, the JCPA was uncertain about the role of the AARF in developing public sector accounting. In 1983, the Public Sector Accounting Standards Board (PSASB)\(^5\) was formed with the objective of developing accounting concepts and standards applicable to the public sector. The board issued its first Accounting Theory Monograph (ATM), prepared by Sutcliffe, in 1985 which was titled ‘Financial Reporting in the Public Sector’ (ATM5). This ATM was important for the public sector accounting as it was the first by the PSASB and it questioned the appropriateness of applying the same accounting procedures for public and private sector agencies (Sutcliffe, 1985). Also, in 1985, the PSASB released the first formal Conceptual Framework document which was entitled ‘SAC 1: Objectives of Financial Reporting by Public Sector Entities’. This old public sector’s SAC 1 was solely focusing on accounting in the public sector, however at the same time progress was underway to develop a similar document related to private sector organisations. But with the years, accounting bodies including the PSASB were

\(^5\) The Public Sector Accounting Standards Board (PSASB) is one of the boards of the Australian Accounting Research Foundation (AARF).
working closely to develop a Conceptual Framework that could apply to both public and private sectors (AARF, 1984; Kent, 2000).

By the end of the 1980s, the AARF had introduced several Accounting Theory Monographs (ATMs) and Exposure Drafts (EDs) which provided the fundamentals of the development of the Conceptual Framework. In August 1990, the AARF issue the Conceptual Framework which was contained in a series of Statements of Accounting Concepts (SACs) (see the table below). The old public sector’s SAC 1, which was originally released in 1985, was amended to include private sector organisations and became SAC2 with no reference to public sector entities in its title.

| SAC 1: Definition of the Reporting Entity. |
| SAC 2: Objective of General Purpose Financial Reporting. |
| SAC 3: Qualitative Characteristics of Financial Information. |
| SAC 4: Definition and Recognition of the Elements of Financial Statements. |

Subsequently, the promotion of accrual accounting in the Australian public sector goes back to the development of the Conceptual Framework. Previously, it has been observed that public sector organisations were being criticised for inadequate accountability and poor performance. The Conceptual Framework, was purported to provide solutions to these problems, also it appeared to justify the application of accrual accounting practices in public sector organisations. This justification came from the necessity of the public sector organisations to prepare general purpose financial reports.
General purpose financial reporting by all types of reporting entities, whether legal, administrative or economic entities, and therefore encompasses all types of government entities, including government departments, statutory authorities, and, as a whole, Federal, State, Territorial and local governments (AARF & AASB, 1990b, Para. 9).

The Conceptual Framework in (SAC 2, Para.5) has defined a general purpose financial report as “a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs” (AARF & AASB, 1990b, para. 5).

Users of the financial information would normally be interested in assessing whether the reporting entity is achieving its objectives and whether it is operating economically and efficiently. “General purpose financial reports can provide information useful for these purposes by disclosing information about the performance, financial position, and financing and investing of the reporting entity, including information about compliance” (AARF & AASB, 1990b, para.9).

The general purpose financial reports are, normally, the statement of financial position (balance sheet), the statement of financial performance (income statement) prepared on an accrual basis and the cash flow statement. According to the Conceptual Framework, the information provided in these statements should “provide information to users for making and evaluating decisions about the allocation of scarce resources” (AARF & AASB, 1990b, para.43) that assists in discharging the accountability of government agencies (AARF & AASB, 1990b, para.44).
Efficient allocation of scarce resources will be enhanced if those who make resource allocation decisions...have the appropriate financial information on which to base their decisions. General purpose financial reporting aims to provide this information (AARF & AASB, 1990b, para.13).

General purpose financial reporting also provides a mechanism to enable managements and governing bodies to discharge their accountability. Managements and governing bodies are accountable to those who provide resources to the entity for planning and controlling the operations of the entity. In a broader sense, because of the influence reporting entities exert on members of the community at both the microeconomic and macroeconomic levels, they are accountable to the public at large. General purpose financial reporting provides a means by which this responsibility can be discharged (AARF & AASB, 1990b, para.14).

The requirement by the Conceptual Framework for all public sector agencies to prepare general purpose financial reports was driven by the assumption that producing such reports would enhance accountability and improve efficiency and effectiveness in these agencies.

**3.4.2.1 Financial Accounting**
The development of the Conceptual Framework and the issue of the SACs by the PSASB did not by themselves change accounting practices in the Australian public sector but they provided a ground for the change. These new accounting concepts were not adopted directly by the different Governments in Australia although they were automatically adopted by the private sector initially. Governments in Australia have adopted these concepts at different stages and to different extents. The government of NSW was the first government in Australia and the second in the world, after NZ, that adopted the change from cash to accrual accounting.
The main reason for the change in Australian public sector accounting was, as in most of the world, the weaknesses identified in the cash accounting system and the need for more financial information and increased accountability. The accrual accounting system supported by the Conceptual Framework has come to offer this extra information and to address these weaknesses.

As is known, all the public sectors in Australia were using the cash accounting system as their main need was to report cash spending and earning to conform with parliamentary approvals (Carpenter, 1990; Guthrie, 1998; Ryan, 1998, 1999). But from the early 1990s, the management and reporting needs for the public sector became more similar to the private sector in that they included managing and reporting financial position and not just cash revenue and expenditures. Accrual accounting has, as a consequence, almost entirely replaced traditional cash accounting in the Australian public sector at both the federal and the state level (Fellew & Kelaher, 1991; Funnell & Cooper, 1998). The move to accrual accounting was not a separate move by itself, but it was associated with the commercialisation process and objectives that offer the benefits of improved accountability and improved resource management (Funnell & Cooper, 1998; McBride & Peirson, 1996; Ranby, 1997). This claim has been supported by evidence that suggests the cash system provides inadequate information for the full costing of operations (Management Advisory Board, 1997). Accrual accounting on the other hand is said to improve decision-making by providing information on the full cost of operations and the resources used to deliver services to the public and information on assets and liabilities at period end (McBride & Peirson, 1996). Accrual accounting enables government departments to measure the full costs of each of the products they deliver to the community.
This information is seen as powerful tool with which to drive efficiency improvement. It is supposed to deliver unit product cost information which can then be used for performance measurement and benchmarking or market testing purposes (Robinson, 2000).

The ability of accrual accounting to offer more financial information required for better management and increased accountability has made governments in Australia change from the cash to an accrual system. However, this change did not occur at the same time across Australia and nor at the same level.

3.4.2.2 Financial Reporting
Since there were discussions on the suitability of the SACs to the different levels of the public sector in Australia, the accounting profession has developed a number of detailed public sector accounting standards directed at addressing the accountability and the performance of the three different levels of government (local government entities, government departments, and the whole of government). These standards are Australian Accounting Standard (AAS) 27 ‘Financial reporting by local governments’ (Public Sector Accounting Standards Board, 1996), AAS 29 ‘Financial reporting by government departments’ (Public Sector Accounting Standards Board, 1998a), and AAS 31 ‘Financial reporting by governments’ (Public Sector Accounting Standards Board, 1998b). Each of these standards came as a result of an exposure draft that was developed from a discussion paper as it is seen in the table below:
AAS 27 ‘Financial Reporting by Local Governments’ became operational as of December 1990. It was introduced to local governments by the PSASB for two reasons. First, to improve the information provided for decision-making through the preparation of general purpose financial reports including an operating statement, a statement of financial position, a statement of changes in equity, and a statement of cash flows. The second reason was to make local governments more accountable to the community through the disclosures of performance, financial position, financing and investing, and compliance (Parker, 1998). This standard is in essence a replication of those applicable to the private sector (Hoque & Moll, 2001).

Similar to AAS 27, AAS 29 ‘Financial Reporting by Government Departments’ requires the preparation of general purpose financial reports by those departments which are considered reporting entities (Parker, 1998). And as discussed earlier in this chapter, all government departments were considered reporting entities by SAC 2. The objective of this standard was to make government departments accountable to external users, and to provide useful information for management

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<td>DP 12 Financial Reporting by Local Governments</td>
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<td>ED 50 Financial Reporting by Local Governments</td>
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<td>AAS 27 Financial Reporting by Local Governments</td>
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<td>DP 16 Financial Reporting by Government Departments</td>
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<td>ED 55 Financial Reporting by Government Departments</td>
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<td>AAS 29 Financial Reporting by Government Departments</td>
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<td>DP 21 Financial Reporting by Governments</td>
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<td>AAS 31 Financial Reporting by Governments</td>
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AAS 31 ‘Financial reporting by governments’, operates on a much broader scale than AAS 27 and AAS 29, as it considers Commonwealth, state and territory governments to be reporting entities which are required to prepare general purpose financial reports as in the private sector “because there are users who depend on the financial information contained in them for making and evaluating decisions about the allocation of resources” (Public Sector Accounting Standards Board, 1998b, para. 3.2). Micallef (1997) asserted that the introduction of AAS 31 will put Australia at the forefront of public sector reporting worldwide, as governments will be required to prepare accrual-based general purpose financial reports to discharge their accountability and to improve the decision-making ability of managers and other external users in the allocation of resources (Public Sector Accounting Standards Board, 1998b, para. 3.2).

In parallel with these accounting standards developed by the accounting profession, the Australian Bureau of Statistics has developed an alternative uniform reporting framework, the Government Finance Statistics (GFS). The framework is “a specialised financial reporting system designed to support economic analysis of the public sector” (Australian Government, 2004, p.8-2). It was developed by the Australian Bureau of Statistics and it was based on the international equivalent developed by the International Monetary Fund (IMF) and on the United Nations System of National Accounts (United Nations, 1993). The framework aimed to ‘meet the community’s demand for standardised and detailed financial information about the activities of all Australian governments’
The framework provides for the recording of data on an accrual basis, but with supplementary data recorded on a cash basis (Australian Bureau of Statistics, 2003, para.2.2).

The financial statements produced by the GFS framework are similar to the ones produced pursuant to Australian Accounting Standards. However, there are some notable differences that result in materially different outcome numbers. For example, if we take the GFS net operating balance which is conceptually similar to the net income calculated according to AAS31 for governments. Both measures are derived by deducting expenses from revenues however there are differences between the two frameworks in the way in which items are recognised. In brief, major differences relate to accounting for asset writedowns (treated as operating expenses pursuant to AAS 31 but as negative equity revaluations pursuant to the GFS framework), other gains and losses on assets (not included as revenues/expenses under GFS), bad and doubtful debts expense (not recognised under the GFS framework), swap interest revenue and expense (not recognised under GFS), and the acquisition of defence weapons platforms (capitalised and depreciated under AAS 31 but treated as an expense at the time of acquisition under GFS rules). The effect of the above accounting policy differences can result in material variations between the budgeted GFS net operating balance and the AAS 31 budgeted result. For example, the Commonwealth government’s 2004-05 budgeted GFS net operating balance amounted to a surplus of $1,496m, while the AAS 31 accounting policies resulted in a budget deficit of $355m deficit. This material difference highlights the conflict between the alternative frameworks in their attempt to derive a measure, comprising total revenues less total expenses, summarising a government’s budgeted financial performance.
As of today, Governments in Australia do not have a uniform practice that all their agencies are required to follow, and neither a prescription of which framework should be used. Generally, governments in Australia report their figures using both frameworks and disclose them in appendices but they generally seem to highlight the one that results in more favourable portrayals of their budget position.

For example, taking the Commonwealth government budget for the year 2004/2005 financial year, the Northern Territory’s balanced budget result headlined would have been a deficit of $12m if presented on a GFS net operating balance basis. For the Australian Capital Territory and Tasmania, surpluses of $8m and $15m respectively would have been deficits of $17m and $45m if presented on a GFS net operating balance basis. The $25m difference in these two bases for the Australian Capital Territory represents 147.1 percent of the GFS net operating balance result. For Tasmania, the $60m difference between the two bases amounts to 133.3 percent of the GFS net operating balance result (Australian Government, 2004).

In the absence of a uniform reporting framework for all governments in Australia, terms such as ‘budget surplus’ or ‘budget deficit’ are still potent political terms and politicians appear to manipulate their figures to fit their needs according to where they stand. “Politicians claim success if they have ‘reigned in’ a deficit or ‘returned’ a surplus, or ‘balanced’ a budget” (Guthrie, 1998, p.14). So the way those measures are calculated would be impacted by portfolio ministers accountable for their governments’ agencies.
The accounting developments that occur and still occur as a result of the reform have been substantial and sometimes complex especially in regard to their applicability to the public sector environment or even to the need for standardisation or harmonisation across national boundaries. It has been argued that harmonisation or standardisation would improve comparability and that would benefit both producers and users of financial information. Producers would achieve cost savings by avoiding the restatement by translation of accounting information, and there would be more efficient decision-making by capital providers (Saudagaran & Meek, 1997).

3.4.2.3 Budgeting
Governments in Australia have always adopted the cash basis of budgeting to conform with budget appropriation and approvals. However, in the last two decades and with the rise of ‘managerialism’ and ‘commercialisation’ and the calls for more accountability in the public sector agencies, a strong trend starting taking place within Australian’s public sector, whether at Commonwealth, State or Territory level, of movement from traditional cash based budget reporting, towards accrual based budgeting (Guthrie, 1998). The accrual based budgeting placed more focus on outputs and outcomes and that is why it is referred to as output based budgeting or accrual output based budgeting. In the 1990s this accrual budgeting was apparent to a varying degree in the ACT, Victoria, Western Australia, South Australia, The Commonwealth and to a limited degree, Queensland (Guthrie & Carlin, 1998).

Accrual output based budgeting is defined as: "a process through which agencies are funded and monitored on the basis of delivery (performance) of outputs which
have been costed on a full accrual basis." (Queensland Treasury, 1997b, p.17). Governments in Australia, through the introduction of accrual budgeting were expecting some benefits that could increase the efficiency, effectiveness and the accountability of their agencies. For example, by funding agencies for outputs produced (services and products) rather than inputs (resources consumed in the production) is supposed to make agencies more accountable for their funding. At the same time a lot more information would be provided by agencies about their assets and liabilities, in addition to their being aware of the full cost of activities.

The move to accrual budgeting has actually led to the separation of government as an owner from government as a purchaser. Under accrual budgeting, the government would purchase the outputs from agencies by paying them the full cost of producing these outputs. That has led at the same time to improvements in the quality of performance information available to the government and agency managers for strategic planning, resource allocation and operational control (Queensland Treasury, 1997a, p.4).

As mentioned earlier in this chapter, the way the budget is prepared may affect the result, the surplus or deficit, reported by agencies. This effect would impact on how politicians view the reported performance of these agencies. In this regard, it is important to note that it is not the intention of this thesis to discuss the best budgeting practice for performance measurement. However, this thesis is going to discuss and explain the extent to which accrual budgeting is used as an accountability and performance measure especially that the adoption of accrual budgeting was aimed at improving accountability by funding agencies for their outputs.
3.5 Conclusion
In the post war period (the 1950s and 1960s) Australia experienced an economic boom, characterised by high economic growth, low unemployment and continuous increases in household incomes (Horne, 1965). This led to economic and political uncertainty, and rapid social change (Dixon & Kouzmin, 1994) resulting in a serious recession in 1974. From then, Australia’s economy was less able to withstand the pressure from a more competitive global economy, and started to rely significantly on deficit spending. By 1983-1984 the federal government deficit amounted to 4.27 percent of the gross domestic product (GDP). The failure of the public sector in Australia to respond effectively to these problems, in addition to other problems arising from globalisation, and political, technological and social factors have increased public and political debate about whether the post-war structures of the public sector met contemporary needs (Argy, 2004). By the mid 1970s, it was clear to everyone that Australia’s traditional administration was not adapting sufficiently to deal with the changing situation. Subsequently, Australia embarked on reforming its public sector to make it more effective, efficient and responsive to the needs of the community. In the late 1970s, governments in Australia issued several initiatives to respond to the problems arising from globalisation and other social and economic factors. Most of these initiatives were initially at the Federal (Commonwealth) level, but they have also been taken at the state and territory levels (Halligan & Power, 1992). These initiatives were focused on the functions and responsibilities of public sector organisations and aimed to improve the efficiency and effectiveness of their operations and also to enhance accountability to both the governments they serve and to the wider community. These initiatives have involved new
organisational measures such as outsourcing, corporatisation, commercialisation, and privatisation (Broadbent & Guthrie, 1992).

As a result of this, governments have injected market principles into many areas of public management in their public sectors (Argy, 2001). These principles have emphasised a focus on results and outcomes as opposed to the previous focus on inputs and process. In this regard, accounting was perceived as playing a key role in achieving the reform objectives. Therefore, accrual accounting as a new accounting system from the private sector was adopted into the public sector. This system was expected to deliver additional qualitative and quantitative financial information than was offered under the old cash system. This additional information was necessary for outcomes based performance.
Chapter 4 Methodology and Theory

4.1 Introduction

The central purpose of this study is to develop an understanding of accounting change and its working in the NT public sector within the context of international and Australian experience addressed in chapters two and three. For this purpose, the study takes a view that accounting is a social construct and therefore it is subject to institutional pressures. This suggests that accounting practices may change over time in response to organisational changes. This view of accounting would best suggest the case study approach when studying accounting in its context (Scapens, 1990). This chapter argues that the interpretive case study approach is a suitable approach for understanding accounting change in the public sector and the outcomes of this change.

This chapter addresses a range of matters. It argues the appropriateness of the qualitative approach for the current study. It justifies the case study methodology and provides for the different data collection techniques used. It then considers the importance of theories in accounting research which underpin, and guide the analysis of the findings. It discusses the relevance of the theories to the study and summarises the research argument. Finally, it discusses the research site before ending with a summary.
4.2 Approach to Research
To address the research objectives in chapter one, a qualitative approach has been adopted in this thesis. The utility of the qualitative approach in the accounting field has been established and discussed at a general level by several researchers (see for example, Abernethy & Chua, 1996; Armstrong, 1985, 1987; Atkinson & McCrindell, 1997; Azofra et al., 2003; Baxter & Chua, 2003; Bogt, 2003; Brennan & Dollery, 1999; Dorsch & Yasin, 1998; Ezzamel et al., 2004; Glaser & Strauss, 1967; Heinrich, 2002; Hoque & Moll, 2001; Hoque et al., 2004; Humphrey & Scapens, 1996a, 1996b; Johnson & Kaplan, 1987; Kloot, 1999; Mascarenhas, 1996; Mwita, 2000; Osborne et al., 1995; Roberts & Scapens, 1985; Scapens & Roberts, 1993; Trinh & O’Connor, 2002). The choice of a particular method of inquiry (qualitative or quantitative or a mix of both) should not be determined by the researcher’s commitment to a particular strategy (Bryman, 1984; Hopper & Powell, 1985). Hopper and Powell (1985) argued that “certain fundamental theoretical and philosophical assumptions underlie any piece of research; there is no such thing as totally objective or value free investigation”. While the general arguments need not be reiterated in this study, this section encompasses a discussion of the appropriateness of the qualitative approach for the specific research questions identified and it outlines the underpinning assumptions.

Some accounting researchers tend to consider their research as either belonging to the ‘narrative’ or ‘interpretive’ category. Traditionally, narrative research has been depicted as seeking to identify and describe specific events in a factual and non-analytical manner (Funnell, 1998). Interpretive research, on the other hand, is argued to go beyond the narrative style which has a descriptive focus, and aims to
explore and explain the issue under investigation while at the same time preserving a thorough and comprehensive description (Parker, 1997).

The present study is built on the understanding that organisational realities exist as a social product of human interaction, symbolic discourse, and creativity (Hopper & Powell, 1985; Humphrey & Scapens, 1996a, 1996b; Morgan, 1980; Morgan & Smircich, 1980). They all suggest that the researcher needs to consider the wider social environment for understanding a phenomenon. So the conduct of a socially based enquiry depends on the quantitative (positivist) or qualitative (interpretivist) paradigm. Khun (1970) suggested that a paradigm is a discipline’s specific method of structuring reality. It is a way of viewing phenomena in the world. Patton (1978, p.203), in terms consistent with those of Khun (1970), defined the concept of paradigm as: “A worldview of, a general perspective, a way of breaking down the complexity of the real world. As such, paradigms are deeply embedded in the socialisation of adherents and practitioners: paradigms tell them what is important, legitimate, and reasonable. Paradigms are also normative, telling the practitioner what to do without the necessity of long existential or epistemological consideration”.

Qualitative research is normally more concerned with procedures, meanings and how people make sense of their lives, rather than results (Taylor & Bogdan, 1998) and also it focuses on the context and people as a whole, and takes into consideration the environmental constraints which impact on the investigation (Denzin & Lincoln, 1994). Qualitative research involves a thorough and comprehensive description of the issue under investigation, which is known as ‘thick description’ (Hessler, 1992). Denzin (1978) and Denzin & Lincoln (1994)
explained that ‘thick description’ includes data on the setting, the intentions and meanings of people, where meanings are contingent on the environment.

The view taken in this study is that accounting, as a central component of performance, is socially constructed and therefore it is subject to a variety of social, economic, and political pressures (Berry et al., 1985; Burchell et al., 1980; Hoque & Hopper, 1994; Miller, 1994). Adopting this view would imply that in order to get a good understanding of how and why accounting systems have changed, the methodology to be chosen must consider the context of that change.

 Appropriately these ontological, epistemological, and human nature assumptions suggest that an interpretive method of inquiry is the most appropriate for understanding how accrual accounting as the new system has been introduced, or is being introduced, and managed (Chua, 1986; Hopper & Powell, 1985; Morgan & Smircich, 1980; Otley & Berry, 1994). Qualitative methods are believed to have the ability, more than quantitative methods, to provide this understanding. So in order to get a full understanding of accounting change in any organisation, it is important to consider it in its contextual environment.

In a quantitative study, the researcher’s objective is to obtain information without getting into a relationship with the interviewee. In contrast, in a qualitative study,

6 Ontological assumptions relate to the researcher’s beliefs about the physical and social reality. For example, is reality part of the individual, is it objective, and is it independent of human cognition? (for a full review see Burrell and Morgan, 1979; Hopper and Powell, 1985).

7 Epistemological assumptions are a set of processes used to determine the truth and are mainly concerned with knowledge. For example can knowledge be acquired through observation? The social world can only be understood through acquiring knowledge of the subject under investigation (for more details see Burrell & Morgan, 1979; Hopper & Powell, 1985).

8 Human nature assumptions determine the relationship between human and the environment. For example, are human beings constrained by their environment or are they free-willed and creating their environment? (see Burrell & Morgan, 1979; Hopper & Powell, 1985).
the interviewer cannot be free of a relationship (King, 1994), as the researcher strives to understand how people make sense of their world (King 1994). Yin considers that the relationship forms part of the research process and not a distraction from it. From the epistemological perspective, the researcher is not independent of the study and interacts with the ‘subject’ researched (Creswell, 1994; Yin, 2003). Finally, the human nature assumption underlying qualitative research rests on the premise that the research is value-laden (Creswell, 1994). Blumer (1979, p. 156) suggested that “the core assumption of qualitative research rests on the aim to represent the ‘world in its complexity without imposing artificial structures’ instead of laboratories or other specific context for research objectives. The researcher intervenes as little as possible with the subject under study as opposed to the control of variables in laboratory experiments and uses flexible data collection techniques, which can be amended during the course of the investigation”.

4.3 Case Studies and Data Collection

4.3.1 Case Study Interpretive Approach
Several data collection techniques are used in qualitative research, including ethnography, role-playing, participant observation, projective techniques, cartoon completion, contrived and unobtrusive measures, focus group interviews, in-depth interviews and case studies.\(^9\) In this thesis, the nature of the research questions gives rise to the selection of the case study as the primary technique for collecting and analysing the data. This is because the case study technique tries to illuminate

\(^9\) Discussion of each of those techniques in detail is beyond the scope of this chapter. For details on these approaches see Das (1983) and Marshall and Rossman (1999).
a decision or set of decisions: why they were taken, how they were implemented, and with what result (Schramm, 1971). So, case study research is the preferred technique when ‘how’ or ‘why’ questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within a real life context (Yin, 2003). Case study research offers a “high degree of relevance for explaining and understanding complex situations as they actually occurred” (Pervis et al., 1990b, p. 149). In addition to that, in recent years case studies have become a popular method in accounting research, and they are now found in a wide variety of research journals (Humphrey & Lee, 2004; Scapens, 2004).

Yin (2003) suggested that there might be three different types of case studies: exploratory, descriptive and explanatory. Ryan, et al. (1992) had an additional two: illustrative and experimental. This list is intended to be neither definitive nor exhaustive, it merely seeks to show some of the different ways in which case studies can be used.

A descriptive case study is a study that describes a phenomenon or event as it exists, without manipulation or control of any elements in the phenomenon or event under study (Page & Meyer, 2000). Accounting descriptive case studies are useful in providing information concerning the nature of contemporary accounting practices (Page & Meyer, 2000). Scapens (2004) stated that descriptive case studies could be used to describe accounting systems, techniques and practices used in organisations. This description may be useful for explaining the difference between accounting theory and accounting practice (Ryan, et al., 1992). In this regard, more than one organisation could be selected to describe the similarity and
differences in accounting practices used. Descriptive case studies are particularly important for three reasons (Kaplan, 1986). They can investigate interesting organisations or interesting practices; they can highlight areas for further research; and they can be used in teaching.

Illustrative case studies involve the researcher exploring the implementation and outcomes associated with innovative practices (Kaplan, 1984; Kaplan & Norton, 1992). In accounting research, case studies have been used to illustrate new innovative practices used or developed by some companies. Illustrative case studies provide an illustration of what has been achieved in practice. However, such a case study does not provide justification that innovative practices are necessarily superior to other practices applied in other organisations (Scapens, 2004).

Experimental case studies comprise research on the conduct of an experiment in the field, whereby new treatments are applied to sub-units of the site. This type of research is rare in the accounting literature. As it is difficult to implement a particular researcher’s recommendations in regard to the adoption of a new accounting tool or practice, an experimental case study may be used to examine the implementation problems and the potential benefits (Scapens, 2004). For example Haas & Algera (2002) used this type of case study at a steel company in examining how new techniques might motivate goal congruent behaviour.

Exploratory case studies are where the research represents a preliminary investigation which is intended to generate ideas and hypotheses for rigorous empirical testing at a later stage where the objective becomes to produce
Accounting researchers often use an exploratory case study to conduct a preliminary investigation about how and why particular practices are adopted. So it investigates the reasons behind the adoption of a particular accounting practice. However, generalisation can not take place until the hypothesis-testing phase is executed in a large scale study (Scapens, 2004).

Explanatory case studies are where the research attempts to explain the reasons for particular accounting practices. In such a case study the researcher seeks to provide convincing explanations which justify practice choices and facilitate the development of theory. However, theory is used to understand the observed data, rather than to produce generalisations.

This study can be classified as descriptive, exploratory, and explanatory. It is descriptive and exploratory as it attempts to examine and make sense of the current accounting system in a particular public sector context. It is explanatory as it seeks to explain the reasons for the accounting change, and the factors that contributed and impacted on the decision to change. It also seeks to explain the decision-making usefulness intended to be achieved from accounting change.

The adoption of this case study approach offers several advantages for this research. First, this approach enables the phenomena under investigation, the accounting change and its implications for organisational change in the Northern Territory public sector, to be examined within the context in which accounting practices occur. The failure to do so may mean that these practices become abstracted from their context and evaluated without consideration of the influential variables that may be different from one context to another. Therefore,
approaching this research in this manner should enrich and enhance the data analysis by using the mentioned theories to explain and interpret the findings (Carnegie & Napier, 1999; Parker, 1997).

Second, the interpretive case study approach enables the research to be conducted without the assumption that history is a story of direct evolutionary progress from the ‘primitive’ past to the ‘more sophisticated’ present (Carnegie & Napier, 1996; Parker, 1999). In this thesis, such an assumption would lead to the acceptance of conventional arguments that support the implementation of accrual accounting in the Australian public sector. The arguments are the ones provided by assertions about achieving enhancements in performance and accountability in the Australian public sector by the adoption of commercial accounting practices, in addition to the usefulness of such practices in the decision-making process of financial information users (AARF, 1991, 1993, 1995b; Rowles, 1992, 1993).

Finally, this approach is appropriate for probing the roles of the accounting standards and financial management initiatives in promoting private sector accounting practices as superior to the traditional cash based public sector practices (Carnegie & Napier, 1996).

By adopting the research approach outlined, this thesis is able to discuss the notion that the adoption of accrual accounting enhances organisational accountability, efficiency and effectiveness, in addition to improving organisational decision-making processes based on the use of financial statements.
4.3.2 Data Collection

This research adopts the concept of triangulation in collecting the data. That means that more than one source of data was used wherever possible. These sources are the archival records of departments, observation and interviews.

In this research, archival records provided an important part of the data needed. Annual reports, semi-annual reports, budgets, parliamentary debates, administrative records, discussion papers, accounting concepts and standards, newspapers and journals were all used to collect the data needed to address the research questions.

Observation was also used where the opportunity was provided. This included attending some meetings and spending some days in the workplace observing how some accounting practices were applied.

Interviews constituted a major source of the data collected. Brownell (1995) distinguished between two types of interviews: structured and unstructured. Structured standardised interviews are used predominantly in surveys and opinion polls with consequent quantitative analysis (Burns, 2000). This technique is commonly used when the interviewer has a large group of people to interview and the interviews are all conducted in a standardised way. This means that each interviewee receives the same questions in the same specified order so that comparisons between defined groups can be made with comparability being the main objective (Burns, 2000). Also, all or nearly all the questions will be closed-ended, in that the respondent is forced to select their answer from a limited set of responses previously established by the researcher (Burns, 2000). But using this method has some disadvantages, as the researcher will have no scope to find out
the beliefs, feelings or perceptions of the respondents that do not fit into the pre-
ordained response categories.

Unstructured interviews are much more like a general conversation. This means
that the interviewer does not have a pre-selected set of questions and the questions
are not asked in a specific order. The benefit of this method is that the researcher
is free to discuss any areas of interest during the course of the interview and the
questions can be personalised. Also, it permits the respondents to provide the
researcher with insightful commentary and suggest any further potential evidence
(Brownell, 1995). But the limitation of this method is that is takes a large amount
of time to get systematic information and it may result in too much unused
information (Patton, 1987).

This study uses a semi-structured type of interview which stands between the
structured and the unstructured interviews. This method is neither highly
structured nor completely unstructured. This type of interview is used by most
qualitative researchers (Scapens, 2004; Schwandt, 1997; Smith, 2003; Yin, 2003).

The semi-structured interview is referred to by King (1994) as a structured open-
response interview, with an imposed structure and a balance of open and closed
questions. This type of interview is suitable in cases where it cannot be known in
advance whether the participants will be in a position to give information or
where the nature and spectrum of informants’ views cannot be foreseen.

Semi-structured interviews comprise many predetermined questions (Berg, 1989)
covering specific topic areas but the exact wording of the questions is left to the
discretion of the researcher (Guba & Lincoln, 1981). The interviewees are
systematically and consistently asked the same questions with plenty of room to make any other comments or to deviate as needed. This form of interview is more qualitative in nature and can increase both depth and breadth. It is designed to get a comprehensive understanding of the phenomena under study.

In this type of interview, the researcher gets an idea about the people to be interviewed and the issues to be incorporated through a pilot study. So, in this thesis, a pilot study was conducted by the researcher interviewing several key people in the NT public sector in order to develop a basic understanding of the phenomena under study and to identify the research issues and the people to be interviewed. The pilot study also helped the researcher to develop the interview questions (open-ended).

**4.4 Theories and Accounting Research**

Theory and research need to be brought together in a symbiotic relationship, each informing the other in order that they can both be strengthened (Laughlin et al., 1989). Theories are regarded as an essential underpinning for any case study, and they should be capable of being challenged and refined as a result of the research process (Atkinson & Shaffir, 1998). This implies that in presenting a ‘theoretically informed’ case study, it is necessary to identify and discuss relevant theories as a means of guiding and informing the case analysis (Cooper & Sherer, 1984).

Generally, theories are important in all types of research as they help the researcher in many useful ways. First, they narrow the range of facts the researcher needs to study, especially as any problem can be studied in a number of different ways, and theory can suggest the direction which is most likely to yield
the greatest meaning. Theories also summarize what is known about an object of study and state the uniformities that lie beyond the immediate observation. When it does this, theory can also be used to predict further facts that should be found (Cooper & Schindler, 1998). Further to this, theory gives researchers the analytic tools needed to sharpen and focus their analysis of the problems faced. Moreover, theories also allow the researcher to view phenomena from a new perspective, and that helps them to capture data they may have missed (Benson & Vidich, 1970). Further, according to Mills (1993), theory helps the researcher make sense of what is going on in the social setting being studied.

In accounting research, most of the case study research has been designed to test a theory or set of theories (Atkinson & Shaffir, 1998). This study is not about developing a theory or theories as much as it is about testing theory or even using theory to drive the analysis in order to add meaning to the findings. The role of theory in accounting research is to interpret, to tell a story, and to give coherence to plausible stories. Thus in this thesis, the role of theory is to assist in exploring, explaining and evaluating the current accounting practices used in the subject public sector organisations. In doing so, theory would help to direct the researcher’s focus upon issues that provide the greatest meaning and explanation. Also, it would be helpful to the researcher to understand the information gathered on organisational actions, events, structures and processes (Llewelyn, 2003). Overall, theory is used in this study as a way to interpret and possibly explain the findings, in order to enhance our understanding of the phenomena under study.
4.5 Organisational Change Focus

Since the aim of this thesis is to understand, describe and explain the accounting change in NT public sector, it is important to address key questions concerning the process of change: Why do public sector organisations change their existing practices? How do they respond to pressures for change? Who drives the change?

In order to answer these questions, this research draws on a multi-perspective approach, which uses insights from different theories, namely: organisational theory, legitimacy theory, institutional theory and the technical rational choice model. Given the widespread view that no single theory is capable of fully explaining the complexity and subjective nature of organisational practices (Feyerabend, 1978, 1990; Latour, 1999), such an integrative framework helps us to develop an understanding of how and why particular organisational and accounting systems were implemented and the implications of their implementation. In recent years, these theories have been used in the accounting literature (see, e.g. Ansary & Euske, 1987; Brignall & Modell, 2000; Burchell et al., 1980; Carruthers, 1995; Covaleski & Dirsmith, 1990; Czarniawaska & Wolff, 1998; DiMaggio & Powell, 1983, 1991; Edwards et al., 1995; Hoque & Alam, 1999; Hoque & Moll, 2001; Hoque et al., 2004, Miller, 1994; Scapens, 1990). It is recognised here that these theories are not the only, or even necessarily the superior, theoretical approaches. However, they offer insights which are helpful for understanding and conceptualising accounting change in the subject public sector.

