INSTITUTIONAL FOUNDATIONS FOR PERFORMANCE BUDGETING: THE CASE OF THE GOVERNMENT OF CANADA

CCAF-FCVI INC

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In the spring of 2008 the World Bank commissioned CCAF to produce this overview of the Government of Canada's redesigned expenditure management system. The Bank was particularly interested the Canadian government's generation and use of performance information in the resource allocation and reallocation process.

The World Bank is now preparing this paper for publication. It complements an article written by Lee McCormack in 2007 for the OECD entitled *Performance Budgeting in Canada*.[1]

The paper reproduced here was presented to a World Bank conference of Latin American countries in Mexico City in June 2008. Since then, the world economic outlook and the fiscal outlook of many governments has worsened. The Government of Canada's redesigned expenditure management system will be severely tested in the future and it will be interesting to see how it performs, and evolves, in these challenging times.

CCAF acknowledges the support of the World Bank and the Treasury Board Secretariat and appreciates the opportunity to share this paper with its members.

[1] *Published in Performance Budgeting in OECD* Countries, OECD Publishing, 2007, and in the OECD Journal on Budgeting (2007, Vol 7, No 4).

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Introduction

Moving to a Performance Informed Expenditure Management System

In 2007, the Canadian Government introduced a new expenditure management system designed to be more performance based and improve value for money in program spending. This redesign is occurring not, as is typically the case, during a period of fiscal difficulty – but rather, after a long period of budget surpluses.

This paper describes the changes underway in expenditure management, and the challenges faced by the public service, as it adjusts to produce the program performance information demanded by this new system. The paper outlines what Canada wants to achieve with its new system, and the steps it is taking to build the capacity necessary to support it. The paper also identifies lessons learned to date that could be used by other countries.

The paper is structured into three parts:

- Part I describes the institutional roles of the main players in the Government's expenditure management system. It also describes the main features of the new system.
- Part II deals with capacity – the steps being taken to produce the performance information required to drive the new system, and improve reporting to Parliament.
- Part III discusses lessons-learned and answers specific questions of interest.

In certain cases, where specific questions can be anticipated, special text boxes have been inserted into the text and those questions are answered directly.

PART I
INSTITUTIONAL ROLES IN THE EXPENDITURE MANAGEMENT SYSTEM

OVERVIEW

The Government of Canada has a long history of producing and using performance information, since the first formal program evaluations were produced in the late 1970's and early 1980's. Information on results has been used in two main ways, first to support internal management in departments, and second to support reporting from the Government to Parliament.

Very early in the new century, certain changes began to occur. First, in 2001 the Treasury Board (a statutory committee of Cabinet) began to require that each of several hundred Grant and Contribution programs be renewed by the Board every five years – and that program evaluations be used to support this process.[1] More recently, in 2007, the Government introduced a new "strategic review" process. Strategic reviews assess large amounts of direct program spending each year and are likely to substantially increase the demand for performance information to inform budget-related decision-making.

The 2006 and 2007 Federal Budgets made a major difference – the government announced its intention to redesign its expenditure management system to make it more performance based. This redesign is now well under way and we are able to draw lessons from what has worked so far, and what still needs to be done, to make this new system work better.

FEDERAL-PROVINCIAL RELATIONSHIPS, BUDGET SIZE AND THE FEDERAL PUBLIC SERVICE

Measured by landmass, Canada is the world's second largest country, but has a population of only 33 million people.[2] It is a decentralized federation of ten provinces and three territories. Provincial governments are legally equal to the federal government and have significant power, including the power to tax citizens.[3] Areas of responsibility are set out constitutionally – for example, health and education fall under provincial authority, while defence is a federal matter.

[1] Roughly 700 of the government's 2,500 programs deliver Grants and Contributions. These programs provide funding to third parties (often not-for-profit organizations) to achieve Government objectives.

[2] Statistics Canada Daily, Canada's Population Estimates, March 27, 2008.

[3] The proportion of total taxes attributable to the federal government and the provinces is a matter of Federal-Provincial agreement.

In practice the federal and other governments work together through intergovernmental agreements, and much federal spending takes the form of transfer payments. The federal government makes transfers to the provinces to support health care, post-secondary education and other social services. Other federal transfer payments go directly to persons – for example, payments for Old Age Security and employment insurance.

In a typical year, federal Budget expenses exceed $220B, with major transfers and direct program spending accounting for roughly $100B each.[4] As a result, the federal government focuses its performance measurement effort on direct program spending (including transfers to individuals), leaving the provinces to report to citizens on the rest. This direct program spending is managed by about 90 federal departments and agencies, and comprises about 400 program activities (similar to business lines) and about 2,500 individual programs.[5]

In 2007, the Canadian federal public service included about 255,000 employees with an average age of 44 years. About 55% of them are women, 70% English, 30% French and 60% work in the regions (i.e., not headquarters). From 1983 to 2007, real GDP in Canada increased 104%, real federal program spending by 32%, the Canadian population by 30% and the size of the public service by 1.5%. Essentially, over a quarter century period, the proportion of GDP accountable to federal spending has decreased, the size of the public service has remained unchanged, while federal spending per employee has increased substantially.[6]

[4] Transfers are a larger than is direct program spending. The remainder goes to interest on the national debt. Unless otherwise stated, all financial numbers are in $Can, roughly at par with $US at the time of writing.

[5] A program is a managed, budgetary unit of at least $1 million, having a common set of activities, outputs and expected results.

[6] Fifteenth Annual Report of the Clerk of the Privy Council, Presentation Annex, p.2. Privy Council Office, March, 2008. The total employee count does not include uniformed members of the military and federal police.

Question:
Isn't this too complicated? Why does the Federal government not measure the performance of its transfers to the provinces? Why are there so many strategic outcomes in the Federal government?

Answer:
Every country makes choices, and consistent with the Canadian Constitution, federal-provincial relations in Canada are complex. Because the Constitution establishes areas of authority for provincial governments, but also allows the federal government to spend in those areas, there are many Federal-Provincial agreements in Canada. For example, when the Federal Government spends in a social area of provincial jurisdiction (e.g., education or health), a Social Union Framework Agreement calls for the province to account directly to citizens for performance, not back to the Federal Government. However, when the Federal Government provides grants directly to citizens (e.g., employment insurance), it manages the program directly and evaluates its performance. The general rule is if the Government of Canada owns and manages the program, it evaluates it.

Out of the 90 federal departments and agencies, over 50 are small agencies with one strategic outcome and business line. The remaining large departments tend to have between one and three strategic outcomes, which seems reasonable for large entities. The mean expenditure per strategic outcome is over $1B.

