



Canada: Renewal of the Expenditure Management System, Strategic Reviews, and Lessons Learned

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➤ Context and background

“The reallocation of resources is at the heart of budgeting. As national conditions and problems change, the direction of government strategy – and therefore the budget – must be able to adjust accordingly for resources to flow to where they are most effective.”*

* Matheson, A. (2002) “Better Public Sector Governance: The Rationale for Budgeting and Accounting Reform in Western Nations.” *OECD Journal on Budgeting*, Vol. 2, No. 1: p. 41.

The fiscal challenge

- Fiscal sustainability is achieved by governments via four broad categories of actions: revenue increases, changes in operations and in how public services are delivered, cuts to program spending,¹ and managing the demand side of expenditures (up-front discipline)
- Across-the-board cuts have been, and continue to be, a common method in OECD member countries to reduce deficits or create pools of resources to fund new initiatives
- The Canadian federal government has undertaken many review, restraint and reallocation (the “triple Rs”) exercises prior to Strategic Reviews
 - Nielsen Task Force (1984-86)
 - Program Review (1994-95)
 - Program Integrity (1999-2000)
 - Departmental Assessments (1999-2003)
 - \$1B Reallocation (2003)
 - Expenditure Review (2004-05)
 - Restraint Exercise (2006)

Across the board cuts and unpredictable approaches can put at risk the sustainability of decisions and undermine management excellence

Learning from the past, building for the future

***“The new Expenditure Management System will fundamentally change the way the government operates”
(Budget 2007)***

- The renewed system was designed with two fundamental objectives in mind:
 - ✓ Management excellence
 - Ensuring good management and value for money
 - ✓ Fiscal credibility
 - Ensuring overall spending growth is controlled

Expenditure Management System grounded in results-based management, with three key pillars...

1. Managing for Results

All Spending

- ✓ Benchmarking our programs and demonstrating results for Canadians

2. Up-front Discipline

New Spending

- ✓ Managing the demand side of expenditures
- ✓ Critical information for Cabinet decisions (i.e., Strengthening Memoranda to Cabinet)

3. Strategic Reviews

Existing
Spending

- ✓ Ongoing advice to Cabinet as part of Budget planning to align spending to government priorities and ensure performance and value for money

➤ Strategic Reviews

Tough choices are at the core of the budgetary process, especially in times of fiscal stress. Strategic Reviews provide a systematic process to support government in making these tough choices in a manner that supports both management excellence and fiscal credibility.

What they were?

- **Strategic Reviews were an exercise undertaken by federal organizations on a cyclical basis for which the resulting recommendations fed into the Budget planning process.**
- **A Strategic Review was comprised of:**
 - **A comprehensive review of all programs and spending in the organization (focus on program effectiveness) to assess:**
 - **Whether each program is aligned with government priorities and core federal roles, is effective and efficient, and provides value for money**
 - **Whether there are more effective and efficient ways for each program to be delivered**
 - **An identification of reallocation possibilities**
 - **The Strategic Review exercise had a five per cent reallocation target**
 - **Flowing from the comprehensive review, organizations identified:**
 - ✓ **The lowest-priority and lowest-performing programs**
 - ✓ **Areas for improvements are identified to support management excellence**

Comprehensive assessments ensure excellence in management, operations and service delivery for existing spending, while the reallocation target ensures fiscal discipline is maintained

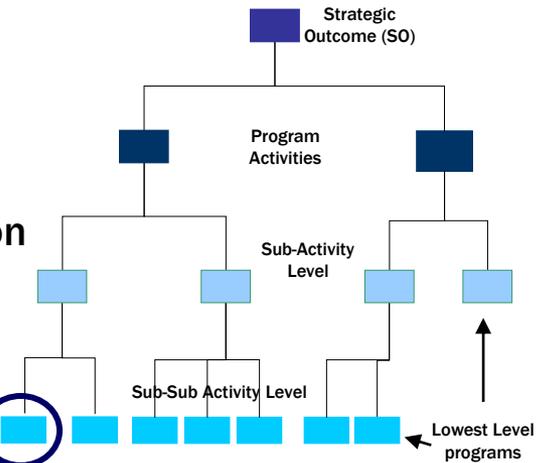
Overarching questions considered

Organizational Performance – Strategic Overview

- Is the current mix of programs and instruments aligned to contribute to the organization's strategic outcomes? Are adjustments required?
- What emerging issues and challenges does the organization expect to face in the coming years?

