Expenditure Management: The Canadian Perspective

Presented to: OECD Network on Performance and Results
Date: December 2, 2009
Outline

- Canadian Context
- Program Review (mid-1990’s)
- Expenditure Management System
- Canada’s Economic Action Plan
- Annex: Strategic Reviews
The Canadian Context
The Canadian Context

• Canada is a big country with relatively few people, a decentralized government with services delivered across its territory and internationally

• Canada’s size and governmental system pose unique challenges for monitoring and reporting:
  – Highly decentralized federation: 10 provinces, 3 territories
  – Hundreds of federal-provincial agreements and federal programming, weighted towards transfer payments
  – 35 million citizens over a vast geographic area

• The federal government comprises over 90 departments & agencies, 46 Crown corporations:
  – Over 300,000 core public servants
  – Over 1,600 points of service across Canada
  – Over 2500 programs and 350 million transactions per year
Federal Expenditures Overview 2009-2010

Total Expenditures $235.8 B
(Fiscal Year 2009-2010)

- Major and Other Transfer Payments, 44%
- Direct Program Expenditures, 42%
- Public Debt Charges, 14%
- Operating Expenses, 60%
- TB/TBS Focus

Major and Other Transfer Payments
$104.3 B

- Health & Social Transfers, 32%
- Elderly Benefits, 31%
- Equalization & Transfers to Territories, 17%
- Child Care Benefits, 2%
- Other Transfers, 3%

Direct Program Spending $99.6B

- Grants & Contributions, 35%
- Crown Corporation Expenses, 5%

Source: Main Estimates – Part I 2009-2010
Expenditure Review & Results Agenda in Canada: A History

**Federal Accountability Act 2006** - cyclical evaluation of all transfer payment programs

**Management, Resources and Results Structure** – detailed program level knowledge

**Improved Reporting to Parliament** – expanding whole of government planning and reporting

**Renewed Evaluation Policy** – quality, capacity, credibility, and expansion of coverage

**Management Accountability Framework** – assessing management performance across government

**Canada’s Performance** – linking programs to societal performance

**Results for Canadians** – results-based management as a stated priority of government

**Transfer Payment Policy** – performance frameworks and evaluations reviewed by TBS

**Modern Comptrollership** – investment in management practices and controls

**Program Review** – dealing with a large deficit through major expenditure cuts

**Departmental Reporting to Parliament** – moving to results-based plans and reports on performance

**Planning Reporting and Accountability Structures** – unsuccessful try at linking resources to results

**First Program Evaluation Policy** – government-wide implementation
Program Review
Mid 1990s: A changing fiscal landscape

Program Review was initiated in May 1994 – objectives were to:

1. Reducing government expenditures
   - Reduce the deficit-to-GDP ratio to 3% by 1996-97 and to 2% by 1997-98

2. Getting government right
   - Concentrate on core federal roles & responsibilities
   - Improve cost-effectiveness of programs
   - More accessible government
   - Use of alternative service delivery
Results of Program Review

• Over a three year period (1994-97) the fiscal crisis was addressed through major expenditure cuts
  – 1995 Budget announced $16.9B in savings over 3 years, further $2B in savings announced in 1996 Budget
  – Overall spending fell by 10% from 1995 to 1999, capital spending fell by 35%
  – By 1997-98 the surplus was $3.5B - and ran consecutive surpluses until 2007-08
  – By 2007-08 the debt-to-GDP ratio was down to 29.8%
Results of Program Review (cont’d)

• Government of Canada shifted its role from ownership and operations to core policy development and regulatory responsibility

• Social sector roles were realigned among levels of government to reduce overlap

• Partnerships built with provinces and local communities, and the private sector to better deliver programs

• Barriers were eliminated among federal organizations to streamline the delivery structures

• Total federal public sector employment declined by about 55,000 between 1994 and 1998
Management of Spending post-Program Review

• The successes of Program Review were counterbalanced by some subsequent challenges (issues):
  – Reduced capacity in important oversight areas: audit, evaluation, financial management
  – By late 1990s, budget surpluses led to new spending without any systematic assessment of direct program spending and whether reallocation was needed
    • Cabinet focus on new (incremental) spending
  – Continued use of ad hoc restraint exercises to control spending as need arose, e.g.:
    • Expenditure Review Committee
    • Expenditure and Management Reviews

• Recognition of these issues informed the approach taken in renewing Canada’s Expenditure Management System
The Expenditure Management System
Canada’s Expenditure Management System

• The Expenditure Management System (EMS) is the framework that supports the Government in the identification and implementation of its priorities and spending plans with the fiscal limits established by the Budget.

• The underlying objectives:
  – Aggregate fiscal discipline (i.e. control of overall growth in spending)
  – Effective allocation of government resources to areas of highest relevance, performance and priority
  – Efficient and effective program implementation
The System is supported by three pillars

- **All spending must be managed to transparent results/outcomes**
  - Clear measures
  - Assessed and evaluated systematically and regularly
  - Demonstrating value for money

- **Up-front discipline** is applied to new spending proposals to manage spending growth
  - Include clear measures of success
  - Demonstrate how the proposal fits with existing spending and results
  - Provide reallocation options for funding

- **Strategic reviews** assess existing spending over a four-year cycle to ensure alignment with government priorities, and effectiveness, efficiency and economy
  - Programs expected to demonstrate results in support of government priorities
  - Decision-making to use objective, evidence-based information
Canada’s Economic Action Plan
Canada’s Economic Action Plan

