Issue Paper #3

Accountability for Results and Performance Management

The Budget Process Review Panel
An independent panel appointed to recommend improvements
to the budgeting and financial management
of the Province of British Columbia

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Issue

As discussed in Issue Papers #1 and #2, the budget and Estimates are part of the framework for holding government accountable for what it does. Traditionally the emphasis has been on financial accountability, although the Estimates Debate and documents such as the Financial and Economic Review and ministry annual reports provide some information about what government has accomplished.

The problem is that there is not yet a comprehensive framework for government information about intentions and results beyond financial information, although progress is being made. Without that, there can not be real accountability.

One way of developing such an accountability framework is to use what is referred to here as “performance management.” It is based on the concept of defining measurable indicators of performance, setting targets for those indicators, measuring results on an ongoing basis and using the process as a tool for managing activity. In other words, figure out what you are trying to do, check frequently to see how well you are doing and adjust what you are doing and how you are doing it based on the information.

Although that seems so obvious as to be almost trite, for many reasons rarely is it done at either the level of government’s intentions in providing services or the operation of government programs. The reasons can include numerous conflicting objectives, many factors beyond government’s control, the diversity and complexity of government activity, the cost of measuring performance and the incentives in the system to avoid accountability. Even in the private sector, where objectives and diversity of operations are often much less complex, effective use of this approach is a challange. However, the approach is used effectively in some public and private sector organizations, including some Canadian provinces.

The purpose of this paper is to discuss whether and how accountability for results and management of operations can be improved by measuring performance

Suggested Reading

Several documents have been provided to Panel members on performance management as background reading. They include:

- A comparative Analysis of Government Performance Management Strategies, Treasury Board of Canada Secretariat, December, 1998
- The Public Accounts Committee's Second report on the topic, January, 1996
- Excerpts from the second and third joint reports of the Auditor General and the Deputy Minister's Council on Enhancing Accountability for Performance. The second report includes most of the relevant information from the first report and expands upon it. The third report is of interest for its explanation of why the second report's implementation plan was not followed.

Terms of Reference and OAG Recommendations

The following elements of the Panel’s Terms of Reference bear on the topic of performance management, particularly as its use would affect the information provided and the timeframe over which planning is done.

> A. Which public sector bodies should be included in government's annual budget plan and reports and what information should be provided on these bodies in the budget plan and reports.
>
> D. Any changes to government budgeting and reporting to reflect long run implications of budget decisions.
>
> E. Any changes in the form or content of information provided by government in its annual planning and its reports on results to improve clarity and usefulness to readers.

The following recommendations from the Auditor General's report bear on the topic of performance management:

> 2.1 The government be required to set performance expectations for its programs (to the extent possible), and to report these expectations in the Estimates or another budget document.
>
> 2.6 The government prepare long-term fiscal and business plans for its activities and public finances, as an integral part of the Estimates process.
>
> 2.11 As part of Estimates and budget reporting, the government provide the Legislative Assembly and the public, on a timely basis, with all information that is relevant to communicate its fiscal plan — including information relating to fiscal sensitivities of economic and program assumptions, performance expectations, and government financial activities outside the Consolidated Revenue Fund.

Discussion

In Issue Paper #1, the Panel suggested that its scope of discussion should be focused more on "what" should be done rather than "how" it should be done. In keeping with the spirit of that, this Issue Paper is intended to discuss the various elements of accountability for results and performance management without going very far into the issue of how those elements should be specifically designed in a British Columbia context. In particular, there is little discussion of specific performance indicators. There is, however, a discussion of the barriers to implementing a performance management regime.

Efforts to Date in British Columbia

Prior to beginning the discussion of what accountability for results and performance management are and how they can be used, it may be useful to review how these concepts are used in British Columbia at present and the progress that has been made in the past several years.