The starting point in the integrative framework is the recognition that organisational systems and practices do change, but the drivers of the change and
the responses to it differ from one to another. This change can occur as a response to external pressures (i.e., competition, professional groups, technology, customers) or internal pressures (need for efficiency, professionalism, a change in the power dynamics of the organisation, change in the size and complexity of the organisation, pursuit of organisational strategies) (Carruthers, 1995; Lawrence, 1999; Scott, 1998). Moreover, change can occur as a result of multiple pressures (including compliance with legal requirements, economic rationality, accountability, compliance with community expectations, and legitimacy) (Deegan, 2002). Throughout this study accounting practices are depicted as complex activities that are influenced by many internal and external factors to the organisation, and so the purpose of using multiple theoretical aspects is to take advantage of their complementariness (Ansari & Euske, 1987; Hoque et al, 2004).

From the technical rational choice model, it can be argued that change in public sector accounting was believed to improve the decision-making process of various public sector organisations by changing the nature and quality of information generated from the accounting practices and techniques (Broadbent & Guthrie, 1992; Guthrie et al, 1999; Hoque et al, 2004). In this thesis, it is also argued that the introduction of accrual accounting in a public sector context could be because of a belief that accrual accounting would provide more comprehensive information than cash accounting and that this information was likely to be important in enhancing and improving the decision-making of the users of this information (Guthrie, 1999; Parker & Guthrie, 1993).

In addition, legitimacy theory which is considered to be associated with institutional theory, takes the view that organisations are both influenced by and
can influence the society in which they operate (Deegan, 2002). Legitimacy theory suggests that the motivation for change in organisational practices might be to bring legitimacy to the respective organisation and so it focuses on the social contract that exists between the organisation and society (Deegan, 2000). Such a contract is believed to represent the expectations of society. Legitimacy theory implies that organisations may change and adopt the norms of society to appear legitimate to that society (DeMaggio & Powell, 1983, 1991; Meyer & Rowan, 1977). This suggests that when societal norms and values change, the managers will work to preserve the organisation’s legitimacy by incorporating, or appearing to incorporate the new norms and values (Dowling & Pfeffer, 1975; Milne & Patten, 2001). Similarly, a particular government may change its public sector organisational practices in order to appear legitimate and consistent with other governments.

Institutional theory offers insights into organisation-environment relations and the ways in which organisations may react to institutional pressures. In this regard, Oliver (1991) has identified different strategic responses that organisations follow as a result of the institutional pressures that are exerted on them. She suggested that organisational responses will “vary from conforming to resistant, from passive to active, from preconscious to controlling, from impotent to influential, and from habitual to opportunistic, depending on the institutional pressures toward conformity that are exerted on organisations” (Oliver, 1991, p. 151). These responses to pressures are depicted in the table below.
Table 3 Strategic responses to institutional processes.

<table>
<thead>
<tr>
<th>Strategies</th>
<th>Tactics</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquiesce</td>
<td>Habit</td>
<td>Following invisible, taken-for-granted norms</td>
</tr>
<tr>
<td></td>
<td>Imitate</td>
<td>Mimicking institutional models</td>
</tr>
<tr>
<td></td>
<td>Comply</td>
<td>Obeying rules and accepting norms</td>
</tr>
<tr>
<td>Compromise</td>
<td>Balance</td>
<td>Balancing the expectations of multiple constituents</td>
</tr>
<tr>
<td></td>
<td>Pacify</td>
<td>Placating and accommodating institutional elements</td>
</tr>
<tr>
<td></td>
<td>Bargain</td>
<td>Negotiating with institutional stakeholders</td>
</tr>
<tr>
<td>Avoid</td>
<td>Conceal</td>
<td>Disguising nonconformity</td>
</tr>
<tr>
<td></td>
<td>Buffer</td>
<td>Loosening institutional attachments</td>
</tr>
<tr>
<td></td>
<td>Escape</td>
<td>Changing goals, activities, or domains</td>
</tr>
<tr>
<td>Defy</td>
<td>Dismiss</td>
<td>Ignoring explicit norms and values</td>
</tr>
<tr>
<td></td>
<td>Challenge</td>
<td>Contesting rules and requirements</td>
</tr>
<tr>
<td></td>
<td>Attack</td>
<td>Assaulting the source of institutional pressure</td>
</tr>
<tr>
<td>Manipulate</td>
<td>Co-opt</td>
<td>Importing influential constituents</td>
</tr>
<tr>
<td></td>
<td>Influence</td>
<td>Shaping values and criteria</td>
</tr>
<tr>
<td></td>
<td>Control</td>
<td>Dominating institutional constituents and processes</td>
</tr>
</tbody>
</table>

Source: (Oliver, 1991).

All these many possible organisational responses to change do not provide the motivation or direction for change and hardly any explains why a particular organisation may change in a particular way rather than another (Marginson & Considine, 1991). Therefore, in order to address this gap it is important to explain how the characteristics of the operating field interact with the organisational characteristics. Greenwood & Hinings (1996) stated that organisations are structured in terms of archetypes that are institutionally derived. That means that organisational behaviours are the product of ideas, values, and beliefs that originate in the institutional context which provides ‘templates for organising’ (DiMaggio & Powell, 1991, p27).

Greenwood and Hinings (1996) contend that understanding the variations in responses to the same pressures between organisations can only be done by analysing the features of organisations that produce adoption and diffusion rather than resistance and inertia. For this purpose, and to explain how these
organisational responses are determined, they developed a model (figure below) based on the new institutional perspective.

Figure 1 Model for understanding organisational change
In their model, Greenwood and Hinings linked the type of change (whether it is radical, convergent, revolutionary or evolutionary) to the extent to which an organisation was embedded within its institutional context. They stated that the response to institutional pressures varies between organisations as they vary in their internal dynamics. Greenwood and Hinings (1996, p.1032) focused in their model upon exogenous dynamics (market context, and institutional context) and endogenous dynamics (interests, values, power dependencies, leadership, and capacity for action) and they concluded that “the role of intraorganisational dynamics in accepting or rejecting institutionalised practices is critical”.

Generally, the various power and interest conflicts within the organisation determine how organisations respond to institutional pressures. Organisational leaders within the organisation are the ones who interpret pressures for change and then mobilise power to control or influence the organisational response as well as to cope with the outcome of that response (Finstad, 1998). In addition, for the change to be substantive and not merely cosmetic, Greenwood and Hinings (1996) suggest that leaders must have a capacity for action to be able to effectively manage the transition. This capacity for action is defined in terms of the availability of skills to manage the change and the mobilisation of skills, which means that availability of leadership.

In this research, power and leadership are two important inter-organisational dynamics that affect the direction of organisational change. Such concepts have the potential to make significant contributions to our understanding of change, to examine the role of the individual actor in the processes of change and to
understand the ways that inter-organisational dynamics such as power, interest and values influence the types of change.

4.6 Immediate Relevance of Theories and Models
The theories, models and associated ideas addressed above have particular relevance to the focus of this thesis. The thesis seeks to examine the organisational change that occurred in the NT public sector, especially related to a change in the accounting practices through the introduction of the ‘Working for Outcomes’ framework. In this regard, it is important and necessary to understand why and how the change occurred and by whom the change was driven. The theories and models assist this understanding by highlighting the rationales and objectives of the change and how organisational internal dynamics such as power and leadership have influenced the response to this change. Generally, the change was seen as a means to improve the efficiency, effectiveness and accountability of public sector organisations, as it was believed theoretically that the change would impact positively on the decision-making process, the reporting and the accountability. Consequently this thesis is going to examine the working of such a change in the context of the NT public sector, and also to assess the extent to which expectations for improvements were achieved.

During the last two to three decades, public sector organisations have been subject to calls for more efficiency and effectiveness and for more defined lines of responsibility and accountability (Porter, 1992; Power, 1996). As a consequence the accounting field has been expanded (Hopwood, 1990, 1992; Miller, 1994). Accounting researchers have realised the importance of rendering organisational activities and events in financial terms as a means by which the performance of
individuals and organisations may be standardised and compared. The result is that the application of accounting practices within organisations has implications for the functioning of individuals and organisations, but also for society as a whole. For this reason, accounting has increasingly been regarded as a ‘social’ and ‘institutional’ practice (Hopwood, 1992, 2000; Miller, 1992), and new accounting practices have been developed based on beliefs of ‘progress’, ‘usefulness for decision-making’ and ‘improved accountability’. In this study, accounting is seen as more than a mere technical practice that is concerned with the presentation of organisational reality. Rather, it is seen as an essential social practice which plays an important role in influencing and creating this organisational reality (Hopwood, 1983, 1992, 2000; Miller, 1992, 1994), especially where the reliability of this organisational reality is important for performance management and accountability. Adopting this perspective, this study offers an understanding of the factors that have shaped recent financial accounting reforms developed in the public sector in the NT. Such reforms imposed accrual accounting and related practices in place of cash accounting within public sector organisations.

As it is possible to view accounting as a socially constructed system, it then became subject to institutional pressures. These pressures, both internal and external, such as competition, technology, customers, efficiency, compliance with community expectations, economic rationality, and government, have resulted in performance management and accounting change within public sector organisations. Rather, the old discourse ideals and practices of accounting in the public sector have been gradually superseded by private sector principles (Parker & Guthrie, 1993; English et al., 2000). This started when old practices were
portrayed as not suitable for their intended purpose or as deficient in a particular way, and they started to face criticism when compared with the new ‘supposedly better’ ones. In such cases, new practices have arisen claiming that they can address the perceived defects and that they offer something better than that which existed before (Miller, 1991, 1998b). This is evident in the cash to accrual change where cash accounting has been criticised as an incomplete practice for public sector management, and accrual accounting has been promoted as a superior practice. Accrual accounting was assumed to produce enhancements in the accountability and performance of public sector organisations and in improving the decision-making process (Greenhall et al., 1988; Rowles, 1992). Young (1994) argues that accounting change is made possible once particular ‘issues’ are constructed as accounting ‘problems’. According to Young (1994), such ‘problems’ can then become part of the regulatory agenda and remain so, while other competing ‘issues’ may not become constructed as accounting problems and thus may never deserve regulatory change.

Over the last two decades, the cash-based accounting system with its input-based management focus came to be regarded as inadequate for effective public sector management. Although cash-based management was effective for constraining cash expenditure, it focused on controls over the expenditure of public money in the current year, failing to present an ‘accurate’ picture of the amount of activity which was being undertaken. In addition, it ignored future commitments and even encouraged departments to spend the full amount of their appropriations each year.
Over the last fifteen years, the management and reporting needs of public sector organisations have grown and become more similar to private sector organisations, especially the need to manage and report their financial position and not just cash revenue and expenditures. In addition, accrual accounting was believed to improve decision-making processes by providing information on the full cost of operations and the resources used to deliver services to the public. This information was seen as a powerful tool to drive efficiency improvements. It was believed that by knowing the unit product cost, performance measurement and benchmarking practices would become more meaningful. Public sector organisations needed to know the full cost of their products and services, especially with the move from managing inputs to managing results and outcomes.

Generally, viewing accounting as a social practice has allowed accrual accounting to focus more on a set of meanings that are intrinsic to accounting. These meanings are referred to by Miller (1994, p.3) as rationales which involve the linking of financial and accounting terms such as revenues, expenses and profits to notions of accountability, responsibility, and efficiency. Through these rationales, accounting became more than just a practice that depicts the quantitative measure of organisational activity. Instead, accrual accounting has made possible a particular set of discursive representations about an organisational activity. Such rationales enable financial statements to be portrayed as the vehicle for applying notions of accountability and performance in a variety of specific organisational settings (Hopwood, 1990; Miller, 1991). The awareness of the rationales of accounting has allowed accounting to be seen also as a legitimating device (Potter, 2005) that is an important means by which
organisations respond to environmental pressures to enhance their legitimacy. Organisations would generally incorporate practices that are perceived as rational by using prevailing concepts in order to increase their legitimacy and enhance their prospects of survival (Montagna, 1990). Public sector organisations would generally conform (acquiesce) with institutional pressures to be seen as legitimate and not different from other organisations in the same field. In this regard, it is possible that the NT government imposed the accrual accounting change in order to be seen as legitimate, as all other governments in Australia had applied the accrual concept earlier.

While acknowledging the importance and value of all these rationales and objectives of accounting change in the public sector, these objectives have remained both general and ambiguous (Hopwood, 1984). This could be no less true in the NT public sector, where the stated aims for the reforms included efficiency, effectiveness, accountability, improved performance, and value for money. So it is important in this thesis to be able to interrogate those working with the new accounting practices to determine what is being achieved, rather than simply accepting the stated rationalisations that these new practices are ‘better’ or ‘superior’ or achieve ‘better results’ or anything else (Hopwood, 1984), even if these practices have proven successful under different organisational and institutional contexts. Also, it is important to be able to see if the claimed improvements from the change were rhetoric or reality.

4.7 Research Site
The research site that was chosen for this thesis is the NT public sector with two government departments taken as examples. Government departments are
generally large and complex organisations. They are highly structured with uniform rules, policies and procedures, and with people placed in functional speciality areas with standard pay structures, roles and responsibilities. In addition, authority is normally designated and centralised. Government departments provide an ideal site for this study. They include a number of divisions with different mixes of services and operational processes, but with every division engaged with issues of performance management and interested in outcome improvements. The selection of this particular research site was influenced by a relative lack of research involving NT government departments.

The government departments that were chosen for this study are the Department of Health and Community Services (DHCS) and the Department of Corporate and Information Services (DCIS) in the NT. The objective of having two examples is not to test the same issues in order to generalise, but rather to address some similarities and differences that affect the working and usefulness of accounting practices, in order to enrich the understanding of the relevance of the institutional context to the working of accrual accounting. In this regard, DHCS is considered a department that has some commercial exposure, as it operates in a market environment and interacts with the public and the private sector, but its primary objective is social value-adding through the improvement of public health. By contrast, DCIS provides only internal services within the NT public sector with no real market test of operations. DCIS is based on a ‘shared services model’, which is worth addressing because it is so different to the other department studied and to all other departments that exist in the NT public sector. In addition, the shared services model is a new evolving concept that is now being explored by different public sectors around the world.
4.8 Summary
This chapter has outlined the research methodology utilised in a study of accounting change in a public sector setting. It has suggested that the choice of a particular research approach is dependent on the philosophical assumptions underpinning the research questions and objectives. Therefore this study has adopted the interpretive approach, and not the narrative approach, in exploring, describing, and explaining the phenomena under study. In this regard, the study extends beyond the ‘descriptive’, to an identification of key ‘explanatory’ variables that have shaped new accounting practices developed and promoted for the public sector. Furthermore, the case study method was chosen as being capable of providing a rich understanding of the research phenomena.

The NT public sector has been chosen as the research site for this study. DCIS and DHCS have been seen as interesting settings that are suitable for the purpose of the study.

The next three chapters present the empirical findings of this thesis. Chapter five provides an analytical discussion of accounting change in the NT public sector with some empirical evidence drawn from a range of sources and how this change was promoted and implemented. Chapters six and seven addresses the workings and usefulness of the accounting change in DCIS and DHCS respectively.
Chapter 5 Northern Territory Public Sector Reform

5.1 Introduction
The NT Government has been under local and national pressures to reform its public sector. The comparatively large public sector and small private sector that characterise the economy in the Territory has made the reform more important and more needed than in other Australian jurisdictions. In addition, the reform was inevitable in order to increase Territory-generated revenues and decrease its expenses through a more efficient cost management practice, especially in the light of the decreasing Commonwealth financial assistance that the NT Government has relied on to subsidize the high cost of service provision resulting from a small and highly dispersed population.

The objective of this chapter is therefore to provide an analytical overview of the NT experience of public sector reform in light of the NPM ideals that were permeated in public sector management practices in Australia and around the world, with a special focus on the ensuing accounting change. In this regard, the chapter is divided into six parts.

The first part provides a description of the NT economy and its geographic and demographic profile. The second part provides a brief overview of the historical development of the NT public sector. Drawing on the first and second part, the third part discusses the institutional pressures for public sector reform especially the ones that are unique and directly related to the NT environment. The fourth part discusses how the NT embraced the NPM ideals in the process of its public sector reform, where the NT started to privatise and outsource some of its
activities in order to increase the private sector investment and ease the pressure off the economy because of an inefficient large public sector. The fourth part also discusses how the NT Government introduced private sector management practices into the public sector reflecting its commercialisation direction. This commercialisation gained momentum with the acceptance of the National Competition Policy in 1995. The fifth part of this chapter then explains the management and accounting initiatives issued by the NT Government to legislate towards emphasizing the commercial direction of the Government. This part also provides an analysis of the reasons behind the accounting change and the barriers that prevented it from happening earlier. The final part of this chapter provides a description of the Working for Outcomes (WFO) framework which encompassed the accounting change from cash to accrual.

5.2 Northern Territory Profile

The NT is one of two territories in Australia. It accounts for around one sixth of the total area of the Australian continent, and it covers a vast geographical area of 1,300,000 square kilometres stretching from the tropical 'Top End' to the arid desert of the 'Red Centre'. Approximately eighty percent of this area lies north of the Tropic of Capricorn. The result is a diverse mix of climate, landscapes, peoples and attractions.
The population of the NT is approximately 204,500 people (Australian Bureau of Statistics, 2005). The Territory is sparsely populated with a density of 0.01 persons per square kilometre. This is well below the national average which is 2.5 persons per square kilometre.

The NT has a developing economy when compared to the economies of the other regions of Australia. The NT economy is characterised by modest and developing regional and domestic markets; growth dependence on the export of natural resources; a highly exposed narrowly based economy due to its export orientation and low domestic demand (Parliament of Australia, 2004).

The Territory economy has experienced a volatile economic growth pattern during past years. The economy is smaller than any of the other states in the country. The structure of the economy reflects its reliance on natural resources, national defence and the relatively large tourism and public sector. This somehow has made the Territory economy, especially in the mining and tourism industries, susceptible to developments in key export markets such as the Asian region.
The relatively small and widely dispersed population has made the NT economy more reliant on financial help from the Commonwealth. Moreover, under the Horizontal Fiscal Equalization principle, the NT continues to receive a relatively large share of the pool of Commonwealth general revenue assistance, reflecting the fiscal disadvantages associated with its small population (NT Treasury, 2004).

5.3 Northern Territory Public Sector
The public sector plays a key role in the NT economy. It is a major participant in a range of industries, including government administration, defence, education, and health and community services. In addition, the public sector generates demand for a variety of goods and services in most industries, in particular construction and wholesale and retail trade (NT Treasury, 1999). Compared to the rest of Australia, the public sector in NT is a significantly larger component of the economy than in most other jurisdictions as it accounted for about 33.7% of state final demand (SFD) in 2004-05 (NT Treasury, 2006). For this reason, managing the NT economy more effectively requires an effective and efficient public sector. For that, Territory governments throughout the years have always tried to design their policies in a way that fostered the development of an efficient, integrated and responsive public sector.

10 This principle is recognised both nationally and internationally and applies to any need based grant program. In the section above, it refers to the assistance given to a particular jurisdiction which is disadvantaged compared to others.

11 Nationally, the public sector accounted for just 21% of SFD. The Australian Capital Territory (ACT) is the only jurisdiction with a larger public sector due to its large Australian government presence.
Reform of the public sector in the NT started in 1978 when self government was granted by the Commonwealth\textsuperscript{12}. Before that, the Territory’s administration had a colonial nature that was a direct result of the fact that responsibility resided with the Commonwealth government in Canberra. The Territory was grouped with a number of other dependent areas for the purposes of central control and administration. Various Commonwealth Government departments managed aspects of that responsibility and agents, acting on behalf of successive governments, interpreted federal acts and their associated policies as they applied to the Territory. Departmental directors did not usually discuss issues with local NT officers or with members of the public, but had absolute control over the interpretation and implementation of policy and programmes. So the management style found in the territory prior to the 1980s was modelled on the type of bureaucratic dictatorship that was popular in the nineteenth century and intruded into the Territory through the agency of various state and commonwealth governments until self government was granted in 1978 (Hawkes & Moir, 1997).

The newly elected NT Government in 1978 took over an economy that was markedly different from those of the other Australian states. An economy that was characterised by a small and very dispersed population; by the lack of a manufacturing base; by a comparatively large public sector and a small private sector that was not involved in all industries. The economic deficit was very high with a net debt of 13\% of Gross State Product (GSP). This ratio remained relatively high in the first ten years after self government because the Territory Government had to undertake a number of programs for major infrastructure

\textsuperscript{12} Before 1978, the NT was governed by the Commonwealth Government.
projects that were financed by a combination of Commonwealth grants and increases in debts (NT Treasury, 1996).

5.4 Institutional Pressures for Reform
The newly elected government in 1978 saw that the colonial-type administration was not suitable any more for the Territory. Especially when the public expected this government to be responsive; set policy directions for departments that came under its umbrella; provide opportunities for the constituents in the electorates to have input and functioned according to policy and budget guidelines set by Cabinet or by the Commonwealth. Since then, governments in the NT have embarked on reforming the public sector. Although reform of the public sector in the NT had its domestic reasons the reform was actually part of a national movement driven by a number of local and global factors. Globalization and other social, economic and financial pressures\(^{13}\) (discussed in chapters 2 & 3) have forced the NT Government to embark on reforming its public sector as the rest of Australia has been doing. These pressures for reform were not of the same significance as in the rest of the states because of some unique characteristics of the NT environment, such as small economy, comparatively large public sector, small private sector, and small and highly dispersed population. These characteristics have affected the significance of these pressures. The small economy and the large public sector made the NT Government rely more on Commonwealth grants as a major source of revenues, and the small private sector resulted in an insignificant level of competition.

\(^{13}\) In this chapter, and for the purpose of this research, there is no need to replicate the general reasons for public sector reform which were discussed earlier in chapters 2 and 3, but the territory specific characteristics that played a key role in the reform pressure are emphasised in this chapter.
Since 1978, the NT Government has faced the challenge of managing its economy and more specifically its public sector more efficiently. The isolation, the dispersion of its population and the demography of the Territory have all made it challenging to the Government in providing a state-like level of services compared with the rest of Australia. These factors have made the NT suffer from fiscal disadvantages in providing services to the community. The small and highly dispersed population in the NT has made the cost of providing services very high\textsuperscript{14} (NT Treasury, 1999, 2000). This high cost of providing services has made the Government more depended on Commonwealth grants than the states, which resulted in making the Territory vulnerable to changes in Commonwealth policy and especially subject to pressure from the Commonwealth through the imposition of any condition that could be associated with those grants. This volatility is evidenced by the substantial decrease in Commonwealth grants experienced in the mid 1980s (NT Treasury, 2000).

In addition, the public sector in the NT does not have the ability of its counterparts in other jurisdictions to generate its own revenues. So in the first fifteen years since self government was granted, expenses were significantly higher than revenues, largely because the Government had to spend large amounts on infrastructure and because of the limited revenues generated in the Territory during that time.

All these reasons have forced consecutive NT governments to design policies that aimed to reduce expenses and cut costs and also at increasing revenues wherever possible.

\textsuperscript{14} Territorians represent about 1% of the total population of Australia and they live on approximately the sixth of the total land mass.
possible in a way that decreases their dependence and reliance on Commonwealth grants. But public sector expenditure still accounted for a larger component of the economy (over 40% of SFD), which meant that the performance of the economy as a whole might be limited by the large public sector and the small private sector. Public sector agencies were viewed as inefficient and poorly managed, they habitually exceeded their budgets and any unused balances were spent at the end of each year in order to avoid future budget cuts. Also, accounting was used creatively to report good performance. Thus the objective of the NT Government was to create an efficient public sector that was responsive to the strategic direction of the Government and improve the overall quality of services delivered.

The first step was to decide which activities the NT Government should provide and which should be divested to the private sector. The second step was to undertake structural management and accounting reforms in the remaining public sector agencies.

### 5.5 Organisational Responses in the NT Public Sector

The aim of reform in the public sector in the NT to improve its effectiveness, efficiency and accountability led to a new range of processes through which activities or functions that can in effect be transferred from government to the private sector were identified. This was based on the premise that such activities should be transferred because private sector organisations are more efficient than their counterparts in the public sector (Hoque & Moll, 2001). This was the essence of the NPM reform that was taking place both internationally and nationally as discussed in chapters two and three.
In transferring functions and activities from the public to the private sector, consecutive governments in the NT have chosen two types of organisational designs: the privatisation of the ownership of businesses as a whole or of individual assets, which is usually termed ‘privatisation’ and the provision of certain goods or services on behalf of government, via ‘outsourcing’\(^\text{15}\) or ‘contracting out’.

### 5.5.1 Privatisation

Privatisation involves government switching focus from being an owner/shareholder to being a regulator and purchaser. Privatisation is most evident in situations where the goods and services being produced are essentially ‘private goods’, and substantially paid for by end-use customers. Privatisation has become a popular course of action for the NT Government to raise funds and also as a response to the national and global belief that privatisation provided an opportunity to transfer risks to the private sector and also the argument that this offered the potential for improved business efficiency. That is usually the way that privatisation is justified, i.e. on the general ground that private ownership and management make for greater efficiency (Alam, 1997; Hoque & Hopper, 1994, 1997; Martin & Parker, 1995; Parker & Bradley, 2000; Sarker, 2006).

One of the Territory’s first experiences with privatisation was in 1982 with the sale of the Mount Wells Mining Battery\(^\text{16}\) (Aussie Heritage, 2007). Further

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\(^{15}\) Throughout this thesis, as it is the case in the Australian public sector, the word ‘outsourcing’ is used interchangeably with terms such as ‘contracting’ or ‘contracting out’.

\(^{16}\) The Mount Wells Government Battery consists of: a large, steel framed, corrugated galvanised iron shed with concrete floor and skillion roofs, stepped down the hill slope; a ten head stamp battery and associated treatment plant; a Deutz diesel engine connected to a 135 kva generator; a rotary mill; and an ore chute and jaw crusher in an adjacent building at rear.
examples included the sale of the Government Mining Laboratory in 1984; the
private provision of gas pipelines in 1983 and 1986 to supply fuel for the
Territory’s major power stations; and the Northern Territory power transmission
line in 1988 and the establishment of the Pine Creek Power Station in 1990. In
addition, stage one of the Ayers Rock Resort sale was completed in 1993 and the
second and final stage in 1997.

Also in 1998, the Territory Government privatised the NT TAB. A comprehensive
review of the privatisation had recommended the privatisation of the business, and
recognised that for the business to grow in the competitive gaming market and to
improve the wagering product available to Territory punters, private ownership
was more appropriate. Furthermore, operational efficiencies were more likely to
be extracted from the business through private ownership and operation (NT
Treasury, 2000). The Government was interested in such privatisation because it
brought an up-front return together with an ongoing income stream in the form of
taxation receipts from the privatised business. In addition, the services to Territory
punters would be improved because of private sector operation.

In addition, and to reflect its emphasis on privatisation the Government has
established an Asset Sales Team to advise on the potential for the sale of assets
and to manage any prospective sale processes.

All these examples of privatisation that took place in the NT in the last two
decades were small in terms of their revenue size and did not have a major impact
on the economy or the welfare of the people. In addition, consecutive NT
governments have not privatised any of the major functions or public utilities
(transport, water and electricity). Instead, these governments have used public–private partnerships for the provision of some of those functions and some major infrastructure. The reason for not privatising these functions is twofold, one is the overall argument about the benefits and disadvantages of privatisation and the extent of its impact on overall service improvements and gains in economic welfare. Second is the lack of interest in privatisation from the private sector as the NT is characterised by a number of small, isolated communities that have very poor economies of scale and a high cost of service delivery. Consequently, services are provided on the basis of social rather than economic imperatives. And unless the private sector can capture an income stream that makes an investment profitable, then private sector investment is likely to be limited, and this seems to be the case in relation to most NT government activities. The regional and remote areas that characterise the NT means that most services will need to be provided by government because the level of utilisation will be too low for the investment to be of interest to the private sector.

5.5.2 Outsourcing
Outsourcing involves government switching focus from being a producer or provider of the goods or services in question to being a purchaser of these goods or services. Therefore, it involves contracting for the provision of a third party to perform services to it on its behalf (Reilly & Tamkin, 1996). Outsourcing is most evident where the immediate purchasers are largely within the public sector (whether the goods or services are an intermediate input into government or a ‘social good’ being purchased using taxpayer funds for supply to the community).
The objective for the NT Government to adopt outsourcing is that it can result in cost-savings in the provision of government services (Barrett, 1997). It often provides the opportunity to access the provision of services more cost effectively from service providers who specialise in a particular service. A second benefit, particularly relevant in the Territory context, is that outsourcing can promote economic development by fostering private sector activity and employment. This benefit may be achieved if the private sector suppliers are based in or have a substantial presence in the Territory. For this, Government businesses in the Territory were encouraged to analyse the prospects for outsourcing as a means to reduce costs.

In October 1997, Government decided to contract out, to the local private legal profession, the provision of most legal services to Government. Previously, these services had been largely provided by the Attorney-General’s Department via the Solicitor for the Northern Territory. Services were put out to tender in packages which consisted of, in the case of smaller clients, all of the work of a particular agency, and for larger clients, all matters of a particular type for that client agency. For example, in relation to a large client such as the Department of Health and Community Services (DHCS), four packages for particular types of matters were put out to tender including Professional Boards, Mental Health Services, Adult Guardianship and Medical Negligence. In addition, there is a general package for the remainder of legal services required by DHCS that were not the subject of a particular package.

In addition to considerations regarding cost of legal services and standard of advice provided, the decision to contract out legal services was based on a desire
to promote and develop the local private profession, thereby enhancing the Territory’s broader economic interest in growth of the local economy. The growth of expertise and specialisation of local legal providers is of considerable benefit to the Territory community, particularly business, as well as to the Territory Government. Qualitative consultation with the local private profession at the conclusion of the first round of packages in April 2000, indicates that the volume and quality of Government work provided under outsourcing, has enabled the local profession to consolidate its skills and hire additional expertise. Various firms have doubled in size, made substantial investments in computer technology for professional staff, and talk of, for the first time, being able to compete effectively with legal firms outside the Territory. The number of articled clerk (newly graduated law students) positions in the Territory has increased significantly, thereby encouraging NT university graduates to remain in the Territory at the conclusion of their legal studies.

In September 1998, the Government endorsed the progressive outsourcing of all information technology and telecommunications (IT&T) services. The Government was the 20th largest IT&T service provider in Australia, supporting some 10,000 desktops, mainframe computing services, helpdesk services, electronic messaging services, and voice, data and internet telecommunications networks. The Government has aimed through the outsourcing of IT&T to foster a robust and mature IT&T industry by improving its capability and capacity and by driving some cost efficiencies through the provision of the services by leading expert private sector companies. In addition the expansion of the locally based IT industry is expected to result in stimulating industry growth and job creation.
In 1999-00, a contract with Optus to outsource the Government’s communications services had been established, providing ongoing budget savings of $5 million per year. The Territory community will also benefit through the active participation of a second major player in the telecommunications area (NT Treasury, 2000).

In August 1999 the Government outsourced the provision of compulsory employer superannuation for new employees, by offering new employees an unlimited choice of private sector superannuation funds. A component of this outsourcing process was to select a default private sector superannuation fund for employees who did not nominate a preferred fund. Outsourcing of superannuation services for new employees is a result of Government questioning the need to establish and manage a service that is offered by the private sector and allow it to focus on core Government functions. In this case, the market for superannuation funds is large, growing rapidly, and serviced by a considerable range of private sector superannuation fund managers. The market offers new employees the opportunity to benefit from high returns and low charges for their retirement savings (NT Treasury, 2000).

Outsourcing is also used by the Auditor General’s Office, Strategic and Audit Services at the Department of the Chief Minister, and more recently by the Attorney General’s Department. Financial and performance management system audits of Government agencies are outsourced to local accounting firms and overseen by staff of the Auditor-General’s Office. Strategic and Audit Services calls for tenders from both local and interstate accounting firms occur as the need arises for the performance of internal audits and other strategic projects. Most of the litigation and commercial legal services for the Territory Government is now
provided by local private sector legal practitioners and overseen by staff of the Northern Territory Attorney-General’s Department.

As it appears from the previous sections, privatisation and outsourcing have been under way for some time and they are expected to continue, but the appetite for them which is seen in the states may not be appropriate to the NT because of its unique position and characteristics compared to the other states. In particular, the relatively small and geographically dispersed nature of the Territory’s markets - and their geographic isolation, which means that the scope for competition is less in the Territory than in the states and the cost of service delivery is much higher. For these reasons, it was unclear, and still is, how far privatisation and outsourcing can be taken in the Territory environment. Overall, privatisation and outsourcing were not able to significantly increase the private sector business investment contribution, and so the NT Government had to find additional processes to increase private sector investment and increase the efficiency of the public sector.

5.5.3 National Competition Policy and the Organisational Reform
As discussed in the previous section, privatisation and outsourcing did not solve totally the inefficiency of the public sector entities, especially as the privatised projects or functions were relatively small and have limited effects on the economic welfare of the Territory. So by year 1990, the NT Government still owned most of the economic infrastructure, including hospitals, universities, schools, mines, postal services, insurance and electric power. Most of these activities were still run by departments that required taxpayer support. So, the NT Government had to reform its public sector using processes other than
privatisation and outsourcing. So the 1990s have seen a new perspective of reform. The perspective was inspired and driven by the NPM that was spreading both globally and nationally as discussed in chapters two and three. So the NT Government started to introduce new market-based practices into the public sector, and for this the NT legislation had to be changed and a new Act, the Public Sector Employment and Management Act came into effect on 1 July 1993 and incorporated a comprehensive range of reform measures, such as devolution of responsibility, accountability and performance management.