Comprehensive Program Assessment:

- Is the program a government priority?
- Is the program consistent with core federal roles?
- Does the societal need for which the program was designed still exist?
- Is the program achieving expected results?
- Is the program achieving results efficiently?
- Can improvements be made to internal services to maximize efficiencies?
- Are there opportunities to reduce overlap and duplication to achieve greater efficiencies and savings?



Key additional considerations: potential implementation and communications issues must be identified and strategies to manage these developed

How they evolved?

- **Initially, Strategic Reviews were designed in a context of fiscal abundance**
 - Reinvestment proposals were considered, providing Ministers opportunities to put forward options for reallocating funds to higher priorities within their organizations
 - The 5% reallocation target initially was not firm
- **The fiscal context changed and Strategic Reviews adapted**

“Strategic reviews are proving to be an effective tool in helping to control spending growth by providing a mechanism for reviewing the performance and relevance of existing programs and their alignment with government priorities.”

Strategic Reviews are one of the elements of the Government’s plan to return to a balanced budget, and are the means by which the Government “will aggressively review all departmental spending to ensure value for money and tangible results”.

Budget 2010

Overview of the first 'cycle'

- **Four rounds of Reviews undertaken, covering 67 organizations and amounting to some 98% of direct program spending**
 - **Results of the last round (2010) communicated in Budget 2011**
 - ✓ Covered approximately \$48 billion in direct program spending
 - **Results of first three rounds (2007, 2008, 2009)**
 - ✓ Covered approximately \$65 billion in direct program spending
- **Ministers, Treasury Board and Cabinet were engaged throughout the process**
- **Quality of Reviews improved with each successive round**
- **Lessons learned informed future expenditure restraint exercises**

Were objectives met?

- **Management Excellence – Strategic Reviews:**
 - **Provided Ministers and Cabinet, as well as senior public servants with:**
 - ✓ A better understanding of the organization, its outcomes and the programs in place to achieve them
 - ✓ An effective way to identify duplication, inefficiencies and ineffectiveness, as well as strategies to address those issues
 - **Helped embed the tools of “results-based management” (e.g., Program Activity Architectures, evaluations, performance measures) into the Budget planning process and the government’s management culture**
- **Fiscal Credibility – Strategic Reviews:**
 - **Entrenched a systematic and regular review of existing spending against federal roles, priorities, and program performance in the Budget planning process**
 - **Provided a robust process that delivered sustainable reductions**
 - ✓ Will yield some \$3B in annual ongoing savings beginning in 2013-14

Lessons Learned – Conditions for success

- Sufficient time for deliberative process
- Ministerial engagement throughout the Review process
- Clear and strategic alignment of programs and results (a robust ‘architecture’ or inventory of programs and their associated expected outcomes)
- Comprehensive assessment of all programs (100%) – not focusing only on savings target
- Early involvement of senior management team – policy, communications, and corporate services
- Multiple lines of evidence – evaluations, audits, benchmarking, international comparisons
- Consultations with relevant government organizations
- Arm’s length expert advice to challenge proposals and alternatives

Possible Improvements

- ✓ Expenditure reduction exercises should include consideration of strategic issues (e.g., instrument choice)
- ✓ Different fiscal imperatives require flexible approach to reallocation target
- ✓ Sufficient time required to undertake comprehensive review
- ✓ Improve quality of evidence base and encourage sharing of best practices