While performance management has recently gained profile as a management methodology, there is really nothing very new or mysterious about the underlying concepts. The parts of the British Columbia government, including the Ministry of Finance and Corporate Relations have tried several times to shift from management based on inputs to management based on outputs and outcomes over at least the past two decades. That is largely the concept underlying performance management. While the support for these initiatives at the political and Deputy Minister level and effectiveness of these has varied over time, there has been no lack of interest or effort devoted to the concept.

The most recent effort was the joint work of the Auditor General and the Deputy Ministers' Council, which started in 1994 and continues to the present. The objective of the work is to enhance accountability for performance in the British Columbia public sector. Three joint reports have been issued (in 1995, 1996 and 1997) and the work has been reviewed and supported by the Public Accounts Committee, which has also issued reports on the topic. The plan initially developed by the Auditor General and the Deputy Ministers' Council was ambitious and has yet to be fully implemented for several reasons, some of which are discussed below under "Barriers to Implementation."

Nevertheless, there has been some significant progress. Most importantly, at the staff level there seems to be at least universal acceptance that there needs to be better accountability for performance at all levels. Further, many senior staff are now genuine supporters of better accountability for results.

Work is underway across government to develop performance indicators for most government programs. The 1999/2000 Estimates provides brief "Business Plans" for several programs that include definitions of performance indicators and targets for the fiscal year. The Programs include the Royal British Columbia Museum (Ministry of Small Business, Tourism and Culture), Vital Statistics (Ministry of Health), Office of the Chief Investment Officer (Ministry of Finance and Corporate Relations), and Crop Insurance (Ministry of Agriculture and Food). In addition, the Ministry of Municipal Affairs and the Ministry of Finance and Corporate Relations have revamped their ministry annual reports to provide more performance measurement information and have begun to produce them on a more timely basis as accountability for results initiatives.

Crown corporations are generally ahead of the ministries in adopting performance indicators and trying to be accountable for results. That may not be surprising since most Crown corporations have less diversity of programs and more clear objectives that most ministries. Also, there is some variability in the progress that has been made. Nevertheless, corporations such as BC Buildings Corporation, BC Hydro, BC Rail, and the BC Securities Commission to name a few, all have annual business plans with measurable targets that are reported upon in annual reports.

While some may argue that progress to date is insufficient and that a much more comprehensive framework for accountability for results and performance management should be in place, others would suggest that there really has been significant progress and that, with the proper support, it is now possible to implement such a framework over the next several years.

With changes such as this that require not only operational changes but changes to the "corporate culture," there are three key elements – sufficient time to make the change, consistent support throughout the change and starting at the right time. The focus on these issues arising from the Auditor General's report coupled with the cultural changes that have already taken place may make this the ideal time to crystallise and build upon the solid foundation that has been established.

One of the fundamental difficulties with performance measurement in the public sector is that there are few established benchmarks. In most industries in the private sector, there is considerable agreement within the industry and among experts commentators such as investment analysts about what the key performance indicators are. As a result, industry averages and benchmarks are available for common key performance indicators.

Comparable key performance indicators for the public sector and associated benchmarks are less well developed. As discussed below, the CICA has attempted to define key fiscal performance indicators but has not suggested appropriate benchmarks. In other areas, external commentators have stepped into the vacuum, such as the annual comparison of Canadian universities undertaken by Maclean's magazine. However, without comparable key performance indicators and benchmarks for a wide variety of government services, the full benefits of performance measurement will not be realised.

Accountability for Results vs. Performance Management

The performance management concept is based on the idea of understanding what you want to do, figuring out how you know if you are being successful, measuring those performance indicators on an ongoing basis and adjusting operations in response to the feedback from the performance indicators. It harnesses the competitive spirit and self-interest that are part of human nature to encourage continuous improvement.

There are two ways in which the performance management concept can be applied to a provincial government. The first, and perhaps most relevant to the Panel's mandate, is to make government more accountable for results. The second is the management of government operations.

