

Innovations in Public Expenditure Management

Country Cases from the Commonwealth

Edited by Andrew Graham



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The Institute
for Administrative Policy
Studies of the Government
of Canada



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du Canada

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Foreword

Transparent and accountable expenditure management is a key feature of a professional and credible public service. In a rapidly changing and often challenging public sector environment, innovative public servants across the Commonwealth are seeking new and creative approaches to enhance the efficiency and effectiveness of their work. In response to this need, the innovations shared in this publication are both inspiring and helpful to leaders, practitioners and students who are keen to make a difference in their respective jurisdictions.

Committed to the achievement of the Millennium Development Goals, the Commonwealth Secretariat recognises that public sector leadership in all spheres of its work is necessary to achieve peace, democracy, pro-poor growth and sustainable development. Drawing on the potential of good practices in public service delivery, including revenue generation and expenditure management experience, and innovations from its 54 members, the Commonwealth shares its learning through collaborative events and publications like this.

The promotion of innovation and excellence in public administration and management through networking with leaders, scholars and practitioners worldwide is a key priority of the Institute of Public Administration of Canada (IPAC). IPAC develops unique programmes, conferences, workshops and publications to address individual, government and organisation sustainable development and learning across all jurisdictions in Canada and internationally.

With these common interests, the Commonwealth Secretariat and IPAC have developed a long history of partnership and co-operation. It was about six years ago that we set in motion a series of Secretariat–IPAC initiatives. During these programmes, experienced and imaginative expenditure management practitioners from across the Commonwealth met in Canada to share their successes, challenges and lessons learned. We realised that the innovations and lessons shared warranted further recognition, and provided potential learning for others. It was from this idea that this book of case studies was born.

Our very great appreciation is extended to Andrew Graham, who agreed to work with the authors and us to edit this publication; Leslie Shimotakahara, who co-ordinated the initial call for and identification of cases; and the Commonwealth Secretariat team (Kaifala Marah, Marcel Holder Robinson, Kerstin Erickson and Nicola Perou), whose persistence and professionalism ensured the resulting publication of this book.

We at the Secretariat and IPAC hope you find this collection of cases informative and thought-provoking and we welcome your feedback.

Max Everest-Phillips
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of Canada*

Acronyms and abbreviations

ALP	Australian Labor Party
CAO	chief administrative officer
CDF	Constituency Development Fund
CFC	Constituency Fund Committee
CFO	chief financial officer
CLG	community and local government
FAP	financial advisory panel
FRL	fiscal responsibility legislation
MCA	Manton Community Alliance
MFO	managing for outcomes
MRRS	management resources and results structure
MTEF	medium-term expenditure framework
OMBI	Ontario Municipal Benchmarking Initiative
PAA	programme activity architecture
PBO	parliamentary budget office
PSAB	Public Sector Accounting Board
ZRA	Zambia Revenue Authority

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Editor's introduction

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The world of public expenditure management is a wide one. The topic covers a series of elements of how governments, their citizens and many other related institutions manage their resources, achieve public goods and results, and account for their stewardship and delegated responsibilities. When one embarks on the task of finding points of innovation within public expenditure management, this breadth becomes immediately clear.

Perhaps the first lesson from assembling material on innovations in this area is just how expansive public expenditure management has become in the past several decades. In addition, one can note that the very boundaries of the topic have grown as the centrality of effective public expenditure management has been realised in both developed and developing countries. Add to this the increasing integration, as readily outlined in these cases, of what had hitherto been purely financial concerns with broader political and democratic objectives as well as the introduction of greater transparency linked to broader issues of effective public managements. These cases are proof of the emerging view that those engaged directly in managing public funds cannot do so in isolation from the institutional, cultural, political and, increasingly, environmental dimensions of how public funds are secured, managed and accounted for.

The range of innovation in public expenditure management is vast. However, there appear to be three main themes in play around the world today:

- 1 Technical financial changes, such as the introduction of accrual accounting in the public sector and the increasing use of large enterprise-based financial systems;
- 2 A drive towards greater transparency in public expenditure information and control accompanied by a greater linkage of programme and public results with how money is spent, where it is spent and how it is displayed, most often called performance management; and
- 3 Democratisation of the budgetary and allocative processes that involve greater citizen participation, reduction in highly centralised political and bureaucratic control.

The cases in this book focus primarily on the second and third themes. With respect to many of the technical changes, individual cases are rare. That does not mean that governments everywhere are not going through significant changes in technology, upgrades of accounting practice and the establishment of electronically available end-user information systems. Rather, these developments tend to have a globally common character: there

is a strong tendency towards standardisation and use of platforms that are commercially available. However, the transferability of this experience is questionable. It is important, in setting the context for the cases that are presented, however, to note that these developments are taking place. They tend to occupy a great deal of attention of the bureaucracies of countries in the implementation phase. Their very existence is, to some degree, a precursor for effective innovation. For instance, providing innovative means of greater transparency in financial performance reporting assumes that systems are in place that can readily provide such information.

However, with respect to the other trends, there is much to be learned from each other. It would be useful to set all three themes in some further context to arrive at a view of the overall state of public sector management in the Commonwealth countries that are covered in this book. The following comments are based, therefore, not simply on the cases, but on a broader reading in the field.

A word of caution is appropriate at this point. Case studies are a vital way to learn from others. They provide not simply facts, but context and, at times, rich complexities that are often unique to the circumstances involved. Further, they are often stories of works in progress. The lessons they provide are important. However, they are not official programme evaluations or audits. Their claims of success, therefore, have to be taken with some caution as all environments change, affecting the ultimate outcomes.

Technical advances

Governments around the world have undergone significant changes in how they manage their resources. An increasing capacity to adapt computer-based accounting systems in a more standardised and transparent way have driven the technical elements of these changes. Further, these new accounting systems are more accurately described as enterprise management systems as they link, in varying degrees, other important information on performance, capital assets, inventory and net worth of assets. They also report on the debt load a government carries, a significant concern of all countries. In addition, they are more and more linked to stated results expectations or goals as well as performance data. Ideally, such technical systems also advance the cause of effective cost accounting that encompasses a true view of what a public good actually costs to deliver over time.

Variation around the world in technical capacity is great. However, the growth of international accounting standards and the introduction of accrual accounting represent new standards that governments will be judged by in terms of the technical competence of their financial statements and information provided to citizens. Understanding and making decisions of a country's credit-worthiness will increasingly depend on its ability to present financial information based on these standards. Apples must be compared with apples. The pursuit of increasingly scarce aid resources or of credit to support treasury debt will depend on the reliability of financial reporting. It becomes a matter of national interest that a government adopts international accounting practice to establish its credibility on the world stage.

The emergence of planning instruments

Governments have been engaged in various forms of integrated long-term planning with varying degrees of success. Certainly, the efforts of developing countries to adopt medium-term expenditure frameworks (MTEF) have produced mixed results, notwithstanding the applicability and generally accepted value of the tool. As Mike Joyce points out in chapter 1, Performance Information and Innovation in the Canadian Government, the connection between the intent of such developments and the outcomes can be tenuous. While Joyce points out that there is often an unclear link between the reforms and the intended outcomes, the question arises of what the results would have been if such reforms were not pursued in the first place. In other words, and MTEF is a good example here, reforms in planning regimes may not achieve the anticipated results in full. Further, there is a danger that the adoption of such tools can create distortions in both measured outcomes and organisational focus. One does not want to cast a funereal pall over these issues; these observations merely underscore the efforts required to make them effective and useful. However, when effectively implemented, the reforms represent a move in the right direction. Where they are doomed to fail is when they are implemented in a half-hearted fashion with the intention of meeting some external need and no internal or home value is seen in them. They have to have some meaning on the home front.

A further outcome of these reflections is to emphasise the need for countries to start modestly with their reform processes. The old rubric of 'under-promise and over-deliver' comes to mind as a sound strategy. Further, in planning for success, attention to the basics such as qualified staff, sound legislative basis and continued support from the top are essential.

Such developments are not uniquely innovative in that they are being adapted globally and, at times, with the sponsorship of international agencies with clear ideological or strategic intentions. They are broadly based trends that invite greater standardisation and compliance. Perhaps they can be characterised as modernisation with the anticipation of improvements arising from them. They represent minimal requirements in public expenditure control and measurement. The true test is whether there is real change towards such standards or passive compliance as a prerequisite for developmental aid or external audit sign-off.

The emergence of risk management as an effective tool

One area of increasing innovation that encompasses both technical and more broadly linked elements is the introduction of formal integrated risk management into both the budget and expenditure management systems. Robert Ng'uni in chapter 2, Using a Risk Management Framework in the Zambia Revenue Authority, documents the direct link of risk assessment to tax collection. He opens up a broader topic that is gaining worldwide usage: the open recognition of risk factors in making budgetary projections and in the execution of budget plans.

Increasingly, we see governments at all levels provide risk information in their plans as well as in the annual retrospective reporting. Unlike the introduction of systems and new accounting standards, the effective application of integration risk management practice

in government is a relatively new field, only in development stages in the literature. It will represent a major challenge in the coming years. This is a fertile field for further study and observation and Ng'uni makes a valuable real-life contribution. It points to the need to not only use risk analysis and mitigation strategies in the overall planning context, but also to integrate risk into the management of scarce resources, focusing on areas of highest programme risk. He offers a very practical example of how this can be done.

This paper also highlights an underlying issue for many countries in the Commonwealth – that of securing the revenue flow from taxation and fees. Unless this problem can be adequately addressed, other innovations are futile.

Apart from the obvious issues about tax avoidance and possible fraud and corruption, the question of cash management rises to a near critical state when there is instability or unpredictability in revenues. This paper shows how real risk assessment and follow-up can aid in mitigating that problem.