The aim is performance-informed budgeting and reporting

Historically, Canada's budget making has been incremental – that is, annual increases in the government's planned spending were added without reference to the performance of existing programs in the base. On occasion, when expenditures grew out of proportion with revenues (and unacceptable deficits were experienced), the government would embark on ad hoc expenditure reviews aimed at reductions.[7] While this very centralized expenditure management system was effective during periods of fiscal restraint, an improved fiscal situation over more than ten years has resulted in an increase in sustainable levels of program spending, and the sense that programs are not achieving sufficient results.

[7] The most famous of these cases, the two "program review" exercises of the mid to late 1990's, are profiled later in this paper.

The OECD places countries in the performance budgeting spectrum under three categories:

- **Presentational performance budgeting** – performance information is found in government documents but has little or no role in decision-making;
- **Performance-informed budgeting** where performance information is important in budget decision-making, but it does not determine budget allocations and it does not have a predefined weight in the decisions; and
- **Direct performance budgeting,** a rare phenomenon where performance metrics actually determine budget allocations (this is used only in a few OECD countries in a limited number of sectors).[8]

Canada fits squarely in the performance informed budgeting category. In the federal government, the aim is to generate program performance information for use throughout the management cycle – from planning, through program management, to resource allocation and reallocation, to public performance reporting.

Canada does not expect to achieve "direct performance budgeting" in the literal sense that budget decisions are largely based on performance metrics. Rather, the aim is to provide performance information to senior officials to support them as they make Budget-related decisions. Performance information also continues to factor directly into all departmental and central agency performance reports to Parliament.[9]

In summary, although the Government of Canada has had success since the early 1980's in generating program evaluation and other performance information, the use of that information had been focused mostly on supporting management improvement in departments and performance reporting to Parliament. More recently however, performance information has begun to factor directly into decision-making in support of the annual February Budget – something that encourages departments to strengthen their performance measurement and evaluation capacities.

[8] OECD Policy Brief on Performance Budgeting: A User's Guide, OECD, 2008, p.2.

[9] The Government submits performance-based plans and performance reports for all its departments in the spring and fall of each year. This process is described later in the paper.

MAIN PLAYERS IN THE EXPENDITURE MANAGEMENT SYSTEM

The Expenditure Management System guides resource allocation and reallocation, and includes all processes intended to support fiscal discipline, the design and approval of programs and the reporting of results. Six main players make this system work.[10]

- **Parliament** authorizes the Government to spend, either through statutory program legislation or through a more general Appropriation Act. Parliament and its committees oversee Government performance and can call Ministers and senior officials to account for performance in their areas of responsibility. For non-statutory programs, the Government cannot spend until an Appropriations Bill is prepared by the Treasury Board and enacted by Parliament.[11]

- A **Cabinet** of elected officials is drawn from the dominant party in Parliament and allocates resources to policy priorities as outlined in the annual *Budget* and reflected in the fiscal framework (the planned spending base of the Government). Cabinet is divided into several committees, one of which (Priorities and Planning) is chaired by the Prime Minister and plays a strong role in budget making.

- The **Department of Finance** establishes tax policies and prepares the *Budget*. In a typical year, the Budget arrives in Parliament each February and includes the fiscal plan (projected revenues and planned spending) for the fiscal year starting on April 1. Following discussions in the Priorities and Planning Committee over the fall and winter (including briefings on strategic reviews coordinated by the Treasury Board), the Minister of Finance and the Prime Minister make final decisions on the annual Budget.

- The **Treasury Board**, a committee of Cabinet supported by a **Secretariat** and other agencies, oversees the approval by Parliament of the annual spending authority (the "Estimates" process) and acts as the government's management board. The Board sets standards for departmental performance reporting, and produces whole of government performance plans and reports. Treasury Board also assesses the management capacity of departments, and sets government-wide administrative

[10] Annex A provides a summary chart on the roles and responsibilities of the main players.

[11] For non-statutory spending, Parliamentary authority lasts for one year only, and must be renewed. Non-statutory money left unspent in a departmental budget generally disappears or "lapses" at the end of a fiscal year, and must be renewed in the next Appropriation Act.

policies. Finally, the Secretariat manages the strategic review process – an annual event that identifies opportunities to reallocate from low to higher program priorities within the existing program base. Each winter, the results of these reviews are briefed to the Cabinet Committee on Priorities and Planning, and those results factor into the preparation of the February Budget.

- The **Privy Council Office (PCO)** manages Cabinet's agenda, communicates Cabinet decisions, and performs a challenge role on departmental memoranda to Cabinet (proposals) seeking changes in the government's program structure. Current changes, now being implemented, call for departments to situate their proposals in a discussion of the performance of programs that already exist. Because PCO is the "gatekeeper" for new policies or programs coming before Cabinet, there is close liaison between PCO, Treasury Board and Finance officials prior to and following Cabinet meetings.
- **Departments** develop policy options and program proposals, and manage program delivery. They report to Parliament through the *Estimates* process and are responsible for evaluating program performance and effectiveness.[12] The Government has roughly 90 departments and agencies delivering about 2,500 individual programs. Each year, 25% of the Government's direct program spending is reviewed under the strategic review process coordinated by the Treasury Board Secretariat.

In practice, the three central agencies (Finance, Treasury Board Secretariat and the Privy Council Office) coordinate decision making in the government's expenditure management system. Finance officials prepare the Budget for Parliament's consideration in February and advise on new spending proposals. Finance also manages the Government's fiscal framework. Treasury Board officials shepherd the Estimates through Parliament, manage the strategic reviews – and work with departments to improve performance measurement and reporting to Parliament. The Privy Council Office acts as a gate-keeper to Cabinet for the consideration of new program proposals that might impact future spending. **Not surprisingly, designated officials of the three central agencies work daily and closely on all aspects of expenditure management.**

[12] In the spring, each department produces a Report on Plans and Priorities that is Tabled in Parliament by the Treasury Board Minister and reviewed by parliamentary committees prior to the approval of an Appropriation Act. Each fall, the same departments produce a Departmental Performance Report for review by parliamentary committees.

Question:
Do programs receive a multi-year spending authority from Parliament? What is the idea behind the "fiscal framework managed by the Department of Finance"? Does Canada have accrual budgeting?

Answer:
Parliament normally provides a one-year spending authority for Government programs through an Appropriation Act. (The fiscal year begins on April 1 and ends on March 31). At the end of each fiscal year, these appropriated spending authorities "lapse" and must be renewed. However, certain large programs (e.g., employment insurance) are established by special Acts of Parliament, and have multi-year spending authority. These statutory programs tend to be in areas of major national importance (e.g., the Canada Health Act) where authorities and accountability conditions are enshrined by Parliament in law.