Accountability for Results

The concept of accountability for results is that government would state its goals and objective, define indicators of how well it is doing and report regularly on its progress. The purpose would be to provide information that explains government's intentions and the effectiveness of the services government provides.

This concept is about the government providing information on the things that the people should hold their elected representatives accountable for. That is, whether or not government is effective in identifying public policy issues that need to be addressed and whether the policies that are chosen or already in place are effective in addressing the issues.

In the remainder of this Issue Paper this concept will be referred to as Accountability for Results (AFR) to distinguish it from the application of performance management to the management of government operations.

Performance Management for Government Operations

Performance management of operations (PMO throughout this paper) refers to the application of the performance management concept to how government manages its operations. Like AFR, it would require setting objectives and goals, defining performance indicators and reporting regularly on progress.

However, PMO differs from AFR in that the performance in question is the performance of government managers and employees for the results that they should be held accountable for by their employer. That is, whether or not public service employees are:

1. efficiently and effectively delivering the services they are responsible for in accordance with the public policy direction of the government and the statutory obligations created by the Legislature, and
2. maintaining the capacity to continue to provide services as required.

In concept this type of approach could be used throughout an organization from the most senior managers to individual workers to establish a basis for evaluation and continuous improvement for all employees. In this respect PMO is much the same as the application of performance management in the private sector.

While it is important to distinguish between AFR and PMO, it is also important to see how these concepts are linked. PMO, if fully implemented, would cascade though the bureaucracy with each employee’s performance targets being consistent with and in support of the objectives of the layers above. At the most senior level, the objectives should be consistent with and in support of the AFR public policy objectives of government.

Accountability vs. Central Controls

One of the main benefits of the foregoing discussion is that helps to conceptually define who is accountable for what. Some feel that because the accountability framework is not well defined, the issue of who is accountable for what becomes blurred. For example, sometimes staff are effectively held accountable for problems that are really the responsibility of Ministers or cabinet. In other cases, Ministers accept sole responsibility for issues that more properly are within the purview of staff.

Not only is accountability unclear, so is responsibility and authority. An implication of performance management is that one should only be held accountable for performance that one has responsibility for and authority to influence. One issue in government is that often responsibility and authority are often so diffuse that it is difficult to identify anyone who can appropriately be held accountable. Diffuse authority and responsibility often results because of central control of inputs and/or policy. Central control is often established to, for example, prevent inappropriate activity, limit expenditure or establish consistency across regions.

Performance management will not be effective in encouraging continuous improvement unless, in exchange for agreeing to be held accountable for results, some of the central controls are relaxed. The problem is how to get from here to there – it is difficult to relax the controls until the effectiveness of performance management is demonstrated but that can not happen until the controls are relaxed. It is also much easier to control inputs than it is to define and agree upon objectives and measurable performance indicators.

Note also that this does not imply that all input controls should be removed. Sound financial management and honest, ethical behaviour are of high importance in the public sector and adequate controls to ensure that must be in place. However, many believe that the current set of management constraints goes well beyond that standard. For example, one of the most basic input controls, the control of the number of direct government employees, measured in terms of Full Time Equivalents (FTEs) generates considerable inefficiency.[1]

Levels of AFR Measures

To try to better explain what AFR is and how it might be used, three separate levels of AFR have been identified , related to strategic performance, fiscal performance and ministerial public policy performance.

Strategic Performance

The highest level at which AFR could be used is referred to here as strategic performance since it is related to the major strategic initiatives and objectives of the government. Traditionally government uses the Speech from the Throne and the Budget Speech to set out the main elements of its agenda for the coming year. However, to the extent the agenda changes over time or government has not achieved its strategic goals, there is often little reporting of results associated with the specific initiatives or strategic themes.

There could be a more rigorous and formal performance management framework established around government's strategic initiatives. It would require specific documentation of what the strategic initiatives and objectives are, definition of performance indicators, setting of targets and regular reporting of results.