The introduction of the new act came at the time discussions were taking place in regard to the National Competition Policy (NCP), and in 1994 the Council of Australian Governments (COAG) agreed to reforms set out in the NCP. At the April 1995 Council meeting, the NT Government, along with Commonwealth, and other state and territory governments, accepted the three principles of the NCP: the Conduct Code Agreement, the Competition Principles Agreement (CPA) and the Agreement to Implement National Competition Policy and Related Reforms Revision (Hoque & Moll, 2001). These agreements set out a uniform approach to competition reform in Australia (NT Treasury, 1996).

The NCP was considered, by all governments in Australia to be the major catalyst behind public sector reform because, in a market based economy, it is competition as much as any factor which will create productivity and efficiency gains (NT Treasury, 1996). So the NCP aimed to remove a range of institutional impediments which inhibit competition within sections of the Australian economy. But because the Northern Territory was a new jurisdiction, it did not
have to face the same hangover of legislation that was faced in other states, as discussed below.

Under the three agreements of the NCP, the Territory, like the other jurisdictions, has committed to implementing a series of reforms designed to improve the level of competition in a wide range of sectors in the economy (NT Treasury, 1996). Hence, a legislation review has taken place because it is quite common for legislation to restrict competition. Consequently, by June 30 1996 the NT Government developed a timetable for the review of all legislations in consultation with all agencies (NT Treasury, 1996). The approach of the Territory has been to list for review all legislation which could potentially have an impact on competition. This means that many of the Acts on the review timetable will not require formal review for the simple reason that they do not actually restrict competition. In addition, because the Territory is a relatively new jurisdiction, compared to the states, it does not suffer the hangover of legislation developed in an environment where competition was not seen as being as beneficial as it is in a modern policy environment. Consequently, many of the problems faced interstate were either non-existent or significantly diminished in the Territory.

In addition, before the introduction of the NCP some Government businesses were generally immune from the operation of the Trade Practices Act (TPA)\(^\text{17}\) because of constitutional limitations on the Commonwealth’s legislative powers (e.g. tax exemption, department cross-subsidies) (Hoque & Moll, 2001; McTaggart, 1996; NT Treasury, 1996). The NCP addressed these disparities through an agreement

\(^{17}\) The Trade Practices Act (TPA) set out rules that promote competition, thereby reducing anti-competitive conduct.
with the Commonwealth, state and territory governments which came into effect in July 1996 to extend the coverage of Part IV of the TPA to the unincorporated sector and government entities (Fels, 1999; Hoque & Moll, 2001). The result of this is that government entities cannot demonstrate any anti-competitive conduct such as price fixing, resale price fixing, or primary boycotts in the provision of products or services (ACCC, 1996). The NT satisfied this requirement with the passing of the Competition Policy Reform (NT) Act in June 1996. This was only significant to the activities of the Territory Government that was not previously subject to the provisions of the TPA. Such activities were generally in government agencies as unincorporated businesses in the Territory were already subject to the Provisions of the TPA, due to the Commonwealth’s special legislative powers with respect to the Territory. However, as a result of this legislation, the activities of the Territory Government, which were previously not subject to the provisions of the TPA, became subject to the competitive disciplines of Part IV of the TPA (NT Treasury, 1996).

5.5.3.1 Competitive Neutrality
The Competition Principles Agreement (CPA) required the NT and the states to develop a competitive neutrality policy which was defined as “the elimination of resource allocation distortions arising out of the public ownership of entities engaged in significant business activities: government businesses should not enjoy any competitive advantage simply as a result of public sector ownership” (NT Budget, 1996, p.100). Possible advantages resulting from government ownership include: tax exemptions; regulatory advantages; explicit or implicit government guarantees on debts; immunity from bankruptcy; discounted interest rates on loans; and cross-subsidization. However, there are also disadvantages to
operating as a government entity, these include limited markets, greater accountability obligations, reduced managerial autonomy, requirements to comply with government wages, employment and industrial relations policies and the fact that the government provides many goods and services to the community that could not realistically be provided by a private sector organisation without high costs to the consumer (Independent Committee of Inquiry, 1993). The Independent Committee of Inquiry (1993, p. 297) stated that where these disparities exist, there is a “potential to reduce economic efficiency and community welfare by distorting the allocation of resources”. So in the Northern Territory the aim of competitive neutrality was to introduce measures to address the disparities resulting from Government ownership (Hoque & Moll, 2001) and to ensure that markets are not unnecessarily distorted, that each service provider competes on equal terms, that any special advantages arising out of public ownership or market power are removed, minimised or made apparent, that where the government has excessive market power structural reform occurs to increase competition and that special monitoring is used to prevent market abuse (Girle, 2004). Without competitive neutrality the “society’s resources are not being put to their best use” (Hilmer et al., 1993, p. 297).

5.5.4 Corporatisation and Commercialisation
The principal response of the NT Government to its competitive neutrality commitments has been reflected in the New Financial Management Act (1995) which replaced the Financial Administration and Audit Act. The new Act recognized the fundamental difference between the Territory’s general government activities and its more commercially-oriented business activities, such as the Power and Water Authority. So the NT Government established
Government Business Divisions (GBDs) to reflect the commercial focus of those government businesses.

The separation of NT Government businesses has facilitated the development of appropriate operational policies and procedures for GBDs, reflecting the fact that where the Government provides business-like services, a commercial focus is required that is not appropriate for general government activities. While this commercial approach has been evident in many government businesses for several years, the creation of GBDs has established a consistent platform for change across all business activities in the NT.

The NT Government aimed, through establishing GBDs, to create a commercial financial framework that encourages greater commercial focus, further improves management practices and generates additional efficiency and productivity gains. Within this framework, the following commercial practices were implemented (NT Treasury, 1999):

- full attribution of costs, with GBDs required to pay the full costs of service provision including the cost of leasing premises, auditing and legal costs, corporate overheads and taxation equivalents in addition to employee costs (superannuation, workers compensation and leave entitlements).
- cost reflective pricing, with GBDs pricing goods and services in relation to the actual costs of their provision. The prices are subject to independent review by Treasury and are to be approved by Cabinet.
• commercial accounting practices, with all GBDs required to prepare accrual accounts, operate under a charter of operations, and establish an audit committee;

• the identification and budget funding of Community Service Obligations (CSOs), to compensate GBDs for undertaking non-commercial activities at the direction of the Government; and

• performance monitoring, with GBDs monitoring financial and non-financial performance and reporting results in annual reports.

These means were believed to facilitate efficiency improvement for GBDs by making them pay the full cost of the resources they use, and then charging cost reflective prices. This was believed to improve the efficiency by which existing resources are allocated to both the production (by GBDs) and consumption (by GBDs’ customers) of services. In addition, the reform process was believed to drive some dynamic efficiency gains, through improvements in the productivity of GBDs in providing a particular level of output for a given level of resources.

The corporatisation18 approach that was adopted in the NT was only to corporatise the larger GBDs, that is the Territory Insurance Office, the Power and Water Authority and the Darwin Port Authority. Each of these entities has a separate legal entity via legislation, and is supported by a corporate governance structure. Generally, corporatised entities operate under the same principles as

18 Generally ‘corporatisation’ refers to the process of making an entity have similar governance and operating structure as a corporation but under government ownership. The corporatised entity would then have its own legislation and operates under its own board of directors. However, in this study GBDs have been considered corporatised entities but with acknowledgement that they still are at the first stage of corporatisation and have not become fully corporatised.
commercialised entities according to the following principles: clear and non-conflicting objectives, managerial responsibility, authority and autonomy, effective performance monitoring by the owner government, competitive neutrality and effective monopoly regulation.

In 1998, the Northern Territory Government conducted a comprehensive review of Power and Water (PAWA).\textsuperscript{19} As part of the review, consultants Merrill Lynch and Fay Richwhite (MLFR) were contracted to identify and evaluate the potential options for improving PAWA’s performance. In October 1998, MLFR reported that the Government would best achieve its objectives by privatising PAWA. However, MLFR also identified significant improvements that could be achieved under continuing Government ownership. MLFR considered that the most effective competition model for PAWA was a regulated core business with a competitive periphery. The competitive periphery was proposed to involve the establishment of arrangements to provide competing electricity generators with access to customers and competitive tendering for inputs and system augmentation. Given the small size of the Territory market, MLFR found no compelling commercial or economic argument for PAWA to relinquish its ability to benefit from economies of scale or scope. The Government’s initial response to the MLFR report was announced in a statement by the Treasurer to the Legislative Assembly on 1 December 1998. The Government decided to give PAWA the opportunity to achieve significant efficiency improvements under government ownership. The aim was to achieve a financial improvement amounting to $30M per annum after three years. However, the Government has indicated that, if the

\textsuperscript{19} PAWA is the Northern Territory’s premier provider of electricity, water and sewerage services.
efficiency improvements were not achieved, privatisation would be revisited (NT Treasury, 2000).

The CPA did not require all business activities to be corporatised and the Territory Government has adopted a course of commercialisation rather than corporatisation for the other Government business divisions because of their small size. After all, subclause 3 (5) (b) of CPA states that competitive neutrality is required only when the benefits from implementation outweigh the costs (Budget 1996/1997). Commercialisation was a preliminary step before the full corporatisation of a specific business by changing it into a real non privatised business entity or what the NT government calls a Government Owned Corporation (GOC). This has only been applied to POWA which is both a statutory corporation and a corporation under the Government Corporation Act.

The NT Government wanted to change GBDs into real business entities or GOCs based on the revenue of that business. If the government business generates most of its revenue from the provision of services to external, non government, customers, especially if there are a large numbers of such customers, then that business is suited to become a GOC. That is because the business is more likely to be driven by the commercial needs of satisfying its customers and therefore is more likely to be more responsive to external pressures to improve its service delivery and cost structures. Finally, the existence of, or potential for, competition provides an improved environment for the government-owned business to operate under a business-like structure. By contrast, a business that receives a large portion of its income from the Government in the form of community service obligation payments is less likely to be influenced by the application of the
business model to it. This is because the provision of community service obligation payments recognises the non-commercial nature of the services delivered to the community and there is little to be gained in applying a commercial model to non-commercial activities. This means that if the business is subject to actual or potential competition in its market, the need for it to be on a more competitively neutral basis and to be in a position to respond to competitive pressures by giving it freedom of operations and autonomy, is more desirable.

5.6 Management and Accounting Responses in the Northern Territory Public Sector

Similar to the rest of Australia, the NT public sector management has been influenced by the rise of the NPM and the organisational change that resulted in response to the reform pressures. The adoption of the NPM ideals by the NT Government has led to the introduction of new management and accounting practices into public sector organisations in the NT. These new practices were of a more commercial nature, as they were used in the private sector, than the old traditional type of management practices and accounting practices.

At first, the NT Government introduced the new practices as part of the corporatisation and commercialisation processes of some of the government businesses. This means that the NT Government has first introduced these new practices into the GOCs and the GBDs. However, at a later stage some of the practices have come to be introduced in the remaining government agencies (government departments). This section discusses the different management and accounting initiatives that were introduced in the NT public sector and how the commercialisation process has moved into the remaining, non-corporatised,
government agencies such as government departments, and the promoters of such a move.

### 5.6.1 Main Management and Accounting Initiatives

Much of the NT public sector management reform has taken place under the 1995 NCP framework, which reinforced the thrust towards commercialisation and corporatisation in the NT public sector. The NCP provided financial incentives to the states and territories to undertake reforms to introduce or increase the level of competition. So, as mentioned earlier, the NT Government introduced in April 1995 a new Financial Management Act to replace the Financial Administration and Audit Act. One of the fundamental features of this new Act is the separation of the Government’s commercial and business operations as distinct corporatised entities from the general government operations to reflect their commercial focus as per the requirements of the NCP. These entities became known as GBDs and some of them later became GOCs to reflect an even more corporatised nature. The corporatisation of these businesses has required treating them as profit centres and removing all commercial advantages and disadvantages affecting performance as a result of government ownership, including inappropriate management incentives, constraints on activities caused by the slow and uncertain process of obtaining parliamentary funding, free capital provided by government, exemption from taxes and many other regulations. For this reason, the NT Government
introduced several management and accounting practices that existed in the private sector into its corporatised businesses.\textsuperscript{20}

These practices have shifted the focus of these businesses onto a different aspect of performance. The performance assessment that existed before was focused more on cost and budget control. However, it then became focused on achieving productivity and efficiency in the delivery of public goods and services. In this regard, the performance has become more related to the results achieved through quality and outputs. Outputs performance reporting, accrual accounting and program budgeting were some examples of the practices introduced into the corporatised government businesses to drive their performance forward by making them operate at the same level of advantages and disadvantages as their competitors from the private sector. This way, they came to operate within market conditions where competition was considered to be the main driver for achieving efficiency, effectiveness and accountability. As a result of these reforms one senior public sector executive has commented: “Considerable advancements have been made with the adoption of commercial practices, resulting in greater efficiencies in the delivery of services”.

After 1995, NT Government efforts to improve its financial and management practices continued. In 1996, there were also a number of significant developments in the financial relations between the Commonwealth and the states and territories (NT Treasury, 1996). However, most of the management and

\textsuperscript{20} It is important to note that some GBDs had already used such practices before they became corporatised entities, but it was not until 1995 when the NT Government required them to adopt such practices.
accounting practices that were being applied in the public sector in the NT were only applied in the corporatised entities and some practices were also applied at the whole of government level. The non-corporatised government businesses such as government departments did not become affected by the commercialisation process until year 2002 when the NT Government initiated a framework that mandated government departments to use private sector practices, which will be discussed later in this chapter.

In addition, in 2001, the NT Government introduced the Fiscal Integrity and Transparency Act, which provided a comprehensive framework for planning, targeting and reporting of the Territory’s public sector financial accounts. The Act requires that fiscal outlook and fiscal outcome reports be prepared based on external reporting standards and in accordance with the Uniform Presentation Framework. A Treasury manager explained that “until this legislation was introduced, the Territory did not abide by national accounting standards, particularly Australian Accounting Standard 31, concerning whole of government reporting of financial information”. Another senior Treasury official expressed the view that “the new legislation means that our budget papers and financial reports will comply with AAS31 and the Australian Uniform Presentation Framework, which requires all governments to report key financial information in a consistent format”. This means that the new Act was expected to bring more integrity and accountability into the financial information of the NT public sector especially the whole of government information. This was mainly reflected in the Act where it made clear the responsibility of the Government for setting fiscal strategy and policies of departments and agencies, and Treasury’s responsibility is the costing of these policies. A department’s executive commented in this regard: “…. gone
are the days when the Treasurer can manipulate the financial data for his or her own political advantage”. Another commented similarly: “the legislation brings more integrity into our Budget processes”.

Finally, in 2002, the NT Government introduced a comprehensive financial and performance management framework based on outputs and the accrual methodology for budgeting, accounting and reporting. This framework was titled ‘Working for Outcomes’ (WFO) and it was directed to all of the NT public sector, including the non-corporatised agencies. So the framework introduced into government departments the management and accounting practices that were first introduced into the corporatised entities. The introduction of this framework in 2002 came as a result of the increasing and accumulated talks and discussions that were taking place from 1995. A discussion of the reasons behind the introduction of the framework in 2002 and not any earlier, especially as the NT was the last government to introduce accrual accounting in its public sector, will be provided in the next section.

The Government aimed, through the WFO framework, to improve the performance of public sector organisations by providing a better basis for resource allocation within the Territory by, focusing on outputs and performance, clearly defining links between outcomes and outputs, and providing full cost information for outputs. The WFO framework represents the most significant and pervasive financial reform initiative introduced in the Territory and it, combined with the Fiscal Integrity and Transparency Act, placed the NT’s financial management arrangements on a contemporary basis consistent with the frameworks of other jurisdictions across Australia. However, after a few years of the operation of the
WFO framework the extent to which this framework was adopted in the NT departments and the extent to which these objectives have been achieved will be discussed in the next two chapters.

5.6.2 Last Government to Adopt the Change
The Northern Territory Government was the last government to adopt accrual accounting and other private sector management and accounting practices in its public sector\(^{21}\) in Australia when it introduced the WFO framework in 2002. The reason for and the rationale behind this adoption and its late introduction are discussed in this section. Data were collected from interviewing individuals who were prominent in the adoption of accrual accounting. The analysis of data is carried on using an interpretative model of public sector accounting change (Christensen, 2002). Christensen (2002) has used this model to study the early adoption of accrual based financial reporting in New South Wales (NSW). Although it is expected that some of the findings in the NT context will not be much different from the NSW context, this study brings more attention to reasons for accounting change in governments.

Christensen (2002) introduced five variables in his model to analyse the reasons behind public sector accounting change, and these are, stimuli for change, promoters of change, producers of information, users of information, and implementation barriers. The direction that these variables indicate in supporting and refuting public sector accounting change is influenced by the institutional, technical rationale and the legitimacy theories that were discussed in the previous

\(^{21}\) Hereafter, the term public sector refers to the general government public sector as it excludes the corporatised businesses.
chapter. For example, the stimuli for change are the institutional pressures exerted on a specific organisation. In addition, the promoters of change, producers and users of information can influence the change, depending on their understanding of the possible change and their view about its purpose. For example, some might support the change for the purpose of gaining legitimacy and others may support it for the purpose of development and improvement. Finally, the last variable, ‘implementation barriers’, is the focus of this analysis as it explains the reasons that might have restricted the implementation of accrual accounting in the NT at an earlier stage.

5.6.2.1 Stimuli
All interviewees have acknowledged that the desire to improve the performance of the NT public sector through enhancing its efficiency, effectiveness and accountability has been the most important stimulus behind the thrust of the adoption of accrual accounting. The increasing belief that the use of private sector management and accounting practices in the public sector would achieve better results and improve the decision-making has motivated the promoters of change and the users of information to push such adoption. This desire became a Government goal when the Labor Party came to power in 2001 and its new Chief Minister, the honourable Claire Martin, put the introduction of an accrual and output related framework forward as an important agenda item.

5.6.2.2 Promoters of Change
The adoption of accrual and output based frameworks in other jurisdictions has influenced and motivated some interest groups to promote the change, these are the Australian Government, Parliamentarians, the community and the media. The Australian Government in its need for comparable information across
jurisdictions, and to ensure that Commonwealth-funded programs are achieving their intended outputs has required the NT Government to adopt the accrual accounting and output framework. Some NT Parliamentarians, also, have increasingly called for the adoption of accrual accounting, so public sector organisations can gain legitimacy as they conform with practices in other jurisdictions (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott, 1995). In addition, the increasing demand by the community for greater accessibility and responsiveness of service delivery and opportunities to contribute to decision-making concerning the outcomes and performance of the NT public sector has also promoted the adoption of the use of accrual and output based management structures. Also, the increasing demand from the media for freedom of information regarding public sector activities has promoted such a change as it facilitates the provision of such information more than the old cash accounting and input management structure.

5.6.2.3 Users of Information
Politicians, ministers, and Parliamentarians, as well as Parliamentary adjuncts such as the Auditor-General and the Public Accounts Committees, in addition to internal managers in government organisations are all users of information. From the interviews it was clear that most of these personnel had no or limited knowledge about the difference between cash and accrual accounting, and therefore they did not influence the change significantly. “Parliamentarians understood cash reports much more easily than accrual ones”, was stated in one interview. Managers across most departments were from a non accounting background and had no knowledge of accrual accounting. Even in Treasury, “there were few accountants and many economists who look at the whole concept
of accrual accounting differently” as a previous Treasury official stated. However, after year 2000, the number of accountants employed by agencies has increased and some with experience from the private sector held senior positions in Treasury. Therefore, the view about accrual accounting has changed and it has become more acceptable.

5.6.2.4 Producers of Information
These were mainly the government agencies within the NT public sector. Before the introduction of accrual accounting, these agencies were not enthusiastic about its adoption especially that it would require a change in the accounting systems, involving new recruitment of staff in addition to the training that must be provided. However, this was not going to influence the decision about the adoption of accrual accounting as such view did not change until after the adoption.

5.6.2.5 Implementation Barriers
This considers the barriers that existed prior to the implementation of accrual accounting to explain the reason behind its late implementation in the NT. Although the lack of accounting skills in the NT public sector was seen as an impediment to the change this was not crucial to the decision about implementing accrual accounting or not. All interviewees who witnessed the process of change stated that the major impediment that prevented the implementation at an earlier stage was the Under Treasurer of that time. According to some, “he was an economist, and economists looked at accrual accounting differently”. Several key interviewees expressed the view that “he has held significant power and he was listened to by the Government”. This is consistent with Hardy’s (1994) power of the process, which suggests that when key individuals hold significant power they
can reduce access to decision-making and can also pressure subordinates to comply with demands (Burgeois, 1991; Vecchio, 1997). A senior Treasury executive supported this by stating that “if the Under Treasurer has recommended (accrual accounting) any time after the 1990s it would have happened because he has had a lot of credibility”. However, “the Under Treasurer at the time, was no, no, no” according to this executive.

5.7 Working for Outcomes Framework
As discussed in the previous sections of this chapter, the global and national adoption of NPM principles across public sectors (Hood, 1991) has encouraged the NT Government to pursue such principles. This was first reflected in agencies that deliver business-like activities, the GBDs, through the process of corporatisation and then it was extended into the general public sector agencies (government departments) when the Government introduced the WFO framework in 2002. The Government intended from this introduction to help public sector agencies to prosper in the competitive and commercially focused market by enhancing their ability to use resources effectively and to discharge their accountability to the wider community.

The introduction of the WFO framework has emphasised the Government’s direction to become a results oriented government by shifting the focus from budget control to results and outcomes achieved, and linking the performance to such terms. In this regard, the WFO framework aimed to provide a better basis for resource allocation that leads to efficiency, effectiveness and accountability in public sector organisations. So, the framework has focused on three important elements, outputs, performance, and accruals.
5.7.1 Outputs

The WFO framework highlighted separate roles for the Government and its agencies in the provision and funding of government operations. Under these roles, the Government became both the ‘owner’ of government agencies and the ‘purchaser’ of their services, whereas agencies became the ‘agent’ and the ‘provider’ of services. The Government, as the owner, has to maintain an appropriate level of investment in agencies to ensure they are capable of producing the required outputs. Agencies, on the other hand, as agents would need to keep the Government informed of their financial position and of any related significant impacts. Flowing from this relationship is the ‘purchaser/provider’ relationship, where the Government purchases outputs from agencies after negotiations about their respective specifications and some agreed measures, such as quantity and quality. Agencies, however, have to provide these outputs in accordance with the agreed measures.

Therefore, in accordance with the WFO framework, the resource allocation decisions became concentrated on outputs, where agencies are to be funded based on the outputs they deliver. This arrangement, in principle, has intended to shift the focus of agencies from inputs to outputs and improved the understanding in agencies of the relationship between outcomes and outputs. So, from 2002, each agency across the NT public sector has set up an output structure that links outputs to outcomes (see figure and table below). Such structure has made the operational management much more focused at the output level.

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22 Outputs is the term used to describe the services and goods produced by agencies.

23 Outcomes represent the objectives that Government is seeking to achieve on behalf of the community through the delivery of outputs.
Outcome

Improved health and wellbeing of those in the Northern Territory community who require acute or specialist care.

Outputs Group
Acute Services

Outputs
- Admitted Patient Services
- Non Admitted Patient Services

Figure 3 Example of outcome/output structure at DHCS
Source: Developed by the author using data from 2002-03 DHCS' annual report

Table 4 Example of outputs list at DHCS

<table>
<thead>
<tr>
<th>Output group/Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Acute Services</td>
</tr>
<tr>
<td>• Admitted Patient Services</td>
</tr>
<tr>
<td>• Non-Admitted Patient Services</td>
</tr>
<tr>
<td>2. Community Health Services</td>
</tr>
<tr>
<td>• Community Health Services</td>
</tr>
<tr>
<td>3. Family and Children’s Services</td>
</tr>
<tr>
<td>• Child Care, Early Childhood Development and Parent Support Services</td>
</tr>
<tr>
<td>• Support Services For Families In Crisis</td>
</tr>
<tr>
<td>• Child Protection Services</td>
</tr>
<tr>
<td>4. Aged and Disability Services</td>
</tr>
<tr>
<td>• Community Support Services For Frail Aged People and People with a Disability</td>
</tr>
<tr>
<td>• Support For Senior Territorians and Pensioner Concessions</td>
</tr>
<tr>
<td>5. Mental Health Services</td>
</tr>
<tr>
<td>• Mental Health Services</td>
</tr>
<tr>
<td>6. Public Health Services</td>
</tr>
<tr>
<td>• Environmental Health Services</td>
</tr>
<tr>
<td>• Disease Control Services</td>
</tr>
<tr>
<td>• Alcohol and Other Drugs Services</td>
</tr>
<tr>
<td>7. Health Research</td>
</tr>
<tr>
<td>• Health Research</td>
</tr>
</tbody>
</table>

Source: Developed by the author using data from 2002-03 DHCS’ annual report
5.7.2 Performance

As resource allocation decisions became concentrated on outputs, performance information was needed to assist decision makers, both within and outside the agency, to evaluate whether Territory resources are being applied efficiently and effectively and achieving Government outcomes. So for each output, performance measures were developed in the categories of quantity, quality, timeliness, and cost (although cost was eliminated after a few years because it was difficult to determine as will be discussed in the next chapters). Performance targets were specified for each measure, with the annual targets published in the Budget, and during the year, actual performance is measured and assessed against the specified targets by both the Government and agencies. Agency annual reports play an important role in reporting about agencies’ performance by recording actual performance against each target published in the Budget and providing explanations of significant variances.

The quantity measure is a volume measurement that depicts the number or amount of services provided. However, some Government services, such as policy advice, are not readily quantifiable in a meaningful way. Therefore, they were considered in terms of the overall capacity to provide the service and were referred to as capacity outputs. The quality measure relates to the calibre or excellence of an output and generally reflects service standards based on customer need. The timeliness measure relates to the time taken to produce the output and provides an indication of the service or processing speed and efficiency. Measures of timeliness specify parameters for ‘how often’ or ‘within what time frame’ outputs are to be produced.
Under Working for Outcomes, cost measures are to be recorded on an accrual basis to recognize the full cost of producing the output, taking into account all resources that have been consumed. Generally, output cost measures are expressed on a per unit basis, having regard to the number of units specified in the output quantity measure. However, for capacity outputs that do not have a quantity measure, this is not appropriate and the cost measure is expressed as the total cost to maintain the output capacity. The cost measure was eliminated a few years later because it was acknowledged that it is difficult to find out the true cost of some outputs given that those outputs cut across several cost centres.

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantity Hospital Activity Model Weighted Inlier Equivalent Separations (WIES)²⁴</td>
<td>45 883</td>
<td>43 660</td>
<td>47 396</td>
<td>44 750</td>
</tr>
<tr>
<td>Non-acute bed days</td>
<td>16 057</td>
<td>15 290</td>
<td>15 413</td>
<td>23 900</td>
</tr>
<tr>
<td>Quality Beds accredited by the Australian Council on Healthcare Standards</td>
<td>97%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Timeliness Elective surgery waiting times:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Category 1: admission within 30 days</td>
<td>82%</td>
<td>95%</td>
<td>83%</td>
<td>95%</td>
</tr>
<tr>
<td>– Category 2: admission within 90 days</td>
<td>70%</td>
<td>85%</td>
<td>68%</td>
<td>85%</td>
</tr>
</tbody>
</table>

Table 5: Example of performance measures of an output


²⁴ Weighted Inlier Equivalent Separations (WIES): is a measure of admitted inpatient activity that varies according to diagnosis and length of hospital stay.
5.7.3 Accruals
The focus in resource allocation on outputs was seen to be facilitated by the provision of financial information on the full cost of these outputs. This implied the need for a change in the accounting system that was used in the public sector. This means that cash accounting, budgeting, and reporting frameworks traditionally used by the Government were to be replaced with accrual accounting, budgeting, and reporting (Guthrie, 1995). Such frameworks were expected to provide financial information that was necessary for the focus on achieving outputs, efficiency and accountability (Broadbent & Guthrie, 1992; Guthrie, 1995).

The NT public sector’s first use of accrual accounting was in the GBDs in 1996. This was, as explained before, to satisfy the commercial direction and focus that the NT Government has adopted as part of its public sector reform (Fellew & Kelaher, 1991). This direction corresponded with the general perception that public entities will better perform if they operate like private sector entities. So, in 2002, the Government, through its WFO framework, introduced accrual accounting to all government agencies.

5.7.3.1 Accrual Accounting
The use of cash accounting principles and the cash accounting system has, for many years, been the mainstay of Government accounting in the NT public sector. Financial records were always kept on a cash basis, where events were recognised on receipt of money or payment of money and were reported within the financial accounting period concerned. No accrual entries were recorded in the General Ledger. In recent years, as everywhere else in Australia, there has been a growing realisation that sole reliance on cash accounting was not adequate (Fellew &
Kelaher, 1991; Funnell & Cooper, 1998; Guthrie, 1999). There was a need in the public sector agencies to have more financial information than that which is available from the cash basis to satisfy reporting, budgeting and output focus requirements. Since most of the state public sectors were producing accrual reports, and after the Australian Government announced that it will start using accrual budgeting, there was a need for the NT Government to produce financial reports in similar format. So, from year 2002, accrual accounting started to be used by all government agencies in the NT. Under accrual accounting, revenue and expenses are recorded in the period in which they occur, even though no cash may have been received or paid. Therefore, accrual accounting does not ignore the non-cash items that could represent part of the actual cost of the provision of services, such as depreciation. It also accounts for items that could represent future obligations or revenues (Hoggett et al., 2003). These differences and many others were believed to affect the decision-making process and the costing of government services, since not all information could be readily available under the cash system.

5.7.3.2 Accrual Budgeting
Accrual budgeting refers to the preparation of budgets using accrual accounting. Before 2002, budgets were prepared on a cash basis and they were framed around inputs used by agencies to achieve their goals, such as resources employed or consumed, with limited focus on what was being delivered to the community. This limited focus was represented by the inclusion of some explanatory information on the activities and programs delivered. However, over the last decade the NT Government was gradually influenced by the Australian and state governments’ adoption of budgetary models that are similar to the ones applied in
the private sector. In addition, the NT Government, in its commercial direction, was pursuing a budgetary model that established a stronger relationship between the Government objectives and the costs of agencies’ outputs. So, in 2002, the NT Government adopted an output based budgeting model as part of its Working for Outcomes framework.

An in-depth analysis of the NT budgets, before and after the introduction of the working for outcomes framework, has revealed that the traditional cash budget model was based on activities within each agency, where the principal control was that cash expenditure is not to exceed appropriation for each activity. However, the new output based budgeting model was more comprehensive, as it focused on provision of outputs with specific performance criteria by clearly defining distinct roles for the government and agencies through the purchaser/provider relationship. In addition, most of the interviewees have preferred accrual budgeting as it would foster the provision of quality information for performance evaluation and it is believed to make departments more accountable and enhance the effectiveness of budgeting as a communication tool, as identified in the NPM literature (Hood, 1995; Parker & Guthrie, 1993). Accordingly, output based budgeting was believed to have the potential to become a very useful tool by which Governments and their agencies could meet the expectations of the community in a way that is both effective and efficient.

One of the major objectives behind the use of output based budgeting is ‘output funding’ where agencies become funded for the cost of the outputs they produce. This was emphasised in the WFO framework under the purchaser/provider relationship, where the Government purchases outputs from agencies on behalf of
the community and funds agencies for the cost of these outputs. In ensuring that it achieves ‘value for money’ for the community, the Government then specifies performance measures for these outputs (quantity, quality, timeliness and cost) as discussed previously. So, under the output based budgeting model, appropriation is quite different to the cash expenditure limit concept under the cash budgeting model. Therefore, appropriation was to be equal to the purchase price of outputs which encompass all expenses required to produce those outputs including non-cash expenses.

5.7.3.3 Accrual Reporting
The WFO framework required the transition from cash-based financial reporting to accrual-based financial reporting at government and agency levels in the NT. Government departments in the NT have always prepared their financial statements in accordance with the Financial Management Act and the Treasurer’s Directions which both define the requirements of financial reporting by NT Government agencies. These requirements did not allow for the application of Australian Accounting Standard (AAS) 29 “Financial Reporting by Government Departments” before the introduction of the WFO framework. The Treasurer’s directions were to report receipts and expenditure on a cash basis and only required limited disclosure of asset and liability items. Table 6 provides an example of the financial statements that were reported prior to the introduction of the WFO framework. However, after the WFO framework, the Treasurer’s Directions changed to allow the departmental financial reporting to be consistent with the requirement of AAS29, which requires the accrual preparation of the following financial statements:
• Statement of financial performance (Income Statement): details the revenue earned and expenses incurred for the period;

• Statement of financial position (Balance Sheet): details assets, liabilities and equity of the entity at the end of the period; and

• Statement of cash flows: details all the inflows and outflows of cash for the entity for the period.

These main financial statements were also supplemented with additional financial information to satisfy accountability requirements and provide further relevant information to the Territory community, such as output and performance information.

Table 6 List of financial statements before accrual accounting

<table>
<thead>
<tr>
<th>Table 1: Expenditure by Activity and Program.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 2: Expenditure by Standard Classification.</td>
</tr>
<tr>
<td>Table 3: Expenditure by Category of Cost.</td>
</tr>
<tr>
<td>Table 4: Receipts by Account.</td>
</tr>
<tr>
<td>Table 6: Accountable Officers Trust Account Balances as at 30 June 1998.</td>
</tr>
<tr>
<td>Table 7: Write Offs, Postponements and Waivers for the Year Ended 30 June 1998.</td>
</tr>
<tr>
<td>Table 8: Debtors as at 30 June 1998.</td>
</tr>
<tr>
<td>Table 9: Creditors and Accruals as at 30 June 1998.</td>
</tr>
<tr>
<td>Table 10: Employee Entitlements Outstanding as at 30 June 1998.</td>
</tr>
<tr>
<td>Table 11: Lease Liabilities as at 30 June 1998.</td>
</tr>
</tbody>
</table>


Churchill (1992) suggests that the preparation of a balance sheet will enable the organisation to manage its asset base more effectively, increase the organisation’s ability to evaluate the mix of debt/equity funding of assets, evaluate working capital management and allocate accountability for specific assets and liabilities. This is largely because listing assets on the balance sheet requires knowing the inventory of assets, their values, and their use (Hoque & Moll, 2001). The
availability of such information will be a valuable source of information for maintenance and replacement decisions, the measurement of the performance of assets, the provision of internal and external benchmarking information and also pricing decisions (Hope, 1999).