Enhance Strategic Discussion

Establish targets according to fiscal requirements

A fixed schedule, communicated ahead of time, to allow adequate time for transformative change and business process improvements

Enhance Guidance and Information Sessions for departmental practitioners

Possible Improvements (cont'd)

- ✓ Greater clarity on what is 'eligible' for savings
- ✓ "Horizontal" reviews are a good idea, but can be extremely resource intensive and face difficult problems of governance and accountability
- ✓ The "one size fits all" approach creates particular issues for small organizations
- ✓ Consider paper burden (both on review organizations as well as on central agency officials)

Ensure criteria for review base calculations and targets are firm and commonly understood

Focus on review of organizational "clusters"

Differentiate approach to tailor to different organizational contexts

Streamline Information Requirements

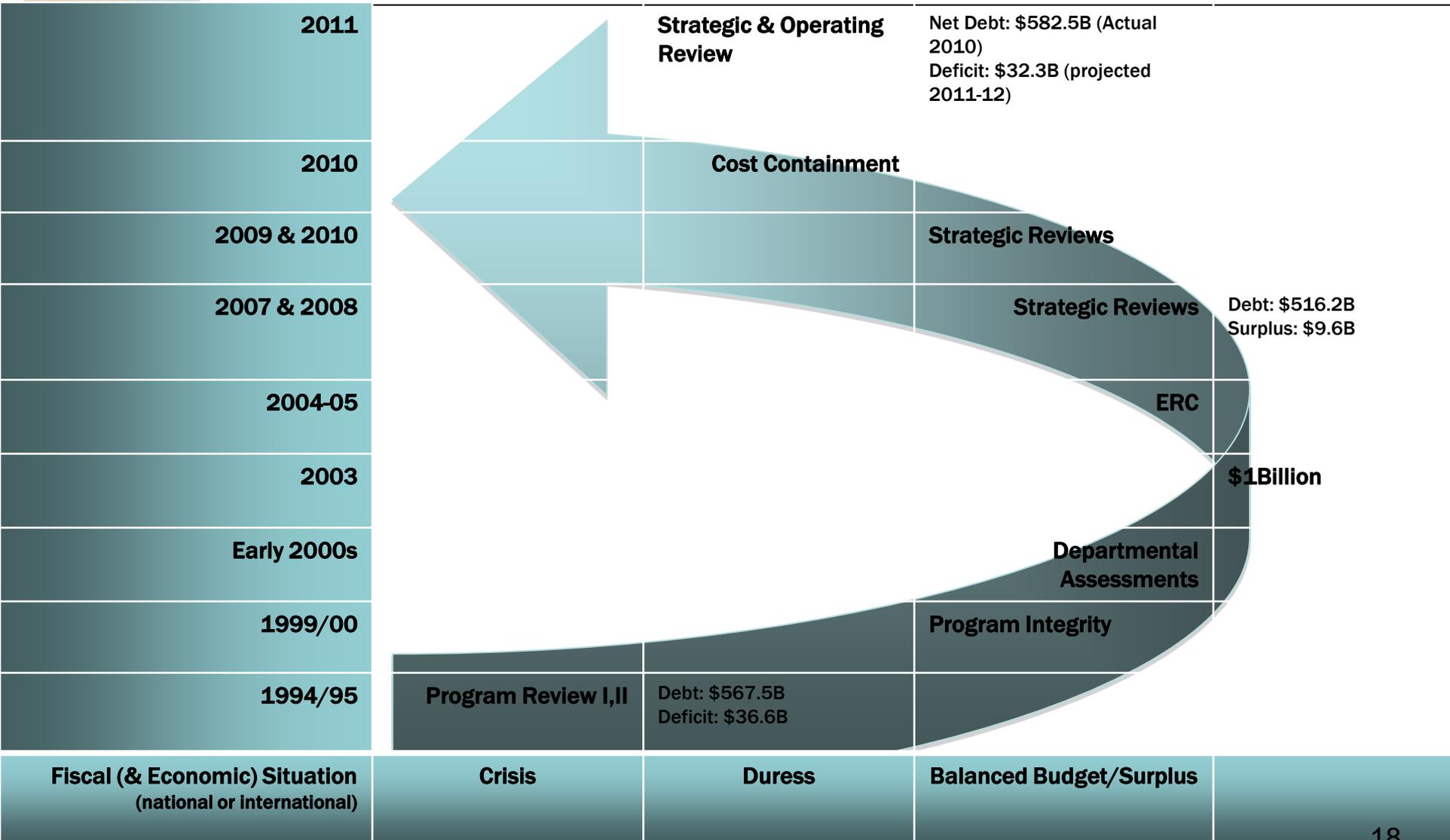
What's Next – Strategic and Operating Review