Even though most programs receive only a one-year spending authority from Parliament, the Department of Finance maintains a multi-year fiscal framework within which departments plan their spending for the coming fiscal year and beyond. A small number of programs are "sun-setters" and must be reconfirmed periodically by the government in order to remain in the framework. In practical terms, departments have enough certainty to plan their spending on a multi-year basis, even though Parliament approves most of their budgets annually. The fiscal framework is adjusted each year in the Budget, normally brought to Parliament in February. Canada's new expenditure management system, first used in 2007, now calls for strategic reviews to occur annually on 25% of direct program spending, including the administrative aspects of statutory spending. The results of these strategic reviews are factored into Budget planning and therefore, influence the fiscal framework.

Currently, the Federal Government's Budget and Public Accounts are produced on an accrual basis, but the spending Estimates put before Parliament are produced on a modified cash basis. The Government is studying ways to present accrual-based information in the Estimates, something that has been recommended by the Auditor General.

Program review in the 1990's helped to eliminate the deficit – but it was not results-informed

By 1993 the federal deficit had climbed to over $40B and the public debt was almost $460B ($Can, 1993). This was not sustainable and the government announced its intention to dramatically reduce program expenditures – a process that occurred in two "program review" exercises from roughly 1993 to 1999.

Program review in the 1990's was driven by the three central agencies, and involved expenditure targets for each department – and substantial involvement of a special committee of Ministers created under order of the Prime Minister. While the program review era was successful in eliminating deficits (Canada has had over a decade of consecutive surpluses since), there were certain unintended impacts.

For example, the major cuts of the 1990's weakened important administrative functions (audit, evaluation, and human resource and financial management), they failed to rationalize government programs delivered by departments operating in a common area ("horizontal programs" in Canadian parlance), and they were not results-based. That is, the program cuts were not based as much on performance information as they were on general ease of making one cut, as opposed to another.

Since 2000, and with the publication of the *Results for Canadians* management framework, the Government of Canada has put a much greater focus on building capacity to produce and use performance information.[13] Although there are still weaknesses in performance measurement capacity (see Part II), a foundation exists to support the Government's commitment to revamp its expenditure management system, and place it on more of a results basis.

Reasons for redesigning the previous expenditure management system

The expenditure management system in place from the late 1990's to 2007 had three main flaws:

First, **the Government was not systematically considering the full range of related spending when looking at new spending proposals.**

[13] See, *Results for Canadians, a Management Framework for the Government of Canada*, available on the Treasury Board of Canada web site.

Decisions were not supported by information on planned and actual results and there was a reliance on incremental spending, as opposed to reallocation within the ongoing program base.

Second, **spending needed to be better aligned with the Government's priorities.** The Government lacked a complete inventory of all its programs – including how they were aligned to Government-approved strategic outcomes in each of the 90 departments.[14]

Third, **the previous system lacked a way to assess the relative values of programs in the ongoing expenditure base.** The new strategic review cycle focuses on program relevance and performance, a crucial input to the ongoing alignment of resources with priorities. The main elements of this renewed system have been tested in 2007 during the first strategic review cycle, and are being retested in 2008 as the Government embarks on its second cycle.

HOW THE STRATEGIC REVIEWS WORK

The new system features an annual strategic review of 25% of the Government's direct program spending – a major shift from the past. The underlying aim is to achieve results and ensure value for money in the ongoing program base.[15]

Departmental review teams are responsible for doing all program performance analysis, and a senior official of the Treasury Board Secretariat is normally involved, usually as a member of the project steering committee. This helps to keep the review on track and reduces the likelihood that unacceptable recommendations will be put forward.

All analysis is based on the department's program activity architecture (PAA), a logical alignment that sets out the inventory of all programs, and links each program to strategic outcomes approved by the Treasury Board. Once fully developed, the departmental PAA also includes a performance measurement framework consisting of expected results and measures for each program. (The development of these PAAs is discussed in Part II.)

[14] This inventory and alignment has now been done, but work remains to upgrade information systems in departments and central agencies and to improve performance measures for all programs. (Part II identifies capacity building issues.)

[15] The initial set of reviews in 2007 was considered a trial run and covered $13.6B, or about 15% of direct program spending.

Program performance information (generated by departments) is used to identify well performing initiatives, as well as the lowest performing 5% of program expenditures.

All information is provided by departments to the Treasury Board Secretariat using common templates that assess each program against a number of criteria including expected and actual results, planned and actual spending, relevance, related programs, instrument choice, substantiation of value for money, and description of management performance.

For programs identified as the lowest priority 5% of spending, departments again use common templates to identify options, proposed reductions, the impacts of those reductions, and the overall implementation strategy, including recommended communications "messaging." Potential impacts on employees, in regions, in respect of federal-provincial relations, and several other matters are considered – and impacts are rated on a three-point high, medium, low scale.

The cycle begins each spring and chosen departments provide an interim report to the Treasury Board Secretariat, usually within two months of the start. The Secretariat provides feedback on the quality of the analysis, and any matters of particular concern, for example if a department is clearly misrepresenting the content or quality of program performance information.[16]

Departmental Ministers are closely involved in reviewing the analysis and recommendations – and the Deputy Minister (the most senior public service official) and the Minister sign off on all material submitted to the Treasury Board. The process also requires that each review team obtain the input of outside experts acceptable to the Minister. Those experts may also provide written advice directly to the Minister on any matter that they consider to be of importance.

Following the Minister's sign off, both the Minister and the Deputy present their analysis (including options for reallocation) to the Treasury Board, a committee of Ministers that has both budgetary and management improvement responsibilities.[17] Treasury Board (supported by its Secretariat) then makes recommendations for reallocation to the

[16] The Secretariat does an internal assessment of the content and quality of all program evaluations and other performance information relevant to the department in question. This supports an ability to professionally "challenge" the recommendations.

[17] See earlier section on roles and responsibilities.

Cabinet Committee on Priorities and Planning, chaired by the Prime Minister. Each winter, the resulting recommendations are fed into the Budget making process, led by the Prime Minister and the Minister of Finance, and the Budget is presented to Parliament (normally in February).

The first round of reviews was briefed to Cabinet in the winter of 2007 and covered roughly $14B in direct program spending in 17 organizations. A bit less than $400M in expenditures were reallocated from lower to higher priorities, and announced in the February 2008 Budget. Some of this $400M was reinvested in a way to increase a department's annual budget – for example significant amounts were reallocated to the Food Safety Action Plan (over $115M in the next three years). By the same token, certain initiatives (e.g., statistical research) were reduced by over $50M in the same three-year period.

The second round of strategic reviews is currently underway and covers 21 organizations, with program spending of about $24B. In this 2008-09 round, the government is also beginning to review internal program spending – for example, the 6 agencies currently delivering programs related to human resources management in the government are being reviewed as a group. It is likely that significant operational efficiencies will be identified and fed into the process leading to the February 2009 Budget.