These would be the things that the overall government is accountable for. While each strategic initiative will be the responsibility of a specific Minister or group of Ministers, this set of initiatives would define government's priorities and clearly show government's intentions for change.

Strategic plans must change over time to respond to changing circumstances and public values. That implies that strategic performance indicators should change too. However, changes in strategic performance indicators should not be done to avoid reporting on results based on previous plans. While plans change, there should be some continuity of indicators reported on, at least during the period to which a plan applies.

This level of AFR could be discussed in strategic planning documents, the Speech from the Throne, the budget, quarterly reports and Public Accounts or government annual report.

Fiscal Performance

Regardless of what government's strategic direction is, fiscal performance will always be an area that government is held accountable for. Fiscal performance is an important element of government's overall economic impact and efficiency as well as providing taxpayers with information about the financial status of government.

For many, fiscal performance is often summed up by one indicator, the deficit and, sometimes, the change in the debt. While important, these indicators provide a very limited picture of the fiscal performance of government. Some argue that what is needed is a set of a few, standard fiscal performance indicators that can provide a somewhat more robust picture of fiscal performance.

Some information of this type is provided in the annual Debt Statistics publication and summary debt information in the budget documents. These documents go beyond providing information about the total amount of debt, the components of the debt and changes for a given year. They also provide statistical information that can be used as performance indicators, such as per capita debt, the ratio of debt to GDP and other measures.

In any event, the general approach used for debt could be expanded to the overall fiscal plan. That would involve a high level fiscal plan over the medium to long term to define intentions and objectives. It would also require the definition of performance indicators related to those objectives that put government's summary fiscal information into an economic context.

The Canadian Institute of Chartered Accountants issued a report in March, 1997 titled "Indicators of Government Financial Condition." The report recommended that governments report on 10 key indicators of financial condition (eight of which apply to provincial governments)in three areas:

> Sustainability: the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy.
>
> Flexibility: the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues or increasing its debt burden.
>
> Vulnerability : The degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international.

The recommended indicators are:

Sustainability – Debt/GDP*

Deficit/GDP

Flexibility - Debt Service/Revenue (Interest bite)*

Change in Physical Capital Stock

Own Source Revenues/GDP

Vulnerability - Government Transfers/Own Source Revenues

Foreign Held Debt/Net Government Debt

Foreign Currency Debt/Net Government Debt

* indicates that the indicator is currently reported in the Debt Statistics publication.

This level of AFR would most likely be discussed in pre-budget documents, the budget and the Public Accounts or government annual report.

Ministerial Public Policy Performance

While it is government's strategic initiatives that tend to attract attention, there are always many government functions undertaken to achieve important public policy objectives that are not themselves strategic priorities. In some cases, these functions contribute to one of government's strategic priorities and in other cases the functions operate to achieve relatively long-standing objectives that do not relate directly to any strategic initiatives.

In either case, this type of AFR is primarily related to the things that Ministers should be accountable for - the effectiveness of the government policy for which they are responsible in achieving its public policy objectives.

It may be useful to try here to try to draw a distinction between government policy or public policy and administration. The word "policy" is often used to describe specific administrative rules and procedures. However, what we are talking about here is the higher level policy intentions of government, the things for which ministers should be accountable.

Ministerial AFR information could be discussed in the Estimates or another budget document, in the business plans and annual reports of ministries and other public bodies and in the Public Accounts.

PMO Measures

As indicated above, PMO is primarily concerned with the operational efficiency and effectiveness with which government policy and strategic initiatives are implemented and undertaken.

PMO performance indicators would focus on the efficiency of administration and the operational effectiveness of the unit in contributing to achieving the government's public policy objectives. That is different than the effectiveness of government in achieving its objectives, which is what the Minister and cabinet should be held accountable for. Rather, PMO is about what the public service staff operating the programs and performing the functions should be held accountable for.