Financial management engages all public servants

A key theme that emerges in considering the technical innovations and trends in public expenditure management is the need for a highly professional public service to support these changes. That element of the public service engaged in financial management can no longer be narrowly defined accounting or bookkeeping experts anymore. They must have a firm understanding of the government services that they support. They must increasingly be able to translate financial results into programme results. They must develop greater capacity in risk assessment and mitigation, one that moves them away from being totally risk averse to becoming risk smart in the advice they give decision makers. And, as seen in a number of the cases outlined here, they must also have the independence and tools to serve the public goals of their jurisdictions. It is therefore in the interests of governments wishing to ensure sound financial management of scarce resources that they invest in having a cadre of professional financial managers addressing the modern demands of that profession.

This points to another trend that affects the nature of the financial management cadre. Many of the traditional functions of financial management are moving into automated computer systems and online as well. These traditional functions such as book keeping, generating reports and individual transaction entries, whether fully automated or outsourced, occupy less and less of the time of financial management staff. Increasingly, they must be active participants with programme, communications, planning and oversight elements of the organisation in adding value to the efforts to achieve often intractable public goods. They must bring a broader perspective to their roles than has been traditionally expected of them. This will have implications for the training of such professionals, for their development, for where they sit in the decision-making bodies of the organisation and what they are expected to deliver.

Transparency, openness and improved management

In the democratic traditions of Commonwealth countries, there is an inherent tension between those in power and those who scrutinise their activities. How this plays itself out is the stuff of politics, but it is also played out in public expenditure management. While there is much talk about a results focus in the examination of public funds and how they are spent, a great deal is also a concern for the distributional ('Did I get mine?') element as well as the procedural fairness accompanied with the avoidance of corruption. For those involved in public expenditure management, all three elements play themselves out on a continual basis.

This applies to the budgetary process itself. The Hon Beatrice Birungi Kiraso, in chapter 3: Establishment of Uganda's Parliamentary Budget Office and the Parliamentary Budget Committee, outlines the steps taken to open up the budgetary process to scrutiny by parliament. There have certainly been other developments in Commonwealth countries over the past few years that support this goal. Increased pre-budget consultations have reduced the opaqueness of the budgetary process in places. This is a crucial matter for the legitimacy of the budgetary process as a central decision-making forum for government priorities and their legitimacy. The usefulness of the Uganda case is that it lays open the tensions between the executive and parliament in this process. There are issues of control as well as the efficiency of the budgetary process. There are also issues of trust.

This chapter explores a theme that we see woven into the paper by Robert Ng'uni as well: defining the exact level and scope of the budget. Citizens and transparency in general are not well served when off-budget items, most notably foreign assistance, are not reported within the context of a unified budget document. Both budgeting for and reporting on foreign aid support – often in the form of loans, which in an accrual sense must be captured if the true financial condition of the country is to be established – need to be within the definition of the country's financial capacity.

What is clear is that the budgetary process is a growing concern to citizens. Given its iconic status in the overall flow of democracy, the budget represents a core piece of government business. Therefore, getting the processes surrounding it, especially when resources will continue to be scarce and choices demanding, is important. There is a great need for more innovative approaches to budget formulation. People fully understand the simple reality that policy articulated, no matter how lofty the language or ambition has no meaning in their lives or ambitions until the funds are allocated and spent to get something done.

Another key area where transparency and fairness are important issues is that of government procurement. Buying goods and services puts governments, often being the major national buyer, in positions to affect economic development and regional distribution of industry, but also to be accused of unfairness and even fraud. We see increasingly the development of government-wide legislative frameworks intended to bring the procurement process as a whole under greater control and scrutiny. Of interest in these instances is the tension between the issues of finding the economically reasonable purchase and the need to foster national industries and suppliers.

Lieutenant Colonel Ross Fetterly's review in chapter 4, Defence Procurement Reform in Australia, highlights the institutional and economic importance of defence procurement and its management. The various efforts at improved planning and better integration provide a useful case in the modernisation challenges for a field that has such potential economic benefit to a country. It also introduces the important innovation of strategic purchasing. This case provides insight into how one government tried to get not just process control ('Did we do it right?') but also strategic control ('Did we do the right thing?'). These are large and risky undertakings, whose ultimate value and success can only be gauged over the longer term. Nonetheless, the case offers a good example of an appropriate effort focused on the right issues. One area that has to be monitored is the degree to which such integrated approaches are affected by the political drive to create local employment over the potential for cost reduction and efficiencies. This is always a delicate balancing act.

One has to take note of the argument reported in this case study and common to issues of national procurement approaches – that of supporting local industry in the process. Governments often claim multiplier effects of defence purchases that subsequent research, if there is any, do not necessarily confirm. The view about the benefits of local purchase is strongly held by political leadership, even in the face of the absence of the capacity to actually deliver increasingly sophisticated weapons systems. The trade-off here will be between lowest cost and local employment, if it is possible to produce the goods needed. There is another trade-off: between integrated defence capacity on a global level with allies and going it alone. That is well outside the scope of this current publication.

As both cases point out, government procurement concerns more than just the acquisition of goods and services to sustain the functions of the public sector, important as that is. Often such procurement can readily affect domestic industries and their long-term viability. Further, large procurement projects, often involving major capital investments, produce new public goods such as infrastructure. Increasingly, the key element here is the appropriate determination of long-term costs of such projects. The areas of challenge where public sector innovation will not just be in good long-term costs and operation and maintenance impacts on budgets, but the social and environmental impact of such projects.

Inherent in any review of procurement issues is the need to address the issue of corruption effectively. Procurement is a weak entry point for corrupt practice and favouritism. Corruption itself can either be blatant theft or, more often, some form of special treatment or failure of due process that brings the outcome into question.

Performance management

The innovations in performance management have been extensive and need to continue to become more pervasive. There is a growing trend, whose final outcome is uncertain, of governments providing more and more information through channels that facilitate its greater use but without any evidence that this information is being used or proving useful in either reducing distrust of government or increasing confidence in the performance of governments in achieving their objectives. Therefore, as innovations in performance measurement pile up, the question arises of whether it is worth it. This is a fair question;

however, one has to consider the alternatives. Governments cannot use traditional and out-moded measures of reporting performance. For the most part, there is simply too much information already available to simply use highly general reports to legislatures as the only means of reporting. As seen in some of the cases, innovations in performance measurement not only affect public expenditure but integrate well into improved management. They link resources with individual and organisational performance. This is a major step forward, one that we are only starting to see becoming effective in governments. Therefore, while we are seeing a rush to inform, we need to be mindful that the capacity to use that information, make sense of it and distil it into meaningful messages, remains in its primordial stage.

Performance measurement is a broad field. Patrick Nomo's chapter, *Implementing Effective Performance Management in a Public Service Organisation*, describes one important element of how performance measurement links to individual organisational goals, connecting eventually into the allocation of resources. The author focuses on individual performance within Ghana's Internal Audit Agency. Such performance management is an important link in overall public expenditure management integrity. Financial information can and should be directly linked to individual performance on several fronts: effective use of funds, their proper care and management, and the provision of information on results. From this we see a more systemic effort to introduce results-based performance information in Mike Joyce's case study (chapter 1). In this instance, we see the case of the Government of Canada's various efforts to focus increasingly on results in its budgeting and reporting efforts. In addition, Joyce assesses how such information can be linked to innovation in government. While the results are mixed, the linkage is intriguing.

Chapter 6 on the Ontario Municipal Benchmarking Initiative is a case that outlines the collaborative efforts of a number of municipalities in one province in Canada to build a common set of measures for their services so that budgetary and performance comparisons among them can be readily made. They also permit in that exercise the identification of both leading practice from which others could learn and performance gaps in individual municipalities that need attention. While benchmarking is extremely useful, one observation made in the research for this case was also cautionary. Providing costs per service without context (size of municipality, age of infrastructure, population shifts are only a few examples) can lead politicians to 'drive to the bottom', wanting to reduce their municipality's costs to the lowest level without regard for other factors. Context is everything.

There have been great strides in improving performance reporting by governments around the world. Information is becoming more detailed, more linked to stated goals and more readily available. Quality varies dramatically. And, in the end, there is probably never enough. It remains questionable at this point whether providing more information creates a more informed public or not. Further, while more and more financial performance information is available, who is using it? There is not a lot of research in this area. It certainly is a valid question for those working diligently to ask: is anyone using this information?

Democratisation of budgetary and allocative processes

In practice within public administration and in academic reviews, the question often arises as to how much effort is needed to have a fully trusted, fully transparent public expenditure management system. When is there enough public involvement in the process? When is there enough transparency? When is there enough representation? Put more simply, is there an easy answer to the 'Are we there yet?' question. Experience would suggest that there is no easy answer.

It would also suggest that some caution needs to be exercised about the limits of democratisation and the great potential to characterise an excess of special or localised interests as a manifestation of greater openness. In the end, it is the executive and legislature in a democratic state that must remain responsible and in control of public expenditures. Applying once again the 'Are we there yet?' question, there is little doubt that virtually any budgetary process will leave some dissatisfied. Further, there is a high likelihood that some will use the lack of transparency argument as an excuse for their failure to get what they want.

The cases presented in this book point to some innovative efforts to address just such issues. They are all exemplary of diverse elements of this complex question. In many respects, they are all useful and instructive. They also point to the capacity for innovation in this area. Catherine Althaus-Kaefer's case study, *The Queensland Charter of Social and Fiscal Responsibility* in chapter 7, provides an instructive historical case. It is a classic political dilemma, but one faced in this case: committing to a set of standards and then holding oneself to them and being held to them. The element of democratic accountability is greatly enhanced when institutions establish such instruments as charters or standards for how they will manage. They then, at their peril, must hold to the use of such charters.

The case raises some interesting questions at an international level about how governments express their strategic intent with respect to budget control and planning. The degree to which they can be held to account with the very tools they use such as strategic plans, charters or budgetary containment laws remains an open question when one looks around the world. The linchpin in this whole process, of course, is the quality of the accountability information that is provided at the end of the budgetary process: is it both enough and adequately structured to permit citizens to reach a conclusion about the government's performance? Similarly, as in the case of the state of Tasmania that Dr Althaus-Kaefer describes, do states follow up on processes that engage citizens in strategic planning or treat such exercises as singular events?