Question:
Is this system flawed? Why would any department identify the lowest performing 5% of its programs? Why wouldn't officials "game" the system by identifying the favorite programs of the government, knowing that those programs would be saved?

Answer:
There are several reasons why "gaming" the system may not be an effective strategy:

- The strategic review approach is strongly supported by the Prime Minister.
- There is substantial oversight. Treasury Board Secretariat officials monitor the strategic reviews, review draft reports, and are fully aware of the department's program structure (Secretariat officials involved in program expenditure analysis are assigned – as part of their jobs – to the 90 departments and agencies, and are aware of "gaming' possibilities).
- Deputy Ministers and other departmental officials would be advised by the Secretariat to reconsider any manipulative recommendations.
- Treasury Board Secretariat and the Privy Council Office influence the performance appraisals (and performance pay) of Deputy Ministers and "gaming" would be considered in this context.
- Ministers and Deputy Ministers must present the recommendations of their reviews to the Treasury Board (a statutory committee of Cabinet). The Secretariat thoroughly assesses the material in advance of the meeting and briefs the Chair, identifying any areas of contention.
- Finally, since the system requires departments to identify their lowest priority 5% of expenditures, it is not uncommon for departments to actually "play it straight" and identify those programs that they feel provide lower value for money.

As can be inferred from Part I, the new expenditure management system is built on three pillars:

1. Up-front Discipline on spending proposals for new programs;
2. Strategic Reviews of the ongoing program base; and
3. Managing to Results.

Up-front Discipline

To manage overall spending growth and improve value for money, the government is now anchoring new spending proposals in Ministerial Mandate Letters. In these letters the Prime Minister gives Ministers a set of management priorities along with guidance on priorities for expenditure. In addition, all new program spending proposals brought to the Privy Council (Cabinet) Office for consideration by Cabinet now require information about how the proposal fits with existing spending. As a result, the Privy Council Office, in cooperation with the other two central agencies, is creating a demand for improved analytical and performance planning in departments.

Ongoing Strategic Reviews

As noted, departments must now undertake strategic reviews of their program spending and the operating costs of major statutory programs[18] to assess how and whether these programs meet government priorities. The choice of which departments to review each year is considered by Cabinet, and the Prime Minister makes the decision. Reviews must demonstrate whether programs provide value for money, through assessment of program relevance, effectiveness and efficiency. Departments must identify low-priority (and low-performing programs) totaling 5% of their direct program spending and Cabinet then considers options for the future use of those funds, including reallocation inside or outside the department.

[18] Statutory expenditures are those already authorized by Parliament through existing enabling legislation.

Managing to Results

The Government has announced that departments will drive toward achieving results for Canadians. This means that all programs and spending will:

- Have clear expected results and measures of success;
- Be formally assessed and evaluated on a regular basis; and
- Report on results expected and achieved.

These three pillars require the capacity and intention to focus on program performance, relevance, and alignment, not just on dollars spent. **Do departments now have the capacity to manage to results as defined above? The answer is "partly," but there is more work to be done.**

Capacity development issues

The implementation of strategic reviews in 2007 and 2008 required an acceptance that performance measurement capacity in departments would be far less than perfect for the first two to four cycles. Nevertheless, the Government decided to implement the reviews while dealing with these deficiencies at the same time. Although this is like "fixing the car while it is moving" there was no real choice. Performance measurement capacity had been weakened in the previous program review period – and it had hit a plateau.

Substantial effort is underway to develop the mature performance measurement capacity required to drive the new system. There are three main areas in need of attention:

- To develop a detailed understanding of the program base, and to have on-going performance measurement, the Government is implementing a **Management, Resources and Results Structure (MRRS) Policy**.
- To have more in-depth understanding of specific program relevance and impacts - intended and unintended - the Government is strengthening the **Evaluation function**.
- To help Parliamentarians better play their expenditure oversight role, the Government is transforming its reporting regime through **Improved Reporting to Parliament**.

Implementing management, resources and results structures

Integrating performance information into expenditure management decision-making requires a detailed, almost granular understanding of the ongoing program base across 90 or more organizations. Programs need to be defined consistently, and resources and results (both planned and actual) need to be linked to each program in a common manner. This program-based information needs to be easily accessible; available for planning, decision-making and reporting purposes; and updated continuously. For these reasons, the Government of Canada is investing time and effort to understand what is going on at the detailed program level.

All departments are now beginning to plan their operations and report performance against over 200 strategic outcomes, or measurable objectives, that represent enduring benefit to Canadians. In each department, typically two to three of these strategic outcomes sit at the top of a detailed program-activity architecture that – if added up government-wide – amounts to about 2,500 “small p” programs. All strategic outcomes, plus those parts of program activity architectures that are presented to Parliament in Estimates documents, require Treasury Board approval.[19]

In effect, the Government of Canada has recently developed an inventory of all its programs, mapping the individual program activity architectures in each department and agency. Current effort is focused on refining performance measures against each program in the inventory. This is difficult work that requires constant update. The Government has concluded however that the investment is worth making.

This work is supported by a Management, Resources and Results Structure policy that came into effect in 2005. The policy requires a common, government-wide approach to the collection, management and public reporting of financial and non-financial information and is meant to:

- Identify and define the strategic outcomes linked to a department's mandate and core functions;

[19] The “Estimates” process (described in Part I) is the manner by which the Treasury Board, on behalf of the Government as a whole, obtains Parliament’s agreement to spend through an annual Appropriation Act.

- Provide a logical organization or architecture of the programs and activities being delivered in support of the department's strategic outcomes;
- Reflect the way a department is managed to achieve results with the resources allocated to it year after year;
- Illustrate the various decision-making mechanisms and accountabilities that exist within the department to manage programs;
- Link each level and element of the Program Activity Architecture to planned and actual information on resources and results; and
- Provide relevant and timely performance information to support expenditure oversight, as well as for Cabinet strategic planning and budgetary exercises.

The collection of this information is meant to support better decision-making in departments, in Parliament and on a whole-of-government basis. Detailed, program-based information will allow interpretation of the data in order to make informed judgments on program success, and, eventually, to rank the relative value of each program. This will enable high-value live data on program performance to be widely available to inform proposals on new funding, program renewal and other expenditure requests. This will also be a critical feed into strategic reviews.

None of the program inventory work described above can be implemented without sound information systems, both centrally and in departments. The ability to collect, update and disseminate financial and non-financial performance information over a range of thousands of programs requires planning, investment, testing and time. **At the time of writing, a substantial systems planning and development effort is underway and the end product – a central Expenditure Management Information System – will form the basis for integrating financial and non-financial performance information across the government.**

Strengthening Program Evaluation

In many situations, performance measurement is not enough to understand program success and impacts – intended and unintended, or current program relevance. Strategic reviews often require this depth of understanding in order to be confident that the proposed reallocations are optimal. Thus an improved evaluation function is required. Currently the government has roughly 300 evaluators, spending some $40M per year and evaluating just over 200 programs.