5.7.3.4 Whole of Government Reporting
The Joint Committee of Public Accounts (1995, p.194) defined whole of government reporting as “a form of general purpose financial reporting where the financial statements of the various entities controlled by the government are consolidated to show the financial activities and performance of the government as a whole”. All interviewees have acknowledged that when it comes to the whole of government reporting, the benefits of accrual reporting are clear. The analysis of Treasury financial reports from before and after the introduction of the WFO framework has revealed that whole of government reporting in the Northern Territory almost did not exist.

Since 1988 the NT’s whole of government reports have been presented in a form consistent with the Government Finance Statistics (GFS) issued by the Australian Bureau of Statistics (ABS). But for reasons of comparability and consistency in reporting between jurisdictions, it was agreed at the 1991 Premiers’ Conference that all jurisdictions should publish certain budget and financial information on a uniform basis. In 1995 the agreed presentations were enhanced and incorporated in what was called the Uniform Presentation Framework (UPF) (NT Treasury, 1996, 1999). The Territory Government contributed greatly to the UPF which has made use of a number of presentational points that the Territory has long utilised in its own budgetary presentations. For example, the acknowledgement by the
International Monetary Fund, and subsequently, the ABS that the Territory’s treatment of Advances Paid as a financing transaction, rather than as an outlay, is a more logical treatment of this item.

Under the UPF, financial data is compiled on the basis of the total public sector and the total non-financial public sector. The general government sector and the public trading enterprises sector are aggregated to provide a summary of the total non-financial public sector. The public financial enterprises sector is then combined with the non-financial public sector to report on the total public sector. Although the Territory has maintained its reporting format with UPF before and after the WFO framework the essential difference was that those reports were based on separate items in the balance sheet in addition to the report on Outlays/Revenues. That was simply because the requirement of preparing balance sheet and income statement did not exist until after the introduction of the working for outcomes framework. This is best clarified by these comments:

"We were not able to know that time what was the total value of the assets owned by the government. We did not have balance sheets that were produced."

"If you wanted to see a balance sheet of what assets the government has, or how many buildings and what value it is, and what financial assets it has got, what all the liabilities are, you would not get that."

25 General government agencies are those agencies which meet the bulk of their operating expenditures from consolidated revenue.

26 Public trading enterprises are those government controlled entities that, by the nature of their operations in dealing with the private sector, meet their operating expenditures from charges levied on consumers.

27 Public financial enterprises are government controlled entities which perform central bank functions, and/or have the authority to incur liabilities and acquire financial assets in the market on their own account.
The major development in this regard was in the introduction of the WFO framework in 2002, and the move to the accrual UPF\textsuperscript{28}. Along with the move to the accrual UPF, the Government introduced the Central Holding Authority (CHA) which represents the NT government’s ownership in all agencies. So from that time until now, whole of government reporting provided a more complete picture about the financial position and the financial performance of the government, not just at the end of the year as it used to be before, but at any point in time during the year.

5.8 Conclusion
The NT was similar to the rest of Australia in its thrust to reform the public sector. Since it became a self-governing jurisdiction and politically separate from the Commonwealth in 1978, the NT Government came under pressure to reform its public sector. The high cost of goods and services provision resulting from a small, isolated, and highly dispersed population, and the lack of economies of scale has left its economy characterised by a large public sector and a small private sector as private investors lost appetite for investment in such an environment. Furthermore, the high cost of service provision and the inability of departments to generate revenues have made the Territory Government dependent on Commonwealth grants and subsidies, and therefore vulnerable to changes in Commonwealth Government policies. All these reasons have forced consecutive NT Governments to seek reforms that aim at reducing expenses and increasing revenues, but public expenditures in the 1980s still accounted for over 40% of

\textsuperscript{28} It is important to note that the UPF was converted to accrual format in 1999 but the NT Government remained using the cash format and it did not apply the accrual UPF until it introduced the WFO framework in 2002.
SFD, which meant that the performance of the economy may be limited by the large public sector and the small private sector. This happens at a time when there was an increasing belief both nationally and globally that a large public sector was a main reason behind the limited performance of various economies and that the private sector was more efficient and effective. The NT Government then started to divest some of its activities to the private sector through privatisation and also it began contracting for the provision of goods and services through outsourcing. However, the privatised and outsourced activities were small in terms of their revenue size and did not have a major impact on the economy and the welfare of the people. This was largely because of the low appetite of private investors to invest in the Territory because of the high delivery cost and lack of economies of scale.

The increasing belief that the private sector is more efficient and effective than the public sector has also had its impact on the management of the public sector which started to take on a more commercial nature, through the adoption of private sector management practices. In this regard, the NT Government introduced a new Act in 1993 that incorporated new concepts, such as devolution of responsibility, accountability and performance management. But it was not until 1995, when the Government accepted the NCP, that this commercial orientation has gained momentum. Governments in accepting the NCP believed that competition drove productivity and efficiency gains, and so they were requested to develop a competitive neutrality framework to remove institutional impediments that may inhibit competition between sections of the economy. In this regard, the NT Government has established GBDs to reflect the commercial focus of its business-like activities. Through this, the Government has aimed to
create a commercial financial framework that encourages greater commercial
focus and generates additional productivity gains. This framework was based on
commercial management practices where GBDs are considered profit centres that
are required to charge full cost reflective prices and must adopt commercial
accounting practices.

Although the NT Government introduced commercial accounting practices into its
business-like activities (GBDs) from 1996, it was not until year 2002 that the
Government extended the application of this commercial financial framework into
the remaining public sector agencies, namely the government departments, when
it introduced the WFO framework. By then, the NT Government was the last
Australian jurisdiction to introduce commercial accounting practices into the
general public sector. In explaining why the accounting change happened in the
first place and why it did not happen any earlier, this chapter used an
interpretational model of public sector accounting change (Christensen, 2002)
which focused on five variables, these are the stimuli for change, promoters of
change, producers of information, users of information, and implementation
barriers. While all these variables influence the change they vary in the extent of
their effects on final response to change. The chapter showed that NT
Government was mainly driven by legitimacy pressures to imitate private sector
accounting practices and other governments that had already applied them. Also,
the chapter indicated that the NT Government justified its introduction of
commercial accounting practices on the basis of rationalizing public sector
management, as these practices were believed to enhance decision-making
process and improve efficiency, effectiveness and accountability. Although this
justification may have been valid prior to the year of adoption, this chapter
showed that the implementation of accrual accounting was late in taking place, largely because of the power of the Under Treasurer, who prevented the adoption of accrual accounting while holding this position.

With the introduction of the WFO framework, the Government has expressed its intention to create a competitive and commercially focused market by enhancing resource allocation and increasing accountability. In this regard, the WFO framework focused on three elements: outputs, performance, and accruals. The next two chapters explain the workings of the WFO framework in the context of the NT public sector.
Chapter 6 The Usefulness of Accrual Accounting in DCIS
– an Internal Shared Services Provider –

6.1 Introduction
As discussed in the previous chapter, the NT Government introduced an accrual framework for its accounting, budgeting, and reporting into its public sector agencies as a part of its commercial direction in the thrust for public sector reform. The implementation of the accrual framework has been intended to improve efficiency, effectiveness and accountability of the public sector as it has been successful in the private sector. This intention was believed to be achieved from the role accrual accounting plays in better decision-making, and the enhanced performance and accountability through the use of accrual-based budgeting and reporting. More specifically, it was believed that accrual accounting would, in addition to its role in management-related decisions for agencies’ balance sheet items, also play a major role in cost management. Also, accrual budgeting was believed to achieve greater customer focus, better resource allocation, and an enhanced performance and accountability through an output/outcome funding process. Furthermore, the availability of accrual reports was believed to provide a better basis for discharging accountability to the Government and to the community.

However, it has been mentioned in the previous chapters that this framework has been developed in the commercial sector where competitive markets exist, and so governments that adopted such a framework have tried to free the provision of government goods and services from anti-competitive impediments. While, as mentioned in the previous chapter, the NT Government has introduced the accrual
framework into its general public sector (the non commercial sector), and has taken all the measures to increase competition, the level of competition in the NT has remained very low. Therefore the objective of this and the next chapter is to show the working of the accrual framework in the context of the NT public sector where competition is limited, by focusing on two government agencies (DCIS and DHCS).

In this regard, this chapter is divided into four main parts. The first part provides historical background information on DCIS which is a government agency that does not have any market exposure and it only provides services to other government agencies, so it is a case of absolute inexistence of competition. The second part discusses the criteria for usefulness of accounting information, and then it provides an analysis of how accrual accounting been useful in regard to the decision-making process and whether the use of full cost information in pricing and as a performance measure has achieved its useful expectations. The third part provides an analysis of how accrual budgeting is taking place in the NT and whether it has achieved its expectations in greater customer focus, better resource allocation, and enhanced performance and accountability. Finally, before ending with a conclusion, the fourth part provides an assessment of how accrual reports been useful for both agencies and the Government and whether these reports have been useful in discharging their accountability.

### 6.2 Historical Background

As mentioned in the previous chapters, governments in Australia and around the world have been under pressure from an increasingly competitive environment and an attempt to reduce costs for their public sectors. In this regard, a move to
replicate and mirror many private sector practices and operational processes has arisen. A part of this move was that many governments around the world have increasingly moved toward business models that attempt to reduce duplication in many processes and staff by streamlining business processes that are not central to their agencies’ operations. This process has aimed to make them concentrate on their strategic or core business, and it has been generally referred to as the shared services model. It attempts to bring together, from different government agencies, all the similar supporting activities and make them the core activities of another separate agency.

The notion of the shared services model first emerged in the private sector in the late 1980s when large companies began to consolidate separate repetitive business functions across organisational divisions into a single unit, where this stand alone unit was focused on delivering particular business services at the lowest possible costs and also on improving service delivery. More recently, governments in Australia have also moved to adopt the shared services model as a means of reducing costs and achieving greater administrative efficiencies (Walsh et al., 2006). Similarly, the NT Government in its reform of the public sector established the Department of Corporate and Information Services (DCIS) as its shared services provider by bringing together all the diverse administrative tasks and functions (such as finance, human resources, payroll and banking) from all government agencies into one single agency (DCIS). By doing that, the government aimed to:

- Free up NT Government agencies to concentrate on their core business;
• Provide a broader range and higher quality of administrative services to agencies; and

• Realise efficiencies through economies of scale, standardisation and improved use of technology (DCIS, 1998)

A senior director at DCIS explained that “There was a duplication of efforts around agencies where many people were doing the same thing, but by gathering them all together you can achieve an efficiency of scope by reducing the number of people doing the processing”. Similarly, another director commented: “instead of having hundreds of people scattered around agencies doing the invoices or processing ledgers, so by putting them into specialist teams, you can actually reduce the number of people doing it”.

It is important from the outset to make clear that it is not the purpose of this chapter to measure the efficiency of DCIS as a shared services provider or to assess the extent of its success in achieving its objectives under the shared service model. However, it is important for the purpose of this study to understand the current practice of DCIS’ role as a shared services provider, with the impact that this role may have on the use made of accounting and its implications for costing and pricing in DCIS and the other agencies.

In the NT, the shared services model has been subject to different interpretations. Some directors have seen the existing model in DCIS as closer to a centralised model than to a normal shared services model, whereas the majority of the interviewees referred to DCIS as the shared services provider, regardless of whether they knew the difference between the two. In the literature, the shared
services model has been defined as the concentration of business resources performing like activities typically spread across the organisation in order to service multiple internal partners at lower cost and with higher service levels (Cecil, 2000). Another way the shared services model was defined in the literature is, as the collaboration between two or more businesses to do things more efficiently or effectively than they could do by themselves (Schulman et al., 1999). That is for example when agencies provide a service in collaboration with each other. Under both definitions, the adoption of the shared service model is driven by the subject organisations as they aim to achieve the intended benefits of cutting costs and higher quality service levels.

However, the case of DCIS in the NT shows a different scenario from the ones under the previous two definitions. First, although agencies were continuously pressured to cut their operational costs and improve their service levels, they did not drive the development of DCIS as the shared service provider. DCIS was brought in by the NT government and imposed upon agencies for the purpose of saving the government money, rather than saving money for individual agencies. This shows that the shared service model in the NT is seen as a benefit at the whole of government level rather than at the individual agency level. Someone may question the differentiation made between government and agency cost saving. This differentiation is important and necessary when agencies are involved in the market and competing with private sector providers as their competitive position could be affected by this cost saving shift. Therefore, for the purpose of defining the shared service model in the NT, it is important to make the distinction between the government perspective and agency perspective. From the government perspective, DCIS could be seen as a shared service provider as it
is intended to “cut costs and save government money” as one director claimed. However this is only true if the whole public sector was considered as one entity where the Government acts like the parent entity and agencies like subsidiaries. But in the light of the NPM reform movement, where the Government decided to adopt a business-like structure where agencies operated independently from the Government, this perspective can’t be considered appropriate. This is especially so with the introduction of the purchaser-provider model by which the Government became a purchaser of agencies’ goods and services. For this same reason, from agencies’ perspectives, DCIS cannot be seen as a shared services provider as resources and benefits are not shared between agencies. In this regard, some managers have stated:

*The way I define a shared model is when agencies share the resources to achieve goals and at the moment we do not do that.*

*The shared service model is more like collaboration, and currently it is not like that.*

*DCIS has been successful in saving money for the whole of government, and not in its relations with the clients (agencies), but as what a true shared service provider, the relationship is not there.*

In addition, the NT Government has made DCIS a mandated agency where the use of its services has been imposed upon agencies that were prohibited from using private sector providers, even if the price of similar services was cheaper than the price charged by DCIS according to a senior director. The importance of all these previous arguments about the current practice of DCIS as a shared service model is in its impact on the cost of goods and services provided by the other agencies, where this cost would become partly dependent on the efficient cost of DCIS services that constitute a part of agencies’ goods and services costs.
This means that agencies have become dependent on DCIS’ performance and management of its operations which they cannot control or influence, especially in the context of a mandated environment. The inefficiency of DCIS cost management would lead to a higher cost of other agencies’ goods and services and this may affect their prices and put them at a competitive disadvantage.

In addition, DCIS was also prohibited from competing with the private sector and entering into market operations for its services, which made it solely an internal service provider. For this reason, DCIS constitutes a unique case in the NT to study how the use of accrual accounting has impacted on DCIS, especially in the absence of competition that drove the need for the move to accrual accounting. In an internal government market, it is anticipated that the usefulness of accrual accounting is limited because of the absence of market price that drives cost competitiveness.

### 6.3 Accrual Accounting

As discussed in the previous chapter, the NT Government was no different from the rest of Australia in adopting the concept of accrual accounting. The introduction of accrual accounting was a part of the Working for Outcomes framework which required all public sector agencies in the NT to shift to accrual accounting instead of the historical cash accounting system. This shift was not an end in itself but it was a means to an end. The NT Government aimed, from the introduction of accrual accounting, to achieve some benefits that may contribute to the efficiency and effectiveness of the public sector. These benefits were conceptualised in the ability of accrual accounting to provide additional financial information that can be useful in improving the decision-making process. Such
additional financial information was seen as necessary to know the ‘full cost’ of goods and services produced by the public sector agencies and for ‘decision-making’ in the use and management of agencies’ resources. Knowing the full cost of goods and services produced by the public sector became more important in the light of government’s new focus on results and service delivery instead of cash expenditure control. So the NT Government has become more interested in finding the ‘true’ cost of the services delivered to the community, especially as previously it “had limited information as to how much it is costing to provide health, education, and other services” according to a senior officer at Treasury. In addition, “there was no formal mechanism about how overall government policy relates to actual agencies’ performance” according to another. In addition, more information about the assets and liabilities in agencies would help decision makers to provide better management which may lead to improvement in efficiency and effectiveness.

Therefore, this section discusses the change that took place in the accounting system in the NT public sector. It also explains the extent to which the new accrual accounting system, through the additional financial information that it offers, has stimulated the decision-making process and the use of full cost in improving efficiency and effectiveness as intended by the Government. This chapter, however, focuses mainly on DCIS as it is an unusual environment to test the usefulness of accrual accounting. DCIS is only an internal government service provider and does not have any market test of its services. It is therefore interesting to see how useful accrual accounting is in providing full cost information of internal government services that are not subject to market pressures.
6.3.1 Criteria for Usefulness of Accounting Information

Accounting, in the public sector context, is regarded as a financial information system that intends to provide its users with useful financial information for management, performance measurement and accountability purposes (AARF & AASB, 1990b, para. 43-45). However, the ‘Framework for the Preparation and Presentation of Financial Statements’ issued by the International Accounting Standards Board (IASB) and adopted by the Australian Accounting Standards Board (AASB) states that for the accounting information to be useful it must satisfy certain criteria that comprise reliability, comparability, understandability and relevance which are explained in SAC3 (AARF & AASB, 1990c, para. 5). Reliability means that the user is assured that the information presented represents faithfully, without bias or undue error, the underlying transactions of agencies’ operations. Comparability refers to the use of consistent accounting concepts and practices so that users of the resulting financial information are able to discern and evaluate similarities and differences between the nature and effects of transactions and events at one time or over time, for a single agency or between agencies. Understandability refers to the quality of financial information, being able to be readily understood and comprehended by users.

These first three criteria refer generally to the ‘quality’ of financial information presented which largely depends on the accounting system that is used. In this regard, accrual accounting through its conventions has been seen as being able to achieve these criteria. These conventions, the reporting entity, the cost assumption, the accounting period, and the matching principle, refer to the rules and standards used in the recording of transactions and in information reporting in a way that brings usefulness to the financial information presented. Satisfying
these criteria through the shift from cash to accrual accounting has been considerably easier than in other public sectors given the uniqueness of the NT public sector in having one accounting system, the Government Accounting System (GAS), that is applied by all government agencies with the processing being performed centrally. As explained earlier in this chapter, DCIS is the central agency that provides this process as one of its services. Interviews with several executives in DCIS and Treasury have confirmed that accounting procedures used are the same for all agencies in the NT. Interviewees stated that the centrally managed GAS increases consistency over time of the accounting information within and between agencies, which in turn would increase the reliability and comparability and therefore the usefulness of the financial information. However, to maintain such consistency and during the development stage of the Working for Outcomes framework, DCIS had the primary role of ensuring that accrual accounting requirements can be met. For this purpose, DCIS has converted the GAS to an accrual basis by modifying transaction processes and recording arrangements, establishing accrual-based agency ledgers and ensuring that the Personnel Integrated Payroll System (PIPS) provided accrual information on employee costs.

The fourth criterion that financial information has to satisfy in order to be useful is relevance, where financial information has to be relevant to the purposes for which it is to be used. This means that for information to be useful it must have predictive value and a feedback value in the sense that it influences the users’ decisions in regard to operational management, measurement of performance or assessment of accountability. This is to say that although financial information might satisfy the first three criteria, it is only deemed to be useful if it is relevant.
to a particular purpose. Therefore, it is argued in this thesis that accrual accounting information is only deemed to be useful if it has been relevant to the decision-making process. This implies that the usefulness of accrual accounting information may vary between agencies based on their operational and functional needs. Therefore, this section aims to see how useful accrual accounting has been to DCIS as an agency without any market exposure.

Several groups have been identified in the literature as possible users of public sector financial information. These are politicians and officials in government, managers in agencies, customers, grantors and taxpayers (Jones & Pendelbury, 2000). However, for the purpose of this study, the focus is on the groups that are considered to have a direct influence on agency operations and functions and are therefore likely to use the information for efficiency and performance improvement-type decisions and these are government officials and the agencies’ managers.

Politicians and government officials use financial information at the whole of government level in their assessment of agencies and allocation of resources. This is done through budgeting and reporting which are discussed later in this chapter. This group of users do not use financial information for taking operational decisions in agencies. Their role is generally a monitoring and assessing role rather than a management role. The operational management of agencies and any necessary decisions have become the role of agencies’ heads and operational managers. This was a result of the NPM movement as it encouraged the autonomy of public sector agencies and infused the principle of ‘let managers manage’.
The second group which is the focus of this section is the managers of agencies who are the director generals, senior managers, and other managers at lower levels in the agencies. No distinction has been made between these different categories of managers, as it is not the purpose of this study to see the use of financial information between different managers, however the purpose is to see how financial information generated from accrual accounting has been useful to managers in their decision-making process.

The next section explores the expectations of those who adopt or use accrual accounting in practice by focusing on the accrual accounting ‘relevance to decision-making’, and ‘the rationale for full cost information’.

6.3.2 Accrual Accounting Relevance to Decision Making
As discussed before, accrual accounting was introduced into the public sector based on the belief that it produces additional information that can improve the decision-making process and therefore enhance the performance of government agencies. Interviews made it clear that NT public sector officials claimed that the adoption of accrual accounting in the NT public sector was expected to enhance the management of assets, liabilities, revenues and expenses, where under the traditional cash accounting system management was only limited to managing receipts and payments. This section, therefore, explores the reality of such a claim and the applicability of such a perspective in a context like DCIS.

6.3.2.1 Revenue Management
As a result of the shift from cash to accrual accounting, revenue recognition has changed. Under the cash system revenues were recognised when cash was received and so they were not limited to those generated from taxes, grants or the
provision of goods and services but they also included other items such as advances and borrowings. In addition, there was no recognition of the amounts due by third parties, such as debtors, for services provided. Also, revenue from the disposal of assets, for instance computer equipment, was also accounted for when cash was received. This really distorted the budget and the operating performance in the case of sale of a major asset, especially if no similar sale took place in a subsequent period. However, under accrual accounting revenue was recognised when earned regardless of the cash settlement. Subsequently, revenue earned but outstanding started to be accounted for as receivables. Also, the receipts from advances received and borrowings were accounted for and reported as liabilities. It is important to note that grants and taxes continued to be accounted for when received, as is the case across all other jurisdictions.

Historically, revenue management has never been of great importance to public sector agencies, given that they are not in principle revenue generating agencies. Their revenues are derived from the government to provide necessary services. However, this has changed in the last decades with governments wanting their agencies to become more like businesses, and so as mentioned in early chapters government agencies began to charge for their services and their revenue range was not restricted any more to government grants and taxes. As a result, revenue management became more important for government agencies and its definition has mirrored the one in the private sector which is about ensuring that agencies have enough money to operate and achieve their objectives. This, according to some interviewees, has driven agencies to focus on their clientele to sustain and grow their revenues. This means that the importance of revenue management
varies between agencies based on the significance of their non-government revenues.

The analysis of DCIS interviews shows that the importance of revenue management in DCIS has been insignificant given its revenue structure and its unique characteristic as an internal service provider. Documents show that DCIS receives its revenue from three sources: the NT government for providing free services to other agencies, the GBDs who are charged directly for the services provided to them, and from other services, such as training courses, which are charged directly to the participants. However, interviews and document analysis show that the first one constitutes the majority of these revenue items (see figure below).

![Figure 4 Sources of revenue at DCIS.](image)


The graph shows that revenue generated from ‘fee for service’ charges are less than 20% of total revenue in its best year. This, in addition to having DCIS services provided to agencies as mandatory services would make revenue
management less important for DCIS managers as they have a guaranteed clientele base by government mandate.

6.3.2.2 Expense Management
Similar to revenues, expense recognition has changed as a result of the move to accrual accounting. Under traditional cash accounting, expenses were recognised when cash was paid and the cost was charged to an expenditure account regardless of the nature of the expense. Therefore, the acquisition of assets (such as, buildings, furniture, and equipment) was treated in the same way as payments for personnel expenses (e.g. salaries) or other operational expenses (e.g. electricity). In addition, no recognition was given to commitments that had been entered into and which could have a substantial impact on future cash flows. This has actually distorted the accurate allocation of service costs from year to year, especially if non-cash expenditures or asset acquisitions were of a significant amount. Under the accrual system, expenditures came to be accounted for when incurred, regardless of cash settlement, and expenditures of a capital nature started to be recognised as assets (inventory, investments, or fixed assets). That is in addition to the recognition of unpaid expenditure as liabilities, such as superannuation and other employee entitlements. The accrual method of accounting recognised the cost of assets by allocating their capital cost across their lives and so it recorded a yearly depreciation expense which was considered a part of the cost of services for each period. Also, under the accrual method superannuation was recognised as an expense as it was incurred and a matching superannuation liability was accumulated every period as the department acquired an obligation to pay superannuation in the future.
Some interviewees expressed the view that accrual recording of these transactions would help managers to monitor the financial position and performance of their divisions better, by improving the comparison of actual figures with the budgeted information. In addition, the accrual method of accounting for expenditures has been mostly important in providing more timely and relevant information about the full cost of services produced. The full cost information was increasingly needed as government agencies were becoming more business-like entities, where the delivery of quality services at minimum cost is a major objective and therefore managing costs has become of a great importance in all agencies. A common example on this, for all NT Government agencies, is the ‘efficiency dividend’ which refers to a particular decrease in funding from one year to the next to address an expected efficiency that every agency has to achieve. A detailed discussion on how full costing has been useful, is provided later in this chapter.

6.3.2.3 Asset Management
As mentioned before, asset recognition under accrual accounting became different compared to that under the traditional cash accounting system. Under cash accounting, capital assets were recognised as expenditures only when cash was paid. Very limited information was also available about assets purchased and their characteristics (such as model, useful life, location, and capacity), and interviewees claimed that such information “was not available on a timely basis when needed”. According to some interviewees, the concentration on cash payments alone under the cash system and the limited available information had resulted in an unnoticed deterioration in fixed assets and limited the control over assets as risks of theft and damage has increased. As the Government started to shift its focus to achieving results and outcomes, more efficient and better asset
management became necessary. For such a management activity, additional information about the usage, maintenance and performance of assets became important, especially as technological change may impact on the type, range and life of assets. Agencies’ managers needed to know when their operational assets were becoming obsolete much earlier than when they needed to be replaced. In this regard, DCIS has developed an ‘asset register’ to identify, keep track of, and value assets. A manager at DCIS explained that the Government Accounting System (GAS) provides DCIS with a daily report of what assets have been purchased by agencies. A DCIS staff member from the Asset division would get into the related agency that purchased the asset and “chase the paperwork, and try to get a copy of the invoice” and then “he or she will enter all the details into the cash register”. Those details such as (asset exact name, year of manufacture, price, model, supplier, and serial number) are important for future use in asset management and revaluation. Also, the availability of the asset register allows a more accurate accounting for depreciation of the fixed assets as depreciation expense is accounted for when the asset is entered into the asset register. The timely input of assets into the asset register is essential to reflect an accurate depreciation amount.

However, sometimes there will be a time lag between the purchase of the assets and the input of the relevant data into the asset register by the asset division staff in DCIS which may result in less timely and accurate reported information. To overcome this issue, the asset division manager at DCIS explained that “an asset clearing account is used to record assets that have been purchased but their related details have not been gathered”. This clearing account ensures that assets are reflected in the system on time and that depreciation is accounted for from the day
of acquisition, even if some other extra information would be uploaded into the register at a later date. Such accounting reflects an accurate use of the accrual concept and became more important in agencies that have a considerable amount of depreciable assets where a significant amount of missing depreciation could give a misleading indication of their operating results. Also, when the purchase of an asset might cut across the end of the financial year, with the concern that the asset might be reflected in the current year accounts, one interviewee explained that if the amount is significant then “Treasury can be approached under ‘period 14 adjustment’ to allow going back into last year’s ledgers to reflect the information”.

Overall, the application of accrual accounting in the NT has contributed to an improved financial performance, where performance is defined as the proficiency of an entity in acquiring resources economically and using them more efficiently and effectively in achieving specified objectives than the way they were used under cash accounting. In this regard, DCIS and other agencies in the NT have acknowledged the benefits of the accrual method and its potential to provide improved asset management. The additional asset information resulting from accrual accounting has been valuable and informative in asset acquisition, maintenance and replacement decisions, and the measurement of the performance of assets. This was best reflected by one senior manager: “under accrual accounting, the completed records of assets that became available have facilitated better asset management, including better maintenance, more appropriate replacement policies, identification and disposal of surplus assets, and better management of risks such as loss due to theft and damage”. Another manager stated that accrual asset records facilitated informed management decisions on
issues such as whether: assets are being fully utilised; assets should be retained or sold; limited resources are being deployed to the best of alternative assets and current levels of provision for asset maintenance are appropriate. In addition, it has been clear from interviews that asset stewardship and control have been improved also. One director commented in this regard: “now you know what asset every division has and therefore you can hold the division manager accountable for these assets”. Being able to identify what assets managers have under their responsibility and recognizing depreciation has helped them to improve the use of assets to deliver services, and encouraged them to consider alternative ways of managing costs and delivering services.

The above discussion shows that the completeness of the accounting information system in providing complete asset information is a major positive aspect of accrual accounting that has led to informed asset management decisions. This completeness has also helped DCIS and other agencies in their asset revaluations where the accrual GAS provides agencies with a comprehensive report of the assets owned by them and other necessary information to take action of the impairment of assets as it occurs.

Despite all the important benefits of accrual accounting in asset management, analysis of interviews shows that information produced by accrual accounting for this purpose are more required in organisations with a large asset base and frequent asset purchases, and this applies to DCIS. Similar to many other government agencies, and given their service orientation, DCIS is a ‘non capital intensive’ business, as opposed to the product orientation of the private sector businesses that are ‘capital intensive’. This is confirmed by the low asset base of
DCIS and its low deprecation amount as a percentage of total expenses. A review of DCIS’ recent annual reports reveals that depreciation has been 0.5% of total operating expenses at its highest. This shows that for a department like DCIS, although accrual accounting is important in asset management in general, its impact on reported depreciation and the overall operating result may be insignificant.

6.3.2.4 Receivables Management
As mentioned earlier, accrual accounting for the non-cash revenue has resulted in a receivables account being created to record the amount of the revenue that clients still owe. Although the traditional cash accounting system provided some information on receivables, this was mainly available at the end of the year for reporting purposes and it was not easily made available when requested during the year. The accrual GAS provided such information readily whenever needed. The availability of constant updated receivables information has helped in monitoring and better managing these accounts in order to reduce the amount of bad debts.

DCIS in its provision of the accounts receivable service line to other agencies, is responsible for ‘client debtors management’ which refers to ensuring that agencies’ credit sales are collected on time and managing effectively their debtors (receivables) accounts. In this regard, DCIS, through the accrual GAS, generates regular reports on outstanding levels of debts by customers and it also monitors the days outstanding and undertakes the process of collection when this becomes necessary. The manager of the accounts receivable division at DCIS explained that if payment by agencies’ customers does not take place “within 30 days from the invoice date, DCIS would commence recovery actions which could involve at the beginning, making phone calls, issuing reminder or warning letters and even
afterwards, referring the debt to collections agencies for collection”. DCIS aims from such a role to recoup as much possible from the revenues earned from agencies’ services and minimises the amount of bad debt. This manager emphasised the important role that completeness of the accrual GAS system has played in making the receivables information available at all times.

Having said all this, management for DCIS’ own receivables accounts has been limited. This has been due to the nature of DCIS as an internal service provider. As explained earlier in this chapter, the DCIS client base is government agencies. This implies that accounts receivables do not bear any collection risk. In addition most of the clients, the government departments, are not charged directly for DCIS’ services because the Government pays DCIS directly to provide the services and therefore there will not be a receivables account for them. The other clients, the GBDs, are also government businesses where their debts are generally guaranteed, according to a senior DCIS manager. The manager stressed that “receivables management is important where credit sales are at risk of collection, however, this does not exist between agencies of the same government”.

6.3.2.5 Liabilities Management
Liabilities management in the public sector is as important as it is in the private sector. Agencies want to make sure that they have enough cash to pay the bills for their purchases and this includes some of the accrued expenses that might fall due. Interviewees at DCIS expressed the importance of accrual accounting in providing additional information than that available from cash accounting about agencies’ liabilities, whether short or long term. As mentioned earlier in this chapter, one of DCIS services is to ensure that supplier invoices for agencies are paid on time.
The accounts payable division manager explained the importance of the accrual GAS in making available the necessary and updated information for all agencies’ liabilities. The manager explained that providing details about liabilities resulting from accrual expenses has helped managers not to fall short of cash. Cash management has become more efficient with having such information available. Under the cash accounting system, agencies did not have information about their future accrued liabilities such as superannuation. The importance of accrual accounting in managing liabilities has been more significant in the NT than in other jurisdictions, given the centralised nature of this activity. Having DCIS as the central agency that is responsible for managing agencies’ liabilities has been helpful in better management of the cash available for satisfying these liabilities. A senior DCIS executive explained that DCIS uses one cash account to pay agencies’ suppliers instead of having one for each agency. This leads to a reduction in idle cash and an increase in the interest earned from the investment of surplus cash.

The importance of accrual accounting for efficient liability management has also led to an increase in the interest earned on agencies’ cash balances. A senior manager at DCIS explained that DCIS, through the accrual GAS, accumulates all agencies’ cash balances and invests them after negotiating the best interest rate with banks. The manager confirms that this interest would be higher than if each agency was going to invest its remaining cash balance separately.

6.3.3 The Rationale for Full Cost Information
As mentioned earlier in the chapter, one of the main objectives for governments to adopt accrual accounting lies in its ability to provide information about the full
cost of goods and services produced by public sector agencies. Guthrie (1998) considers that the lack of cost information within government agencies tends to be related to the absence of the profit motive. However, this has changed with the emergence of the NPM reform movement that encourages business-like operational management of the public sector. In this, governments saw competition as the notion that drives efficiency and performance improvement. Subsequently, governments required agencies to achieve quality results at lower costs. As a result, cost information became necessary for agencies for efficient cost management, especially governments became interested in the economic and effective spending of funds and not only in the information that funds had been spent.

In the literature, there is no doubt about the importance of cost information in performance reporting, decision-making, planning and control (Hart & Wilson, 2004; Wilson & Keers, 2003). The NT Government expected that full cost information under accrual accounting would be useful for ‘pricing’, ‘performance measurement’ and ‘output budgeting’, especially as agencies became required to provide goods and services at an ‘efficient’ cost of production. First, full cost information was expected to be important to agencies in pricing their goods and services, as they became required to cover all their costs, especially after the introduction of competitive neutrality, where agencies were required to eliminate any competitive advantage they may have as a result of government ownership and to operate on similar grounds to private sector businesses. Second, full cost information was expected to play a role in measuring agencies’ performance by evaluating the trend in goods and services costs over time and by benchmarking these costs against other government providers or private competitors. Finally, full
cost information was expected to play a significant role in accrual output budgeting where funding became linked to the costs of outputs.