Peter Maangi Mitiambo's *The Constituency Development Fund Experience in Kenya* and Ruth Jackson's *Participatory Budgeting in the United Kingdom* are excellent cases with instructive and illustrative elements of how to engage citizens in budget making. Inherent in both of these cases is a sense that greater citizen engagement in decision making is needed to increase the legitimacy of budget decisions and, as Jackson points out, increase overall citizen engagement. The ways in which these innovations play themselves over time, their long-term sustainability, will be of great interest to watch. One measure in that context is the degree to which such exercises become the captive of special interests or abuse of the original intentions of the funds.

The capacity for such innovations to expand citizen engagement is great. The challenge will be to balance such efforts to have citizens directly making decisions about resource allocation and the broader, more general expenditures that are needed for base services, infrastructure and more generalised public goods such as security and defence. These cases also point out the tension in Westminster-type democracies between democratically elected representatives who are in office to make decisions and their desire and capacity to share that decision-making authority with citizens directly.

Moving forward

It would be foolhardy to suggest a few key innovations in public expenditure management that would resolve all the various tensions and challenges outlined above. These cases demonstrate that many efforts are in place to make things better. Further, they show momentum and drive. While they are often localised, there is much to be learned from these examples.

It can be argued that the one-size-fits-all single way of thinking, often championed by global organisations, has proven to be of questionable use overall. However, some trends in innovation are clear:

- **Capacity is growing:** More technical competency and tools to get the job done are emerging and becoming more accessible at lower costs. This will increase both the opportunity and pressure to adopt common platforms for public sector accounting and performance management.
- **Strategic role of the CFO:** The competencies of financial management professionals will continue to evolve with an ever greater emphasis on integrative and analytical skills. This is emphasised nowhere more than in the professionalisation and change in the role of the public sector chief financial officer (CFO). Expectations are growing that this role will become more strategic within the overall public sector. It is expected that the CFO will be part of key decision-making processes within the department or agency. Further, the CFO will be expected to bring a broader perspective to his or her role, providing advice well beyond that of rule compliance and into areas which demand that the CFO combine traditional expertise with linkage to organisational goals. For instance, the need for true programme costing with a firm understanding of all associated costs over the life of the programme or policy demands that the CFO have good cost accounting capacity, and an understanding of the programme objectives. A word of caution is, however, appropriate. Adopting the title does not make a CFO of a good accountant. It takes a shift in skills and approach that must match the expectations.
- **Integrated approaches to risk:** Tools that link organisational performance and financial performance will continue to draw upon new dimensions such as integrated risk management and strategic planning. Those engaged in public expenditure management must increasingly move away from the traditional notion of risk, e.g. loss of funds, to a broader one that encompasses all programme as well as financial risks. Further, addressing risk in the public sector is itself a risky

business, one that demands political sensitivity without the abandonment of the need to provide sound advice.

- **Greater public understanding:** As performance measurement and financial and performance information grows in accessibility and quality, the capacity of citizens, NGOs, other government departments and the media to understand and challenge budgetary and financial performance information will grow. The fault line for public expenditure management is finding the appropriate balance between providing too much information without meaning and context and overloading the information with a one-sided interpretation.
- **New ways to measure:** Accompanying this growth will be the demands to relate financial information to broader issues, such as gender equality and sustainability. For instance, we see the emergence of new skill sets for even traditional accounting, such as environmental accounting. This bears close observation and some caution. However, from an internal perspective, enterprise resource management systems will enable a greater linkage of financial and various forms of performance data. With respect to the emergence of broader social measures such as overall well-being, etc., the linkages will be more tenuous and potentially subject to abuse or misinterpretation.
- **Integrity requires innovative responses:** Questions of integrity of public expenditure practice, honesty in government and public trust will continue to demand innovative responses: nothing is settled in this very fluid area. Building public trust in the allocation and management of public expenditures is not simply a matter of more information, as pointed out above. The public also needs to have confidence in those providing the information. It has to be assured, at a basic level, that the statistics generated by the official statistician of the country are reliable and untainted. With regard to communicating budgetary and financial management information, this requires more than good communication skills, although this is a challenge for the financial community of government, a group that has not traditionally been known for public communication. It also means ensuring a robust process of external oversight such as legislative auditors with true independence and access, and having a well-informed NGO and media sector.
- **Better oversight not more:** New ways are emerging to improve the oversight of government financial practice, such as the introduction of social audits in various countries as well as independent oversight by interest groups posting analysis for public use. There are innovations just emerging such as community-based and culturally sensitive programme audits and budget reviews that are well worth watching for the future. While there are many good ideas to improve oversight, the cost of oversight relative to the return on trust and quality of outcomes has to be taken into account. The notion that adding more and more oversight is a good thing to do is costly, counter-productive and bound to create a highly defensive culture within government.

- **Becoming more local:** Community-based resource allocation is now possible, not just through the cases outlined, but also because better information is available and modern social networking tools facilitate a level of social integration around such issues. What will be interesting to watch is how the emergence of web-based information linked to geographical distribution and identification systems such as GPS will empower local communities to better study and act on information about budget allocation within their districts. We already see this emerging in the distribution of health services in some countries.

In conclusion, these cases represent a sampling of innovation and change in public expenditure management in a number of Commonwealth countries. The list of possible examples is long and the selection process was not an easy one. It has been an honour to be involved with the authors and learn of their experiences and insights.

These cases, a snapshot of the multitude of genuine efforts by committed citizen, professional and political leaders around the world, do not cover all the challenges and gaps in advancing good public expenditure management. Some of those that need further work and development are:

- **The uneven playing field:** Perhaps the greatest irony is that those countries that need the talent and technical competence to manage their scarce resources have the least of it. To find an odd-sounding but genuinely needed example of efforts to support such countries, see *Accountants without borders* at <http://www.a-w-b.com/index.php>. This is a commendable example, as is the Commonwealth Secretariat's sponsorship of financial officer training and mentoring. What this pleads for is more. This is the classic situation of putting effort into building capacity, not solving the problem of the moment.
- **Connecting the dots:** There is little doubt that information about public expenditures will grow and proliferate with the new systems being implemented worldwide. Further, as the complexity of information grows, so too will grow the number of points of entry for this information. As we add to this a growing list of increasingly active stakeholders, we have to begin to wonder who is pulling all this together or, as the commonly used phrase goes, connecting the dots. By this we mean relating one data subset to another where it is relevant. It also means finding meaning in this flood of data, developing it into useful information and finally into knowledge and meaning for value forming and decision making. Take this challenge down several layers into a more micro-analytical approach. What we have to worry about then is how do we rightly identify risks and meaningful variances in the flood of information. There is a great danger in the emerging public expenditure world that we will have massively increased capacity to generate data but little capacity to make sense of it.
- **The one-size-fits-all conundrum:** MTEF is an example of what some may see as a solution in search of a problem. Countries should not be encouraged to adopt certain public expenditure management practices if it is to satisfy debtor or funder requirements rather than to improve their own capacity. The reverse needs to be the

case. It is certainly true that, at the policy level, international organisations do intend to build capacity. What is not clear is the degree to which this legitimate intent can be perverted through behavioural distortions in implementation. The gap here is the failure to drive at the heart of the problems, substituted with overriding 'flavour of the year' concepts. There will be compliance, but will there be real change?

- **Sharing knowledge:** These cases are few compared with the experiences in the world of public expenditure management change and innovation. A clearinghouse for more cases is needed. Sharing knowledge means more storytelling, more sharing of the know-how and not just the know-what. We see striking examples in these cases of how passion and commitment lead towards changes in budget systems and the engagement of citizens. We need to find more ways to share this.
- **Coping with restraint:** Looming over all public expenditure management is the need to find ways (or learn them from others) to manage issues of internal restraint, reallocation and divestment of public activities on a priority basis. There is never enough money. Further, governments do a very poor job of stopping anything they start. Reallocation of resources within a shrinking resource base demands a consistent discipline that can be fostered by the provision of real and useful cost and performance information. This takes will. But it is an emerging challenge.
- **Balancing the top-down and bottom-up approaches:** Much can be said about the virtues of engaging communities and democratisation of public expenditure processes. However, the greater use of these processes cannot take away or substitute for the need of sovereign states to exercise their responsibilities and be held to account for doing so. Therefore, the tendency to celebrate the local at the expense of the national must be tempered and balanced. Put another way, the excess of decentralisation is potential abuse of funds and the rise of special interests. The excess of closed national budgetary processes is a failure of transparency. Neither is acceptable.

No single theme emerges from these cases, except perhaps the hope and faith in the innovative spirit of people and professionals in these crucial fields of public endeavour. There is a need to have a sustained dialogue and sharing of this information.

Chapter 1

Performance Information and Innovation in the Canadian Government

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Editor's note: This case is, in fact, two distinct cases of public expenditure innovation. The first concerns the development of results-based performance information. Integrated as a linked but separate subject is the relative impact on innovation in government of such performance information.

Introduction

This case addresses the issue of linkages between performance information and innovation within the Canadian federal government experience.² It provides an overview of three main sources of performance information – results-based systems, programme evaluation, and centrally driven review exercises – and reviews the Canadian experience with them. It then examines actual and potential linkages between innovation and performance information. This section suggests that innovation in the Canadian federal government tends to cluster into two groups: smaller initiatives driven by staff or middle management, and much larger projects involving major programmes, whole departments or the whole government. Readily available data on smaller innovation projects is skimpy but suggests that performance information does not play a major role in stimulating these initiatives. In contrast, two of the examples of large-scale innovation show that performance information plays a critical role at all stages.