In 2006, the Treasury Board Secretariat assessed the Government's evaluation function and identified problems respecting credibility, quality and timeliness of the evaluation product, and the overall capacity of evaluation units. Currently, about 10% of program expenditures are covered by evaluations each year: this is too low to adequately support a strategic review cycle that aims to cover 25% of direct program spending annually. In addition, many evaluations are not sufficiently rigorous to be a key source of credible performance information. Overall, evaluation standards need to be strengthened.

As a result, the Treasury Board is renewing its evaluation policy – a policy applicable to all departments and agencies. The aim is to focus over the next three years on developing a function that can:

- Better inform strategic reviews through expanded evaluation coverage and an increased focus on value for money;
- Serve as an independent, neutral voice to decision-makers on the relevance, effectiveness and value of programs;
- Evaluate programs on a faster, regular cycle as a normal part of doing business;
- Improve credibility through agreed on standards and flexible tools for evaluation; and
- Promote and monitor quality by having the right capacities, people, and systems in place.

To support this, additional investments in the function are required, new recruitment approaches are being tried, training modules are being designed and the Treasury Board Secretariat is reviewing the quality of all evaluations and providing an annual assessment of the quality of the evaluation functions to Deputy Ministers.

Question:
Who leads these evaluations? How does quality assurance work? Does Canada have an external auditor and, if so, what does the auditor do?

Answer:
Under Treasury Board policy, program evaluations are conduced inside a department by a Head of Evaluation, who manages an evaluation unit and reports to the Deputy Minister. In practice, external contractors often conduct the basic evidence collection under the direction of the evaluation head (e.g., survey design and conduct, focus group management, statistical analysis etc.). Contractors may also produce a draft of the findings, conclusions and recommendations. The evaluation head is responsible for the quality of all evaluation reports and completed evaluations are used to improve departmental programs and to inform the strategic reviews. Secretariat staff review and rate departmental evaluations for two purposes: these ratings feed into the Secretariat's annual assessment of the quality of evaluation units (see discussion of the Management Accountability Framework, following) and they support Secretariat analysts during the strategic review process.

The Auditor General (AG) of Canada reports directly to Parliament and examines any matter of interest to Parliament. The AG conducts financial audits in certain government entities and audits the annual Public Accounts. In addition, the AG conducts many "performance audits," examining departmental management practices and controls, including those related to the efficiency, effectiveness and economy of operations. AG reports are often reviewed in the Public Accounts Committee of Parliament, government officials are often called to the Committee to address the AG's recommendations, and the government often responds to the committee in writing, indicating its intended actions relative to those recommendations.

Improving performance reporting to Parliament

Throughout the year, the Government produces a number of departmental and whole-of-government reports that support Parliament's spending authorization and management accountability functions. These are detailed in Annex B and are designed to link financial and non-financial performance information – thus allowing parliamentarians to better scrutinize value for money across the Government.

The Government provides extensive performance reporting to Parliament, yet parliamentarians have consistently called for improvement. Essentially, they would like simpler, more integrated, information with useful context and analysis. They also want high-level overviews with the ability to drill down to more detail. In particular, parliamentarians have said that they want a clearer logic between planning and performance reporting documents; more balanced reporting; better links between programs, resources and results; and a whole-of-government context to support their review of departmental reports.

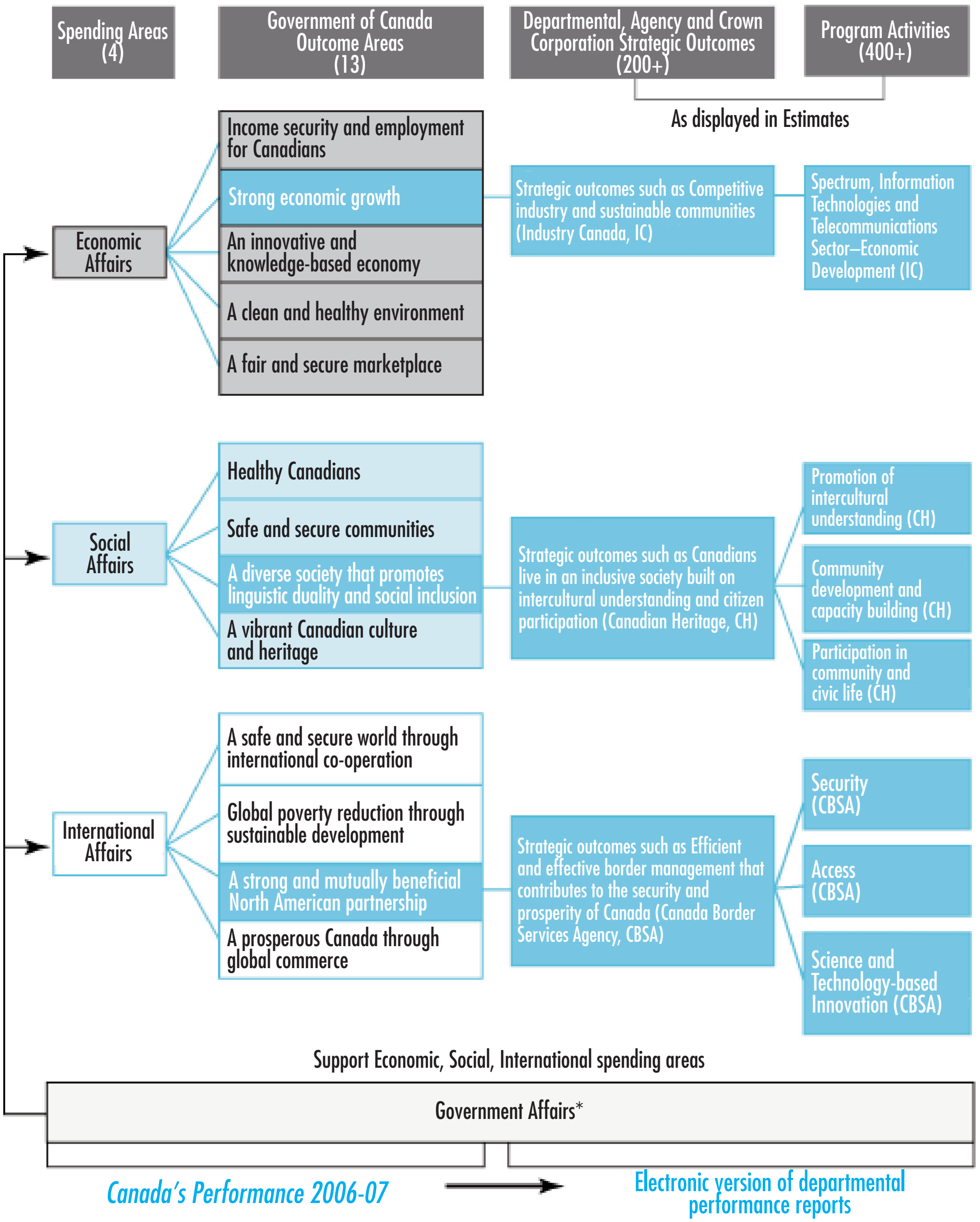
In the Government of Canada, the issue for results-based reporting is not one of sufficient quantity but whether the many reports include too much detail, to the extent that they are difficult for parliamentarians to use. **Recognizing this, in late 2006 the Government introduced a new web site, *Tools and Resources for Parliamentarians* that brings together many Budget and Estimates reports and provides easy electronic access.**