PMO could be used to form the basis of management contracts or letters that specifically outline an agreement between, for example, a minister and a deputy minister (or any pair that have an accountability relationship) about what results the deputy minister will be held accountable for achieving and how those results will be achieved.

Some summary level indicators that would fall into the PMO category might be included in annual reports of ministries or other public bodies. However, most would not be published in a structured form but would be primarily used for internal management purposes. Many would probably be available under freedom of information legislation and policies but the purpose is less public accountability than effective management.

Types of Performance Indicators

This section takes a look at performance management from another perspective by discussing three types of performance indicators – input indicators, output indicators and outcome indicators – and the issue of quantitative measurement.

Input Indicators

Input indicators measure how much resources are used to undertake a function. This is the easiest of the three types of indicator to design and measure and is the main type of performance indicator that is currently widely used. Input indicators include expenditure, labour and debt or capital.

Traditionally the accountability regime (AFR) and the management approach (PMO), to the extent they have been used in the British Columbia provincial government have been mostly based on measuring and controlling inputs. The budget process and the Estimates explicitly allocate and ration government spending and human resources, measured and controlled in terms of FTEs.

Even in the context of a long-standing and well-developed input management system, there are challenges in measuring inputs. For example, while inputs at the Vote level are carefully tracked, it is often difficult to accurately allocate costs and other inputs to specific activities and functions within Votes.

There is concern about the use only of input performance indicators because they do not provide government managers or the public with information about how successful managers or government are at achieving intended results. Nevertheless, input indicators are and always will be an important part of any management and accountability regime. It is important to know how much is being spent and what resources are being used. It is also important to know that resources are being used appropriately, in accordance with appropriate approvals and financial controls.

Output Indicators

Output indicators are measures of the goods and services being produced. They answer questions about what the product is, how much is produced and what the quality of the product is. When combined with input measures such as the cost, capital and labour, output indicators can be used to show efficiency.

In many cases, there is already extensive information collected about outputs. For example number of patients treated, number of cases processed through the courts, number of students, etc. In other cases, extensive data is collected but not processed into output performance indicators, especially indicators of output quality.

Output indicators are often easy to identify and, in many cases, are already being measured or can be measured at relatively little cost. In other cases, identifying and measuring outputs can be very expensive, both in terms of resources used and managerial effort devoted to the task.

Some output indicators are primarily related to administrative performance or PMO. By identifying what is expected of managers and expressing that in terms of targets for input and output indicators that are measured and reported, powerful incentives are created.

Output indicators are also useful in AFR when public policy objectives can be defined in terms of outputs or where outputs are a useful proxy for an objective that is inherently difficult to measure directly..

The challenge is to accurately identify which outputs managers should really focus on. For example, making efficiency in terms of outputs per FTE the priority may only reduce the quality of the product but making quantity or quality the priority may lead to inefficiency. This issue is discussed further under “The Balanced Scorecard Approach” below.

Outcome Indicators

Outcome indicators are the most difficult to design and measure. Outcome measures answer questions about what effect government has had through the goods and services it produces and address the issue of effectiveness. That is primarily of interest for the purposes of AFR.

There are at least four issues with output indicators:

- The first is that it may be difficult to define the intended outcome in measurable terms. For example, many government services, such as revenue collection, debt management, accounting and policy support are intended to enable government to conduct its business and do all of the activities that generate external outcomes. However, it is difficult to define outcomes associated with these activities. Perhaps in those cases, outputs are the most appropriate indicators.

- Another is that outcomes are often only observable over a long period so that it is difficult to determine in the space of a year whether government is being effective. For example, the objective of the health care might be to improve the health and well being of the population. Health and well-being can be and are measured but so much of the current level of health and well-being is determined by events that took place long ago. The impact of a change in health policy over a one or two year period would be difficult to detect.