Therefore, this section tries to provide an analytical explanation of the implications of accrual accounting through the provision of full cost information on pricing and performance measurement in government agencies in general but with a special focus on these implications for ‘internal service provider’ agencies, like DCIS, where it is proposed that the role of pricing may be limited. The usefulness of the full cost information to output budgeting will be discussed in detail in a separate section later in this chapter.

**6.3.3.1 Full Cost Information for Pricing**
The NT Government, through its Working for Outcomes framework, required public sector agencies to adopt cost-reflective pricing. The rationale behind this was to make the full cost of operations transparent and thereby to enable agencies to recover costs. As mentioned earlier, governments aimed through their thrust to public sector accounting reform to increase the competitiveness between public sector agencies and other similar private sector providers in order to drive efficiency and achieve value for money. In result, pricing has become more important and subject to an increasing attention by governments around the world, especially as public sector agencies became required to deliver quality goods and services at the best competitive price. In the public sector, cash accounting was inadequate to provide information about the required quality and price competitiveness as it does not allocate all elements of resource usage, such as depreciation, to costs. However, accrual accounting has been successful in providing the necessary information for full cost pricing costs so that rentals,
payroll, depreciation, interest and overheads became included in the calculation of the price. Interviewees explained that where agencies are competing with private sector agencies in the provision of goods and services, it is more appropriate to allocate all costs of production to prices, otherwise public sector prices may be understated and taxpayers will unknowingly be subsidising agencies’ financial shortages resulting from price underestimation. Ensuring value for money has been an important factor behind full cost reflective pricing, subsidies or hidden costs can make agencies’ prices artificially lower than they could have been in a fair competition and private providers are likely to suffer competitive disadvantage and become worse off, and may be driven out of the market. The NT response to competitive neutrality in eliminating all agencies’ advantages from government ownership that might give them an unfair competitive advantage has been complemented by the use of accrual accounting in allocating virtually all costs of production to prices.

It is clear from the discussion above that there have been two reasons behind Government adoption of full cost pricing. The first is to eliminate price distortion to free competition between public sector and private sector providers by eliminating agencies’ competitive advantages. The second is that, by subjecting services to competition, agencies will become more cost conscious and try to achieve better cost management which will ultimately lead to enhanced performance. However, senior managers across agencies explained that the unique nature of the NT economy in terms of the goods and services provided by each of the public and private sector has made competition very limited between the two sectors. As explained in chapter five, the high cost of providing services to a dispersed and small population in the NT has limited the involvement of the
private sector in most industries. According to interviewees, where private sector provision of services existed, government agencies were required not to compete with them, and this is the case with DCIS services. DCIS has been prohibited from entering into competition for its services with private sector providers. Although the Government reasoning for this is to develop the private sector in the NT and at least to maintain and not to discourage the level of services currently provided, but for the purpose of our study, this means that competition is restricted which will limit the usefulness of full cost pricing. In this regard, one senior executive explained: “the Territory is not big enough and the government relies heavily on the private sector, so it would not allow a government enterprise to compete with the private sector”. The executive further explains that even corporatised government entities (GBDs) were not allowed to compete with the private sector in the NT: “I used to be in a GBD, and one of the arguments was that we could do a lot better if we were allowed to compete with the private sector, but we were totally prohibited, the Government would not allow it”.

As explained earlier, DCIS as an internal service provider that does not provide services to the private sector and it only provides its services to government agencies including GBDs. The use of DCIS services is mandatory by those agencies as they can’t seek other providers, however, the prices charged for government departments are notional whereas there is a real charge to GBDs. This mandated service would make DCIS similar to a monopoly provider in the context of its operations, where prices can not be influenced by the market. In addition, preventing DCIS from providing its services to the private market would eliminate competition and would not allow a real test of price competitiveness to take place. In such a context, improving cost management based on price
competitiveness became inapplicable, however cost comparisons of similar services over time and with other providers may still take place. Hence full cost information may still be useful in cost management although it has not necessarily been useful in pricing. Nevertheless interviewees at DCIS explained that price benchmarking has never taken place. Despite this, DCIS executives claim that their service prices are competitive. Although no single review has actually been done to support such a claim, they see their success in the reduction of their appropriations: “Government cut our funding because we are able to provide the services with less people and more effectively… that is the type of evidence Treasury would have that we have been successful”.

In the absence of price competitiveness, comparisons or even reviews, it then becomes difficult to measure the efficiency of the agency in providing value for money. DCIS executives explained that prices are based on a cost recovery basis and do not include profit. However, when asked further questions, executives revealed that the lack of a profit margin is at the whole of the department level. This means that some services are priced at a profit and some others at a loss to produce a final nil profit for all services. When asked about the reason behind this, executives explained that some services’ costs tend to be very high so their price will be reduced and offset by price increases for services with low costs. This of course would not happen in a typical market environment where competition takes place. This cost shifting between prices of different services has been evident also in the manipulation of prices that takes place in the process of pricing reviews. Interviewees explained that although not considered a formal pricing review committee, the CEO and the CFO set a price list (Appendix 2) for the different services produced by the department every year and review them twice a
An executive revealed that in reviewing the prices, the committee assesses how each service division is performing in delivering its services in comparison with the estimated budget and then will adjust the prices accordingly. This means that if they see that the department as a whole might be under budget in its estimated revenue, because of under estimation of revenue in some divisions or because the estimated work in divisions has not been coming in from client agencies, then they will try to adjust the prices up, but that is only if there is a significant variation.

Consequently, in a non competitive environment and where service provision is mandated to clients, and in the absence of any sort of price benchmarking or cost comparisons, the usefulness of pricing as a measure for driving efficiency became inapplicable. It is therefore difficult to judge whether DCIS prices are competitive and efficient or not. Therefore, by restricting DCIS from competing with the private sector, the NT Government is actually limiting the role of competition in achieving price competitiveness and efficiency. If the Government is concerned about the survival of its private sector and wants to develop it further, freeing agencies from the use of the mandated service of DCIS and using private sector providers where the service is provided at lower cost and better quality would then be a possible solution that achieves the benefits of increased competition. Another option is to have agencies pay real money for the services provided by DCIS as they are currently charged notionally, this way they would become more concerned about the quality of services they receive and they would pressure DCIS to balance quality and price. A senior executive commented on this: “currently, agencies do not care about the prices because they do not pay. I think this has to change. We need to get them to pay real money because it is the only
way you can change their behaviour in a nature like this and so we have to become a GBD”.

In addition to the absence of price competitiveness, the other negative implication of this situation in the NT is the possible breach of the competitive neutrality of the GBDs. As mentioned earlier, the GBDs as corporatised entities are generally involved in business-like activities and possibly they compete with some private sector businesses. Competitive neutrality requires GBDs as businesses owned by the Government, not to enjoy any competitive advantage as a result of government ownership. However, the prices charged by DCIS for the services provided to GBDs are in principle profit free services, this means that these GBDs are advantaged over private providers if the resulting prices of DCIS services are cheaper than the market price, especially as DCIS is restricted from providing the services to private business operators. Or it means that the GBDs are disadvantaged if the prices are higher than the market because of some internal price adjustment, especially as they are restricted from getting the services from other providers than DCIS.

Although competition is limited in the NT, interviewees explained that full cost information has been useful for competitive tendering purposes. Interviewees claimed that the availability of full cost information has informed agencies in their decisions to contract out some services, as full cost information became an important element in pricing bids.

6.3.3.2 Full Cost as a Performance Measure
The NT Government expected that full cost information would be useful as a performance measure in evaluating agencies in their cost management, where full
cost of outputs (goods and services) can be compared over time or benchmarked with private suppliers. But this can only if a suitable supplier is available. In the private sector, businesses generally use ‘profit’ as a performance indicator of success, however, in the public sector, where profit is not a goal, revenues can’t be used to capture consumer valuation of outputs. Thus, instead of comparing profit trends over time or between public and private providers, the Government expected that full cost information will be useful in evaluating trends in the unit cost of outputs, especially where outputs are not sold in the market or where comparable prices are not available.

The use of full cost as a performance measure in the public sector is not as easy as it may seem in the NT public sector. Interviewees indicated that there is also a range of interpretive problems which impact upon the appropriateness of unit full cost as a performance indicator. Firstly, full costs consist of arbitrary estimates and allocations of depreciations, overheads and other indirect items, making them very difficult to monitor (Guthrie, 1998). This inevitable arbitrariness, given real world uncertainty on the pattern of output over time, creates potentially serious distortions in full cost estimates (Kaplan, 1990). Secondly, capital cost disabilities will frequently raise unit capital costs, and consequently unit full costs, because of reasons that have nothing to do with efficiency. Sources of capital cost disabilities include the lack of scale economies in smaller communities and higher capital costs in more remote areas in the Territory. Thirdly, the service nature of the outputs delivered by most government agencies is different from the physical nature of goods delivered by the private sector. The public sector faces difficulty in measuring the output quantity of services it provides. This is because of the complexity of factoring the quality dimension of output into a quantity measure in
the way in which consumer valuations of quality are factored into revenue measures in a market context. Interviewees explained that the prevalence of significant practical and conceptual problems in attributing shared and joint costs between government output types and the capital cost disabilities have been different between agencies depending on the nature of their outputs and the market where outputs are delivered (rural or urban).

For example, in the case of DCIS, interviewees indicated that it is less affected by the cost distortions resulting from capital cost disabilities as it is a centralised entity and its services do not necessarily require physical investments in remote areas. Therefore it will be less affected than other agencies by the lack of economies of scale in small communities. Also, output quantity measurement in DCIS is much simpler than many other agencies, as interviewees have stated. Many of the other agencies’ outputs are difficult to quantify because of their nonphysical nature (for example, policy advice as an output for an agency, and health research for another), in addition the provision of many of these outputs draws on multiple service areas which would make overheads and indirect costs subject to arbitrary allocations. In DCIS, this matter seems to be different. Interviewees stressed that DCIS’ outputs are simple and straight-forward for quantification as they are structured around separate cost centres. To explain this further, an example is best taken. The ‘corporate support services’ is an output group that has the following outputs: financial and accounting services, contract and procurement services, human resource services, archives and records management services, and information and communication technology services. Each of these outputs consist of several service lines that are produced in separate cost centres. So for example, the ‘financial and accounting services’ output
encompasses the following service units that operate as separate cost centres: accounts payable, accounts receivable, asset management, taxation services, financial reporting and commercial, and financial services. Each of these cost centres is responsible for a specific single service line. This would make all the costs of that cost centre only attributable to that particular line of service. Interviewees stressed that cost centres are managed and budgeted separately and no services are provided from some joint source of resources for two or more cost centres.

Although interviewees at DCIS have acknowledged that output costing is more accurate than in other agencies concerns about its efficiency and usefulness were raised by directors across agencies. Those directors argued that the cost measure “did not add value to anyone” and it has never been used as a performance indicator. This view has led agencies to take out the ‘cost measure’ from their annual reports after it had been in place for a few years since the introduction of accrual accounting. Overall, for DCIS and other agencies “The cost measure was meaningless”, according to most interviewees.

In conclusion, full cost pricing is important in identifying product and service costs for agencies that operate in highly competitive markets because objectives become measured essentially in terms of profit. So market share and return on equity and assets are mostly reported in financial terms and they constitute the benchmark against which a business is measured. However, in the public sector the objectives for government programmes frequently are stated in non-financial terms although financial reports are also prepared, and given the nature and complex array of government activities, conventional financial reporting
mechanisms may not easily capture performance measurement using full cost as a measure. In addition, if agencies could be allowed to request the services from private sector providers forcing DCIS to compete with private sector providers can be seen as a powerful incentive to generate improvements in the quality of services provided which would facilitate proper comparisons of the cost and performance between DCIS and similar private sector providers. This would provide a basis for competitive tendering and market testing of the efficiency of services provided by DCIS.

6.4 Accrual Budgeting
As explained in the previous chapters, in their thrust for public sector reform and as a result of the increasing pressure from communities to achieve value for money and better results in providing goods and services, many governments around the world have placed great emphasis on budgeting systems as one of the primary means to improve and control operational activities. These governments, in accordance with principles developed during the rise of the New Public Management (NPM), started to transform the cash basis of their budgeting systems into a new basis that emulated the functioning of a business operating in competitive markets. Accrual budgeting, output budgeting, outcome budgeting, performance budgeting, and budgeting for results are all new terms that have become used in the public sector as a result of this transformation. Although these terms may have some differences they all share the same objective, which is to achieve value for money.

Similar to these governments and compatible with its counterparts in the rest of Australia, the NT Government sought a better budgeting system that ensures
efficient resource allocation and achieves value for money through the correct use of funds. In this regard, and as part of its Working for Outcomes (WFO) framework, the NT Government introduced in 2002 an ‘accrual output budget framework’, which is an accrual output budgeting system. Although this system has been in overseas use for some years and it has been implemented to varying degrees by all other governments in Australia, the NT was the last jurisdiction to adopt it. For instance, New South Wales and the Australian Capital Territory introduced accrual based output budgeting in 1996 (ACT Treasury, 1995; NSW Treasury, 1996), Western Australia’s experience with output budgeting began in the 1997/1998 budget (Western Australia Treasury, 1999), the Victorian and Federal governments adopted accrual output budgeting in 1998 (Department of Finance and Administration, 1998), finally Queensland, South Australia and Tasmania implemented accrual output budgeting in 1999 (Queensland Treasury, 1999; South Australia Treasury, 1999).

At the heart of the accrual output budgeting framework was the focus on outputs rather than inputs. This was achieved by the introduction of the ‘purchaser/provider’ model which organises the relationship between the Government and agencies. Under this relationship the Government wanted to create a ‘new competitive world’ (Boxall, 1998) by making agencies operate like independent businesses and placing them on an equal competitive footing with potential private suppliers. It was expected that agencies would, as a consequence, experience unprecedented pressure to improve performance and productivity in order to reduce cost and enhance quality, hence achieving value for money.
The purchaser/provider model has emphasised the focus on outputs through the separation of Government and agency roles in achieving quality results in the provision of goods and services to the public. Under these separate roles, the Government purchases agencies’ outputs on behalf of the community and funds agencies for the full cost of production and thus takes on a purchaser role. In ensuring value for money for its funding, the Government specifies performance measure requirements (quality, quantity and timeliness) that agencies are bound by. Agencies on the other hand perform the role of provider and operate like independent businesses to produce the outputs in accordance with the specified requirements. The NT Government expected from this relationship which constitutes the basis of the accrual output budgeting system, to achieve several benefits that ensure the achievement of value for money. These benefits are:

- ‘Greater customer focus’ as funding becomes linked to the quantity and quality of goods and services provided.
- ‘Better resource allocation’ by shifting from input funding to output driven funding with a price that reflects the full cost of production of outputs.
- ‘Enhanced performance and accountability’ by focusing on outputs and providing a defined link between cost of inputs, outputs and outcomes.

The aim of this section is, therefore, to analyse the NT accrual output budgeting system in light of these expected benefits. It is not the aim of this thesis to measure the successfulness of the accrual output budgeting system, rather to analyse its workings in the context of the NT public sector. Although such analysis may be applicable to all public sector agencies in the NT, given that they are all
subject to the same budgeting system, where relevant a special reference to DCIS as an internal corporate services provider has been highlighted.

### 6.4.1 Greater Customer Focus
The traditional cash budgeting system was mainly based on allocating and controlling the cash expenditures required for the provision of goods and services. The cash budgeting system provided limited information about what the Government, through its agencies, had achieved with the resources spent. However, in the search for a budgeting system that brought more attention to results achieved and ensured value for money from spent resources, governments around the world saw that linking funding to achieved results would bring a greater customer focus and enhance productivity and competitiveness between public sector agencies and private providers if they existed. This idea is based on the market principle where it is anticipated that customers pay businesses a price that is based on a specified quantity and quality for their goods and services. Similarly in the public sector, the funding of agencies was to be based on the price that is paid on behalf of the community for a specified outcome or result. So output budgeting and outcome budgeting were introduced.

Although some authors do not distinguish between the two and they tend to use more general concepts such as performance budgeting and results-based budgeting, this thesis differentiates between the two, as outcome budgeting is defined as a budget system that focuses on the outcomes of the funded activity, where output budgeting is one that focuses on the output of the services, i.e. the volume produced (Osborne & Gaebler, 1992). In the public sector, linking funding to outcomes has been acknowledged to be difficult, as outcomes can’t be
quantified and it is difficult to give them a dollar price that could be used in funding (Guthrie, 1999; Guthrie & Carlin, 1998). For this reason, most governments have adopted output budgeting where they define what outputs could lead to the achievement of outcomes and subsequently funding was associated with these outputs.

In the NT, a Treasury director who participated in the introduction of accrual output budgeting stated that the initial idea behind the introduction of the purchaser/provider model was not to be any different from the private sector, so that “agencies provide the service, and demonstrate that they have actually provided the level of service that Government wanted, and then they would invoice the Government to get paid”. Another director added in this regard: “the concept was that agencies tell the Government what their outputs are, and it will pay them if they achieve these outputs”. Although this could be considered a typical market-based budgeting system, the accrual output budgeting system in the NT has been slightly different, with payments taking place before the delivery of the services. Having the payments (funding) made before the final delivery of the outputs, or alongside the delivery of outputs, does not mean that payments should not be adjusted if outputs delivery requirements (quantity, quality, timeliness) have been altered.

The analysis of interviews shows that the NT Government has not generally adjusted the funding of agencies if outputs were not achieved in accordance with the pre-specified requirements. A senior executive stated in this regard: “I do not know once that Government came along to any agency and said that allocations would be reduced because you have not produced the outputs”. Another executive
similarly commented that “the Government provides agencies with their appropriation irrespective of what level of service they actually provide or whether they have actually achieved the outputs that they are meant to achieve”. This shows that agencies would still get the funds regardless of their actual achievements and their efficiency in using the funds. Such a practice would neutralise the role that output budgeting is meant to play in creating greater customer focus in order to achieve value for money. It is believed that if allocations of funds are altered based on actual performance, agencies would then become more conscious about the use of funds and they will then try to deliver low cost and high quality services which will lead to greater customer satisfaction.

In addition, according to some interviewees, the difficulty in defining and the absence of a reliable quality measurement of some outputs would make it difficult for agencies to know at what level of service they are funded or what level of service they are required to deliver. For example, in DCIS, customer satisfaction has been used as a quality measure for all outputs, from interviews it was determined that evaluation of customer satisfaction does not happen on a quarterly basis, nor on a yearly basis because of the cost involved although a figure is always reported. A senior director at DCIS revealed that in the absence of a proper evaluation, this figure becomes subjective and based on general perceptions, and it is likely to be “biased” as another agency’s executive claimed.

Furthermore, the social responsibility of some agencies in delivering outputs to the community regardless of the investment required has weakened the relationship between outputs produced and the funds required. This is to say that a necessary minimum amount of resources has to be maintained regardless of the
output’s number of units produced. Although this case may be common to all
government services, it is more apparent in health and education services. In this
regard, a senior executive stated that “if your output is the number of students and
if you achieve that number you will get an X amount of dollars, and even if the
number of students has decreased you may still need the same amount of inputs
(funds)”. Therefore, the use of the unit cost as a basis of funding in an
environment like the public sector where it is dominated by service-providing
agencies rather than manufacturing-providing agencies has made its usefulness
questionable. In service-providing agencies the cost is attributed mostly to fixed
expenditures, including depreciation and personnel,29 which are not proportionally
related to changes in output volume at all times. This means that while total cost
of outputs may not necessarily vary, the unit cost of output may change according
to the number of units produced. Subsequently, an agency that achieves a lower
quantity of outputs than initially funded for does not necessarily deserve a cut in
its funding, as this reduction may not be because of inefficiency in managing
funds but rather because the quantity of some outputs depends on client needs, as
in the case of DCIS for example. DCIS’ number of invoices processed for other
agencies depends on the number of sales transactions these agencies have, the
decrease in this number is unlikely to affect the total cost as input costs do not
decrease.

29 Although personnel expenditures are generally variable, they are considered fixed within ranges
of the number of units produced.
6.4.2 Better Resource Allocation

Before the introduction of the WFO framework, budgets in the NT were based on a cash budgeting system under which funds were allocated to satisfy the cash requirements of agencies’ activities. This system provided little information about what agencies had achieved with the given resources. So, the move to an accrual output budget framework in 2002 was expected to fill this gap by providing information on results achieved rather than just resources spent. In this regard, the accrual output budgeting system has completely overhauled the parliamentary budget appropriations mechanism by funding agencies for the full cost of production of outputs, and therefore shifting the focus from inputs (resources spent) to outputs (results achieved). This new mechanism has been based on the purchaser/provider model in which the Government and agencies play distinct roles on a basis that emulates the functioning of businesses operating in a competitive market.

Under the purchaser/provider model, the Government performs the role of a purchaser and so it negotiates with agencies what outputs are needed to achieve the intended Government objectives (outcomes). The Government purchases these outputs in accordance with certain performance measures (quality, quantity, timeliness). Agencies, however, as a provider of these outputs would have to contain the costs within the purchase price and ensure the provision of services within the agreed quality and timeliness standards. Agencies can also request additional funds from the Government to increase their asset base if needed to produce the required outputs. However this happens through ‘equity injection’ that is separate from the normal appropriations for outputs purchased.
Therefore, accrual output budgeting through its purchaser/provider model has become based on the purchase price of outputs. This price was initially based on the full accrual cost of outputs, as it was intended that there would be a transition to a position where output prices would become based on the ‘efficient cost’ of production which would be measured by cost benchmarking or by market price references. However, as explained before, the absence of benchmarking and the unavailability of comparable prices in the private sector have meant that full cost as the basis for funding has been retained.

The use of the full accrual cost of output as the basis of resource allocation to agencies has meant that budgeting became associated with the period that the activity consuming the resources took place rather than when actual cash was exchanged. This implies that funding is meant to cover accrual expenditures that constitute a part of the full cost of outputs. These include depreciation, post-employment benefits (pensions, health care, and superannuation), and employee leave entitlements (annual leave, long-service leave). In principle, under accrual output budgeting, the recognition of these expenditures as part of the full cost would imply that their cash equivalent is appropriated to agencies as they incur the liability and that this cash would get accumulated to when the cash payment became needed. This means that agencies would receive cash for both, their cash requirements during the year and their accruals that require future cash settlement, and therefore such cash appropriation would properly reflect the full cost of producing the outputs. The importance of this is the behavioural change of agencies in managing resources as they become responsible for maintaining these resources for their future needs to replace assets or to pay employees benefits.
However, detailed analysis of the NT budgets supported by interviews reveals that appropriation for accrual expenditures does not take place in the NT because the Government wants to avoid the risk associated with spending cash received for non-cash items on unrelated initiatives and to maintain parliament’s control over capital acquisitions. As a result of this, two distinct types of appropriations became recognised, capital appropriation that mainly addresses the depreciation of capital assets, and output appropriation that addresses the yearly ‘cash’ requirement of outputs production. Funds are never appropriated for the remaining non cash items such as superannuation, and other employee entitlements, however they are reported in the budget as accrual expenses and their equivalent dollar value is actually treated as accounts receivable in the balance sheets of agencies. The satisfaction of the cash requirement of these expenses when they fall due is actually met by the Central Holding Authority (CHA) which is a Government body that represents the NT Government ownership interest in agencies and part of its role is to record liabilities that relate to the Government as a whole including superannuation and long service leave.

Capital appropriation generally refers to the funding required for the acquisition of assets. It therefore includes equity injections to agencies, which are amounts of funding required for the increase of Government investments in agencies to increase their operating capacity. However, the analysis of DCIS budgets shows that this type of funding has never been included in the budget and several interviewers contended that these injections are only provided when assets need to be purchased. This case has not been different to all capital assets in DCIS, first in relation to capital works projects, whether new or in case of replacement, they have never been included in DCIS nor in any agency’s budget, as their
appropriation is only given to one single agency (Department of Planning and Infrastructure) that is responsible for managing general government capital works projects. DCIS and the other agencies would only record the capital works projects as assets in their balance sheets when projects are finished and transferred to them. Second, in relation to the replacement of all other existing assets, the DCIS budgeting manager revealed that appropriation takes place when replacement is required and it has never been included in the budget. This has been supported by analysing DCIS budgets since the introduction of accrual output budgeting. As it appears from the table below, capital appropriation in the budgets has been zero in all the years, although capital asset purchases did take place according to the financial statements included in the annual reports.

Table 7 Comparison between budgeted capital appropriation and actual capital asset purchases.

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<tbody>
<tr>
<td>Capital Appropriation (from DCIS budgets)</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Asset Purchases (From DCIS annual reports)</td>
<td>$57,000</td>
<td>$25,000</td>
<td>$620,000</td>
<td>$13,225,000</td>
<td>$0</td>
</tr>
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From the above, it is clear that capital asset acquisitions have not been budgeted for. And, in the absence of funding the cost of asset replacement on a yearly basis as depreciation incurs has made the corresponding cash requirement for assets replacement to be appropriated in bulk when purchases are required. This means that although the Government in its budget has accounted for the depreciation as the cost of replacement assets, but it did not actually fund agencies for this cost. The Government reasoning for this is to maintain control over the capital assets.
acquisitions. However, some managers argue that agencies should be allowed to have the control over the capital amount that was approved by the Government in previous budgets when the cost of using assets (depreciation) was taken into consideration in the budgeting process. Managers believed that this would empower agencies to manage their assets more effectively. In addition, while the Government does not fund agencies for the cost of replacement assets on yearly basis and while asset funding takes place when purchase is required, some managers raised concerns about the faith in agencies ever receiving the exact cost of assets replacement which was accumulated from previous budgets, especially that an agency’s needs for assets do not necessarily remain constant for all years. This, according to the managers, may provide an opportunity to the Government to ‘game’ the system. The current capital appropriation arrangements show that the effect of the traditional cash based budgeting system is being continued and the desired ‘behaviour’ change in managing resources is thus unlikely to take place.

The second type of appropriation that became available was output appropriation. This type of appropriation was supposed to be the only appropriation that was available under the accrual output budgeting system, as it should reflect the full cost of outputs. However, as explained before the absence of appropriation to provide a pool or resources to provide for replacement of fixed assets (depreciation) has led to a separate funding for cash through what is called capital appropriation. Therefore, the term output appropriation has missed the depreciation part. In addition, and as explained before, other non-cash expenses such as superannuation and employee long service leave are not included in the output appropriation as they are paid directly by the Government. This results in
only the cash expenditures being appropriated through the output appropriation. This shows clearly that funding has not been different from the old cash budgeting system as the current system of appropriation remained to be on the cash requirement of expenditures and it excluded all accrual items such as depreciation and employees entitlements.

In addition, it is clear that accrual budgeting differs from cash budgeting by the difference between both accrual and cash revenues and expenses and this is generally represented through the reconciliation that is usually done between an accrual budget outcome (surplus or deficit) and a cash budget outcome (see table below). It is therefore interesting to see how much different the accrual budgeting system has been for DCIS as an internal service provider than the cash budgeting system under the current NT budget arrangements. DCIS as an internal corporate services provider that only deals with the government agencies is a unusual in the NT as its position would limit the existence of its accrual revenues and expenses as explained in the previous section and perhaps neutralise the existence of long term accruals.

<table>
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<th>Table 8 Budget outcome to cash reconciliation</th>
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<tr>
<td>Accrual budget outcome</td>
</tr>
<tr>
<td>+ Depreciation</td>
</tr>
<tr>
<td>+ Increase between budgeted accrual and cash revenues</td>
</tr>
<tr>
<td>- Decrease between budgeted accrual and cash revenues</td>
</tr>
<tr>
<td>+ Decrease between budgeted accrual and cash expenses</td>
</tr>
<tr>
<td>- Increase between budgeted accrual and cash expenses</td>
</tr>
<tr>
<td>= Cash from operating activities (Cash Outcome)</td>
</tr>
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30 It should be pointed out that the budgeted cash outcome for DCIS over the last 5 years has been equal to the net cash flows from operating activities, as its budgeted cash flows from investing and financing activities have been zero. Therefore, the reconciliation between accrual budget outcome and cash budget outcome is the same with cash flow from operating activities.
The reconciliation clearly shows that the difference between the accrual and cash budget outcome is the difference between the accrual and the cash revenues and expenses. The comparison of the budgeted statement of financial performance and the budgeted cash flow statement for DCIS shows that there is insignificant difference between budgeted accrual revenues and budgeted cash revenues and between budgeted accrual expenses and budgeted cash expenses if we exclude depreciation. The table below shows these differences for the last five years since the introduction of accrual budgeting. As it appears from the table, differences have almost been nil for these years (rows 4 & 5). This means that DCIS accrual revenues and expenses are almost the same as the cash revenues and expenses. This is because DCIS’ main source of revenue is generally the Government as it only provides services to other agencies, and this limits the amount of credit sales, which makes the difference between accrual and cash revenues. Similarly, having personnel as the major significant expense, which is generally paid within the year in a typical public sector environment, would also limit the availability of a difference with cash expenses as it is very likely that staff will be paid when services are provided, though minor accruals are likely to occur. This means that the difference between the accrual budget outcome and the cash budget outcome is just the depreciation.

Therefore under the current budgeting arrangements in the NT where the cost of asset’s use (depreciation) is not funded for and where accruals revenues and expenses are almost the same as cash, there will be an insignificant difference between cash budgeting and accrual budgeting. Table 9 below summarises the relevant data for the last 5 years.
Table 9 Reconciliation of accrual deficit and accrual deficit at DCIS

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<tbody>
<tr>
<td>Accrual Budgeted Deficit</td>
<td>-1,581</td>
<td>-332</td>
<td>-288</td>
<td>-288</td>
<td>-621</td>
</tr>
<tr>
<td>Depreciation</td>
<td>331</td>
<td>256</td>
<td>261</td>
<td>261</td>
<td>601</td>
</tr>
<tr>
<td>Difference between budgeted accrual and cash revenue</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>55</td>
<td>0</td>
</tr>
<tr>
<td>Difference between budgeted accrual and cash expenses</td>
<td>0</td>
<td>0</td>
<td>55</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Cash Deficit</td>
<td>-1,250</td>
<td>-76</td>
<td>-82</td>
<td>-82</td>
<td>-20</td>
</tr>
</tbody>
</table>

Amounts are in thousands.

In addition, the analysis of interviews and budget reports in the NT has shown that full cost output budgeting which was intended to be the basis of the accrual output budgeting system has not been fully utilised. Full cost budgeting has meant that the full cost of output has become the focal object instead of cash which was the focal object of the cash budgeting system. This requires agencies’ outputs to be quantified and costed and therefore the funding allocation will become the quantity of the outputs to be delivered multiplied by the relevant price of the output unit cost.

However, a senior Treasury executive revealed that such an arrangement does not take place. The executive explained that allocation of funds is subject to a political negotiation process between politicians and officials where it is very difficult to get politicians to agree on budgeted revenues and budgeted expenses. Several senior public sector executives explained that budgeting in the NT starts from ‘How much money the Government has available’ and what best they can do with it to approach their outcomes, and therefore funding allocation decisions become influenced by the priority agenda of Government and subject to each portfolio’s ministerial power in getting all or most of the funding requirement of agencies.
Interviewees explained that agencies never get the funding that they request which is generally based on the cost of outputs even if depreciation and other non cash items were excluded as explained before. A senior Treasury director explained that the Government budgets for agencies the amount that is needed to satisfy their cash operating requirement during the budgeted year. It is clear that such budgeting arrangement has not been any different from the traditional cash budgeting system. The Government is still allocating funds based on cash needs rather than output costs.

Furthermore, the cost of outputs has not been easy to determine in the context of the public sector. Several Chief Financial Officers (CFOs) have stated that cost of outputs has been arbitrary because it is based on arbitrary allocations of overheads (Guthrie, 1998), especially in the absence of related measurable outputs. Using the price of an output as a basis of output budgeting would require a clear definition of what constitutes a unit of each of the agencies’ outputs. In the private sector businesses, especially the manufacturing businesses, there has not been an ambiguity about product types and units of product because they are usually homogenous (standardised) type of products (such as a car, chair, book, and computer). Unfortunately, defining outputs and units of outputs in the public sector has been difficult mainly because these outputs are services rather than goods and they are generally heterogeneous (not standardised). This is most obvious in services where there are considerable variations in the extent of resources required per unit of output.

For example child protection services has an output, ‘family reunification and reconnection’, each service within this output may have some variations between
one case and another, as some families may need more extensive counselling and advocacy services than others. However, in the NT public sector, the problem of heterogeneity has been overcome by using the ‘average cost’ per unit instead of the full cost of each unit of output. This would make the output funding system workable if the agencies were prepared to accept that they will lose money each time they deliver a high-cost unit of output, which will be offset by profits made from delivering lower-cost units of output. This could produce suboptimal concentration on quick and easy outputs to the detriment of the overall social goal of the agency. It is therefore clear that outputs that are characterised by severe heterogeneity may be unsuited to an output funding system. A senior interviewee explained that the severity of output heterogeneity can be reduced by the use of a large number of more narrowly-defined outputs as it is the case in the casemix hospital funding system that is used in hospitals which is discussed in the next chapter.

Interviews with DCIS personnel explained that DCIS’ services are standardised and homogeneous which would facilitate the use of output funding. The budgeting manager in DCIS explained, however, that to overcome the problem of arbitrary allocation of overheads costs, the cost of each unit of outputs is calculated based on the average cost of the production of each output type. However, the budgeting has never been based on the quantity of each output type multiplied by the average cost. The manager explained that although this has been possible to be calculated in the context of DCIS services, it has not been used in the allocation of funds to DCIS, and it was only used for the purpose of accrual reporting.
6.4.3 Enhanced Performance and Accountability

Although accrual budgeting means the preparation of government budgets on an accrual basis its meaning became associated more with the accrual output funding principle. Therefore, discussing the benefits of accrual budgeting refers to the benefits of the use of the accrual output funding principle that underlies the purchaser provider model, and the preparation of accrual budgets becomes a part of accrual reporting that is discussed in the following section.