Still there is much more to do. **The future for public performance reporting in Canada is likely to be more electronic and layered.** Strategic outcomes and program activities (the basic building blocks of every department's work) will continue to provide the consistent architecture for all reports. But the government has plans to supplement its future reports with a more detailed electronic layer that should allow parliamentarians to "drill down" and search into the program activity architecture of any organization, accessing information down to the smallest programs.[20]

Understanding the granularity of resources and results at the "small p" program level is only part of the answer. An effective expenditure management system needs to link those roughly 2,500 programs to higher-level intended outcomes on a departmental and a government-wide basis. A first whole-of-government framework, intended to do this, is represented below.

[20] As noted, a program must spend at least $1M to be counted as such in a large organization. In small agencies, there is no such definitional restriction. This electronic drill down to the lowest program level does not yet exist but should be possible in the near future.

CANADA'S WHOLE OF GOVERNMENT FRAMEWORK



* Federal organizations that support all departments and agencies through the provision of government services (e.g. the Treasury Board of Canada Secretariat, the Public Service Commission of Canada, Public Works and Government Services Canada)

This framework was introduced in 2005 and is structured around four broad areas of federal activity: Economic, Social, International and Government Affairs. Each of these areas includes a number of specific outcomes that represent the cross-organizational results that the federal Government is striving to achieve. In their *Reports on Plans and Priorities* and *Departmental Performance Reports* departments must identify the linkage of their strategic outcomes and program activity architectures to specific Government of Canada outcomes. While the Framework is currently used as a basis for whole-of-government reporting to Parliament, it may eventually be used as a conceptual foundation for executive level resource planning, allocation and decision-making.

A number of questions are often asked about recent Canadian experience in results-informed budgeting. Several of these are addressed below and lessons-learned are discussed in relation to each.

Part III
Common Questions and Lessons Learned

How deep and broad was the recognition that change was needed? Who were the agents of change and how well established were they?

The impetus for change was both bureaucratic and political. On the bureaucratic side, the Treasury Board Secretariat recognized that that evaluation and performance measurement capacity (along with audit, financial and asset management) had been weakened during the budget-cutting period of the 1990's. In 2000, the Treasury Board published a landmark document, *Results for Canadians*, and called for a strengthening of performance measurement and evaluation infrastructure. Many of the capacity development initiatives discussed in this paper (e.g., the MRRS policy) were developed in the 2001 to 2005 period, but progress was slow – and it is fair to say that a plateau had been reached.

The 2006 and 2007 Budgets were a watershed. The current government wanted to ensure program spending was consistent with current priorities. In announcing his intention to implement a more results informed expenditure management system, the Prime Minister implicitly signaled that there would be a greater value placed on the generation of performance information in departments. Linking performance information to annual budget deliberations via a strategic review process has made a real change in the dynamic. Over time, it should give a comparative fiscal advantage to those departments that are able to tell a credible performance story for their programs. Departments that are unable to defend and explain their programs with performance information may be at a long run fiscal disadvantage.

Lesson One:

In Canada, better public performance reporting to Parliament was not enough to drive departments to dramatically improve their performance measurement capacity, which had reached a plateau. It took a direct link between performance information and budget advice to get departments to realize that there are consequences of not having performance measurement capacity.

Lesson Two:

Moving toward results-informed budgeting involves radical change – something that public servants will naturally resist unless there are compelling reasons. Creating an annual strategic review process with implications for the Budget has been very useful. But a decision of this magnitude must be driven from the highest political and public service levels, and it must be sustained.

Does Canada have the necessary political and administrative stability to cope with this change? What changes are required of the main players in the revised expenditure management system?

As noted earlier, Canada has moved to performance-influenced budgeting through a process that began in the 80's. Although the disappearance of strategic reviews is possible, it is not likely. Strategic reviews – and the transparency that they provide – have proved to be popular with Ministers. It is unlikely that a new government would want to do away with the information to support decision-making that would be generated by these reviews.

On the administrative side, there is now a clear need for improvement in performance measurement capacity. Some departments went into the 2007 round of strategic reviews with clear deficiencies in their program activity architectures (not all programs were reflected in the architectures, or there were logic issues). In the second round underway during the writing of this paper, several departments had yet to remap their financial systems to the new PAAs. This makes it difficult to link planned and actual resources to all smaller programs. Moreover, most departments have not been able to make the adjustment necessary to evaluate their programs on a shorter cycle – the end result is that the strategic reviews are demonstrating a need to improve this situation.

More generally, the Government is experiencing a major demographic turn over as much of the remaining "baby boom" generation retires in coming period. This poses both challenges and opportunities, and the Government may soon begin to recruit up to 10,000 new public servants per year. From a challenge standpoint, much knowledge is leaving the public service. From an opportunity perspective, new recruits tend to bring with them a positive orientation toward performance-informed budgeting. The attitudes of young employees can help to support the development of a more performance-oriented culture.

While the Government of Canada is likely to have the administrative stability necessary to bring this improvement off, it will require significant investment in performance measurement and evaluation capacity and a continuing oversight by central agencies. A performance informed expenditure management system requires investment to build capacity and oversight. If Ministers continue to demand performance information to inform decision-making, the reforms should take root. But that is the critical factor.