- The third is that outcomes are often influenced by factors beyond government control. The result is that it is difficult to disentangle the impacts of various factors and to determine what effect government policy has had, even if the outcome itself is readily measurable. This is exacerbated by a tendency for government to take credit for any positive change in an outcome indicator and to try to convince the public that government has more influence on the outcome than it actually has. An example is economic policy. The provincial economy is influenced by a large number of factors that include government policy but determining the extent that government policy influences such economic indicators as gross domestic product (GDP), labour supply, unemployment, employment, retail sales, etc. is very difficult.

- The fourth issue is that the government activity can influence the reliability of the measurement so that there are sometimes contrary results. For example, the objective of community policing may be to reduce crime and property damage. However, by making police more visible and accessible in the community, the result may be that the measured crime rate and value of damaged property may actually go up because more crime is reported even if the actual level of crime goes down. If that is anticipated when the outcome indicator is designed, then the apparent contrary result can be credibly explained. However, if the result is not anticipated, the outcome measure or the policy or both could be discredited even though both the public policy and the outcome measure are valid.

Measurability of Performance Indicators

There is a tendency among some to focus on performance indicators that can easily be measured and reduced to numerical terms. It is true that numerical indicators tend to have a significant influence on behaviour.

However, there are important public policy objectives that are not as conducive to numerical measurement, either directly or indirectly. In those cases, when performance measurement is used it is important that the goals and objectives which can not be qualified are identified and discussed in more subjective terms. The alternative of ignoring these objectives has the danger of focussing only on things that can be measured, with unintended consequences as important but immeasurable objectives are ignored.

The point then is that, while measurement of indicators is important, where goals and objectives are not easily stated in measurable terms they should still be identified and progress reported using more subjective or qualitative analysis. On the other hand, some believe that everything is measurable, given an appropriate amount of creativity and that allowing qualitative analysis would let government off the hook.

Balanced Scorecard Approach

The concept of using a “Balanced Scorecard” for performance management was suggested in a 1992 Harvard Business Review Article “The Balanced Scorecard – Measures that Drive Performance” by Kaplan and Norton. The concept they presented was that success depends on measuring more than just financial indicators. They identified four key perspectives from which performance should be measured:

- Financial Perspective
- Customer Perspective
- Internal Business Perspective

- Innovation and learning Perspective

They advocated developing firm-specific Key Performance Indicators from each perspective.

There is considerable literature on the balanced scorecard concept and several different bases for developing a balanced scorecard have been proposed. Another suggested way of balancing perspectives is to use “internal,” “external,” and “future” oriented performance measures. Whatever the categories, the idea is that performance measures should examine the business of the organization from several different perspectives so that there is not undue emphasis placed on just one or two perspectives. Without balance, performance measurement will tend to distort behaviour.

In the joint work of the Auditor General and the Deputy Ministers’ Council on “Enhancing Accountability for Performance” they identified three key elements of government performance as a way of balancing perspectives. The elements were:

- *Organizational and program (“operational”) performance* – demonstrating value for money through relevant, efficient and effective programs, including developing and maintaining capacity to develop results in the future.
- *Financial performance* – achieving financial objectives and managing using sound financial practices.
- *Legal compliance and fairness, equity and probity (”compliance”) performance* – complying with legislation and standards, fair and ethical behaviour.

This discussion suggests that it is important that the performance indicators used at all the levels described above should provide a balance in perspectives. While effectiveness is important, with government programs there is usually more than one dimension to effectiveness, corresponding to multiple objectives. Also, not only are the ends important but the means by which the ends were achieved (financial and operational), the efficiency with which they were achieved and the ability to continue achieving desirable results into the future are also equally important.

Implementing AFR and PMO

In keeping with the scope the Panel has established for its work, it would not be appropriate to discuss in much detail the further implementation of accountability and performance measurement in the government. In particular, the details of implementing PMO will not be discussed further, except for some comment on the questions of consequences and barriers to implementation that affect both PMO and AFR.

However, the implementation of AFR has important implications for the entire budget process and accountability cycle that is the main focus of the Panel’s work. That is discussed briefly below.