Performance information in the Canadian experience

At the whole-of-government level in Canada, the development of systematic approach to measuring performance began when the implementation of two of the Glassco Commission's recommendations marked one step towards a more systematic approach to performance management (Canada Royal Commission on Government Organization, 1962). The first of these recommendations was that the government replace 'line item' budgeting with a programme-focused approach – planning, programming and budgeting system (PPBS). The second was for greater delegation of authority from the centre to departments – an approach that came to be characterised as 'let the managers manage'. Various subsequent initiatives attempted to strengthen the links between resource allocation and programme performance, including:

- Introduction of an operational performance measuring system (OPMS) and promotion of management by objectives in 1974 (Canada Treasury Board, 1974);
- Establishment in 1978 of the office of the comptroller general whose mandate included strengthening programme evaluation (Canada Treasury Board, 1978); and
- The 1994 Program Review initiative with its twin objectives of 'getting government right' and deficit reduction through a process that imposed specific expenditure cuts on almost all departments and agencies.³

Throughout this period, there was little effective connection between performance management initiatives at the whole-of-government level and those within departments. In 2000, the Treasury Board publication *Results for Canadians* signalled a renewed attempt to make that link (Canada Treasury Board, 2000). Of the four specific commitments made in that document, two relate directly to performance information. The commitment to **manage for results** recognised the need 'to apply results-based management to all major activities, functions, services and programs' and that 'the foundation of results-based management is accurate and timely performance information' (p 11). The commitment to **responsible spending** recognised that rational priority setting and investment decisions need 'integrated, cross-departmental information on expenditures and results' (p 13).

Although progress in achieving the goals of performance management may seem slow, it is worth noting that the focus of the three current initiatives described in the next section is consistent with the three post-Glassco initiatives identified above as well as with the framework provided by *Results for Canadians*.

Sources of performance information

For the purposes of this case study, a performance information source is considered to be an initiative or system specifically designed to generate performance information as a management tool or for accountability purposes or both. The distinction made is with other data and statistics that may be available and that shed light on performance but that are collected or generated for other purposes or from outside the government. Examples include surveys and polls commissioned by the media, and data and statistics created by government organisations for other reporting purposes. The purpose of this distinction is not to discount the value of this latter source of performance information, but to focus on more systematic approaches that should yield greater discipline and consistency in the way the information is generated.

Current sources of systematically generated performance information in the Canadian federal government can be grouped into three broad categories: **results-based systems**; **evaluation**; and **review**. These three categories form a hierarchy in terms of the level of performance information detail generated and the organisation level within government that is the primary user. Results-based systems generate greater amounts of detailed performance information, with management and managers in departments as the primary, but not exclusive, users. At the other end of the spectrum, the results of reviews are generally intended to be used by central agencies and central government decision-making processes.

The purpose of this case study is to focus on the Canadian experience in building a results-based system and its link to innovation. More detailed explorations of evaluation and review can be found in the full working paper (cited in footnote 1).

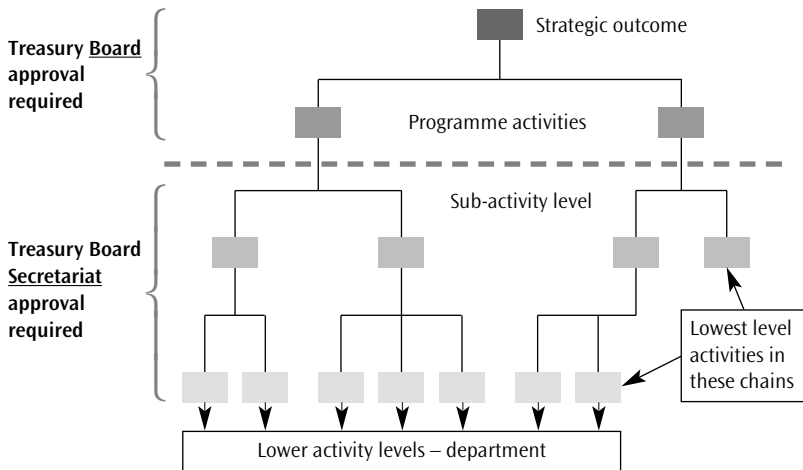
Creating a results-based framework in the Canadian federal government

The federal government’s current results-based focus is on the management resources and results structure (MRRS) initiative, which consists of three elements:

- I Clearly defined and measurable **strategic outcomes** that:
 - a) reflect the organisation’s mandate and vision and are linked to the government’s priorities and intended results; and
 - b) provide the basis for establishing horizontal linkages between departments with similar or natural groupings of strategic outcomes.
- II A **programme activity architecture** that is articulated at a sufficient level of materiality to reflect how a department allocates and manages the resources under its control to achieve intended results.
- III A description of the current **governance structure**, which outlines the decision-making mechanisms, responsibilities, and accountabilities of the department. (Canada Treasury Board, 2005)

The programme activity architecture (PAA) lies at the heart of MRRS as it provides the framework within which performance information is structured and generated. It is shown schematically in figure 1.1.⁴

Figure 1.1 Programme activity architecture



Source: Adapted from Canada Treasury Board (2007a), slide 6

The concept underpinning the PAA rests on tracing the allocation of resources within a department to individual activities at various levels (and implicitly to the managers responsible for each of these activities). This creates a hierarchy of activities ranging from a

programme at the top, through a series of lower levels at which resources are sub-allocated. The series of activities that make up any one particular level in that hierarchy are, in resource terms, collectively exhaustive and mutually exclusive. This structure creates units of activity to which information directly related to the allocated resources can be attached. Actual and expected results constitute the principal information attached to each activity, but other data can also be attached. Examples include staffing levels, links to parliamentary expenditure authorities (vote, expenditure classification), and regional breakdowns.

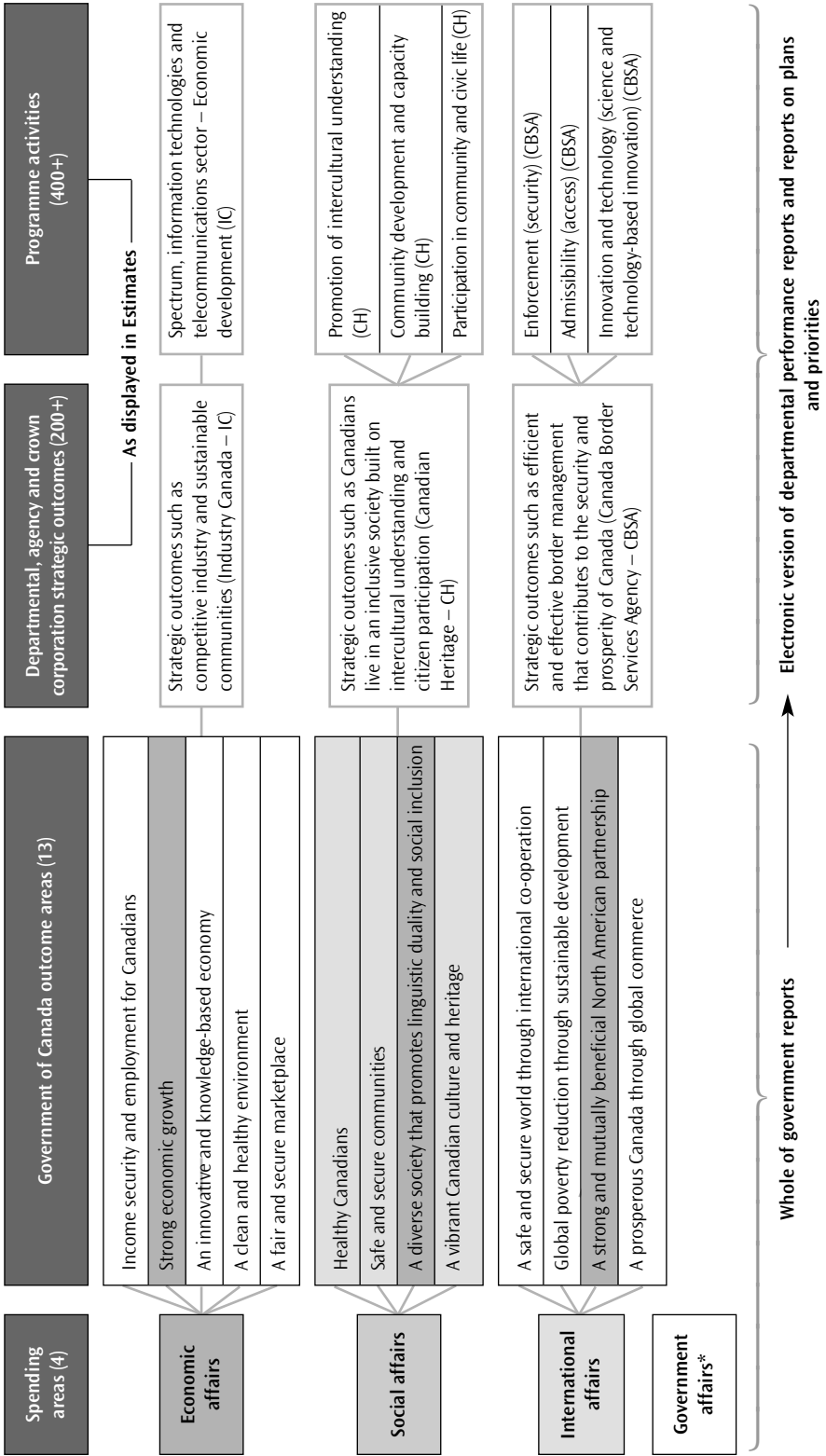
The principal value of the PAA is that it provides a common framework within which all departments can structure and logically link programme activities, the resources allocated to each and the results that are expected to be achieved with those resources. Beyond a simple linkage between resources and results for each individual activity, a hierarchy of results linkages is established between each activity level in a department's PAA from the lowest level up to those at the highest level that represent the programmes a department is responsible for delivering. Results at lower levels in the PAA tend to be **output** oriented whereas those at higher levels should be **outcome oriented**.