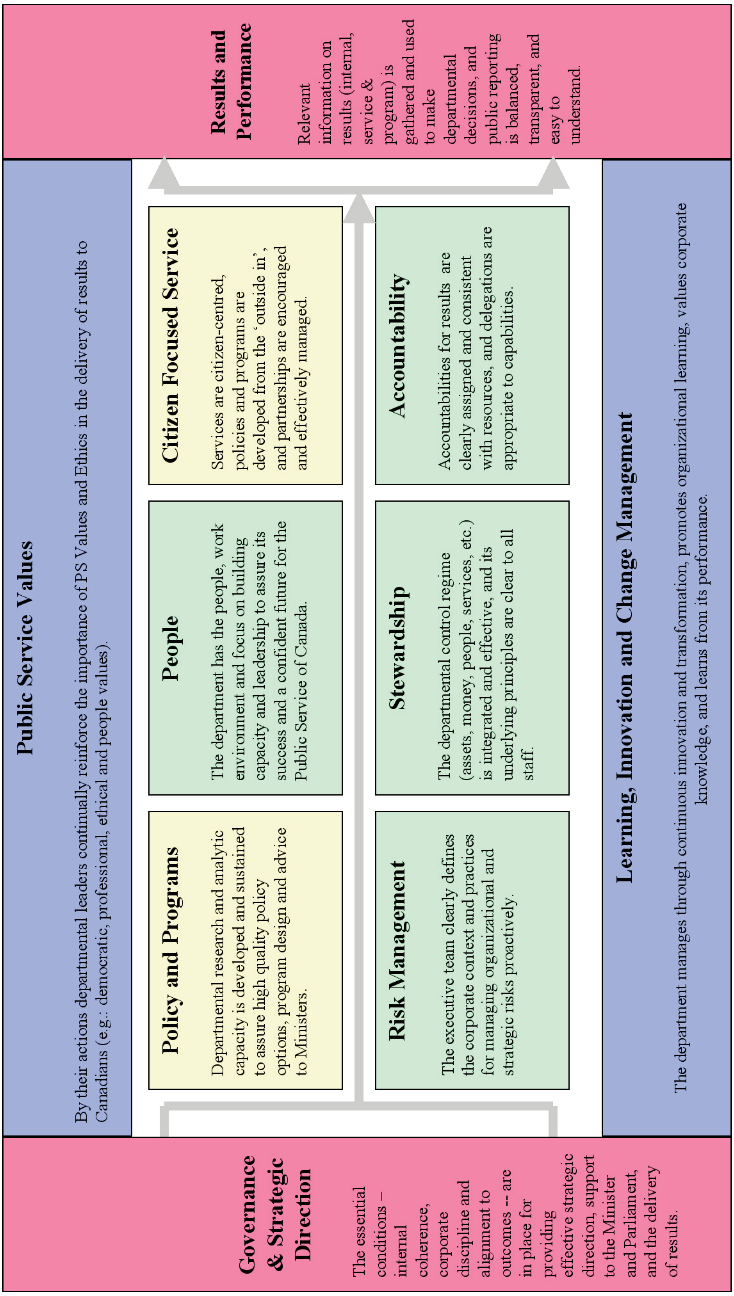
Lesson Three:

Building capacity to measure and report on program performance requires persistent effort over a period of years. The Government decided to implement its new expenditure management system, knowing that there are some deficiencies in the underlying performance measurement systems. It is sometimes better to take action anyway – while working to make the systems catch up – rather than be paralyzed by aiming for early perfection.

What are the lessons learned from the gradual implementation of the Management Accountability Framework (MAF)?

In the Government of Canada, a Management Accountability Framework (MAF) sets common expectations for management performance and is the basis for accountability between departments and the Treasury Board. MAF is an analytical tool used each year to identify management strengths and weaknesses across government. Through MAF, the Secretariat assesses departments against a set of indicators that consider (among other things), the quality of Management, Resources and Results Structures; the capacity to undertake and use program evaluations; and the overall quality of reports to Parliament. Discussions between senior officials identify management improvement priorities, a process that draws attention to issues in a structured way that can lead to improvement.

THE MANAGEMENT ACCOUNTABILITY FRAMEWORK



All MAF assessments are now posted on the Treasury Board website and MAF assessments are linked into the performance appraisals of Deputy Ministers.

Overall experience with MAF has been positive, although some managers have expressed concern that the assessment process can be lengthy and costly. Some have argued that the process should take place every second year, and might best be avoided in the years when a department is undertaking a strategic review. While there was once some concern that the publishing of MAF results would embarrass departments, this has not been the case and the overall public and parliamentary reaction to MAF results has been muted.

What are the incentives for managers to manage better? Do they get any more authority if their MAF results are positive?

There is a large amount of central oversight and accountability in the public service of Canada – to the point where some senior officials and observers are beginning to call for a reduction in central management controls and a stripping away of the "web of rules." Various approaches are being considered to deal with these issues.

In theory, MAF could be used in ways that would bring a welcome change for departments. The Treasury Board Secretariat is considering an "earned delegation" approach to some of its policies that would allow well-managed departments to have delegated administrative and financial authorities, over and above what less-well-performing departments receive. MAF could be the benchmark for such an earned delegation approach.

Lesson Four:

Assessing departmental performance through an instrument such as MAF can be burdensome and may not be required for every department, every year. It will also likely be resisted initially – but over time, can allow a government to understand strengths, weaknesses and opportunities to improve management capacity. It can also serve as a way to reduce administrative control from the centre, for those departments that are clearly well managed.

HOW CLOSE IS CANADA TO IMPLEMENTING THE "IDEAL" PERFORMANCE INFORMED BUDGETING SYSTEM, AND HOW LONG WILL IT TAKE TO ACHIEVE THIS?

The simple answer is that Canada has spent several years working on its capacity to measure and manage for results and it is unlikely that an ideal "steady state" will ever be achieved.

Implementation of the MRRS policy will likely be a five year process from policy inception to the point where performance measurement frameworks are in place for all programs, and systems that link resources and results at the lowest program level are in place in most departments. At that point, there will be an ongoing effort to ensure that valid and reliable information is collected and used throughout the year.

Similarly, it is likely to take the better part of five years to strengthen the program evaluation function to a point where the current 10% per year coverage cycle is doubled and the quality of evaluations is sufficient to strongly support the strategic review process.

Canada has been working to improve its public performance reporting capacity since the 1980s, and while there have been many improvements, parliamentarians continue to ask for more whole of government information and more ability to drill down into the program structures of government. The effort to improve parliamentary reporting through the use of web based, interactive reports is likely to be an important element of the expenditure management system over the next several years.