Integrating AFR into the Budget and Reporting Processes

For illustration purposes, the following is a description of one way AFR could be integrated into the budget and reporting cycle.

Government could provide a pre-budget consultation paper early in the budget process (say early Fall). That would include updates of economic and fiscal forecasts and raise the strategic issues that government expects to have to address in the budget. It would inform the budget development process, any public pre-budget consultation process (see Issue Paper #4) and the development of AFR business plans by all of the affected organizations.

The strategic plan would then be formalized in the Speech from the Throne if it is read prior to the budget, as is usually the case or be released before or with the budget if there is no Speech from the Throne. The budget documents would provide a financial plan consistent with the strategic plan and would define strategic level performance indicators and give previous period results and set targets. In addition, the budget documents would include standard fiscal performance indicators, including those recommended by the CICA.

Following release of the budget and spending allocations being confirmed for ministries, business plans would be quickly finalized (say within three weeks) and publicly released, providing ministerial public policy performance indicators for ministries and non-commercial Crown corporations for which the Minister is responsible. Some of the indicators could also be incorporated in the Estimates, similar to the approach taken in Alberta and for the programs that have established performance indicators in the 1999/2000 British Columbia Estimates. Commercial Crown corporations and other public institutions (e.g. SUCH sector) would also be required to produce annual public business plans but linked to their fiscal year end rather than the budget cycle.

Care would have to be taken for all public bodies not to require them to disclose details of business activities that would put them at a disadvantage in the market-place. These business plans would not be detailed descriptions of business activities but directed at providing information allowing them to be held accountable for results.

During the year, government Quarterly Reports would also report on the key strategic level performance indicators identified in the budget documents. The Public Accounts would provide year-end reporting of all performance indicators consistent with the Estimates. Annual reports for ministries and other public bodies in the reporting entity would be provided within 90 days of year end and provide more detailed information on performance indicators, consistent with the organization's business plan. There is more discussion of the timing, form and content of these information sources in Issue Paper #8.

Consequences

There is considerable debate about the role of consequences in performance management. In the private sector, it is generally acknowledged that rewards and penalties associated with performance management are strong incentives to improve results. However, the incentives also may result in selection of performance measures that are more likely to be favourable, setting of targets that are sure to be met or manipulation of data to change the results.

The public sector differs from the private sector in a number of ways, including the degree of public scrutiny of the public sector compared to most private sector enterprises. Some believe that is all the more reason why effective consequences need to be established as part of an effective performance management regime. Others argue that public scrutiny is a highly motivating consequence in its own right and that elected officials and staff alike will be strongly incented to achieve their targets by the fact that measures of their performance will be public.

There is another perspective on the questions of consequences that leads back to the question of why one would implement AFR or PMO in the first place. Presumably, the answer to that is to make government more effective and efficient on an ongoing basis. That implies that the most important thing is not actually how well government does in achieving any given performance target in any given period but rather how responsive government is to the measured results in making adjustments and improvements over time. Penalising poor performance may not always lead to improvements in performance or in continued commitment to accountability. In other words, is important that there be a constructive element to performance management if it is to achieve its objective.

Government can, of course, affect how the results are interpreted. Lower than expected success can be reported as an opportunity. (i.e. This is the result, this is why we think that happened, this is what we are doing about it and this is what we expect to happen as a result.) The reaction will depend on government's credibility and its previous record in adjusting policies or administration to improve results.

Barriers to Implementation

A number of barriers have been identified to implementing and operating a performance management regime. They include:

- Lack of senior (elected officials and staff) commitment.
- Resources. Especially while the system is being established, there is a concern about the resources that would be required to implement AFR and especially PMO.
- Concern about being held accountable for results one is responsible for.
- Concern about being held accountable for results beyond one's responsibility or authority and lack of progress in reducing central controls.
- Concern about less than constructive use of the information by the Opposition, the media and interest groups. "Why should we provide these people with more information to beat us over the head with?"
- Difficulty in defining performance indicators, especially strategic and public policy level indicators and outcome indicators.