As well as serving as an expenditure management and accountability tool for the Treasury Board Secretariat, the PAA also establishes the structure for reporting and accountability to parliament through the Estimates. The Estimates are a collection of individual documents that the government provides to support parliament in its role in approving government spending and holding the government to account for the results produced with spending granted by the authorities. In those terms, the principal Estimates documents are the *Reports on Plans and Priorities* and *Departmental Performance Reports* that are prepared individually by each department. The former establishes the basis for accountability by setting out planned expenditures over a three-year period together with expected results. Departments then render account against that base in the latter.⁵

This same logical and hierarchical structure extends beyond individual departments to the government as a whole. As part of the PAA, departments are also required to identify strategic outcomes for the department as a whole to which the collection of programmes that constitute this highest level of the PAA are then linked. A similar approach to that of individual department PAAs is then taken at the whole-of-government level. Presently all the departmental strategic outcomes are linked at the whole-of-government level to 13 outcome areas in four spending areas. This structure is summarised in figure 1.2 and forms the basis for **Canada's Performance**, an additional report provided to parliament that presently summarises approximately 200 departmental strategic outcomes and 400 programme activities across the government.

In practice, however, the 'logical purity' of the PAA structure can become somewhat diluted at this level because of the difficulty associated with 'force-fitting' a unique link between a programme and one of its strategic outcomes. A similar issue arises in the logical linkages reflected in **Canada's Performance** at the whole-of-government level. Nonetheless, taken together, departmental PAAs and their equivalent at the whole-of-government level provide the potential for a rich source of programme information. The next section addresses a number of issues that can affect realisation of that potential.

Figure 1.2 Framework for whole-of-government results reporting (Canada Treasury Board, 2007b)



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

Lessons learned

Implementation

Expectations: Both the simplicity of the PAA concept and its potential can give rise to unrealistic expectations, particularly in terms of what can be delivered before implementation has reached some level of maturity. In addition, different users (departmental officials, departmental ministers, central agencies, Cabinet committees, parliament) are likely to be looking for significantly different types of performance information which can add to capacity issues during initial implementation. Initial limits on scope are crucial.

Capacity: The most significant capacity issue is likely to be the information technology (IT) system on which the PAA resides. It would be virtually impossible to deliver the PAA concept without some form of central IT capacity, even if only to collect and manipulate information resident on individual departmental IT systems. If development of this capacity lags behind the pace of overall implementation then unrealistic expectations that a functioning IT capacity would constrain are unlikely to be curbed and credibility of the overall initiative will suffer when IT constraints become apparent.

Data integrity: A number of factors are at play here.

- One is Canada's **access to information** legislation which makes government information publicly accessible unless it meets certain criteria. 'Advice to ministers' would likely be the most pertinent test in the case of information generated within a PAA and it is unlikely that much, if any, of this performance information could be construed to meet that test. Moreover, an explicit objective of the PAA is that it is, in part, to form the basis for results information provided to parliament. While this factor may not cause PAA data to be in any way compromised, it may have a dampening effect on the stringency of performance targets set and hence the type of information collected and reported.
- A second is **departmental resistance**. This factor is similar to the one above, but can play out between departments and central agencies. Even if not publicly accessible, departments may be reluctant to disclose stringent performance targets to central agencies over concern for the consequences of failure to achieve them. Here again, this may have a dampening effect on the nature of the performance information attributed to activities in the PAA.
- A third factor directly related to the one above is the PAA's **relevance to and active use by departmental management and managers**. If departments do not use the PAA as a tool for their own management purposes, then the PAA information they do produce is likely to degenerate into information produced purely for central agency consumption – what departments think central agencies want (or the subset they want to give them). The result is then likely to be a widening gap with the 'real' performance management information generated and used by departments – a situation akin to keeping 'two sets of books'.
- Fourth, performance information generated for the higher reaches of the PAA is (or should be) oriented more to **outcomes** than outputs. As has been widely recognised

by practitioners and academics alike, the more performance is oriented towards the outcome end of the spectrum, the more difficult it is to establish quantifiable targets and performance information that is amenable to weekly, monthly or annual measurement. This is particularly the case for accountability purposes where responsibility for achievement of an outcome cannot be uniquely assigned to a single organisation or even to the government (Mayne, 2001). As a result, the PAA must be implemented with sufficient flexibility to recognise the need for longer-than-annual time frames with performance targets that are amenable to ‘measurement’ through programme evaluation techniques.

Different users: One of the attractions of the PAA is its potential capacity to generate performance information that, in some cases with further manipulation, can satisfy the diverse needs of a wide range of users – ranging from departmental managers and management, through central agencies, to cabinet committees and budget decision-making. The potential issue here is the need to tailor the detailed performance information available from the PAA into a form that is both accessible and readily digestible by users with different perspectives and who often have limited time and highly varying degrees of analytical capacity at their disposal.⁶

Link to innovation

A primary focus of the management resources and results structure (MRRS) and the programme activity architecture that lies at its core is on programme management and accountability within departments and on expenditure and management accountability and decision-making from a whole-of-government perspective. Innovation is not an explicit objective. However, to the extent that performance information is a necessary component of innovation, MRRS has the potential to play a critical role.

It is always possible that an innovative idea may come ‘out of the blue’, but in many cases it will be recognition that performance could be improved that provides the stimulus. In some cases, the need for improvement may be self-evident to staff and management alike. However, the greater precision of performance information to substantiate what may seem self-evident can only help focus on the need to innovate and provide the acceptance and support that is necessary to move from recognition to action. Benchmarking would be a useful type of performance information at this stage. Similarly useful would be assessment of practices in other jurisdictions that appear to be generating the better performance and can be considered for adaptation.

Innovation and performance information in the Canadian federal government

Broadly speaking, innovation in the federal government clusters into two groups at opposite ends of a ‘size’ spectrum. At the larger end are innovative projects or initiatives that affect the government as a whole, departments as a whole, or large programmes within departments. At the other end are relatively small projects within programmes that are either initiated by workers and middle managers or developed by them at the instigation of

senior management. Interestingly, one of Borins' findings (2006, p5) from both US and Commonwealth data is that 'frontline staff and middle managers are the most frequent initiators of public management innovation'.

In the absence of any research or other data, the only readily available source of information on innovation in the 'smaller' category is the federal government's Public Sector Award of Excellence programme which provides a list of finalists in each category for the last two years (Canada Public Service Agency, 2007). In 2005 there were 14 finalists in the innovation category and in 2006 there were 17. Taken together, eight out of the 31 finalists were individuals and the remainder special teams or existing work units. Of those finalists, 17 involved the innovative use or adaptation of existing information technology systems, 11 involved changes to processes or procedures, two were for innovative use of spreadsheets (both by individuals) and one was for an innovative design of an outdoor cigarette lighter suitable for use in a prison.

The short descriptions provided for each finalist do not give any explicit indication of the extent to which performance information played a role in the innovations that were recognised. However, I would speculate from these descriptions that most were stimulated by a need or opportunity for improvement that was obvious to the individuals and management involved although in some cases corroborating performance information would have been available.

In the case of larger innovations I have selected three examples, each of which is described below.

'One-stop' service

The decision to implement the Service Canada concept – a 'one-stop' point for Canadians to receive all their government services – was made by the expenditure review committee and announced in Budget 2005 (Canada Department of Finance, 2005b, p13). The concept is being implemented by a new department – Service Canada – created from the appropriate parts of the Department of Human Resources and Social Development.⁷ Service Canada's mandate is to:

'work with federal departments, other levels of government, and community-based partners to transform government service delivery for Canadians across all service delivery channels – telephone, internet, and in-person'

and its current objectives include:

- 'Deliver seamless, citizen-centred service by providing integrated, one-stop service based on citizen needs;
- Work as a collaborative, networked government by building whole-of-government approaches to service that enable information sharing, integrated service delivery and strategic investment for the benefit of Canadians.'

While progress has been made, implementation of the concept continues. Service Canada's *Report on Plans and Priorities* sets out clearly a number of transformative priorities for the next three years. (Canada Department of Human Resources Development, 2007:76)

A number of characteristics of this innovation are of interest:

- The concept was not conceived by the expenditure review committee, but had been in gestation for over a decade. It was seized on by that committee as ‘an idea whose time has come’ and that fit perfectly with its mandate of ‘finding ways to improve the delivery of federal programs and also lowering costs’ (Canada Department of Finance, 2005a:3).
- It is ironic that such a clearly innovative concept found implementation through an exercise focused on cutting spending, particularly given that a general risk for innovation is insufficient implementation funding. As implementation of Service Canada has been characterised as extraordinarily ambitious and posing significant challenges, this aspect may be of concern.
- The general concept of centralising service delivery is not unique to Canada and the research that underpinned development of the particular model being implemented included examination of similar concepts being developed or implemented in other jurisdictions. Australia’s Centrelink is a prime example.⁸ The innovative aspects of Service Canada lie in the way in which the concept has been adapted and developed to fit both the Canadian context in general and the particular environment in which it is being implemented. International recognition of the innovative nature of this project is evidenced by the number of delegations that have visited Service Canada – more than 20 to date.⁹
- Performance information has played a critical role in all stages of development of the Service Canada concept and continues to play a critical role in the current implementation strategy. International benchmarking and research as well as survey data played a particular role in the earlier stages and continues to do so. Results-based performance information has become more prominent as the concept is being implemented. This type of information has been recognised by Service Canada as particularly important for building the business case, overcoming actual and potential resistance of departmental partners and developing broader credibility for the initiative. In addition to its two standard annual Estimates documents provided to parliament (the *Report on Plans and Priorities* and the *Departmental Performance Report*), Service Canada prepares an Annual Report and updates the score card it has developed on a quarterly basis.