- In January 2009 the Government introduced a two year, $61-billion stimulus plan: The Economic Action Plan (EAP)

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<td>(millions of dollars—cash basis)</td>
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<tr>
<td>Reducing the Tax Burden for Canadians</td>
<td>3,020</td>
<td>3,180</td>
<td>6,200</td>
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<tr>
<td>Helping the Unemployed</td>
<td>2,708</td>
<td>3,546</td>
<td>6,254</td>
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<tr>
<td>Building Infrastructure to Create Jobs</td>
<td>9,589</td>
<td>6,412</td>
<td>16,001</td>
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<tr>
<td>Creating the Economy of Tomorrow</td>
<td>1,871</td>
<td>2,184</td>
<td>4,035</td>
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<tr>
<td>Supporting Industries and Communities, Including International Partnerships to Support the Automotive Industry</td>
<td>11,824</td>
<td>2,178</td>
<td>14,002</td>
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<td><strong>Total federal stimulus measures</strong></td>
<td>29,012</td>
<td>17,479</td>
<td>46,492</td>
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<td>Assumed provincial and territorial actions</td>
<td>9,691</td>
<td>5,045</td>
<td>14,736</td>
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<td><strong>Total Economic Action Plan stimulus</strong></td>
<td>38,703</td>
<td>22,524</td>
<td>61,228</td>
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Canada’s Economic Action Plan – Links to Performance Information

- Approximately 206 initiatives were announced in Budget 2009:
  - Departments are to align “top up” initiatives to their Program Activity Architecture and Performance Measurement Framework
  - Departments must develop performance information for “new” initiatives

- Performance information gathered by departments will be used to demonstrate progress towards achieving EAP objectives
Current EAP reporting requirements stem from a Budget Amendment

“On condition that the Government table reports in Parliament no later than five sitting days before the last allotted day in each of the supply periods ending March 26th, 2009, June 23rd 2009, and December 10th, 2009:

a) to provide on-going economic and fiscal updates;
b) to detail the actual implementation of the budget;
c) to itemize the actual effects of the budget with respect to:
   − the protection of the most vulnerable in Canadian society;
   − the minimizing of existing job losses;
   − the creation of the employment opportunities of tomorrow;
   − the provision of economic stimulus in a manner fair to all regions of Canada; and
   − the assurance that the Government's deficit is not a burden to future generations or a detriment to economic recovery and;

d) to provide details on any adjustments or new measures as may be required to benefit the Canadian economy.”
Future Reporting on EAP Initiatives

- Departments will be expected to report in their next Report on Plans and Priorities and Departmental Performance Report on spending and results of EAP initiatives.

- TBS is providing specific guidance on how to report the following components in their 2010-11 Reports Plans and Priorities:
  - Planned EAP spending (for new initiatives or top-ups of existing programs)
  - Expected results for EAP initiatives and
  - Indicators and targets for EAP initiatives
Annex: Strategic Reviews
Strategic Reviews – Key Elements

- **Objective of Strategic Reviews:**
  - Assess all direct program spending and performance over a 4 year period to ensure value for money for existing spending.

- **Comprehensive Review of Programs**
  - Strategic Reviews assess whether programs are aligned with government priorities, are effective and efficient and provide value for money.

- **Reallocation and Reinvestment Proposals**
  - Through the comprehensive review of programs, organizations identify the lowest priority and lowest-performing 5 per cent of programs (reallocations) and propose higher-priority, higher performing programs for reinvestment:

### Potential for Improvements/Reinvestments

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<th>High-Priority</th>
<th>Potential for Improvements/Reinvestments</th>
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<tr>
<td>Low-Priority</td>
<td>Potential for Reinvestment</td>
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<td>Low-Performing Secondary Candidate for Reallocation</td>
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<td>High-Performing Primary Candidate for Reallocation</td>
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100% Organizational Review Base
Strategic Reviews – Key Elements (cont’d)

• **Strategic Reviews – key components:**
  - **Analytical Framework:** The organization’s Program Activity Architecture (PAA), which outlines its programs and activities in support of strategic outcomes, and reflects the way the department is managed to achieve results
  - **Evidence Base:** Evaluations, Audits, Management Accountability Framework assessments, Auditor General Reports, and other reports
  - **Departmental Steering Committee** with ex officio membership from TBS
  - **External Advice:** Expert outside advisors to ensure neutrality and credibility

• **Critical conditions for success:**
  - Clear and strategic alignment of programs and results (strong PAA)
  - Comprehensive assessment of all programs (100%) - not focussing only on 5%
  - Multiple lines of evidence – evaluations, audits, benchmarking, international comparisons
  - Early involvement of senior management team
  - Serious ministerial engagement throughout the Review process
  - Arm’s length expert advice as effective challenge to proposals and alternatives
Results of Strategic Reviews

The first and second rounds of reviews generated significant reallocations and reinvestments.

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<th>Strategic Reviews</th>
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<td>2007: 17 organisations reviewed $14B (approx. 15% of Direct Program Spending)</td>
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<td>2008: 21 organizations reviewed $25B (approx. 27% Direct Program Spending)</td>
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<td>Over 40% of Direct Program Spending now examined</td>
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<td>Reallocations identified from last round: $349M in 2009-10, $449M in 2010-11, $586M in 2011-12 (Budget 2009)</td>
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Reallocations (or savings) were redirected to fund new initiatives, both within departments and for broader spending priorities in Budget 2008 and 2009.