When adopting accrual budgeting, governments expected that it would be critical to establishing a performance-focused management system and to increase accountability of public sector agencies by giving managers considerable autonomy in managing agencies, including increased freedom over the use of resources (inputs), while holding them responsible and accountable for delivering specified results within budgeted costs. In general, output appropriations provide funding for the total resources used to produce the output, including costs that do not require an immediate cash outlay, and managers are then given significant discretion in their spending over the mix of inputs (salaries, supplies, capital) used to produce the agreed upon outputs. This approach tends to reduce the traditional budget focus on controlling inputs while increasing accountability for performance. However, to ensure such accountability, reliable information on agreed performance measures (cost, quantity, quality and timeliness) of these outputs became necessary, especially as effective oversight of agencies is premised on the ability of the Government to adequately assess these performance measures in the light of this given discretion to agencies.
Despite all these previously claimed benefits, the analysis of the NT accrual budgeting system reveals that output budgeting has not been applied as it was explained in the world of textbooks where its benefits were discussed. In addition, and in the absence of reliable quality and timeliness measures, senior managers explained that the focus was concentrated on producing the required quantity within the budgeted cost. However, several senior executives revealed that agencies have never been concerned about spending more on some outputs as long as the whole of the agency’s spending on outputs is in balance. This may mean that inefficiency in producing some outputs may be offset by an additional efficiency in producing some other outputs within the same agency. Therefore, the discretion given to agencies over the spending on inputs may lead to shifting resources from an inefficient cost centre to an efficient one, and therefore the concept of accountability is lost at the cost centre level.

In addition, interview records show that there is not any sort of incentive or penalty associated with accountability. Several senior directors explained that agencies are not even concerned with being over budget with their use of funds as long the spending is legitimate and they provide reasons for it. For example, a DCIS manager explained that sometimes DCIS spends some of the output funding on personal educational development for its staff although this cost does not constitute part of the DCIS output cost. The manager explained that there have been examples where they paid for a staff member who was studying to become a medical doctor and eventually had shifted to the health department. The manager
revealed that Treasury\textsuperscript{31} does not have a problem with this as long as legitimate
reasons are provided for the spending.

Also, all senior executives acknowledged that auditing at agency level does not
take place. This implies that the reliability of the performance measures (quantity,
quality, timeliness) that are reported in agencies’ annual reports is questionable,
and may not reflect the true performance of agencies in accordance with the
budget, as they may report figures that correspond with discharging their
accountability.

Overall, although accrual budgeting was able to draw a relationship between cost
of inputs, outputs and outcomes, this relationship has remained very fragile and
the agencies’ behaviour in managing resources has not changed considerably from
inputs to outputs. However, a clear benefit resulting from the use of accrual
budgeting is that long term planning has become possible. In this regard, the NT
Government uses the ‘Forward Estimates Model’ by which five years of estimates
are maintained and used by Government and agencies both as a planning and an
operating tool.

\textbf{6.5 Accrual Reporting}

Public sector reporting is also another practice that changed as a result of the New
Public Management (NPM) reform movement in the public sector. This change
was not limited to financial reporting only, but it covered the whole of
performance reporting (financial and non financial) at both the agency level and

\textsuperscript{31} Part of the role of Treasury is to control the spending of agencies in accordance with the budget.
the whole of government level. As governments started to shift their focus from what is being spent to what is being delivered and the budgeting system became results and outputs based, the importance of reporting has increasingly extended from being useful to the internal decisions of management to also discharging accountability to the Government at the agency level and by the Government at the whole of government level. Governments saw that both financial information and performance information should be disclosed to aid the discharge of accountability. In this regard, the NT Government through its Working for Outcomes (WFO) framework introduced accrual output reporting, which encompasses both accrual reporting for its financial reporting and output-outcome reporting for its performance reporting. This section addresses the change that took place in agencies and Government reporting in the NT public sector and its benefits at the agency and whole of government levels.

6.5.1 Financial Reporting
The Working for Outcomes (WFO) framework required the shift from cash-based financial reporting to accrual-based financial reporting at Government and agency levels. The analysis of annual reports of DCIS and other agencies before the introduction of accrual reporting shows that they reported their financial information in the following statements:

- Expenditure by Activity (Appendix 3)
- Expenditure by standard classification (Appendix 4)
- Receipts by account (Appendix 5)
- Reconciliation to Treasurer’s annual financial statement (Appendix 6)
- Accountable Officer’ Trust Account (Appendix 7)
• Creditors and Accruals (Appendix number 8)

• Employee entitlements outstanding (Appendix 9)

These financial statements have generally reflected the focus on cash sources of funds and the areas of spending. Therefore, these statements have mainly represented the cash receipts and cash expenditure during the year and they did not account for all accruals and deferrals (such as long service leave, prepayment, depreciation, and superannuation) which affect the cash position in the future. Although some of these statements have provided information on some non cash-expenses, however, it was limited and only available at the end of the year. Several agencies’ managers contend that cash based reports have only been useful in discharging accountability on where cash was spent, and they did not provide information on how efficient and effective agencies were in using that cash.

With the move to the accrual model, reporting has become based on the accrual presentation of financial reports which encompassed both the budget report using estimated financial data, and agencies’ annual reports using actual financial data. This required a significant change in approach as they now disclose all financial obligations incurred each year and the revenues and expenses earned and incurred each year, even if the cash flow will arise in future years. Subsequently, each agency was required to produce an operating statement, a balance sheet, and a cash flow statement. Similarly, at the whole of government level, the Government started to produce similar statements for the total of its public sector. Chief financial managers in agencies asserted that “these statements represented a significant expansion in the level of financial information provided to the Parliament, in comparison with the previous cash based statements”. This was
meant to “improve decision-making in the allocation of resources” according to a Treasury senior manager.

At the agency level, several interviewees explained that these statements were not used specifically for decision-making within agencies as specific purpose financial reports were produced for this purpose on management request, but their main purpose was to discharge accountability to the Government. However, it appears from the analysis of interviews that the use by Government of these financial reports to discharge agency accountability has been very fragile, although the reports themselves have been informative. The balance sheet, for example, is not more than a snapshot of the financial position of each agency at the end of a given period and it is informative to the Government and the Parliament in the sense that it shows resources invested in each agency. The balance sheet would normally play a role as an accountability measure when agencies are assessed in terms of their wealth (equity) maximization over time, however, this does not happen in the NT public sector as capital investments and equity injections into agencies are decided by the Government independently of the basic allocation, in addition to that budgeting directors revealed that agencies in the NT do not get to keep their surplus, therefore they can’t reinvest it in capital acquisitions.

The operating statement, however, can be used generally as a measure to discharge accountability as it represents the operating results for agencies, which is the difference between revenues and expenses. Public sector agencies aim in general to achieve a surplus in their operating statements. However, several senior managers have questioned the reliability of the reported operating result
(surplus/deficit) in the absence of a reliable output costing system. This is because output funds provided to agencies should not be regarded as revenue, as agencies still recognize these funds when cash is received. In addition, because the costs of services in the NT are generally arbitrary because of a range of allocations that are necessary in arriving at the cost figure, the amount assigned to output revenue does not necessarily match the expenses incurred for the production of these services. In addition, a senior director explained that sometimes agencies get additional output revenue on the basis that they had some output revenue savings from previous years. For example, in 2004, DCIS reported a surplus of $361,000, partly because it received additional output revenue resulting from savings in its output revenue in 2003 (DCIS, 2003, 2004). The savings took place as a result of a greater use of DCIS services by other agencies which had resulted in a presumed output revenue increase, as output revenue is based on a pre-calculated cost figure, while the actual cost of resources used did not increase proportionally.

Despite this, the operating result (surplus/deficit) is still used by the NT Government as a measure to assess agencies’ performance, however it remains a superficial accountability measure as no subsequent reward or penalty steps are taken.

Finally, the cash flow statement is generally important as an accountability measure as it reports the cash result (surplus/deficit). This statement is generally similar to the cash receipts and expenditures statement that took place under cash reporting. The difference is that it classifies cash receipts and payments into operating, investing and financing activities. However, the importance of this classification is limited in public sector agencies like DCIS where investing and
financing activities are not as significant as for market-based businesses. This means that the limitation of DCIS’ operations to the government sector would limit the significance of its investing and financing activities, where investing activities would generally be limited to purchase and sale of assets and financing activities to government equity injection and withdrawal as opposed to debt, where questions about cash management become more complex. A senior director explained that because the Government uses equity injection and equity withdrawal, the final cash result (surplus, deficit) would become less indicative of correct use of funds. For example, in 2004, DCIS reported a cash deficit of $1.3 million but there was $1.9 million in cash withdrawn by the Government. This shows that the cash result from operating activities may be more relevant. Overall, senior directors confirmed that the cash result is not used as an accountability measure and the “Government is more concerned with the accrual result rather than the cash result”.

Also, at the whole of government level, accrual reporting was expected to provide additional information about government operations than cash reporting had provided. In the NT, before the introduction of accrual reporting, the Government had no systematic records of its holdings of non-cash assets nor a portfolio of liabilities, as cash reporting did not provide a portrait of the financial position or the financial performance. However, a full financial picture was increasingly seen as needed by the Government and the Parliament. So an operating statement, balance sheet, and a cash flow statement were prepared at the whole of the government level. It was also believed that politicians, whether in government or in parliament, are able to understand and interpret easier accrual whole of
government reports than a vast array of financial reports for individual agencies (Mellor, 1996).

However, the whole of government reports were seen as more than just a means to report financial position and performance but also as an indicator of the government fiscal position. This fiscal position is expressed in terms of budget surplus or deficit which may represent, in the long term, a signal for either an economic growth or recession. Interviewees explained that accrual reporting for the whole of government has been generally useful in providing a more complete picture of government finances that is important for fiscal sustainability and intergenerational equity management. A senior Treasury director explained that accrual reporting brought attention to the impact of current spending and borrowings on future generations (taxpayers). For example, the recording of superannuation liabilities makes transparent the transferral of costs from current taxpayers to future taxpayers. In addition, as it is known the government’s net budget position has been used as an indicator of its fiscal position. The budget ‘operating result’ under accrual reporting is considered a much fairer measure of the sustainability of the fiscal position than the budget ‘cash outcome’ resulting from cash activities, which does not measure the movements in net wealth and whether this is increasing or decreasing (Humphrey, 1987, p. 123). This means that accrual reporting focuses the policy attention on the financial position of the whole of government instead of just the cash outcome per year. For example, under cash reporting, an amount that the government receives from privatisation would improve the cash budget position, however, under the accrual reporting, this is only a change in the asset structure of the balance sheet, where a fixed asset (the privatised asset) is now a cash asset and it only changes the government
financial position by the possible availability of a gain or a loss from the transaction. Overall, the two measures, the accrual operating result and the cash outcome could result in a significant difference in the figures reported and as a result their use has become manipulated by governments as they tend to use the measure that gives them the better figure. Guthrie (1998, p.14) describes these measures as “potent political symbols, where politicians claim success if they have ‘reigned in’ a deficit or ‘returned’ a surplus, or ‘balanced’ a budget”.

Although both measures are presented in the budget papers, governments tend to focus on a single one and that is normally highlighted in the Treasurer’s budget speech. The analysis of the NT budgets from year 2002, when accrual reporting was introduced, has revealed that the following references to the budget outcome were made:

- In 2002: “The estimated outcome for the general government sector is a cash deficit of $95 million”. (NT Treasury, 2002, budget paper 1, p.5)
- In 2004: “The general government sector is expected to be in balance in 2004-05” (NT Treasury, 2004, budget paper 1, p.4)
- In 2005: “Our fiscal strategy targets included deficits from 2005-06”. (NT Treasury, 2005, budget paper 1, p.5)
- In year 2006, the budget speech did not have any reference to the budget outcome but a reference has been made to the subsequent years: “the forward estimates still show an improvement, with a small accrual surplus
projected for 2009-10, as well as the cash balance in 2008/2009”. (NT Treasury, 2006, budget paper 1, p.6)

- In 2007: “The outcome is expected to be a deficit of $40 million”. (NT Treasury, 2007, budget paper 1, p.6)

The analysis of NT budgets has shown that the figures highlighted in these references in the Treasurer’ speech were all cash based and none of them was an accrual based figure. The analysis revealed that the accrual budget outcome for all these years had been worse than the reported cash outcomes. This supports the view that the NT Government is still using the cash outcome as its highlighted budget figure and as a measure for its fiscal policy performance.

6.5.2 Output Reporting

As mentioned earlier, the NT adopted an accrual output reporting framework which encompasses financial reporting and also performance reporting that is based on outputs and outcomes. Not all countries that adopted accrual reporting have moved to output and outcome reporting. Only those that adopted accrual budgeting that is based on output or outcome funding saw that it was necessary to adopt a reporting framework that corresponds with their budgeting system. Governments intended, through the adoption of an output-outcome reporting framework, to ensure that what agencies do fits with the government’s policy agenda, also to discharge agencies accountability for their performance against the results that the were funded for and achieved.

Where an outcome budgeting system is applied, meaning that agencies are funded based on outcomes rather than outputs, the government chooses the outcomes and leaves it for agencies to decide the outputs needed to achieve the outcomes. In this
case, agencies are held accountable for results achieved and they have to report on that basis. However, this model was considered complex and difficult to apply in the context of the public sector because of the difficulties in measuring and quantifying outcomes. In this regard, output budgeting and therefore output reporting was the model that has been adopted in the NT and other Australian jurisdictions.

Ideally, under output reporting in the NT, the Government would specify, via outcome statements, the outcomes it is seeking to achieve in given areas which generally reflect its objectives. These outcomes are generally specified in terms of the impact the Government is aiming to have on its society, for example, one of the outcomes in health is “to improve the health and wellbeing of those in the Northern Territory who require acute or specialist care” (NT Treasury, 2003, p. 197). Another example from DCIS is “cost-effective corporate services for Government agencies” (NT Treasury, 2003, p. 197). To achieve Government objectives and fulfil its policies, the Government and its agencies would then set a list of the best possible outputs that lead to the achievement of these outcomes and then cluster them in separate groups called ‘output groups’ where each group represents a segment of each agency’s activities. Ideally, the outputs should represent the measurable goods and services produced by agencies, however in the case of reality this may not be the case as will be explained. In addition, the Government and agencies would set for each output a range of performance measures or benchmark indicators in terms of quantity, quality, cost and timeliness. These measures are the output characteristics that agencies are funded to achieve. Finally, under output reporting, agencies are required to report their performance against these performance indicators. This reporting takes place in
the agencies’ annual reports, and in the Treasurer’s annual reports for the whole of government level.

At the whole of government level, the review for the Treasurer’s annual reports showed that they are only financial reports and they do not include performance information about what the Government as a whole has achieved towards its objectives. A Treasury executive explained that actual performance is reported for individual agencies separately and takes place as a part of their annual reports. The review of several annual reports in the NT showed that agencies’ annual reports maintain the same output-outcome structure that is outlined in the budget and they only report their performance against output performance measures stated in the budget (quantity, quality, cost and timeliness). Agencies in their annual reports do not report on how their performance has impacted on outcomes or Government objectives. The Treasurer’s annual reports for the whole of government show only how the Government performed against its budget outcome in terms of its deficit or surplus. A Treasury Executive explained that no outcome reporting takes place in the NT because the “relationship between outputs and outcomes is still very fragile”. The executive stated that although outputs are less ambiguous and can more easily be specified and measured than outcomes there are still difficulties in establishing the causal relationship between them where the sources of impact are so diverse and may be produced by more than one agency, as for health, education, social welfare, and security outcomes.

Although most interviewees acknowledged the importance and significance of output and outcome reporting they all stated that its contribution can only be achieved if Government specified measurable outcomes and outputs that directly
relate to goods and services provided by agencies. Currently agencies’ outputs are very broad and general. For example, some of DCIS outputs are ‘financial and accounting services’, ‘human resource services’, and ‘property management’. It is clear that these outputs are very general and do not relate directly to the services provided, going closer to the service provided would offer a much clearer output that can be compared with the same service provided by another provider. The service provided to clients is generally the one that gets costed and priced and subsequently sold, and not the segment of the business that produces the service. For example, if DCIS has ‘invoice processing’ as an output, given that it is a direct service, this would offer a much more informative output definition than ‘financial and accounting services’ which is basically a division more than it is an output. Overall, it is suggested that each output should be the service that is provided and specified as clearly as possible.

Overall, interviews and the analysis of agencies’ annual reports showed that reporting against performance measures has not been used to discharge agencies’ accountability. Several agencies’ directors explained that Government or parliamentary committees never resorted to outputs performance measures to hold agencies to account. Instead, they generally take it for granted that the agency is responsible for the objectives and discuss their merits in terms of generally accepted performance standards, without reference to stated output measures. For example, one director stated that “these measures are not used to judge the performance of agencies, and neither do they affect the appropriation process”, and another director expressed the view that “they were just used for illustrative purpose only, by saying these are our budget performance measures, and this is how we actually went against them”.
Overall, the success of accrual reporting in discharging accountability depends on a successful implementation of accrual accounting and accrual budgeting systems, where reliable information become an important factor in holding agencies to account. In addition, ensuring the reliability of the financial and outcome reports requires an efficient auditing system which does not exist in the NT. As mentioned before, agencies’ annual reports do not get audited by the NT auditor general and neither does the reporting on output performance measures. A senior auditing person explained that only whole of government reports are audited to ensure that the consolidation process is reliable.

6.6 Conclusion

The NT Government introduced an accrual framework for its accounting, budgeting and reporting into its public sector with the intention that this framework would lead to an improved performance and accountability. This framework has been developed in the private sector and was introduced in public sectors as governments started to take a more commercial direction by subjecting public services to competition and market principles. While the usefulness of this framework has been acknowledged in a commercial operating environment, the extent of its usefulness in a public sector where competition is limited has not been addressed. In this regard, this chapter discussed the working of the accrual framework in the context of the NT where competition has been limited. While the discussion has focused on DCIS, it has also been applicable to all other agencies to some extent as the framework has been the same for all, and competition has generally been limited in the entire general government sector.
This chapter has indicated that while it has been acknowledged that accrual accounting is generally useful for revenue management, expense management, asset management, receivables management, and liabilities management, this was not to the same extent in DCIS. First, revenue management did not play a different role than under cash accounting especially that all revenues for DCIS are from the Government and they are generally guaranteed and consistent. This would have been different if DCIS was operating in a market place where a significant part of its revenues will be coming from non-government clients. Also, this chapter has shown that accrual accounting has generally improved agencies’ receivables, liabilities and expenses management by establishing a complete accrual accounting system which made relevant information available at all times. However in DCIS, receivables management has been limited because government agencies constitute its client base and hence no collection risk is likely to be available. In addition, the chapter has shown that asset management has improved as a result of accrual recording of assets. Accrual asset information has made agencies more knowledgeable about their assets and assisted them in taking control of asset obsolescence, facilitating decisions about their replacement or sale.

Furthermore, the chapter has provided some evidence that the NT Government has failed to achieve all the potential benefits of using full cost in pricing and as a performance measure, and therefore its use failed to achieve cost consciousness and produce high quality services with low cost. This was mainly because of the absence of competition which is the mechanism that drives cost reduction and quality improvement in result of competitive price pressures. The absence of competition for most Government goods and services in the NT has made the
prices charged by agencies not subject to any competitive pressures and therefore the benefit of achieving cost reduction and quality improvement has been lost. This was clear in DCIS as it provides its services to the Government sector without any competition from the private sector, this made the price charged by DCIS more of a monopoly-type price which does not cause any cost pressure.

In addition, while full cost price was expected to be used as a performance measure in ensuring agencies are achieving ‘value for money’ through the benchmarking and comparison of prices with other providers, this chapter showed that no price comparisons or cost benchmarking has ever taken place in DCIS. The use of full cost as a performance measure did not achieve its result in DCIS and more generally in the NT because several reasons. First, the absence of private sector providers in the NT has made cost comparisons and benchmarking impossible. Second, the high cost of production in the NT as a result of its remoteness and dispersed population has made comparisons and benchmarking with similar providers from other jurisdictions unbalanced. Third, the reliability of the full cost reported in agencies’ annual reports was itself questionable. This was mainly common to all government type services as opposed to business-like services. It has been discussed in this chapter that the non-standardised (heterogeneous) type of government services has made its costing subject to arbitrary allocations of overhead expenses.

Also, while the adoption of accrual budgeting was expected to achieve a greater customer focus, better resource allocation and an enhanced performance and accountability, this chapter showed that the NT Government did not use it properly and hence it did not lead to such expectation. The chapter has shown that
the existing practice of accrual budgeting has not differed much from the
traditional cash budgeting. The chapter has also shown that agencies have
remained to be funded for their cash requirements for the year, and all non-cash
expenditures were met by the Government. In addition, it has been explained that
agencies’ funding was not affected by the actual delivery of outputs, agencies
have remained to get the same level of funds whether they produce the required
outputs within the required measures or not. In result, customer focus and
improved performance were lost as objectives of accrual budgeting.

Finally, the chapter has shown that accrual reporting has been useful at the whole
of government level in providing a more complete picture of government
finances. However, its usefulness in discharging accountability, as it was
expected, has not been achieved. The use of the balance sheet as an accountability
measure has been lost because of the Government’s discretionary capital
injections and withdrawals and the fact that agencies are prevented from keeping
their surpluses. Also, the use of the operating result as a basis for discharging
accountability could not be justified in the absence of a reliable costing system
where arbitrariness is eliminated or minimised. In addition, output reporting has
not been successful as agencies reported their performance against the budget
measures (quantity, quality, and timeliness) without auditing being taking place
on the reliability of these reports. This showed that output reporting has been
superficial and it did not reflect the actual performance of agencies.
Chapter 7 Department of Health and Community Services: The Domination of Social Responsibility

7.1 Introduction
The objective of this chapter is to highlight the distinctive social responsibility that DHCS has in providing health services in the NT, and how this responsibility dominates budget control as a result of being almost the sole provider of health services. This chapter aims to throw some light on the use of accrual accounting in DHCS, whether it has been useful or not, especially in costing and pricing.

For this, the chapter is divided into four parts. The first provides a historical background on DHCS. The second part highlights the unique operating environment in the NT and its influence on the cost of health service delivery. The third part explains the social responsibility that DHCS has in providing health services, especially with the absence of other non-government health service providers. The fourth part discusses the usefulness of accrual accounting in DHCS, and it is further divided into four sections. The first section explains the operational relationship between DHCS and DCIS as the agency responsible for the provision of accounting information. The second section provides a detailed explanation of how accounting has been used in costing and pricing of health services, and the extent to which it has influenced costing in a way that it achieves cost efficiency and performance improvement. The third and the fourth sections provide a brief explanation of the usefulness of accrual budgeting and accrual reporting in light of the discussion provided about this in chapter 6.
7.2 Historical Background
The Department of Health and Community Services (DHCS) in the NT is the primary provider of health and community services to the region’s 200,000 residents. DHCS responsibility goes beyond the provision of services to maximise the physical health and well-being of NT communities, but also the mental, social and environmental well-being of all Territorians. In this regard, DHCS operates five hospitals, 45 urban and rural community health clinics and approximately 50 work units that provide specialist aged, disability, child welfare and mental health services to a client population that is spread over an area the size of France, Spain and Italy combined. This, and in addition to having more than 4,000 staff and hundreds of programs, has made DHCS the largest and the most diverse department within the NT public sector.

The NT Government, through DHCS, aims to provide health and community services on an equivalent basis at equal or better quality to those available throughout Australia. To achieve this end, hospitals are located in the five major population centres within the NT (Darwin, Alice Springs, Katherine, Tenant Creek and Nhulunbuy). In addition to these five hospitals, DHCS delivers directly a range of community, oral, and health services from other health centres across the Territory, and indirectly by funding non government organisations, through service agreements to provide such services.

The DHCS became a NT Government department on 1 January 1979. Before that, it was administered by the Commonwealth Department of Health and it was funded as a division of that department. While under the Commonwealth administration, DHCS was restrained by Federal policies on public spending and
staff ceilings, this had held back several projects to which the NT Government
gave priority at the time responsibility transferred. After becoming a NT
department, DHCS has seen several changes to its organisational structure to
allow for more flexible administrative arrangements which would achieve higher
levels of cost effectiveness. In addition, the transfer provided the department with
a local policy-making body to which it is accountable, and this has helped to make
possible much more efficient use of the department’s resources.

7.3 Unique Environment
While there are many challenges that are common in the health sector across the
nation and worldwide, DHCS has been subject also to some others that are
specific to the NT environment. The ageing population, high cost of new medical
technology, emergence of new infectious diseases and increasing community
demand, are experienced to a similar degree by all states and territories. In
addition to these, the NT must confront many challenges which do not exist in
other jurisdictions, or which are present to a much lesser degree.

Some of these are:

- The demography of the NT: where 1 per cent of the Australian population
  is scattered over approximately 17.5 per cent of the nation’s geographical
  surface area. This dispersion of the population would make the cost of
  provision of health services higher than in other states and territories. In
  addition, 30 percent of the NT population are indigenous people
  (Aboriginal and Torres Strait Islander) while there are less than 4 per cent
  in other state/territory populations. Indigenous people are more likely to
live outside urban areas, and are therefore likely to live further from health services, than other Australians. Statistics show that 70 percent of the Territory’s indigenous population live in remote or very remote localities (Australian Institute of Health and Welfare, 2008). As a result, the NT has the highest proportion (54%) of indigenous communities located 25km or more from the nearest hospital or community health centre (Australian Bureau of Statistics, 2005). In 2001, there were 342 discrete communities in the NT, there were only 139 in Western Australia, 72 in Queensland, 42 in South Australia, and 10 in New South Wales (Australian Bureau of Statistics, 2005). This results in an increase in the cost of health services in trying to reach this group of population.

- The high levels of morbidity and mortality: the dispersion of a high proportion of the indigenous population in the NT has made them relatively disadvantaged to other Australians with respect to a number of social and economic factors, such as education, income, employment and housing. This placed them at a greater risk of poverty, violence, ill health and reduced well-being. Subsequently, these have made indigenous people to have a different disease course, with a high admission rate, many comorbidities and a clinically justified prolonged length of stay related to the number of comorbidities. For example, in a study by Ruben (1996) it was shown that indigenous children had lengths of stay up to five times longer than the national average. Associated with this were different numbers of comorbidities. While 96% of non-indigenous children had one or no comorbidities, 59% of indigenous had two or more (Beaver et al.,
This inferior health status for Indigenous people led to an increased need for resources to treat them (Australian Bureau of Statistics, 2005).

- The isolation of the NT and the remoteness of many of its communities have resulted in a limited ability to recruit and retain professional staff in rural and remote areas. This affected the ability to deliver services in those areas and made it necessary to offer higher remuneration packages to attract staff which resulted in cost increases in provision of health services in the NT. Table 10 shows that the NT has the highest average salary of full time equivalent staff between states and territories in 2004-05.

<table>
<thead>
<tr>
<th>Table 10: Average salary across states and territories</th>
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<tbody>
<tr>
<td></td>
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<tr>
<td><strong>NSW</strong></td>
</tr>
<tr>
<td>Salaried medical officers</td>
</tr>
<tr>
<td>Nurses</td>
</tr>
<tr>
<td>Other personal care staff</td>
</tr>
<tr>
<td>Diagnostic &amp; allied health professionals</td>
</tr>
<tr>
<td>Administrative &amp; clerical staff</td>
</tr>
<tr>
<td>Domestic &amp; other staff</td>
</tr>
<tr>
<td>Total staff</td>
</tr>
</tbody>
</table>

n.a. Not available.  

The absence of sufficient private health service providers: The high cost of health service provision and the lack of economies of scale have not made the NT a viable market for private health service providers. Table 11 shows that the NT has only one private hospital while other jurisdictions have higher proportion of private hospitals in regard to their public hospitals. While the number of hospitals
by itself is not a definite indicator of the availability of health services as hospitals differ in the their number of beds available, what is important in the context of the NT is that having one private hospital has limited the access to private health services of the people who are living in other cities. In addition, interviewees stated that there has been a considerable difference for patients in attending the private hospital or the public hospital. This difference was generally in terms of the waiting time. The shortage of medical practitioners in the NT has made many of them work for both the public and the private hospital. So in many times, doctors and specialists attending to patients in the public hospitals are the same who attend to patients in the private hospital. This limited range of options for private health care undoubtedly has an impact on the uptake of private health insurance in the NT.

Table 11 Number of public and private hospitals by states and territories

<table>
<thead>
<tr>
<th></th>
<th>NSW</th>
<th>VIC</th>
<th>Qld</th>
<th>WA</th>
<th>SA</th>
<th>Tas</th>
<th>ACT</th>
<th>NT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of public Hospitals</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>184</td>
<td>143</td>
<td>153</td>
<td>68</td>
<td>74</td>
<td>5</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td><strong>Number of Private Hospitals</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>178</td>
<td>135</td>
<td>100</td>
<td>36</td>
<td>54</td>
<td>n.a</td>
<td>n.a</td>
<td>1</td>
</tr>
</tbody>
</table>

n.a. Not available.

Associated with this, Table 12 shows that the number of medical practitioners in the public sector is higher than in the private sector in the NT, whereas this is the opposite in all other jurisdictions. But while each practitioner might work different numbers of hours, the table shows that when calculating the Full Time Equivalent (FTE) rate for both public and private sectors the NT still has a significant lower rate of private medical practitioners than public ones in relation
to other jurisdictions. Overall, the absence of sufficient private and non-
government health service providers has resulted in DHCS becoming involved in
a range services that are not typically provided by governments in other
jurisdictions. In this regard, public hospitals have become involved in providing
non-acute services in addition to acute services that hospitals are generally meant
to provide. For example, in the capital city of the NT, Darwin, where most of the
private practitioners are located, the public hospital is the only place that is open
to provide non-acute services after 7 pm.

Table 12 Medical practitioners by sector across states and territories in 2005.

<table>
<thead>
<tr>
<th></th>
<th>NSW</th>
<th>VIC</th>
<th>Qld</th>
<th>WA</th>
<th>SA</th>
<th>Tas</th>
<th>ACT</th>
<th>NT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of public</td>
<td>11,599</td>
<td>8,412</td>
<td>4,181</td>
<td>2,156</td>
<td>2,886</td>
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In addition to the preceding elements that contribute to the increase in cost of
delivering health services in the NT, the Department is also pressured by the
limitations of the funds available. DHCS has three major sources of funds. These
are Commonwealth grants, funds from NT Government and the department’s own
revenue. The Commonwealth Government funds the NT Government for a
number of health programs and projects through the Australian Health Care
Agreement, the Commonwealth State Disability Agreement, the Public health
Outcomes Funding Agreement and the Home and Community Care Agreements.
These agreements are important sources of funds for the department and they
represent the majority of the funds available. In addition, the department receives
revenue from charges for goods and services provided to private patients and through Cross Border charging. The department’s revenue is generally insufficient to meet the cost of delivering health care services to the NT and so the difference is funded by the NT Government.

From year 1979 the NT Government has relied heavily on Commonwealth grants to deliver health services in the NT. However, the NT Government has been increasingly pressured to find alternative sources of revenues as the Commonwealth has steadily reduced the level of grants given to the NT as well as to other states. For example, in 1981 the Commonwealth/State Cost Sharing Agreement ceased to cover its share (50%) of the net operating costs of NT hospitals and associated central services. From that time the funding of the DHCS became a full responsibility of the NT Government and it was necessary for the hospitals to contribute more to their own expenditure through a wide range of charges so as to make up for the reduced flow of funding from the Commonwealth. However, the challenge has always been presented from the low number of people who have private health insurance and opt to be treated as private patients. As explained before, this was mainly because of the limited range of options for private health care in the NT.

7.4 Social Responsibility of DHCS
While all governments have social responsibility in ensuring that their people receive the necessary and required healthcare to maintain a well and healthy society, the burden of this responsibility have been shared between government health providers and the private health providers. Although private health providers, in their provision of health services, intend to achieve profit, their
existence eases the burden from the government in providing health services. However, the limited existence of private health providers in the NT, especially in rural and remote areas, has made the provision of health services a challenging responsibility for the Government and subsequently for DHCS. This responsibility would become even more challenging when operating under a capped budget. In this regard, DHCS has been under a constant challenge in managing its resources in order to achieve a balance between what patients want and what Government can afford.

According to one director at DHCS, “the department is like a cold room, it will have all the time to keep trying to balance what is the highest priority this month and next month and so on”. “If there was something of an issue that occurred in the community, and as a result you had 20,000 extra entrants into the hospital, you do not get extra funds for dealing with these extra patients, but what you have to do is to rebalance the department’s portfolio in order to deal with this extra demand that has occurred in one area”. The sensitivity of health services makes provision independent to some extent from the resources available in the budget. This is to say, that government can not close a particular divisions or service because the resources allocated ran out, nor it can stop treating a patient with life threatening condition for example because resources spent have reached the amount spent in such condition. All these have made efficient resource management highly sought by a department like DHCS. So in this regard, it was believed that the adoption of accrual accounting offers usefulness in decision-making and performance improvement.
7.5 Usefulness of Accounting Information in DHCS

A decreasing flow of funding from the Federal Government, the social responsibility imposed upon DHCS and the limited resources available to cope with the provision of health services have all made it necessary to the department to ensure an efficient and effective use of the resources spent. In this regard, the department was meant to reduce the cost of delivering its services through better decision-making in the use of resources and by infusing cost awareness down to the operating level where services are provided so that resources do not be over-utilized. In addition, it becomes a need for the department to improve its costing systems in a way that captures the reliable cost figure of services so that prices charged to private patients are not underestimated.

So, the introduction of accrual accounting by the NT Government as part of its commercialisation process has come to offer the department the opportunity to capture the full cost of services by accounting for the cash and non-cash resources used. While knowing the full cost is important for all agencies in becoming cost conscious, Miley (1999) argued that it is more important for agencies operating in a contestable market because of the effect that pricing brings back onto cash inflows. While the level of contestability of health services in the NT is very low, DHCS needs to ensure that prices charged to contracted non-government agencies and private patients reflect as best as possible the resources spent so that under-pricing does not result in a reduced healthcare provision whether in terms of quality or quantity. Also, in accordance with the National Competition Policy, health services’ prices need to satisfy the competitive neutrality requirement they should not be advantaged by government ownership of the provider. However, competition for health services is limited in the NT in a way that competitive
neutrality concerns are unlikely to arise for the services provided by both public and private providers.

Overall, accrual accounting was believed to be useful in capturing the full cost of services. Therefore, before discussing the working of the accrual accounting in DHCS, it is important to highlight the operational relationship between DHCS and DCIS as the agency responsible for producing the accrual information.