LESSON FIVE:

If Canada's experience is typical, there are no quick fixes in building the capacity to measure and manage by results, and Canadian public servants never expect to get the "ideal" system. Because it is hard to make and sustain the cultural changes necessary to generate reliable performance information, it is better to "under promise and over deliver". This argues for a development approach that:

- **Continually reaffirms support at the highest political levels;**
- **Links the effort to something tangible – ideally both public performance reporting and decision-making related to the budget;**
- **Is driven by the centre and offers the necessary training and support to build capacity in departments; and**
- **Has realistic expectations, bearing in mind that the effort will need to extend beyond the mandate of most senior officials.**

Annex A
Summary of Key Roles and Responsibilities in the Expenditure Management System

Element	Responsibility
Holds the Government to account, **approves all spending** on an annual basis	Parliament
Developing an **annual budget** and a multi-year fiscal framework.	Department of Finance
Establishing annual departmental reference levels (the ongoing program resource base), **managing the strategic review process**, setting results-management policies	Treasury Board (a committee of Cabinet supported by the Treasury Board Secretariat)
Approval of new policies and "go ahead" to develop new programs	Cabinet, supported by the Privy Council Office and the Department of Finance
Allocating and reallocating to ensure alignment with priorities and aggregate expenditure control	Departments routinely – plus the three central agencies as they work through the annual strategic review process and prepare recommendations for Cabinet on the annual Budget
Seeking parliamentary approval of spending plans through the Estimates process	President of the Treasury Board – supported by the Treasury Board Secretariat
Reporting to Parliament on spending plans, actual expenditures and results achieved	Treasury Board Secretariat and Departments

Annex B
Canada's Resource Management Cycle, and its Public Performance Reports

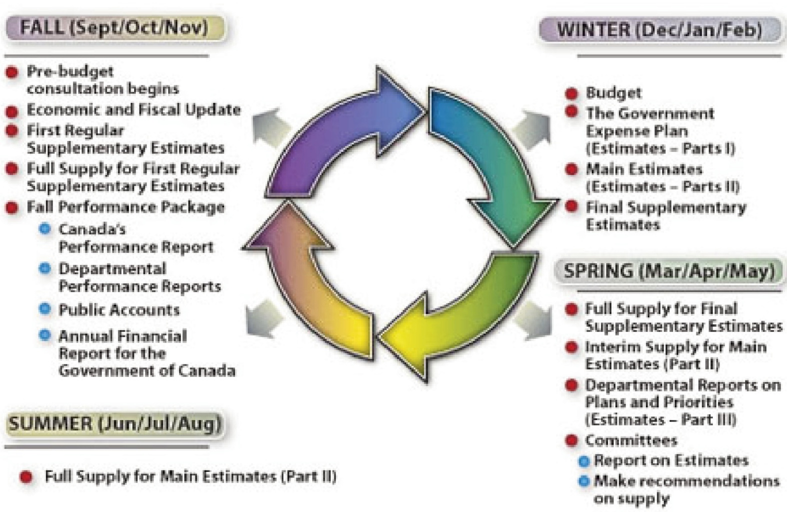
As noted in the main text of the paper, the Government of Canada fits strongly in the OECD's "performance informed budgeting" category and uses performance information throughout the main phases of an annual resource management cycle.

The cycle begins with public consultation and fiscal planning in the fall of each year, and moves successively through an annual Budget, the approval of Government spending by Parliament in an Appropriation Act, evaluating program performance, learning and adjusting, and reporting to Parliament on results.

Program performance information supports resource management and accountability decisions, but does not supplant them. That is, Ministers are provided with available performance information but it is up to them to make their own decisions – performance information is one, among many, inputs.

The Government of Canada operates on a fiscal year that begins on April 1. Parliament authorizes two main kinds of expenditures – statutory and voted. Statutory expenditures, such as those for major transfers to provinces or citizens have an ongoing legal authority – including a multi-year spending authority. Voted expenditures must be approved by Parliament at the beginning of each fiscal year. Put differently, at the end of every fiscal year on March 31, all voted spending authorities disappear or "lapse," and the Government must take steps to reestablish them.

The Resource Management Cycle



The *Budget* presents the Government's fiscal plan to Parliament and is usually tabled in the House of Commons by the Minister of Finance in late February. *Budget* documents present aggregated projections of the Government's expenditure plan for the coming and following two fiscal years.

In developing the *Budget*, public consultations normally begin with an *Economic and Fiscal Update*, delivered by the Finance Minister to the Commons Committee on Finance in late October or early November. The Committee usually holds public hearings both in Ottawa and across the country, seeking views from Canadians on their priorities for the upcoming *Budget*. Based on these hearings, the Committee typically submits its recommendations regarding the *Budget* to Parliament, usually in early December.

The Minister of Finance also conducts pre-*Budget* consultations with many organizations, individuals and provincial counterparts and briefs Cabinet on the status of budget planning, seeking their input on priorities and strategy.

Strategic reviews, undertaken by designated departments, review up to 25% of direct program spending each year. The annual review process is coordinated by the Treasury Board Secretariat and feeds its recommendations to Cabinet in the fall and winter, in time to be factored into budget deliberations.

No later than March 1 each year, and often shortly after the Budget, the President of the Treasury Board typically tables the *Main Estimates*. The *Main Estimates* cover the upcoming fiscal year and identify the spending authorities (Votes) and the amounts to be included in subsequent Appropriation Bills that Parliament will be asked to approve. Only direct program spending such as departmental operating costs are voted by Parliament through Appropriation Bills – the *Main Estimates* provide updated forecasts to Parliament for all Statutory Programs for information only. Statutory programs have ongoing spending authority in accordance with specific legislation, for example, major transfers to the provinces.

At a departmental level, over 90 Reports on Plans and Priorities (RPPs) are conventionally tabled in the House of Commons on or before March 31 and are reviewed by parliamentary committees as part of the scrutiny of *Main Estimates*. Departmental RPPs detail the strategic outcomes, initiatives and planned results of each department, and include information on resource requirements over a three-year period.

Responsibility for the quality, integrity, and completeness of the information presented to Parliament rests with each department. The Treasury Board, however, sets the form and format of the RPPs, provides advice and assistance to departments and agencies, and coordinates printing and tabling of the reports.

Departments report on their overall performance in *Departmental Performance Reports (DPRs)*. Each Fall, departments are required to produce a DPR detailing performance against commitments set out in the RPP. Accordingly, departments must measure their performance against earlier commitments, so that parliamentarians may hold the Government account for what worked and what did not.

The Department of Finance tables the *Annual Financial Report*, which reviews the Government's spending and revenue performance over the previous fiscal year and identifies factors that affected the results. And the *Public Accounts of Canada* are tabled in the Fall by the President of the Treasury Board. These audited accounts provide summary financial statements of the Government of Canada, the opinion of the Auditor General on those statements, and details on departmental expenditures and revenues.

Finally, the Treasury Board President also tables two whole-of-Government reports. *Canada's Performance* arrives each Fall and outlines the impact of federal programs, services and policies on the life of Canadian citizens. The electronic version of *Canada's Performance* allows readers to "drill down" from pre-set Government of Canada outcomes to specific resource and results information contained in the ninety-plus *Departmental Performance Reports*. In addition, Canadians may access all internal audits and program evaluations in all departments through the electronic version of *Canada's Performance*. Finally, in the 2007-08 fiscal year, the Government began to provide Parliament with a *Plans and Priorities (RPP) Overview* document to support parliamentary review of planned expenditures. Similar to *Canada's Performance*, the *RPP Overview* allows electronic drill-down into the RPPs of individual departments – and both of these documents are based on the "Whole of Government Framework" described in Part II of this paper.