Online access to government

Canada’s Government On-Line initiative shares a common early root with Service Canada in an organisational unit within the Treasury Board Secretariat. In addition to developing the original basis for Service Canada, the Service and Innovation Sector¹⁰ was also responsible for laying the foundation for Government On-Line, which shares many characteristics with Service Canada. Two primary factors distinguish Government On-Line from Service Canada: its focus is on a tool for service delivery rather than an organisational form; and it was implemented by a central agency (Treasury Board Secretariat) rather than an opera-

tional service delivery department.¹¹ In addition, implementation of Government On-Line is now considered complete.

Government On-Line's objectives were (Canada Government On-Line, 2006):

- 'Providing clients with a more accessible government, where information and services are organized according to clients' needs, and are available 24/7 around the world, in English or French;
- Delivering better and more responsive services by implementing more efficient and timely electronic services;
- Building trust and confidence in online service delivery by ensuring that electronic transactions are protected and secure, and that personal information is safeguarded'.

and was guided by two basic principles intended to focus use of the internet to benefit Canadians, Canadian businesses and international clients:

- 'Group information and services around clients' needs and priorities, NOT around the organization of governments;
- Build partnerships among federal departments and agencies and with other levels of governments to cluster services for the benefit of clients, NOT according to jurisdictions.' (p1)

Government On-Line was implemented over a six-year period from 2000–01 to 2005–06, at total central cost of US\$880 million, in partnership with 34 participating departments and agencies who also provided funding from their own resource base.

Characteristics of particular interest include:

- Similar to Service Canada, the broad concept is not unique but was developed and implemented in a way that suited the federal government's particular needs and the environment of the time.
- A central source of investment funds was provided which the implementing organisation allocated to participating departments and agencies. Although partners were expected to share in the funding, this central fund clearly provided the Government On-Line organisation with both leverage and control. However, political commitments to a short implementation time frame and the limited funds available to achieve it provided a significant challenge as did some uncertainty caused by phased release of the full pool of funds by the centre of government.
- Special emphasis was placed on the governance structure of the project with respect to the participating departments and agencies that included a deputy-head-level committee.
- As with Service Canada, great store was set by performance information at all stages of the project. Baseline performance data on 'e-government' capacity was captured early in the project. Performance information was a critical element in deciding on allocations to participating departments and agencies as well as whether allocations

were multi-year or were assessed and allocated on an annual basis. Performance targets were negotiated with deputy heads and progress reported back to the deputy-head committee which created peer pressure for performance, not just for the Government On-Line organisation.

- Risk mitigation was made a priority and also became a focus of the Auditor General's attention on the project.
- The project was considered a significant success and received over 50 awards. Notable among these was recognition given by Accenture, the global management consulting company, which ranked Canada as first out of the 22 countries surveyed for e-government maturity for the fifth consecutive year. The project has also drawn praise from the Auditor General. Such external recognition can be a major factor in sustaining support for a project throughout implementation.
- Learning became a significant priority and the final report provided extensive information on 'lessons learned' (Canada Public Works and Government Services, 2006).

Prudent budget planning

Prudent budget planning was a particular approach adopted for fiscal management by the department of finance in the mid 1990s and is included because it has characteristics that are quite different from the two above.¹² When the Chrétien government came to power in 1994, it established deficit and debt reduction as priorities. Annual deficit targets were set in each annual budget and the Minister of Finance of the time made a public declaration, repeated on a number of occasions, that he would meet those targets 'come hell or high water'. The Mexican 'peso crisis' which resulted in a threat by Moody's to downgrade Canada's credit rating lent further impetus to that priority. Prudent budget planning evolved as the basis for managing the risk of not meeting annual deficit targets, as well as the risk to the Finance minister's credibility.

Prudent budget planning itself is not unique, but the way it was applied and evolved in the Canadian federal government was. Principal elements of this approach included:

- A rolling, two-year planning time frame within which publicly disclosed budget targets were set;
- Use of an average of private sector economic forecasts as the basis for developing the policy status quo fiscal framework as the starting point for budget planning;
- Introduction into the fiscal framework of prudence factors to lower the forecast budgetary balance (i.e. the impact of these factors was to increase any forecast deficit or decrease any forecast surplus); and
- Setting a target level for the planned budgetary balance that then determined how much flexibility was available for allocation decisions (i.e. the difference between the forecast budgetary balance and this target established the flexibility available).

Characteristics of interest with this innovation include:

- It was stimulated by the necessity to deliver on a new government's priority and to protect the credibility of the Minister of Finance (and so too of finance officials) given his public 'come hell or high water' commitment;
- The primary objective was to manage the risk that annual deficit targets would not be met, i.e. to manage performance at a whole-of-government level;
- It involved no significant direct costs and thus required no upfront investment to implement;
- Only one performance measure was directly relevant – the annual deficit – which was generated independently of this approach through Canada's public accounts; and
- It significantly over-achieved its objective, generating year after year what somewhat facetiously came to be called 'surprise surpluses'. Criticism of this outcome from both within and outside government risked the credibility of the approach. Although the stance of the government of the time was in essence to ignore these criticisms, whether or not it would have 'learned' from that outcome and made significant changes remains a matter of speculation given its defeat in 2005.

Conclusions and moving forward

One conclusion that can be drawn from this survey is to corroborate from a Canadian perspective what other writers have observed: that more research is needed into innovation in government. This is particularly true if performance information is to be linked to innovation at any of its stages. In that context, the following conclusions should be considered tentative:

- Although there is no shortage of performance information in Canada, there are concerns about its current quality which arise from the immaturity of the management resources structure initiative that produces results-based information as well as the current initiative to renew evaluation capacity.
- Even with quality information generated by performance management systems, innovation projects will often require performance information tailored to their own particularly needs, particularly in the formative stages.
- It is unclear to what extent 'formal' performance information plays a material role in smaller innovation projects initiated at staff or middle-management levels, though it is reasonable to suggest that formal information could support and sustain innovation that has been stimulated by the potential to improve performance based on informal observation.
- The critical need for and role played by performance information in the two examples of large-scale innovation projects described above strongly suggest that this is likely to be true for all such projects from stimulation of a concept through to its implementation.

- Performance information appears to be an important factor in successful innovation. However, the commonality of a number of obstacles or impediments to innovation that are identified in the literature suggests strongly that addressing these is likely to be as important as performance information, if not more so. These issues include: a tendency to 'over-focus' on service improvement; dealing with innovation's inherently higher level of risk in a public service environment with an equally inherent low tolerance for failure; resistance from established groups who see innovation as a threat; accountability and a public service propensity for blame; and the need for adequate funding to maximise chances of success.

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Notes

- 1 This case is based on a paper prepared as background for a presentation made at the OECD Asian Centre International Conference on Performance Information and Government Innovation, 10–11 July 2007, Hangzhou, China. The full version of the paper is available at: http://www.queensu.ca/sps/publications/working_papers/index.php [last accessed July 2011]. At the time of the conference, the author was on interchange from the Canadian federal government's Treasury Board Secretariat where he held the position of senior assistant secretary responsible for the expenditure management sector. The views expressed in this paper are the author's and do not necessarily represent those of the Treasury Board Secretariat.
- 2 As distinct from the Canadian government's role in encouraging and stimulating innovation in external organisations.
- 3 Although linking programme results and resources was not a mainstream focus of the 1994 Program Review initiative, it provided the basis for renewing that focus. The Treasury Board's 1995 initiative to require departments to submit annual business plans was one of the first examples. For a discussion of this initiative, see Lindquist (1998).
- 4 Use of these two different terms can be confusing as there is little practical distinction between them, as figure 1.1 shows.
- 5 More information on the Estimates can be found at <http://www.tbs-sct.gc.ca/est-pre/estime.asp> [last accessed July 2011].
- 6 For an example of how the Treasury Board Secretariat is attempting to do this, see *Tools and Resources for Parliamentarians* available at http://www.tbs-sct.gc.ca/audience/pp_e.asp [last accessed July 2011].
- 7 The legislation to create Service Canada as a separate department has yet to be introduced. In the interim, although the organisation technically and legally remains a part of the Human Resources and Social Development department, it is effectively functioning as a separate department in its own right.
- 8 For a view of Centrelink from its President at the time, see Sue Vardon's February 2000 address to Australia's National Press Club (Vardon, 2000).
- 9 It is of interest that, at the time of publication, Centrelink is going through a major review of its functioning. While retaining the focus on integrated services, the review will seek to modernise its delivery channels. The programme base was also expanded. For more information, see <http://www.dhs.gov.au/publications-policies-and-plans/annual-reports/centrelink/0910/chapter01/01.html> [last accessed July 2011].
- 10 That sector was eliminated in 2003 as part of an expenditure reduction exercise.
- 11 In the latter stages, implementation was transferred to Public Works and Government Services Canada, although the Treasury Board Secretariat retained responsibility for policy.
- 12 See Joyce (2006) for a more complete assessment of prudent budget planning, from which this summary is drawn.

Chapter 2

Using a Risk Management Framework in the Zambia Revenue Authority

Robert Ng'uni, Senior Internal Auditor, Zambia Revenue Authority, Government of Zambia

Introduction

This chapter considers how tax policy and administration reforms have helped to improve public expenditure management in Zambia. In particular it focuses on revenue administration as an important aspect of public expenditure management and shows how a risk management framework can be applied to improve revenue collection and by implication public expenditure management. First there is a brief overview of the public expenditure management framework in Zambia; then the expenditure system is linked to the revenue system with an explanation of how Zambia Revenue Authority (ZRA) has successfully used a risk management framework to ensure it meets its monthly and yearly tax revenue collection targets.

General overview

This is a case of how one government agency applied emerging risk management principles in the pursuit of an important public policy. Over the past two decades effective risk management, integrated at both the planning and operational levels, has become more important around the world. There has been an increase in public expectations that governments will systematically identify risks and then act upon them to mitigate their effects. In addition, the art and science of integrated risk management has matured. It has moved out of the financial and scientific worlds into all aspects of government activity. That being said, the desire for effective risk management far exceeds its realisation, especially in the public sector. It is therefore important to find examples like these that show the practical elements of risk management.