As mentioned below in the "Summary of Consultations," the participation of the Auditor General may have affected the success of the implementation to date of performance management. It is clear that without the strong efforts made by the OAG to encourage government to move to more accountability for results, little would have happened. However having the watchdog an active participant in the design of the system rather than with a more arms' length role as critic is believed by some to have reduced the sense of government commitment to the initiative and thereby reduced the chance for success. Whether or not there is any validity to this analysis, it is clear that the work done from 1995 to 1997 has had less impact than had been hoped and most believe that was due to lack of senior (minister and deputy minister) demonstrated commitment.

Summary of Consultations

External Input

The Certified General Accountants Association of British Columbia submission indicates:

> The CGA-BC believes that this initiative (the joint Auditor General/Deputy Minister Council accountability initiative) must become a top priority and that can only be achieved if, as Mr. Morfitt puts it, there is "a strong message from the centre."

The Chartered Accountants of British Columbia have made the following recommendation:

> The Chartered Accountants of B.C. believe that the Government of B.C. must develop and publish a comprehensive long-range plan for the Province. The plan should include measurable financial and performance targets.

Input from the Immediate Public Sector

There is general support in the immediate public sector for increased use of performance management and performance measurement. None of those interviewed argued that government should not move to performance management.

Given that, much of the discussion focused on why, given that support and the fact that this has been a stated priority of government since at least 1995, the results to date are somewhat spotty.

The following are some of the reasons given:

- Lack of senior support. While the Deputy Minister's Council and Cabinet were both publicly on record as being committed to accountability for results, it was clear to many senior staff that this was not really a Government priority.
- Overly technical approach. Central support for the initiative was perceived to be overly theoretical and not sufficiently practical to provide the initiative with needed momentum.
- Direct involvement of the OAG. Distrust for the motives of the OAG and concern about blurring of the OAG role from oversight and independent review to participation in operational issues may have reduced government commitment.
- Concern about being held accountable, especially for results beyond one's control.
- Lack of clarity about who is accountable. Without mechanisms that make it clear what the ministers and cabinet are responsible for and what staff are accountable for, it is difficult for individuals to see how they personally are going to be affected.

- No progress toward reducing input controls. Performance management only will work if accountability for results is used to replace input controls, such as limits on spending by Standard Objects of Expenditure (STOBs) and on FTEs. There was no confidence that increased accountability for results would reduce the level of "micro-management" throughout the immediate public sector.

In response to questions about how these barriers can be overcome, the responses included strong top-down direction, legislation, demonstrated commitment to reducing input controls and policy micro-management, increasing long-term planning, and a move to more formal definition of accountabilities through, for example, management contracts or letters.

Options

The following is intended to isolate, from the discussion above, issues for discussion by the Panel.

The status quo (continue along the current path) is an option. Given that progress is being made, the Panel could recognize that progress and indicate support for continued progress.

Alternatively, Panel could specifically recommend that government proceed with AFR or PMO or both. Four options would be:

1. Implement the strategic performance and fiscal performance levels of AFR described above and then consider moving on to the ministerial public policy performance level of AFR;

2. Implement the ministerial public policy performance level of AFR and then consider moving on to the strategic performance and fiscal performance levels of AFR;

3. Implement all of AFR and then consider moving on to PMO; or

4. Implement PMO and then consider moving on to AFR.

For any of these options, the Panel could also choose to recommend some of the principles implicit in the discussion above to the government.

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[1] For example, when the binding constraint is the number of FTEs rather than the amount of money, alternatives to employees that are often more expensive could be used to discharge responsibilities. In addition, reducing the reported number of FTEs has been as much an incentive to move operations out of the CRF as reducing the reported deficit (See Issue Paper #2).