7.5.1 Operational Relations between DHCS and DCIS

In the previous chapter, it has been discussed that the Government has established DCIS as a shared service provider to accounting, financial and human resources functions for all NT agencies. While the processing of these functions has been transferred to DCIS, the management of the resulting information has remained the responsibility of the agencies. This means that agencies have become dependent on the quality of the information produced by DCIS. As explained in the previous chapter, for the financial information to be useful it has to be relevant and reliable. The analysis of the interviews at DHCS revealed that process of the shared service model at DCIS has not been satisfactory to DHCS and was subject to lots of criticism by DHCS’ managers. This was mainly because of the quality and timeliness of the service received. In this regard a senior director stated that “Balance Sheet management does not exist as it may take DCIS 12 months or more to get a completed asset into our books”. Similarly, another director claimed that “in processing annual leave, which could be a million dollars or more in DHCS, they (meaning DCIS) can be four months behind in processing annual leave”.

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This could be a significant issue for a department with a large payroll like DHCS, especially when “we try to manage a budget as to whether we can employ three nurses or we have to put the pressure on not to employ them, so not having the annual leave up to date will influence your decision” according to the same director. A senior financial manager claimed that “it takes 10 days after the end of the month to have some sort of complete information for the previous month”, this is “too late to have genuine information” according to another manager. Another manager claimed that “there is no online system that tells where you are financially all the time, so you could not say that there is integrity in the numbers now and let’s make a decision”. From interviews, it appeared that the system of the shared services model is configured to be operationally convenient rather than as a tool for management purposes. This was supported by a senior director who stated that “accounting records do not have credibility more than the piece of quantitative information that it provides, and the proportion that it provides as a decision-making tool and its integrity are lost”.

As a result of all these concerns, and in order to reflect more reliable and timely information that can provide a better management tool, DHCS has employed several accounting staff to perform some adjustments to the information produced by DCIS so it is tailored to the management’s needs. However, this does not happen on a large basis but only to the specific information that may be requested by top management. Interviews revealed that while management at the top level is interested in getting timely accrual information to assess how the department is performing in comparison with the budget, the management at the cost centre level is never concerned about the way expenditures are recorded (cash or accrual). This is because at this level, the main concern is to provide the
healthcare service to patients, and this is driven by a clinical need rather than budget capacity.

In addition, as mentioned in the previous chapter, DHCS does not pay DCIS for the services provided but a notional charge takes place. Also, some interviewees revealed that DHCS receives a ‘special treatment’ from DCIS through the extra services that are received without any extra charge, such as, the production of some special reports or particular extracts. A senior manager explained that some extracts can be very labor intensive for DCIS to produce. This means that the notional prices charged by DCIS to DHCS do not reflect this extra service and therefore DHCS is not accounting for it in its own costing systems and subsequently in its prices.

7.5.2 Accrual Accounting
DHCS was not any different from the rest of the agencies in the NT. As a result of the introduction of the WFO framework, DHCS has changed its accounting from cash to accrual along with other agencies. This change was reflected in the way transactions are accounted for and also in reporting. The role that DCIS plays as a corporate shared services provider has made accounting in DHCS consistent and similar to other agencies. This is reflected in the use of a single government accounting system and same underpinnings accounting standards. However, the management of the resulting accounting information and making use of it depend to a large extent on the agency itself. In this regard, the analysis of the interviews at DHCS has shown that the shift to accrual accounting has been important in asset management, receivables and payables management, and in costing and pricing health services. While there is no need to replicate the discussion provided
in the previous chapter about how accrual accounting has been useful in asset, receivables and liabilities management, it is important however to highlight the impact that accrual accounting had on costing and pricing.

While costing and pricing are important for all agencies, its importance is greater in the health sector in promoting health and confronting disease challenges. This is because that without strategic costing and pricing policies and focused spending mechanisms the poor may get left out and resources may be misused. In this regard, interviewees acknowledged that pricing of health services is a key component of the broader activity of resource allocation for DHCS and thus accurate costing is important for the following reasons:

- The need to know how much to charge private patients.
- The need to know how much to charge insurance companies.
- The need to know that the charge paid to ‘paying doctors’ covers the costs.
- The need to determine the price to be paid to contracted organisations or doctors.
- The need to know the price for cross-boarder charges.
- Costing also is important for management of contracts where partnership is established between the department and other service providers.

These reasons require management to ensure that the pricing structure covers the costs of services and that this leads to good health outcomes. This is because, sometimes, under or overpricing might lead to negative health outcomes of some sort because of the shortage of resources at some points. For example, underpricing might lead to overutilisation of specific services, which may result in
less resources becoming available to other services. For this reason, it is necessary to have an effective mechanism to link prices to the actual costs of health services. However, such mechanism requires a considerable amount of investment in IT systems that support such linkage. In the absence of such systems, the prices charged may not reflect the actual costs which may affect the sustainability of some health services. In this regard, accrual accounting is believed to play an important role in the costing of health services because of its capacity to measure the full cost of services. As mentioned in the previous chapters, accrual accounting is believed to allow the capture of all costs incurred in the production of services. However, establishing the full cost of health services is a complicated proposition because of the difficulties involved in correctly tracking and allocating indirect costs (administrative overhead and others) to the units of services that are directly consumed by patients. So, the accuracy of unit costs for health care services depends, to some extent on the correct allocation of both direct and indirect costs.

The analysis of the interview records in DHCS has revealed that attention to cost of health services and to the medical practice in relation to the consumption of resources had started well before the introduction of accrual accounting in the NT. The DHCS has started to use the 'casemix’ costing system\textsuperscript{32} in the NT’s hospitals. Casemix is shorthand for mix of patients and usually refers to the grouping of various types of patients into diagnosis related groups (DRGs).\textsuperscript{33} Australia has developed its own groups, the Australian refined–diagnosis related groups (AR- \\

\textsuperscript{32} Also it has been referred to as casemix accounting (Lowe & Doolin, 1999).

\textsuperscript{33} DRG refers to the diagnosis and the care a patient receives before being discharged from the hospital. Those patients with similar diagnosis are recorded within the same group.
DRG) which is a classification that groups the 14,000 diagnosis and procedure codes found in the international Classification of Diseases (ICD) into approximately 600 diagnosis groups that are similar in terms of clinical type and resource use. In this regard, calculation of the cost of health services became based on the cost of treatment of each DRG. Interviewees acknowledged that, in principle, costing at the DRG level enables the comparison of costs by hospital type to assist in policy and planning decisions. While the use of casemix has provided detailed information about the cost and resource consumption of health services, this information has not taken into account accrual expenditures until accrual accounting was introduced in 2002. Although the introduction of accrual accounting increased the level of accuracy and reliability of the cost of health services, the casemix system itself has been the key focus for its ability to provide costing information down to the service level of patient treatment.

In using casemix, there are two methods of tracing the costs of health services, top-down and bottom-up costing. Bottom-up costing involves aggregating the costs of each input used to provide a service, and for this it requires an investment in information technology to collect patient-level data on resources used (Jackson, 2001). The top-down costing disaggregates total expenditure to patients treated in each DRG. The analysis of DHCS’ documents shows clearly that DHCS uses the top-down costing method which is called the Yale Cost Model. This is accomplished by allocating total costs to ‘cost centres’ (such as hospital wards), mapping these cost to the different patient groups in each cost centre, then allocating the cost per DRG across the unit of measurement used in each DRG. In this regard, a hospital manager stated that “a division’s manager would divide his or her division’s total cost across the occupied days, for example, to get the unit
cost for this division”. The definition of the measurement base that is used in every cost centre is based on the nature of its DRGs.

In tracking and allocating total costs across different cost centres, direct costs such as drugs and supplies can be all allocated directly to the cost centres where they have been consumed. However, indirect costs such as supervisors’ salaries and support activities such as housekeeping and laundry are allocated using traditional costing rather than activity-based costing (ABC). Traditional costing allocates indirect costs in proportion to the volume of units produced, but ABC allocates these costs based on the main activities of the cost centres. Interviewees acknowledged that traditional costing may attribute higher cost to high volume units and lower cost to low ones as a result of economies of scale in production. Some senior directors at DHCS declared that ABC goes further in capturing the real cost of services by attributing indirect costs based on the actual consumption. However, these directors claimed that such a system “is not used because of the large investment that needs to be made in information technology and in the context of the NT, this is not necessary”. Document analysis and interviewees’ comments showed that costing health services has not been a great focus in the NT, because the NT is too small, as a senior manager described it. Another senior director stated that “there are some sophisticated hospital costing systems which are used in other jurisdictions but we do not use them because we can’t set aside the cost of these systems in our small budget, the cost benefit relationship is minimal”. The availability of costing information requires an investment to be made and the NT Government has not seen a real benefit to provide such an investment.
While DHCS, through the use of the casemix costing system, has realised the benefit of understanding better the resource consumption of health services, there is no evidence that cost reduction and performance improvement has been achieved. It was discussed in the previous chapter that these would be achieved as a result of the role full cost information plays in benchmarking and in responding to competitive prices pressures. It was clear from interviewees’ comments that the absence of competition in the provision of health services in the NT has limited such role of cost information. While it has been believed that market prices would pressure organisations to become cost conscious and drives cost efficiencies, no such pressure was exercised on DHCS because of the general absence of private health providers. Also, it is believed that cost information could be used in benchmarking to measure hospitals’ performance against others from different jurisdictions. However, interviewees explained that the high cost of health service delivery in the NT because of the factors that have been discussed earlier, have made cost comparability impractical and unfair. This is evident in the increased length of stay at hospitals by indigenous patients than others which result in a higher cost of the same DRG when compared between the NT and another jurisdiction.

The fact that the usefulness of cost information was limited for performance improvement has discouraged the NT Government from investing in costing systems that produce much more reliable information. A senior director claimed that “the department does not have the skills, the resources and the capacity to provide an analysis of what is the best costing method that could be used”. “The management would not put in half a dozen system analysts and leave out half a dozen doctors and nurses” another director added.
While costing would still be important in pricing as explained before, its importance is greater when the organisation is charging for its services. In this regard, costing has been important for DHCS to ensure that prices charged to paying patients cover the cost. However, from interviews it appeared that NT hospitals do not record separately the fee for service payments to doctors who attend private patients, nor any additional cost that is incurred as a result of the extra care that patients may receive. A manager at DHCS revealed that costing systems used do not allow a separate trace of costs incurred by private patients from the ones incurred by public patients. Several interviewees stressed that “operating in a budget like the NT budget, the department cannot afford to implement expensive software solutions that allow for the availability of such information”. This fragile emphasis on costing raises concerns about the pricing system that is actually used in DHCS in the NT. Interviews with senior directors in the department revealed that prices for health services are based on the average prices of similar services in Australia as presented by the Commonwealth Department of Health and Ageing. This in turn raises concerns about the prices charged to private patients that attend public hospitals as they could be overestimated or underestimated.

This method of pricing health services for private patients which appears to be unrelated to the costs incurred might raise questions about their competitive neutrality. However, in the context of the NT where competition is very limited, it is unlikely in the near future that there will be a private health service provider complaining that the prices charged by NT public hospitals are not competitively neutral. Especially that it is for the benefit of DHCS to have more private health providers and that they do not enter into competition with them. By contrast,
several interviewees have stated that the department avoids competition with private health providers and even contributes to their survival by ensuring that they maintain the necessary clients’ base required to make their investment in the Territory viable and expanding. However, this has only been for the non-acute services that, in principle, hospitals do not provide.

7.5.3 Accrual Budgeting
In light of the discussion in the previous chapter, DHCS was initially funded on an historical cash basis and subject to detailed input controls. However, in principle, the introduction of accrual budgeting in 2002 was meant to change the funding into an accrual basis that is focused on outputs and results achieved. Documents and interview analysis revealed that a casemix funding system which has a similar focus was introduced in the department in 1996 to fund the hospitals in the NT. However such system was stopped in 2001 as it has never got the approval of the Government. As discussed in the previous chapter, the main objective of introducing accrual budgeting is output funding where agencies become funded for the accrual cost of production of specified outputs. And this funding would then be adjusted if outputs are not produced according to pre-specified performance measures. Applying a fixed funding structure for the cost of health services would represent an attempt to control increasing health expenditures by creating economic incentives to improve hospital efficiency (Lowe & Doolin, 1999). However, interviewees revealed that funding DHCS has not been on the cost of outputs although the budget is presented on this basis. It was clear that funding has remained to be consistent with the previous cash budgeting methodology. The budgeting director assured that the department does not receive funds for the total accrual cost of production, and it only receives the
expected cash disbursement for the year. In this, the department does not receive funds for the cost of replacement assets (depreciation) and the other deferred expenditures in accordance with the explanation provided in the previous chapter. In addition, and as explained in the previous chapter, the Government does not adjust the funding of DHCS on the basis that pre-specified outputs were not achieved. After all, the accountability to the Government lies in the legitimate spending of cash appropriated, according to a senior director.

Similarly, once the budget is allocated by the Government, DHCS allocates its budget across service divisions based on full time equivalent (FTE) staff in each division and the cost of operations in this division. Funds therefore are not allocated for the cost of outputs that this division is producing, especially as some of the outputs may be shared across several divisions in order to be produced. This explains that, and as one manager stated, “divisions are funded generally for the estimated cash expenditure”. This is apparent in a service department like DHCS where personnel costs represent more than 90% of the operating expenditures. This type of cost is generally known in advance and the top management can fund the divisions for that cost in addition to the other estimated costs of operations. This means, that in DHCS as a service provider, and not as a manufacturing agency, most of the expenditures are staff expenses, in such a case the level of difference between accruals and cash flows is very limited.

Under such practice of output funding, accrual budgeting has lost its role for operational control. Interviewees explained that although the budget gets spread out between service divisions and down to the service delivery level, the top management looks at the budget as a whole and tries to manage it from the
department’s overall perspective. This to say that the management would not be concerned if a cost centre or a division is over budget as long the overall department’s budget is on or under budget. Several senior managers explained that when a department like DHCS operating under a limited budget that is challenging all the times to deliver the required health care for the whole NT, it then becomes difficult to operate and deliver health services in accordance with the funds appropriated in the budget. Especially, health services are different from other government services as they are necessary to be delivered whenever they are requested and are driven by people’s needs rather than the discretion of the provider. Also, the provision of health care is generally in the hand of the clinicians whose care is dictated by health consideration rather than budget limitation or standard costs.

7.5.4 Accrual Reporting
Reporting at the DHCS has changed similarly to that in DCIS and the other agencies in the NT as a result of the introduction of the WFO framework. This change was mainly reflected in the budget and in the financial statements that were presented in the department’s annual report. Under the cash accounting system the budget for DHCS was summarised in two tables. One table summarised the gross outlays for the department by activities (Appendix 10) and the other one provided a summary of the outlays by category of cost (such as personnel, operational, capital, and interest) and a summary of the sources of revenues (including taxes, sales, interest, and capital) (Appendix 11). With the introduction of accrual reporting, the first table was substituted by an ‘Expenses
and Appropriation Summary’ (Appendix 12), which, similarly to the older one, provides a summary of the budgeted outlays by output group\textsuperscript{34} but the figures are calculated on an accrual basis. The second table ‘Gross Outlays and Receipts’ under cash reporting, was substituted by an Income Statement presented on accrual basis (Appendix 13). In addition, accrual reporting has seen the introduction of two additional statements the Balance Sheet (Appendix 14) and the Statement of Cash Flows (Appendix 15). While the budget statements under cash accounting has focused on the cash expenditures of inputs, the budget statements under accrual accounting has been presented on accrual basis and included cash and non cash figures.

In regard to the annual financial reporting at the agency level, DHCS’ annual reporting was affected in the same way as the rest of the agencies, as explained in chapter 6. The cash statements that were presented under the cash system were replaced by three accrual financial statements (Balance Sheet, Income Statement, and Cash Flow Statement). Analysis has shown that the usefulness of these statements in the decision-making process and the discharging of accountability at DHCS has been consistent with the discussion provided in the previous chapter. While the usefulness of accrual reports in decision-making has been limited to the special purpose reports, these accrual financial statements have not also been used in discharging the department’s accountability because of the way accrual budgeting and funding has been used by the Government. For example, the equity section in the balance sheet could be used to measure the wealth maximisation or

\textsuperscript{34} ‘Output group’ is a new term that became used with accrual reporting but in this summary it reflects the activity that was used under the older statement. Also note that some differences have occurred in the names of activities between the years when the tables were presented.
minimisation over time as the Government has interrupted this through the equity injections and withdrawals. Add to this the inability of the DHCS as the rest of the agencies to keep their surplus in a way that they can reinvested and increase their wealth.

Similarly, the income statement could not be used as a performance measure or to discharge accountability, strictly because of the absence of the accurate accrual measure for the revenues. One director has claimed “that Commonwealth revenue is recorded at the point of receipt and not at the point the revenue is earned”. This in turn would affect the surplus/deficit reported depending on the time of receipts. Another director stated that “having most of the Commonwealth revenues coming at the end of the financial year, would influence positively our operating result for that year”.

In addition to the change in financial reporting, it was discussed in previous chapters that the introduction of the WFO framework has introduced output/outcome reporting. However, a detailed analysis of the DHCS budgets and annual reports for the years before and after the introduction of the WFO framework revealed that output and outcomes reporting was used in the DHCS before the introduction of the framework. In the budget, programs or activities were identified and key outputs for each activity were listed, in addition to the planned outcomes. The difference that took place as a result of the WFO framework is that output/outcome reporting became mandatory for the department. Also, ‘output group’ as a term became used to describe a particular activity. In addition, outputs became more attributable to output groups and outcomes, and according to one director, “outcomes and outputs became more
defined”. Also, after the introduction of the WFO framework output reporting has seen the introduction of performance measures for each output (quantity, quality, timeliness and cost). The budget analysis shows the cost measure was not reported for all outputs and it was taken off from year 2004, according to one director, “this was because there were concerns about the significance and reliability of the cost measure reported”. However, it is important to note that a decision to take it off was at the whole of government level and not at the DHCS level (an explanation in this regard was provided in the previous chapter). Although these performance measures were presented in the budget and also in the annual financial reports, their reliability and significance were always a question. The absence of Government auditing raises concerns about the accuracy of their reported figures. After all, they were not used as accountability measures and to judge the performance of the agency.

### 7.6 Conclusion

The NT health operating environment has been more challenging for DHCS than other government health providers in other jurisdictions. The remoteness of the place and the small and dispersed population has all made it very difficult and more costly to deliver health services. This is in addition to a higher number of indigenous population in the Territory who are relatively disadvantaged to other Australians with respect to a number of social and economic factors that have placed them at greater risk for diseases. All these have made the delivery of health services more costly in the NT and became almost the sole responsibility of the DHCS in the absence of private health providers because the lack of viability and economies of scale. The chapter shows that by being pressured by the limited budget and the social responsibility of delivering health services, making
investments in costing systems were not seen to be significant for the purpose of their usefulness. While managers in the departments have acknowledged the importance of accrual accounting in the costing and pricing of health services, they did not see a significant value in knowing a much more reliable figure for the costs. This was because the department was almost the sole provider of health services, and hence costing would not play a role in driving competitive prices. While costing information is important for pricing health services provided to private patients, the department has not made an investment in costing systems that allow the supply of such information. This was mainly because of the scarcity in resources that has made the department to employ additional doctors and nurses rather than investing in costing systems, especially that private patient contributions to the revenues of the department has not been significant.

This chapter showed that operating in a non competitive environment would limit the role that accrual accounting could play in driving cost efficiency down. It is important to say that the availability of the accrual cost information has never been the driver for cost reduction by itself, however, the competitive price in the market is the one that drives cost reduction and for this purpose being knowledgeable about the cost, agencies can improve their prices to ensure survival in the market. In the NT, the DHCS was still required to deliver health services regardless of their costs because of its social responsibility. Similarly, the application of output funding was not seen to be succeeding in the NT because the Government can not limit its funding to DHCS to fixed payments of cost of services. The inconsistency in demands for health services makes it very difficult for DHCS not to shift resources from one service area to another, and makes tracing of these changes very complex and costly.
Chapter 8 Summary and Conclusion

8.1 Summary and Discussion of Findings
Public sector reform has been a common demand for all governments around the world and so it was for the NT of Australia. Since it became a self-governing jurisdiction and politically separate from the Commonwealth in 1978, the NT Government came under pressure to reform the public sector. The NT was affected by the social, economic and financial pressures that Australia and the rest of the world had been subject to for reform of the public sector. However, the smallness of the economy, which is characterised by a small private sector and a comparatively large public sector, in addition to decreasing Commonwealth funding have all made the reform of the public sector in the NT slower than the rest of Australia though inevitable and necessary.

The NT phenomenon of a large public sector and a small private sector (about 19% of the Gross State Product) has been viewed as one of the main reasons for the limited performance of the economy in the NT. This view has developed alongside an increasing belief that public sector organisations are inefficient and poorly managed and that the private sector is more efficient and productive than the public sector. In this regard, consecutive governments in the NT have tried to increase the size of the private sector in the economy by privatising and outsourcing some government-owned businesses and activities. However, the high cost of service delivery resulting from the relatively small and dispersed markets, and their geographic isolation, have reduced the appetite of the private sector to invest in the NT. As a result the privatised and outsourced businesses and
activities were not able to significantly increase private sector investment and they had a limited effect on the economic welfare of the NT economy.

The failure of privatisation and outsourcing in the NT to reduce significantly the dominance of the public sector by trying to increase the size of the private sector has made the Government seek additional options. In the early 1990s, the NT Government thought that the next step would be to improve public sector management by introducing private sector practices in accordance with managerial and commercialised practices that had spread both nationally and internationally from the early 1980s. In this regard, the NT Government has changed its legislation and a new Act, the Public Sector Employment and Management Act, came into effect in 1993 which incorporated a comprehensive range of private sector management practices, such as devolution of responsibility, user charging, and performance management. Along with this, the NT Government agreed in 1995 to comply with the National Competition Policy (NCP) which is based on the notion that competition is the main driver of productivity and efficiency gains. The NCP requested all governments to develop a competitive neutrality policy to eliminate resource allocation distortions arising from public ownership. In this regard, the NT Government has differentiated between its general activities and its more business-like activities, by establishing GBDs to reflect the commercial focus of the business-like activities. In doing this, the Government has tended to create a commercial financial framework that encourages competitive improvements in productivity and generates additional efficiency gains. This framework was based on management practices from the private sector such as cost reflective pricing, with GBDs required to pay the full.
cost of service provision, and the use of commercial accounting practices, in addition to a focus on financial as well non-financial performance.

Soon after applying this framework in the GBDs the NT Government extended the application of this framework to the rest of the public sector, including the non-commercially oriented businesses. The adoption of the framework was subject to discussion and some resistance for a number of years, but finally in 2002 the NT Government introduced the WFO framework by which all government agencies had to adopt commercial accounting practices and to change their focus from inputs to outputs and results achieved.

With the introduction of the WFO framework, the NT Government became the last Australian government to adopt commercial accounting practices in the public sector. This study has indicated that the NT Government introduced these accounting practices without any assessment of their applicability to the NT public sector, but the adoption occurred as a response to institutional pressures that were exercised upon the NT Government, especially as other Australian governments had adopted these practices. Chapter five showed that the NT Government was partly pressured by the Commonwealth to adopt these practices in order to secure funding by discharging accountability through the production of commercially-based financial statements. In addition, some of the promoters of accounting change were calling for the adoption of such practices, so there were a range of pressures for the NT not to be seen to be different from all other jurisdictions that had already adopted private sector accounting practices in their public sector reforms. The Government justified the adoption of these practices as an attempt to rationalise its public sector management through the use of
commercial practices that were believed to enhance the decision-making process and improve the efficiency, effectiveness and accountability of public sector organisations.

Although such justification may have been valid prior to year 2002 when commercial accounting practices were finally introduced, the adoption did not take place any earlier because of an implementation barrier that was represented by a senior departmental official who refused to adopt commercial accounting practices in the public sector. This means that some key individuals holding significant power could influence an organisation’s response to a particular organisational change.

In the NT, the adoption of these commercial practices has been represented by the adoption of accrual accounting, budgeting and reporting. The NT Government adopted these practices in principle to improve the performance of the public sector and in particular to achieve enhanced efficiency, effectiveness and accountability in its operations. However, this study has shown that the benefits of these practices have not been fully achieved. The reasons were partly because of the incorrect use of these practices, also because of the absence of a competitive market in the NT in general and the absence of competition for some government services in particular as they are provided internally by one department under a mandatory service to other government agencies. In addition, there is the social nature of some government services which has limited the significance of some of these practices. In analysing the usefulness of these practices in the NT public sector, an assessment of the working of each practice is provided separately.
8.1.1 Accrual Accounting

The adoption of accrual accounting in the public sector was expected to lead to an improved performance of public sector organisations through improved decision-making and the provision of full-cost information that could be used in pricing and in performance measurement and benchmarking. This expectation was based on the more comprehensive information that accrual accounting is able to provide than cash accounting. However, this study has explained that this expectation has not been fully achieved and that the extent of the usefulness of accrual accounting practices varies between public sector agencies.

First, in relation to the usefulness of accrual accounting in decision-making it has been acknowledged that accrual accounting is useful for revenue management, expense management, asset management, receivables management, and liabilities management in general. However, the study has provided evidence that revenue management has not been affected much by the change from cash to accrual accounting in agencies as most agency revenues come from the Government. It was anticipated that revenue management would play an important role for agencies that operate in a competitive market; however, this was not the case in the NT where competition is limited and most revenues are from the Government. The study has revealed that this case has been very clear in DCIS, the department that provides mandatory services to other government agencies and which has its revenues generally guaranteed by the government and consistent over time.

In regard to expense management, the study has shown that accrual accounting has helped agencies to get a better understanding of their expenses, and therefore get a more accurate figure for the cost of their services. In addition, accrual
accounting has improved agencies’ receivables and liabilities management by
establishing a complete accrual accounting system which made information on
receivables and liabilities available at all times. However, receivables
management in DCIS has been limited because most of the client base represents
other governments’ agencies where there is no collection risk that requires
management.

Also, the benefits of the use of accrual accounting were reflected in asset
management, as agencies became more knowledgeable about their assets. The
study has shown that accrual asset information has assisted agencies in taking
control of asset obsolescence, facilitating decisions about replacement or sale and
in increasing accountability of divisional managers over their assets as this has
had the additional benefit of reducing the risks of theft and deterioration.
Although such benefits have been achieved by all agencies, those with a low
capital assets base or ‘non-capital intensive’ businesses had these benefits only to
a limited extent.

Second, in relation to the importance of accrual accounting in providing full cost
information, the NT Government failed to achieve the benefits from using this full
cost information. Full cost information was expected to play a performance-
improving role through its use in pricing and as a performance measure in a way
that encouraged cost saving and performance improvement. Managers have
acknowledged that the use of full cost reflective pricing in government agencies
has aimed to make them cost conscious and to produce high quality services with
low cost. However, this has been based on the underlying assumption that
competition between public organisations and private organisations is the mechanism to drive this cost consciousness.

This thesis has shown that the services produced by the agencies included in this study have not been subject to serious competition from the private sector which meant that there was a lack of competitive prices to pressure cost reduction and quality improvement. For example, the study has shown that DCIS by being a mandatory service provider to other government agencies and restricted from competing with the private sector along with these agencies being prohibited from using other private service providers has made the prices charged by DCIS more of a monopoly-type prices that are not subject to any market pressure that may lead to cost and quality improvement. Similarly, the prices charged by DHCS are not subject to competitive pressures because of the absence of sufficient numbers of private health service providers, and even where some services are provided by private providers, the DHCS tends not to compete with them so as to ensure the survival of private health providers in the NT.

Third, full cost prices were expected to be used also as a performance measure in ensuring that agencies achieved ‘value for money’ through benchmarking and comparison with prices of similar services. However, this study has shown that in DCIS no price reviews or cost benchmarking have ever taken place. Similarly in DHCS, prices charged for health services do not reflect the actual full cost incurred in the department, prices seem to be based on the ‘efficient cost’ of production that is achieved by the more efficient hospitals in other jurisdictions in Australia. The study has explained that the absence of cost and price comparisons would make the usefulness of full cost as a performance measure meaningless,
especially as cost shifting would start taking place and this would make the
criterion of ‘value for money’ fade away. This study has indicated how, in the
absence of price reviews and control from Government upon agencies, DCIS
tends to decrease the price of some services below cost by offsetting this decrease
by an increase in the prices of other services. Such cost shifting would make the
measurement of the efficiency of each individual service provided by DCIS
meaningless, as inefficiencies in some services may be covered by lower prices
that are offset by an increase in prices of efficient services. This would not happen
if all the services of DCIS were subject to competition.

In addition, this study has identified some problems with the appropriateness of
using full cost information as a performance measure to evaluate agencies’ cost
management in general even if cost comparisons and benchmarking are available.
In this regard, the arbitrariness of overhead allocations, capital cost distortions,
and the service nature of most agencies’ outputs are factors impacting upon the
usefulness of full cost as a performance measure in the NT. The service nature of
most governments’ outputs raises difficulty in quantity measurement in any
attempt to know the unit cost. This, itself would lead also to an arbitrary allocation
of overhead cost which would not result in an accurate and reliable cost figure,
and therefore the cost reported would not necessarily reflect the actual efficiency
in producing a particular output. In addition, capital cost disabilities which include
the lack of scale economies and higher capital costs in remote areas in the NT,
would also raise unit full costs, although these NT problems with service delivery
have little to do with the efficiency of production. That is why if comparisons are
to take place and be meaningful, at least it has to be between different providers
that operate under the same circumstances and in the same market. The study has
shown that agencies in the NT are affected differently by these factors (arbitrariness of overhead allocations, capital cost distortions, and the service nature of outputs). For example, DCIS is less affected by the cost distortions resulting from capital cost disabilities as its services do not necessarily require physical investments in remote areas and therefore it is less affected by the lack of economies of scale in small communities. Also, the nature of DCIS services has made them easy to quantify and also having each output produced by a separate cost centre has made the allocation of overheads less arbitrary. However, this has not been the case in DHCS where the delivery of health services, especially in the absence of private health providers, has required the department to be physically available in remote areas or to incur extra costs to deliver the health services in small communities. In addition, the complexity of health outputs has complicated the allocation of overheads as more than one cost centre has been involved in much of the service provision which has led to arbitrary estimates in the allocation of overheads.

8.1.2 Accrual Budgeting

The NT Government introduced accrual budgeting as part of its Working for Outcomes framework that was introduced in 2002. However, this study has revealed that accrual budgeting in the NT has not been used in a way that leads to achieving the benefits anticipated from its application. Accrual budgeting was expected to lead to a greater customer focus, better resource allocation, and enhanced performance and accountability through the use of output appropriations that were based on the purchaser/provider model to mirror the relationship between businesses and their clients in the private sector. Such a relationship has not been observed by the Government in the NT as the concept of output funding
was not used in a meaningful way. The analysis of the current practice of budgeting in the NT has revealed the following information:

- Agencies were not funded for the total cost of their outputs, but they were more generally funded for their cash needs during the year. The study has shown that the Government did not fund agencies for their accrual expenses such as their long term accruals, superannuation and long service leave, and the cost of their annual asset use (depreciation).

- The Government provided each agency separately with capital funding when new assets became required. A clear example of this was in DCIS where, since the introduction of accrual budgeting, no budget has included any capital appropriation although capital assets were purchased every year.

- One of the concepts behind the adoption of accrual budgeting was to improve service delivery by linking funding to results achieved and therefore achieving ‘value for money’. However, this did not happen in the NT as Government did not adjust agencies’ funding if the results achieved were different from what they had agreed on with the Government.

- It was discussed in chapter six that the Government has appropriated funds to agencies in accordance with some specific performance measures (quantity, quality, and timeliness of service delivery) that agencies are required to achieve, however, it was clear in this study that no auditing or evaluation has taken place by the Government to ensure that agencies’ performance against these measures are in accordance with the budget requirement.
• Budgeting takes place in the NT in a way that was not guaranteed to improve agency performance. Under accrual budgeting it is supposed that funds are appropriated based on the full cost of outputs. However, the study has found that funds are the result of a largely political negotiation process between government and agency officials and then these funds are presented in the budget in relation to outputs. The study has shown that the performance measures reported against the allocated funds are just for compliance with accrual budgeting presentation but they are not being emphasised in practice.

• The allocated amounts to agencies have never been the quantity multiplied by the unit full cost, and the agencies themselves had serious doubts about the reliability of the full cost of output.

The existing practice of accrual budgeting in the NT has not been much different from that of cash budgeting except for the presentation of the budget. This study has explained that, as a result of the current practice of budgeting in the NT, the Government has failed to achieve the anticipated benefits of accrual budgeting. In this, the customer focus did not improve from the way it was under cash budgeting, as agencies’ funds were not adjusted based on the results achieved. Add to this the observation that the accountability focus has remained upon what has been spent rather than what is delivered. Agencies were not held accountable for any variations in the performance measures of the results they achieved especially because of the limited reliability of these measures, but they were held accountable mainly for their operating result (surplus/deficit).
In addition, the thesis throws some light on how the social responsibility of some government agencies, for example health, impacted upon the working of accrual budgeting in the public sector. It has been explained in this study that sometimes there are services which Government would still have to deliver regardless of their cost. As a result agencies may incur different unit cost from year to year for these services based on wide fluctuations in the demand for such services and this has little or nothing to do with the efficiency of agencies. In such situations, the Government can’t easily hold these agencies responsible for not achieving the required quantity of outputs.

8.1.3 Accrual Reporting
This thesis has explained that the NT Government adopted accrual accounting as the basis of their financial reporting from year 2002. Accrual reporting was seen as important in discharging accountability by agencies to the Government and by the Government to the Parliament and the people. The study has shown that accrual reporting at the whole of government level has been useful in providing a more complete picture of government finances and that is important for fiscal sustainability management. The Government became more knowledgeable about their assets and liabilities than it was under cash reporting, especially as information on accruals and deferrals were not available then.