Zambia as a country has a liberal political and economic system with trade and investment regimes fully liberalised since 1991. In a bid to maintain macro-economic stability and stimulate investment and trade, the government has consistently implemented tight monetary and fiscal policies, which have been accompanied by other structural, institutional and legal reforms. Tax policy and administration and public expenditure reforms have also been implemented quite successfully in the last two decades. One such tax policy change was effected through the enactment of the Public Finance Act 2004 which introduced under section 7(3)(a) the requirement for controlling officers of public finances to maintain an effective, efficient and transparent system of financial and risk management and internal

controls. Public organisations such as ZRA are therefore required through legislation to maintain a system of risk management which should be effective, efficient and transparent, to support public expenditure management.

The advantage of implementing the risk management framework at ZRA was to increase revenue collection and make it more predictable by promoting efficiency in revenue allocation (budgeting) and hence reducing resource wastages that do not help maximise and sustain tax revenue collection.

In general, risk management recognises the significance of mitigating negative impact on organisational goals before it happens and taking advantage of opportunities that may arise because of the organisation properly managing the risk. Therefore, risk management is becoming an important tool for efficient and effective public expenditure management in both raising resources and allocation of such resources to public expenditure programmes. There is a growing and deliberate approach by governments to require risk management as a way of conducting government operations, especially in the management of tax revenues to enable the government to achieve delivery of its programmes.

Risk management as a systematic methodology of identifying, analysing and treating risk is a relatively emerging concept and as such may not be widely applied in Commonwealth countries especially for the purpose of public expenditure framework. Therefore, its application at ZRA may be of significance as a learning point for other Commonwealth countries.

Zambia's tax collection is centrally managed through ZRA, which employs around 1,300 people. It collected 8,193.1 billion kwacha (about US\$2.1 billion) in the year 2007 and 9,350.9 billion kwacha (about US\$2 billion) in 2008 through income tax, value added tax and customs duties. ZRA has been continually improving its tax collection mechanisms to respond to the changing business environment. Risk management at ZRA has since evolved to become the main tool for planning, and more recently cascaded to the operations within the organisation.

The ZRA governing board brought risk management to the fore in 2004, soon after the enactment of the Public Finance Act which made a requirement for public organisations to have an effective, efficient and transparent system of financial and risk management and internal controls under section 7(3)(a). The initial risk management framework was drafted through a team of risk champions appointed by senior management. The team comprised management staff and experts from operating divisions who were tasked with drafting the risk management framework, setting the risk register templates and including initial identified risks in the registers. The process was subject to approval by the ZRA governing board.

The risk champions were trained through an intensive hands-on training programme with the objective of developing an understanding of corporate risk management and drafting a risk management framework in line with the working practices within ZRA. The training was conducted by external and internal experts in risk management. Then followed a series of training meetings and workshops to explain the risk management framework to the entire ZRA management. Zambia Revenue Authority Internal Audit Division became the

driving force conducting the strategic planning workshops at which the risk management process was explained to ZRA management of operating divisions. Hence the internal audit became the centre of expertise for advice on the risk management process.

Public expenditure occurs within the premise of a well-defined government revenue collection mechanism, which must be both predictable and sustainable to minimise disruption to public expenditure. Zambia Revenue Authority supports the public expenditure framework of the government through collection of tax on behalf of the Government of Zambia, ensuring sustained availability of revenue to support public expenditure.

Public expenditure management in Zambia

Zambia has a quite elaborate public expenditure management system. The Ministry of Finance and National Planning is the hub of disbursement of public funds collected from both tax and non-tax sources through the secretary to the treasury who, in accordance with the Zambia Public Finance Act 2004 section 7(1), designates officers in charge of controlling public funds disbursed to respective line ministries subject to approval by the Zambian parliament. Approval is detailed in a document called a yellow book which shows expenditure plans of all government departments. There are permanent secretaries at ministry level who are the controlling officers for all public expenditure. However, this expenditure framework can succeed only if revenues are predictable to facilitate effective budget execution. Therefore, at the beginning of each fiscal year, which commences around the month of April, parliament sets tax and non-tax revenue collection targets and directs these towards ZRA.

Between 1980 and 1990, the public budget execution was so inefficient and ad hoc that it lost credibility and significantly stifled public expenditure programmes. This is largely because the treasury functions of the Ministry of Finance could not adhere to funding profiles, due to insufficient and erratic flow of tax and non-tax revenues into the treasury. This generated a secondary behavioural aspect in civil servants charged with the responsibility of budget execution. They had lost confidence in the process because when government departments requested funds as per budget these funds were not readily available, due to the unpredictable manner in which they were being collected by the ZRA. As a result public officers would request funding from the treasury well in advance, before they were ready to spend the money. This created further inefficiencies in the public expenditure system when funds were held that were not immediately required for public expenditure in some government departments and in other departments there was a lack of funds which were sometimes critical to the overall achievement of government programmes.

To help address this problem, government requested that revenues be predictable and increased, leading to the tax policy and administration reforms that were undertaken. One of those reforms was in the funding of ZRA, which like every other government department or agency was based on the medium-term expenditure framework (MTEF). This framework publishes estimates of revenue by source and then how the revenues are proposed to be allocated across different expenditure lines on a three-year cycle. It also shows the projected deficit, often capped at a reasonable percentage to GDP to support macro-

economic stability. In essence, the MTEF has two important blocks: the revenue block which estimates government revenue by source (taxation, non-tax revenue, grants and loans), and the expenditure block, which details estimated annual expenditure based on activity-based budgeting. Money not spent in a particular year is recalled to form part of the next budget.

Despite the funding being fixed in advance, the tax revenue collection targets were increasing disproportionate to the funding pattern. In adapting to these changes in the revenue administration, ZRA had to employ innovative mechanisms in its tax administration to manage risks and maximise revenue collection relative to expenditure, in line with the requirements of the Public Finance Act 2004. Management at ZRA therefore drafted a risk management policy document detailing the methodology, which was essentially a hybrid of adaptations of risk methodologies such as the COSO model.¹³ The working definitions for the different stages of the process include risk identification, analysis and treatment.

The risk management document sets out the risk policy statements. The general policy statement indicates that the risk management process at ZRA is aimed at achieving nine critical objectives, namely:

- Developing financial, operational and management systems that support management of risks to corporate objectives;
- Maintaining active, structured and commonly shared knowledge of risks that need to be managed;
- Developing staff objectives that reflect ZRA's strategic and operational risk priorities;
- Assigning management of risks to staff who have appropriate authority to manage them;
- Assigning resources to management of risks in a way that optimises value for money;
- Communicating management priorities in respect of risk down the organisation;
- Ensuring that the management view is informed by upward reporting of risks;
- Ensuring that systems of control support the preparation of the Statement of Internal Control; and
- Embedding the risk management system into the corporate business and planning process.

Hence management set the tone to the effect that risk management had to be translated into the corporate culture of ZRA from the planning stage to execution stage. Several risk management aspects such as the risk appetite are set in the risk management framework document. Apart than documenting the risk management framework, ZRA has appointed risk champions at divisional level to co-ordinate the implementation of the risk management framework at operational level. A risk committee has been set up at corporate level to oversee the appropriate cohesion of the implementation of the risk management framework. Risk management at corporate level is under a risk manager who reports to the

directorate of research and planning. There are risk registers in place at both the divisional level and corporate level capturing the current and emerging risks. Divisional risk champions and the risk manager maintain these respectively.

Revenue administration in Zambia

Zambia Revenue Authority has developed the criteria and decided on the structure of the risk management process the organisation has undertaken. The corporate plan for ZRA runs for a period of three years. Each ZRA division then derives its divisional action plan from the corporate plan for the year, while also reflecting its division mandates and vision. The divisional action plan is further cascaded down into work plans, and individual (staff) performance management contracts are derived from the action points in the action plan.

As a result of the risk management process ZRA has helped bring confidence in the public expenditure framework of the Government of Zambia by ensuring predictable and sustainable revenue inflows to support public expenditure.

Risk management for revenue administration

Zambia Revenue Authority conducts strategic planning at corporate level and at operational level. The strategic planning at corporate level involves defining corporate objectives following the corporate risk management framework, which includes defining the relationship between ZRA and its environment, and identifying the organisation's strengths, weaknesses, opportunities and threats (SWOT).

Priority areas ranked according to the risk management framework form a basis for budget setting, which is tied to revenue collection as set out by parliament in Zambia in the annual budget where revenue collection target are set. Tying revenue collection to the risk management framework ensures that areas of priority are attended to, enabling ZRA to achieve the set revenue targets.

Role of internal audit

The role of internal audit is to provide an independent assurance and consulting service on the risk management framework. Therefore, internal audit at ZRA quality assures the controls meant to mitigate risks in revenue administration both in customs duties administration and income tax administration. Further, internal audit quality assures the risk management process on an annual basis and by so doing ascertains whether management allocates funds according to priorities arrived at using the risk management framework. It makes recommendations on the efficient, economic and effective way of resource allocation and use. At ZRA, the role of internal audit in the risk management process is to assure the governing body about how the risk management of a system has functioned in the previous year and to make recommendations on how it could be improved. Thus the internal audit role at ZRA has been and continues to be providing a monitoring mechanism that assures the effective and efficient revenue administration.

The environment in which taxes are administered is dynamic, and emerging risks are identified and evaluated by internal audit through its assurance work involvement on critical ZRA system projects at which an array of consultancy activities are offered by internal audit. Recommendations are made on the reallocation of resources to ensure ZRA meet its revenue collection targets. This has helped in ensuring predictability in revenue collections and in ZRA meeting monthly and annual revenue targets.

Key challenges in implementation

The objective of implementing the risk management framework at ZRA was to increase revenue collection and make it more predictable by promoting efficiency in revenue allocation (budgeting) and hence reduce resource wastages that do not help maximise and sustain tax revenue collection. Zambia Revenue Authority has over the years formed a reputation of exceeding its tax revenue collection targets and has succeeded in collecting tax revenue at minimum cost due to its risk management mechanisms, which minimise resource wastage and focus resources to critical tax revenue collection functions.