- **Strategic Reviews proved to be sufficiently flexible to respond to changing fiscal imperatives**
 - However, the magnitude and global reach of the recent economic and financial crisis called for a different and more aggressive approach
- **Emphasis now on fiscal restraint and ‘back to black’**
 - Budget 2011 announced a “strategic and operating review” to achieve at least \$4 billion in ongoing savings by 2014-15
 - A one-time review involving 67 organizations covering about \$80 billion of direction program spending (major transfers to other governments and to individuals excluded)
 - Process to look at both department-specific and cross-cutting opportunities for savings
 - Emphasis on operating costs – not a “program review” – but organizations encouraged to examine full range of options, including more fundamental ways to re-engineer their business models
 - Savings required within three years, with results announced in Budget 2012

Some Conclusions

- **Flexibility, “intelligence” and adaptability are key**
- **Lessons Learned from past experiences with the “triple Rs” reveal that numerous conditions are important to ensure the success of such exercises:**
 - **High societal consensus**
 - **Strong political leadership to ensure follow-through and political commitment to move beyond incremental alterations to the status quo towards a more fundamental “re-think” of how, why and with whom government does “business”**
 - **Organizational preparedness to capitalize on an opportunity for strategic change**
 - **Careful management and monitoring to avoid shortfalls and ensure decisions are fiscally, socially, economically, politically, and programmatically sound and sustainable**
 - **Effective communications**
 - **Integrated into the expenditure management and budgeting system to ensure follow-through (announcement, implementation, monitoring)**
 - **Sufficient predictability to:**
 - **Facilitate a sound and relatively efficient process**
 - **Enable evidence-based innovative solutions to emerge**
 - **Support informed decision making**

“Triple Rs” in Historical Perspective: A Recurring Event Adapted to Different Circumstances



Focus shift (spectrum): achieving savings (fiscal credibility/discipline) → achieving management excellence