In terms of the benefit of discharging accountability, the study has shown that this has not changed from the way it was under cash reporting. The use of accrual reports in discharging accountability has remained very fragile. The balance sheet would normally play a role as an accountability measure when agencies are assessed in terms of their wealth (or equity maximisation) over time, however,
this does not happen in the NT because of government discretionary capital injections and withdrawals and the fact that agencies are prevented from keeping their surpluses. Also, the use of the operating result (surplus/deficit) to discharge accountability has been questionable because of the absence of a reliable output costing system and because revenue from outputs (which is mostly from the Government) is recognised when the cash is received, which often results in a non-matching of expenses with revenues. This is very clear in hospitals where sometimes revenues come at the end of the financial year and are spent in the next financial year. Overall, the use of the operating result has been superficial, especially as no subsequent rewards or penalties have been given or taken against agencies.

Furthermore, at the whole of government level, although the budget is prepared under accrual accounting the study has revealed that Government tends to highlight the budget result (cash versus accrual) that represents the better figure.

In addition, the NT Government in its move to accrual reporting has introduced output reporting where agencies were required to report on their performance in achieving their outputs. This study has explained that while agencies have reported against their performance measures in their reports this reporting remained superficial as reports were not audited by the Government to ensure their reliability and accuracy and also the link between most agencies’ outputs and government outcomes have remained very fragile. At the whole of government level, the study has revealed that whole of government reports were only financial and did not include any performance reporting in relation to outcomes.
8.2 Conclusion

In the process of public sector reform around the world, accounting change was highlighted as a necessary means to achieve overall reform objectives. In this regard, many governments have adopted accounting practices from the private sector in their commercial direction to improve the performance of their public sectors. In principle, the necessary accounting change through the adoption of commercial accounting practices was driven by the requirement for additional financial information that governments needed for their public sector management which started to take a more commercialised nature. A significant theme of this commercial public sector management was the introduction of competition into government businesses. Government saw that subjecting public goods and services to market forces and pressures would lead to the achievement of efficiency, effectiveness and accountability in the public sector. On this basis, commercial accounting was seen as necessary to provide financial information on the full cost of products and services. This full cost information would become the basis of driving cost consciousness and producing competitive prices in order to ensure survival in the market and continuity of funding from the government. In this regard, this study has been distinct in its addressing the working of commercial accounting in a non competitive operating environment as largely exists in the NT. For this purpose, several concluding remarks can be drawn from this study.

First, the existence of a commercial operating environment represented in the availability of competition is an important factor for gaining full value from the operation of accrual accounting as a means to drive efficiency and productivity in the public sector organisations. While the existence of competition could drive
cost reduction and better quality products and services, its lack of existence removes the price pressure that could have resulted from competitors. When public sector organisations are in competition with other providers, they will have to seek quality and cost advantage in order to ensure their survival in the market place by securing and increasing their share of revenue.

Second, the adoption of commercial accounting in the public sector has to be based on a decision usefulness framework to judge its suitability for a particular organisation or government. That is to say that governments should not adopt commercial accounting just on the basis that it is successful in the private sector. This study showed that the NT Government has introduced commercial accounting practices without any assessment of their viability in the context of NT. While the adoption has been promoted on the basis that commercial accounting practices would improve efficiency, effectiveness and accountability, these practices have not been applied in a manner or environment that would make it likely for them to achieve their intended benefits. This has been evident in the use of accrual budgeting and reporting. This means that the NT Government has mainly applied commercial accounting in order to be seen as legitimate and not different from the rest of Australia. This conclusion is consistent with some other research and with the mimetic isomorphism which occurs when organisations try to imitate or model themselves after similar organisations in their field that they perceive to be more legitimate or successful (DiMaggio & Powell, 1983; 1991).

Third, the social responsibility of the government in ensuring products and services are delivered to the community would make the applicability and
usefulness of commercial accounting limited in most cases. This study has found that the Government had the responsibility to deliver health services regardless of their costs. Although this social responsibility may be shared with private providers if they existed, this study indicated that the absence of private health providers in the NT has made the social responsibility of the Government the dominant driver of government activities. The use of accrual accounting in costing, pricing, budget control and performance benchmarking is likely to be beneficial only if there is a strong competitive environment where the social responsibility of government is less important. The study has explained that the nature of the NT health operating environment has made it difficult for the Government to make use of accrual accounting and DHCS has not been able to find the resources to invest in information technology systems to allow that production of accrual financial information for management decision-making and cost saving.

Fourth, it has been discussed in the thesis that governments aimed to increase accountability through the reform of their public sectors. In this regard, accrual accounting has been adopted partly to improve accountability, especially in resource management, as it provides information on the full cost of resources used and a more comprehensive information set. In addition, the adoption of accrual output reporting, which includes financial and non-financial reporting, was also believed likely to increase both internal and external accountability. However, these accountability expectations were not achieved because of the limited capacity of the NT Government to implement the practices that underlie accountability. For example, the study has indicated that no real rewards or sanctions were tied to individual and organisational performance. Accountability
was more focused at the whole of agency level than on lower individual divisions and cost centre levels. Even at the agency level, the Government did not greatly emphasise the accountability measures in relation to the agency’s resources management. For example, the Government did not enforce any funding changes upon agencies when performance improved or deteriorated. The thesis has explained that part of this weakness in enforcing accountability was the social responsibility imposed upon Government to deliver goods and services in the absence of other providers in the NT.

Fifth, in order for an organisational change to be successful the scope of its implementation has to be considered. The study has indicated that the limited implementation of information systems that are important to achieving full benefit from accrual accounting practices, even if because of resource constraints, has made its significance and contribution generally fragile. This is an important matter the organisations involved need to address.

Finally, while this study has importance in itself by throwing light on organisational change and the working of accrual accounting in a particular setting, the study also gains additional significance in forming a basis for future research. Such research could valuably include a comparative study between two similar departments from two different jurisdictions to see how accrual accounting has improved efficiency, effectiveness and accountability; a longitudinal case study to examine whether value has been achieved from the adoption of accrual accounting in the public sector more generally; and a study that examines the reasons for the apparent failure of output funding in the public sector. These issues were noted during the course of this research, but as they were not the main
focus of the thesis they were not comprehensively addressed and there remains considerable scope for further research which addresses these and other issues about the role of accounting in relation to organisational change.
Appendices

Appendix 1: List of Government Business Divisions in the NT in 2005:

- Construction Division
- Darwin Bus Service
- Darwin Port Corporation
- Data Centre Services
- Government Printing Office
- Housing Business Services
- NT Fleet
- Northern Territory Treasury Corporation
- Power and Water Corporation*
- Territory Discoveries
- Territory Wildlife Parks

* Power Water is actually a Government Owned Corporation.
Source: 2005 NT Budget.
Appendix 2: Price List for DCIS’ Services (year 2005).

**DCIS PRICE LIST**

**July 2005**

<table>
<thead>
<tr>
<th>Service</th>
<th>Cost Measure</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial and Accounting Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>Per Invoice</td>
<td>$16.00</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>Per Invoice</td>
<td>$94.00</td>
</tr>
<tr>
<td>Accounts Receivable - RTM</td>
<td>Per Receipt</td>
<td>$7.00</td>
</tr>
<tr>
<td>Asset Management</td>
<td>No of Assets (pa)</td>
<td>$70.00</td>
</tr>
<tr>
<td>Commercial</td>
<td>Allocation of FTE (pa)</td>
<td>$111,930.00</td>
</tr>
<tr>
<td><strong>Corpo Credit Cards Management</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-Credit Card Management</td>
<td>No of Credit Cards (pa)</td>
<td>$390.00</td>
</tr>
<tr>
<td><strong>Financial Reporting</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-Auto</td>
<td>Per Page Produced</td>
<td>$1.00</td>
</tr>
<tr>
<td>Financial Systems</td>
<td>DAISD Usage (Per 1% pa)</td>
<td>$77,760.00</td>
</tr>
<tr>
<td>Staff Travel</td>
<td>Per Transaction</td>
<td>$26.00</td>
</tr>
<tr>
<td><strong>Taxation Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-SAS Lodgments</td>
<td>Per Line Per Return</td>
<td>$3.60</td>
</tr>
<tr>
<td>-FBT Tax</td>
<td>Per Line Comprising FBT Liability</td>
<td>$10.00</td>
</tr>
<tr>
<td>-Payroll Tax</td>
<td>Per Cost Code Per Return</td>
<td>$2.00</td>
</tr>
<tr>
<td><strong>Contract and Procurement Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAPS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-Tender Management</td>
<td>Per Tenders Managed</td>
<td>$1,200.00</td>
</tr>
<tr>
<td>-Standard RFT</td>
<td>Per Standard RFT</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>-Complex RFT</td>
<td>Per Complex RFT</td>
<td>$3,600.00</td>
</tr>
<tr>
<td>-Assessment/Extension</td>
<td>Per Assessment/Extension</td>
<td>$540.00</td>
</tr>
<tr>
<td>-CAPS Advisory Service</td>
<td>Per No of Paid Employees (pa)</td>
<td>$16.00</td>
</tr>
<tr>
<td>-Caps Whole of Govt Contracts</td>
<td>Per No of Paid Employees (pa)</td>
<td>$16.00</td>
</tr>
<tr>
<td>Couriers/Despatch</td>
<td>Per Drop Off / Pick Up</td>
<td>$6.00</td>
</tr>
<tr>
<td><strong>Human Resource Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ESS System</td>
<td>Per No of Paid Employees (pa)</td>
<td>$345.00</td>
</tr>
<tr>
<td>JES</td>
<td>Per JES/Job Position</td>
<td>$250.00</td>
</tr>
<tr>
<td><strong>Payroll Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-Per Employee Charge</td>
<td>Per No of Paid Employees (pa)</td>
<td>$155.00</td>
</tr>
<tr>
<td>-Per PTR Charge - Auto</td>
<td>Per PTR - Auto</td>
<td>$3.00</td>
</tr>
<tr>
<td>-Per PTR Charge - Manual</td>
<td>Per PTR - Manual</td>
<td>$8.00</td>
</tr>
<tr>
<td>-Commencement / Termination</td>
<td>Per Commencement / Termination</td>
<td>$260.00</td>
</tr>
<tr>
<td>Entry Level Recruitment</td>
<td>Per No of Admin Staff (pa)</td>
<td>$70.00</td>
</tr>
<tr>
<td>Employee Programs</td>
<td>No of Apprentices</td>
<td>$248.00</td>
</tr>
<tr>
<td><strong>Recruitment Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-Per New Starter</td>
<td>Per New Starter</td>
<td>$51.00</td>
</tr>
<tr>
<td>-Per Temporary or Nominal Move</td>
<td>Per Temporary or Nominal Move</td>
<td>$30.00</td>
</tr>
<tr>
<td><strong>Short Course Training</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-Short Course</td>
<td>Per Person / Half Day</td>
<td>$136.00</td>
</tr>
<tr>
<td>-Venue Management - Belvedere House A/IS</td>
<td>Per Half Day</td>
<td>$58.00</td>
</tr>
<tr>
<td>-Venue Management - Belvedere House A/IS</td>
<td>Per Half Day</td>
<td>$120.00</td>
</tr>
<tr>
<td>-Venue Management - Saggroves</td>
<td>Per Half Day</td>
<td>$100.00</td>
</tr>
<tr>
<td>-Venue Management - Timor</td>
<td>Per Half Day</td>
<td>$100.00</td>
</tr>
<tr>
<td>-Venue Management - Frances Bay</td>
<td>Per Half Day</td>
<td>$150.00</td>
</tr>
<tr>
<td>-Venue Management - Katherine Govt Centre</td>
<td>Per Half Day</td>
<td>$90.00</td>
</tr>
<tr>
<td>OHS</td>
<td>Per Hour</td>
<td>$100.00</td>
</tr>
<tr>
<td>Workers Compensation</td>
<td>Per Hour</td>
<td>$85.00</td>
</tr>
<tr>
<td><strong>Archives and Records Management Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Records Policy and Systems</strong></td>
<td>Per No of Paid Employees (pa)</td>
<td>$55.00</td>
</tr>
<tr>
<td><strong>Information and Communication Technology Services</strong></td>
<td>Per No of Desktops (pa)</td>
<td>$100.00</td>
</tr>
<tr>
<td><strong>IT Services Management</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-Contract Services</td>
<td>Per No of Desktops (pa)</td>
<td>$165.00</td>
</tr>
<tr>
<td>-Agency Services</td>
<td>Allocation of FTE - Managers (pa)</td>
<td>$130,000.00</td>
</tr>
<tr>
<td>-IT Services Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-Management</td>
<td>Overheads</td>
<td>3.47%</td>
</tr>
</tbody>
</table>

Appendix 3: Statement of ‘Expenditure By Activity’ (For year ended 30 June 2001).

<table>
<thead>
<tr>
<th>Activity/Program</th>
<th>1999/2000 Expenditure $000</th>
<th>2000/2001 Allocation $000</th>
<th>2000/2001 Expenditure $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXECUTIVE AND SECRETARIAT</td>
<td>3,278</td>
<td>2,681</td>
<td>2,583</td>
</tr>
<tr>
<td>Executive and Secretariat</td>
<td>3,223</td>
<td>2,658</td>
<td>2,560</td>
</tr>
<tr>
<td>Corporate Performance</td>
<td>45</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Community Service Obligations</td>
<td>10</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>HUMAN RESOURCE SERVICES</td>
<td>20,826</td>
<td>21,880</td>
<td>21,612</td>
</tr>
<tr>
<td>Human Resource Support Services</td>
<td>9,907</td>
<td>7,709</td>
<td>7,703</td>
</tr>
<tr>
<td>Human Resource Operations</td>
<td>10,919</td>
<td>14,171</td>
<td>13,909</td>
</tr>
<tr>
<td>FINANCIAL SERVICES</td>
<td>22,011</td>
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<td>Budgets/Commercial</td>
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<td>GAS Support</td>
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<td>6,567</td>
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<td>Contracts &amp; Procurement</td>
<td>2,726</td>
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<td>INFORMATION SERVICES</td>
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<td>Archives</td>
<td>2,183</td>
<td>2,878</td>
<td>2,877</td>
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<tr>
<td>Libraries</td>
<td>13,802</td>
<td>11,727</td>
<td>11,295</td>
</tr>
<tr>
<td>IT/NT</td>
<td>1,645</td>
<td>4,418</td>
<td>4,405</td>
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<tr>
<td>TOTAL EXPENDITURE</td>
<td>63,752</td>
<td>66,298</td>
<td>65,296</td>
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</table>

Appendix 4: Statement of ‘Expenditure by Standard Classification’ (For year ended 30 June 2001).

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
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<tbody>
<tr>
<td>PERSONNEL COSTS</td>
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<tr>
<td>Salaries</td>
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<td>Payroll Tax</td>
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<td>Fringe Benefits Tax</td>
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<td>Superannuation</td>
<td>1,880</td>
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<tr>
<td>Higher Duties Allowance</td>
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<td>703</td>
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<td>Leave Loading</td>
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<td>442</td>
<td>442</td>
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<tr>
<td>Northern Territory Allowance</td>
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<td>228</td>
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<td>Other Allowances</td>
<td>84</td>
<td>82</td>
<td>82</td>
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<tr>
<td>Other Benefits paid by Employer</td>
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<td>324</td>
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<td>Overtime</td>
<td>369</td>
<td>270</td>
<td>270</td>
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<td>Penalties</td>
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<td>4</td>
<td>4</td>
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<td>Perishable Freight Allowance</td>
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<td>0</td>
<td>0</td>
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<tr>
<td>Recreation Leave Fares</td>
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<td>494</td>
<td>494</td>
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<td>Salary Advances</td>
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<td>-4</td>
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<td>Salary Clearing Account</td>
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<td>Termination Payments</td>
<td>1,335</td>
<td>1,153</td>
<td>1,153</td>
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<td>Workers Compensation</td>
<td>819</td>
<td>1,970</td>
<td>1,970</td>
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<tr>
<td>OPERATIONAL EXPENDITURE</td>
<td>921</td>
<td>855</td>
<td>854</td>
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<tr>
<td>NT Govt Repairs and Maintenance Program</td>
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<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Property Maintenance</td>
<td>213</td>
<td>82</td>
<td>82</td>
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<tr>
<td>General Property Management</td>
<td>128</td>
<td>285</td>
<td>285</td>
</tr>
<tr>
<td>Water and Sewerage</td>
<td>578</td>
<td>487</td>
<td>487</td>
</tr>
<tr>
<td>Water and Sewerage</td>
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<td>1</td>
<td>1</td>
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<td>OTHER OPERATIONAL EXPENDITURE</td>
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<td>Advertising</td>
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<td>706</td>
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<td>Audit Fees</td>
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<td>Client Travel</td>
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<td>0</td>
<td>0</td>
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<td>Clothing</td>
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<td>Communications</td>
<td>1,462</td>
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<td>1,201</td>
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<td>Consultants Fees</td>
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<td>317</td>
<td>317</td>
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<tr>
<td>Consumables/General Expenses</td>
<td>371</td>
<td>291</td>
<td>291</td>
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<td>Document Production</td>
<td>100</td>
<td>81</td>
<td>81</td>
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<tr>
<td>Entertainment/Hospitality</td>
<td>4</td>
<td>-1</td>
<td>-1</td>
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<tr>
<td>Food</td>
<td>2</td>
<td>2</td>
<td>2</td>
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<tr>
<td>Freight</td>
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<td>202</td>
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<td>Furniture &amp; Fittings</td>
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<td>198</td>
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<td>Info Technology Services</td>
<td>14,219</td>
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<td>12,675</td>
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<td>Insurance Premiums</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Legal Expenses</td>
<td>23</td>
<td>73</td>
<td>73</td>
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<tr>
<td>Library Services</td>
<td>1,313</td>
<td>1,446</td>
<td>1,446</td>
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<tr>
<td>Marketing &amp; Promotion</td>
<td>47</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td>Medical Supplies</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>-----------------------------------------</td>
<td>-----------------------------</td>
<td>--------------------------</td>
<td>---------------------------</td>
</tr>
<tr>
<td>Membership &amp; Subscriptions</td>
<td>25</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>Motor Vehicle Expenses</td>
<td>370</td>
<td>456</td>
<td></td>
</tr>
<tr>
<td>Office Req &amp; Stationery</td>
<td>389</td>
<td>434</td>
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<tr>
<td>Official Duty Rates</td>
<td>185</td>
<td>216</td>
<td></td>
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<td>Other Plant &amp; Equipment</td>
<td>343</td>
<td>195</td>
<td></td>
</tr>
<tr>
<td>Recruitment Expenses</td>
<td>59</td>
<td>75</td>
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<tr>
<td>Regulatory &amp; Advisory Board Expenses</td>
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<td>2</td>
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<tr>
<td>Relocation Expenses</td>
<td>33</td>
<td>65</td>
<td></td>
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<td>Training &amp; Study Expenses</td>
<td>406</td>
<td>418</td>
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<td>Travelling Allowance</td>
<td>174</td>
<td>162</td>
<td></td>
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<tr>
<td>Bank Charges</td>
<td>168</td>
<td>219</td>
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<td><strong>CAPITAL EXPENDITURE</strong></td>
<td><strong>1,418</strong></td>
<td><strong>419</strong></td>
<td><strong>283</strong></td>
</tr>
<tr>
<td>Construction (Works in Progress)</td>
<td>297</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Purchase of Capital Assets</td>
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<td>283</td>
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<td><strong>GRANTS</strong></td>
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<tr>
<td>Capital Grants</td>
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<td>0</td>
<td></td>
</tr>
<tr>
<td>Current Subsidies</td>
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<td>0</td>
<td></td>
</tr>
<tr>
<td>Community/Govt Service Obligations</td>
<td>10</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL EXPENDITURE</strong></td>
<td><strong>63,752</strong></td>
<td><strong>66,298</strong></td>
<td><strong>65,296</strong></td>
</tr>
</tbody>
</table>

Appendix 5: Statement of ‘Receipts By Account’ (For Year Ended 30 June 2001).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nil</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total Consolidated Revenue Account</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Charges for Goods and Services</td>
<td>7,842</td>
<td>8,162</td>
<td>8,728</td>
</tr>
<tr>
<td>Miscellaneous Revenue</td>
<td>118</td>
<td>167</td>
<td>167</td>
</tr>
<tr>
<td>Sale of Assets</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Intrasector Receipts</td>
<td>125</td>
<td>30</td>
<td>24</td>
</tr>
<tr>
<td>GST Control</td>
<td>-27</td>
<td>-450</td>
<td>144</td>
</tr>
<tr>
<td>Total Operating Account</td>
<td>8,066</td>
<td>7,909</td>
<td>9,065</td>
</tr>
</tbody>
</table>

| Transfers from Consolidated Revenue Account | 56,671 | 56,362 | 56,362 |
| Total Receipts to Agency Operating Account | 64,737 | 64,271 | 65,427 |

Appendix 6: Statement of ‘Reconciliation To Treasurer's Annual Financial Statement’ (For year ended 30 June 2001).

<table>
<thead>
<tr>
<th>Outlays and Receipts</th>
<th>Expenditure and Receipts Schedules $000</th>
<th>Adjustments $000</th>
<th>Treasurer's Annual Financial Statement (Schedule 1.4) $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outlays by Activity</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Executive and Secretariat</td>
<td>2,583</td>
<td></td>
<td>2,583</td>
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<tr>
<td>Human Resource Services</td>
<td>21,612</td>
<td></td>
<td>21,612</td>
</tr>
<tr>
<td>Financial Services</td>
<td>22,524</td>
<td></td>
<td>22,524</td>
</tr>
<tr>
<td>Information Services</td>
<td>18,577</td>
<td></td>
<td>18,577</td>
</tr>
<tr>
<td><strong>Total Outlays</strong></td>
<td><strong>65,296</strong></td>
<td><strong>0</strong></td>
<td><strong>65,296</strong></td>
</tr>
<tr>
<td>Receipts by Source</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charges for Goods and Services</td>
<td>8,728</td>
<td></td>
<td>8,728</td>
</tr>
<tr>
<td>Miscellaneous Revenue</td>
<td>167</td>
<td></td>
<td>167</td>
</tr>
<tr>
<td>Sale of Assets</td>
<td>2</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Intrasector Receipts</td>
<td>24</td>
<td></td>
<td>24</td>
</tr>
<tr>
<td>GST Control</td>
<td>144</td>
<td></td>
<td>144</td>
</tr>
<tr>
<td><strong>Total Receipts</strong></td>
<td><strong>9,065</strong></td>
<td><strong>0</strong></td>
<td><strong>9,065</strong></td>
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<tr>
<td>Use of Balances</td>
<td>56,231</td>
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<td>56,231</td>
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</table>

Appendix 7: Statement of ‘Accountable Officer's Trust Account’ (For year ended 30 June 2001).

<table>
<thead>
<tr>
<th>Nature of Trust Money</th>
<th>Opening Balance 1 July 2000 $000</th>
<th>Receipts $000</th>
<th>Payments $000</th>
<th>Closing Balance 30 June 2001 $000</th>
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</thead>
<tbody>
<tr>
<td><strong>External Organisations Salaries Trust Account</strong></td>
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<td>-2</td>
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<tr>
<td><strong>Superannuation Holding Fund</strong></td>
<td>159</td>
<td>501</td>
<td>565</td>
<td>95</td>
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<tr>
<td><strong>Contract Officers Holding Fund</strong></td>
<td>103</td>
<td>9,250</td>
<td>9,208</td>
<td>145</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>260</strong></td>
<td><strong>9,751</strong></td>
<td><strong>9,771</strong></td>
<td><strong>240</strong></td>
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Appendix 8: Statement of ‘Creditors And Accruals’ (As At 30 June 2001).

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<th>Activity</th>
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<th>Intrasector</th>
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<th></th>
<th>Total</th>
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<tbody>
<tr>
<td></td>
<td>Creditors</td>
<td>Accruals</td>
<td>Total</td>
<td>Creditors</td>
<td>Accruals</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>Executive and Secretariat</td>
<td>$000</td>
<td>$000</td>
<td>$000</td>
<td>$000</td>
<td>$000</td>
<td>$000</td>
<td>$000</td>
</tr>
<tr>
<td>Human Resource Services</td>
<td>36</td>
<td>59</td>
<td>95</td>
<td>59</td>
<td>136</td>
<td>195</td>
<td>290</td>
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<tr>
<td>Financial Services</td>
<td>220</td>
<td>345</td>
<td>565</td>
<td>16</td>
<td>65</td>
<td>81</td>
<td>646</td>
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<td>381</td>
<td>473</td>
<td>37</td>
<td>66</td>
<td>103</td>
<td>576</td>
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<tr>
<td>TOTAL</td>
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<td>1007</td>
<td>1500</td>
<td>132</td>
<td>327</td>
<td>459</td>
<td>1959</td>
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 Classified as:

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<th>Non Current</th>
<th>TOTAL</th>
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<td></td>
<td>493</td>
<td>1007</td>
<td>1500</td>
</tr>
<tr>
<td></td>
<td>132</td>
<td>327</td>
<td>459</td>
</tr>
<tr>
<td></td>
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<td>1959</td>
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</table>


<table>
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<th>ENTITLEMENT</th>
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<tr>
<td>Recreation Leave</td>
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<td>Recreation Leave Fares</td>
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Appendix 10: Example of Budget Statements before WFO framework – ‘Gross Outlays’.

### GROSS OUTLAYS

<table>
<thead>
<tr>
<th>ACTIVITY/Program</th>
<th>1997-98 AVERAGE PAID STAFF</th>
<th>1996-97 ESTIMATED ACTUAL</th>
<th>1997-98 BUDGET</th>
<th>VARIATION</th>
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<tr>
<td>ORGANISATIONAL SUPPORT</td>
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<td>22 127</td>
<td>23 865</td>
<td>1 538</td>
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<tr>
<td>Executive and Support</td>
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<td>2 058</td>
<td>2 183</td>
<td>125</td>
</tr>
<tr>
<td>Corporate Services</td>
<td>348</td>
<td>20 089</td>
<td>21 482</td>
<td>1 413</td>
</tr>
<tr>
<td>ACUTE CARE</td>
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<td>91 113</td>
<td>94 887</td>
<td>3 774</td>
</tr>
<tr>
<td>Royal Darwin Hospital</td>
<td>1 171</td>
<td>91 113</td>
<td>94 887</td>
<td>3 774</td>
</tr>
<tr>
<td>OTHER ACUTE CARE</td>
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<td>69 555</td>
<td>74 500</td>
<td>2 913</td>
</tr>
<tr>
<td>Katherine Hospital</td>
<td>160</td>
<td>10 830</td>
<td>11 187</td>
<td>357</td>
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<tr>
<td>Gove District Hospital</td>
<td>110</td>
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<td>6 901</td>
<td>870</td>
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<tr>
<td>Tennant Creek Hospita</td>
<td>69</td>
<td>5 211</td>
<td>5 300</td>
<td>80</td>
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<td>Alice Springs Hospital</td>
<td>586</td>
<td>44 051</td>
<td>46 190</td>
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<tr>
<td>PUBLIC HEALTH</td>
<td>379</td>
<td>40 645</td>
<td>48 837</td>
<td>- 1 268</td>
</tr>
<tr>
<td>Public Health Services</td>
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<td>16 219</td>
<td>- 2 340</td>
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<td>81</td>
<td>6 491</td>
<td>5 400</td>
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<tr>
<td>Alcohol and Other Drugs</td>
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<td>13 048</td>
<td>15 267</td>
<td>2 210</td>
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<tr>
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<td>2 493</td>
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<td>60 488</td>
<td>2 724</td>
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<tr>
<td>Mental Health Services</td>
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<td>11 723</td>
<td>791</td>
</tr>
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<td>Family, Aged and Disability Services</td>
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<td>46 882</td>
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<td>PRIMARY HEALTH CARE</td>
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<td>153</td>
<td>20 339</td>
<td>24 256</td>
<td>3 917</td>
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<td>Primary Health Care - Rural</td>
<td>372</td>
<td>54 376</td>
<td>58 694</td>
<td>4 318</td>
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<td><strong>TOTAL</strong></td>
<td><strong>3 811</strong></td>
<td><strong>360 455</strong></td>
<td><strong>376 693</strong></td>
<td><strong>16 228</strong></td>
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</table>

Source: DHCS’ 1997-98 Budget.
Appendix 11: Example of Budget Statements before WFO Framework –
‘Gross Outlays and Receipts’.

**GROSS OUTLAYS AND RECEIPTS**

<table>
<thead>
<tr>
<th></th>
<th>1997-98 AVERAGE</th>
<th>1996-97 ESTIMATED</th>
<th>1997-98 BUDGET</th>
<th>VARIATION</th>
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<tr>
<td><strong>OUTLAYS FROM PUBLIC ACCOUNT</strong></td>
<td>$000</td>
<td>$000</td>
<td>$000</td>
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<td>376 693</td>
<td>16 228</td>
<td></td>
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<td><strong>OUTLAYS BY CATEGORY OF COST</strong></td>
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<td></td>
<td></td>
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<td>Personnel Costs</td>
<td>3 811</td>
<td>369 465</td>
<td>376 693</td>
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<td>5 342</td>
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<td>64 223</td>
<td>1 561</td>
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<td></td>
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<tr>
<td>Advances</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>RECEIPTS INTO PUBLIC ACCOUNT</strong></td>
<td>135 279</td>
<td>128 924</td>
<td>6 355</td>
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<td>Consolidated Revenue Account</td>
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<td>126 524</td>
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<tr>
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<td>128 924</td>
<td>6 355</td>
<td></td>
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<td>14 695</td>
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<td>Advances Received</td>
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<td>244 630</td>
<td>27 365</td>
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<td>7 913</td>
<td>3 131</td>
<td>- 4 782</td>
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\[(a) OPENING BALANCE\] 10 829 8 045 2 784

\[CLOSING BALANCE\] -8 046 -4 915 3 131

Source: DHCS’ 1997-98 Budget.
Appendix 12: Example of Budget Statements before WFO Framework – ‘Expenses and Appropriation Summary’.

EXPENSES AND APPROPRIATION SUMMARY

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<td>55 055</td>
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<td>Mental Health Services</td>
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<td>25 750</td>
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<td>Health Research</td>
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<td><strong>635 362</strong></td>
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<tr>
<td>Depreciation and Amortisation</td>
<td>16 635</td>
<td>17 350</td>
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<tr>
<td>DCIS Services Free of Charge</td>
<td>21 513</td>
<td>21 571</td>
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<tr>
<td>Agency Revenue (a)</td>
<td>166 759</td>
<td>158 272</td>
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<td>2 420</td>
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<td><strong>equals</strong></td>
<td><strong>Output Appropriation</strong></td>
<td><strong>410 085</strong></td>
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<td><strong>Capital Expenditure</strong></td>
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<td></td>
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<tr>
<td>less</td>
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<td></td>
</tr>
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<td>3 023</td>
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<td>Use of Cash Balances</td>
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<td>5 269</td>
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<td><strong>equals</strong></td>
<td><strong>Capital Appropriation</strong></td>
<td><strong>4 629</strong></td>
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Source: DHCS’ 2004-05 Budget.
Appendix 13: Example of Budget Statements after WFO Framework –
‘Statement of Financial Performance’.

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<td><strong>OPERATING REVENUE</strong></td>
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<tr>
<td>Grants and Subsidies</td>
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<td></td>
</tr>
<tr>
<td>Current</td>
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<td>132 295</td>
</tr>
<tr>
<td>Capital</td>
<td>6 057</td>
<td>5 167</td>
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<tr>
<td>Sales of Goods and Services</td>
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<tr>
<td>Output Revenue</td>
<td>410 085</td>
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<td>Other Agency Revenue</td>
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<tr>
<td>Goods and Services Received Free of Charge</td>
<td>21 513</td>
<td>21 571</td>
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<tr>
<td>Profit/Loss on Disposal of Assets</td>
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<td><strong>TOTAL OPERATING REVENUE</strong></td>
<td>598 357</td>
<td>615 592</td>
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| **OPERATING EXPENSES**         |                  |               |
| Employee Expenses              | 307 635          | 323 146       |
| Administrative Expenses        |                  |               |
| Purchases of Goods and Services| 156 644          | 162 090       |
| Repairs and Maintenance        | 8 132            | 7 556         |
| Depreciation and Amortisation  | 16 635           | 17 350        |
| DCIS Services Free of Charge   | 21 513           | 21 571        |
| Other Administrative Expenses  |                  |               |
| Grants and Subsidies           |                  |               |
| Current                        | 95 512           | 99 108        |
| Capital                        | 3 115            | 2 047         |
| Community Service Obligations  | 2 488            | 2 488         |
| Interest Expense               | 20               | 6             |
| **TOTAL OPERATING EXPENSES**   | 611 694          | 635 362       |

| **NET OPERATING SURPLUS**      | -13 337          | -19 770       |

| **AGENCY REVENUE FOR APPROPRIATION PURPOSES** | 166 759 | 158 272 |

Source: DHCS’ 2004-05 Budget.

<table>
<thead>
<tr>
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<th>2003-04 Estimate</th>
<th>2004-05 Budget</th>
</tr>
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<td>4 809</td>
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<td>4 525</td>
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<td>Advances and Investments</td>
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<td>631</td>
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<td>Land and Improvements</td>
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<td>346 055</td>
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<td>47 282</td>
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<td><strong>NET ASSETS</strong></td>
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<td>331 201</td>
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<tr>
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<td>376 515</td>
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<td>695</td>
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<td>- 32 502</td>
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<td>- 19 770</td>
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<td><strong>TOTAL EQUITY</strong></td>
<td>350 276</td>
<td>331 201</td>
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Source: DHCS’ 2004-05 Budget.
Appendix 15: Example of Budget Statements after WFO Framework –

‘Statement of Cash Flows’.

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<th>Source: DHCS' 2004-05 Budget.</th>
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<th>Operating Receipts</th>
<th>2003-04 Estimate</th>
<th>2004-05 Budget</th>
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<td>132 295</td>
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<td>Capital</td>
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<tr>
<td>Sales of Investments</td>
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<td><strong>Equity Injections</strong></td>
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<td>Capital Appropriation</td>
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<tr>
<td>Other Equity Injections</td>
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<tr>
<td><strong>Total Financing Receipts</strong></td>
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<td>695</td>
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<thead>
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<th>2004-05 Budget</th>
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<th>Net Increase in Cash Held</th>
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<th>Cash at Beginning of Financial Year</th>
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<th>CASH AT END OF FINANCIAL YEAR</th>
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<td>16 314</td>
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</table>


Public Financial Management, (pp. 49-75). Oslo: Cappelen, Akademisk Forlag.


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