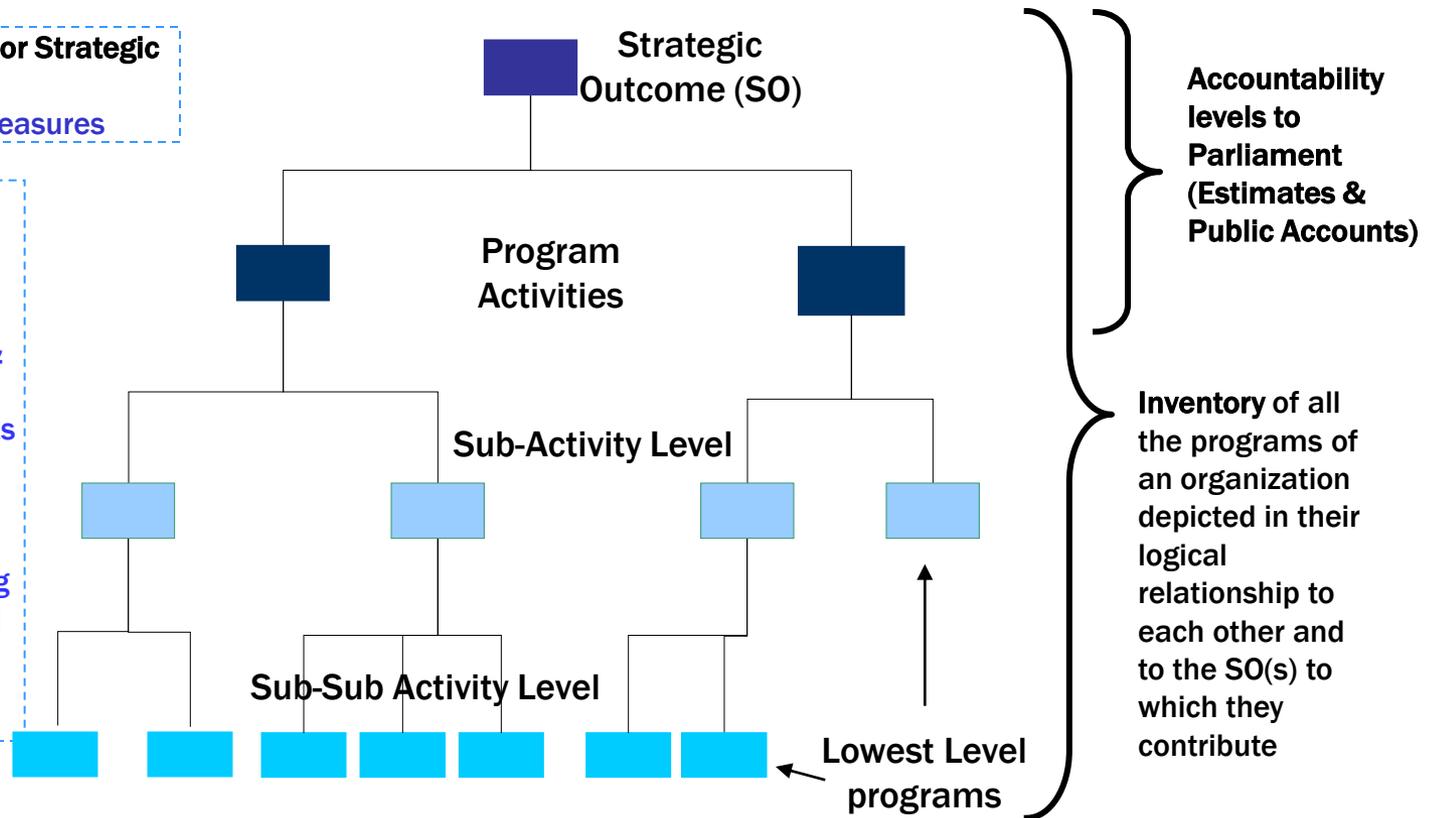
The challenge ahead

- **Maintaining healthy balance between management excellence and fiscal credibility objectives**
- **Keep momentum on systematically assessing the mix of policy, program and delivery instruments to achieve government objectives and inform decisions about allocation of resources**
- **Continue to drive at more effective and efficient service delivery and administration**
- **Track, monitor and carefully manage the cumulative impacts of various “triple R” measures on the public service and the programs and services it delivers**
- **Institute robust up-front discipline to carefully manage spending demands**
- **Sensitively manage change agenda and related communications**

Annex A : The Management Resources and Results Structure Policy and the Program Activity Architecture

Policy requirements for Strategic Outcomes include:
 ✓ Performance Measures

Policy requirements for each program activity element include:
 ✓ Program title & description
 ✓ Expected results
 ✓ Performance measures
 ✓ Planned & actual spending
 ✓ Target & actual results
 ✓ Governance



The Program Activity Architecture serves as the basis for the collection and analysis of evidence (including MRRS and evaluation policy requirements, as well as other lines of evidence such as benchmarks, special studies, etc.)