Zambia Revenue Authority has, nevertheless, faced challenges in the funding for operational purposes, which has limited its capacity to implement mitigating controls to tackle all the critical risks that permit tax revenue leakages or minimise predictability of revenue collection. The funding for operational purposes is not related to the revenue targets set by parliament.

For example, not all the action plans arising from the risk management workshops are funded for implementation. In the area of customs, border smuggling has been identified as a risk to maximising tax revenue collection. However, responses such as procuring border-mounted or mobile scanners and deploying human resources to act as deterrent to the scourge have not been fully funded. Smuggling therefore continues to be a big challenge in areas where natural barriers are non-existent, providing porous points for illegal entries and revenue leakages. This challenge is envisaged to be addressed by way of relating cost of collecting tax as a percentage of targeted revenues to be collected in any particular year. A presentation has been made to the parliament of Zambia that ZRA intends to seek government support in ensuring funding allocated for tax administration is directly proportional to the revenue target set by parliament. This is intended to ensure areas of revenue leakage receive attention. This challenge of funding is yet to be resolved.

Furthermore, ZRA has not fully achieved operationalising the risk management framework across all the divisions. Although the risk management framework has been operationalised in the administration of customs duties collection through the ASYCUDA system, the other critical revenue collection functions such as the inland taxes have not fully operationalised risk management in the collection mechanisms. This has been attributed to the failure of a system implementation of an integrated tax administration system, which, though fully funded, did not take off as expected. This in turn has caused the administration of inland taxes to lag behind in operationalising risk management. Zambia Revenue Authority is in the process of modernising the tax administration and implementing integrated tax administration systems to address not only tax collection bottlenecks but also

the issues of taxpayer services such as electronic real time payment systems for tax so that the risk management framework operationalised across all the divisions.

The main factor in successfully implementing the risk management framework at ZRA has been management support: direct involvement of both senior management and the governing board. This has seen risk management being funded and supported, with training of key staff such as risk champions and middle management through participation at planning workshops that are organised at a cost to ZRA. Support from government and from the governing board has encouraged staff at key levels of the organisation to embrace risk management. This has helped entrench the concept into a corporate culture because the support is from all stakeholders.

Key lessons learned

At ZRA the implementation of the risk management framework has established that organisation goals can be achieved in a systematic way. The other lessons learned in the implementation of the risk management framework include the following:

- Risk management implementation requires the involvement of management in setting the policy and driving the process;
- Implementation of a risk management process requires resources – either human capital or financial resources and time commitment;
- The risk management process takes time to be adopted as a way of conducting business by all the stakeholders, so it requires consistent management drive and planning for stakeholder buy-in to be achieved; and
- An enterprise risk management mechanism can sometimes be slowed by some functional disparities involving integrated computer systems where these are main drivers of operations and the main source of management information system.

Conclusion

The objective of a risk management framework in public expenditure management is to provide predictability and efficiency in both the revenue collection and public expenditure. When applied effectively, risk management can help enhance revenue collection through efficient allocation of resources targeted at maximising operations and minimising costs in revenue-collecting institutions. For ZRA the risk management framework has enabled the meeting of revenue targets and this has helped support public expenditure. For example, whereas prior to the introduction of the risk management framework tax revenue collection was unpredictable and sometimes falling below the targeted collection, the introduction of the risk management framework has largely reversed this trend and has helped improve planning and the budgeting process. The revenue collections faced a challenge in the first and second quarter of 2009 due to the global economic recession which saw Zambia's foreign exchange earnings tumble and the consequent reduction in custom duty collection. However, the resilience of the risk management model has helped mitigate the impact on the overall tax collections and ensured predictability and sustenance of tax revenue.

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Note

- 13 The COSO model of risk management is an integrated risk management conceptual framework created by the Committee of Sponsoring Organizations of the Treadway Commission. For more information see: www.coso.org [accessed August 2011]. This model suggests the need to tie risk management to corporate strategy as well as internal culture to achieve a fully integrated approach.

Chapter 3

Establishment of Uganda's Parliamentary Budget Office and the Parliamentary Budget Committee¹⁴

Hon Beatrice Birungi Kiraso, Deputy Secretary-General, East African Community

Uganda's parliamentary budget office (PBO) was established by an act of parliament on 27 February 2001. It came into effect on 1 July 2001, when the president assented to the bill. The objective of the act was to 'Provide for and Regulate the Budgetary Processes for Systemic and Efficient Budgetary Process and other Matters Connected therewith.'

The bill was moved as a private member's bill initiated by the chairpersons of the then Committee on Finance, Planning and Economic Development and the Committee on National Economy, Beatrice Kiraso and Issac Musumba, respectively. The bill was scrutinised and amended by the Committee on Finance, Planning and Economic Development so that it clearly prescribed responsibilities and deadlines for the various stakeholders' participation in the budget making and execution process.

Prior to the enactment of the Budget Act, parliament did not play an active role in the budget formulation process; however, parliament would approve the budget as required by articles 155 and 156 of the 1995 Constitution of the Republic of Uganda.

It was through participation in parliamentary capacity building seminars and conferences that the chairs began to see the need for parliament to play a more active role in the entire budget process. It became apparent that parliament was a mere 'rubber stamp' and that information provided to parliament on budget related matters was inadequate. Parliamentarians were kept ignorant on issues such as local resources revenue, foreign inflows in the form of budget support or project financing, national expenditure priority areas, and macroeconomic statistics.

Parliamentarians agreed in principle, as the people's representatives, that if they were to be more accountable and effective in their oversight role, the budget was one of the most important tools through which they could exert influence on the economic and social development policies of the country. The executive branch, on the other hand, was resistant to increasing parliamentary participation and to providing more and better information. For this reason, the bill faced strong opposition.

Whereas bills typically take on average three weeks between the first and second readings, the budget bill took about eight months from the time it was first introduced to the time it was passed. Article 93 of the Uganda constitution dictates that parliament shall not introduce a motion (including an amendment) that would impose a charge on the consolidated fund. The budget office and budget committee that were included in the budget bill required

extra funding and therefore imposed a charge on the consolidated fund. The government used this as a convenient excuse to reject the bill. After several months of negotiation between government (led by the Ministry of Finance) and parliament (led by the two committee chairs), the government agreed to reintroduce the bill as a government bill. However this failed to materialise as the government was clearly not in favour of parliament scrutinising the budget. Parliament's demands to increase budget scrutiny were described as interference in the work of the executive and as an abuse of the separation of powers provided for in the constitution.

Following about two months of lobbying other members and sensitising them to the need for parliament to increase scrutiny of the budget, consensus grew among Members of Parliament (MPs), and it was agreed that, article 93 of the constitution notwithstanding, the private member's bill should be reintroduced and that, whether government was willing or not, parliament would pass it. After all, the constitution clearly states that if, for one reason or another, the president refuses to assent to a bill but parliament by majority decides, it shall automatically become law.

The bill was reintroduced by Hon Isaac Musumba, chair of the Committee on National Economy, and committed to the Committee of Finance, Planning and Economic Development chaired by Hon Beatrice Kiraso. The two committees worked together to finalise the bill, which was allowed by the Speaker to be read for the second time and then passed by overwhelming majority in February 2001.

The structure of the parliament of Uganda and the new budget committee

Until September 2005 when the Ugandan constitution was amended to open up to political pluralism, Uganda was governed under a 'movement' system whereby leaders were elected on individual merit. Therefore, there was no government or opposition side of parliament, and there was no majority or minority. It was easier for MPs to support a position favourable to parliament against the executive if it benefited or strengthened parliament as an institution. Government was in a weaker position to whip members to its side. As with most parliaments around the world, the Ugandan parliament elected from among its members a Speaker and a Deputy Speaker, who were non partisan. It is presumed, therefore, that the Speaker and Deputy Speaker were also elected on merit in terms of their qualifications, competence, and ability to serve the interests of parliament.

Although there were a few individuals in parliament who considered themselves as opposition – largely because they preferred a multiparty system to the movement system – the majority in parliament acted in a non-partisan, independent and objective manner. This scenario allowed parliament to look objectively at the need to have a Budget Act and to hold government more accountable to parliament as far as budget preparation and execution were concerned.

In addition, as with most parliaments, for efficient discharge of its functions, parliament operates through committees. These committees, which draft reports for debate and adoption by the whole House, do most of the detailed work. The rules of procedure of Uganda provide for standing committees, which deal with crosscutting issues (for example, public accounts, rules

and privileges of parliament, approval of presidential appointments); sessional committees, which oversee the various ministries and sectors of government; and ad hoc or select committees. Standing committees' membership lasts for the life of that parliament, five years; sessional committees are constituted in every session, which is one year. It is these sessional committees under the Budget Act that scrutinise individual ministries' budgets and report to the budget committee (MPs cannot belong to more than one standing committee or more than one sessional committee, but they can serve on one of each at the same time.)

The Budget Act provides for a budget committee, which is a standing committee. What distinguishes it from other committees is that, whereas other committees are created by the rules of procedure, the budget committee is created by an act of parliament. Another important aspect of the budget committee is that all chairs of other committees (standing and sessional) are *ex officio* members of the budget committee. This makes it easier for committee members to receive reports from other committees on budget related matters. *Ex officio* membership gives the budget committee a broader and more comprehensive picture of the national budget as well as government programmes and activities being carried out in the various sectors. The major functions carried out by the budget committee are prescribed in the Budget Act, section 19 (1–2).

The parliamentary budget office

Sections 20 and 21 of the Budget Act set up the parliamentary budget office (PBO). The office is headed by a director and comprises economists with expertise in macroeconomics, data analysis, fiscal policy, and tax policy. The initial structure provided for 11 posts, but because of the high demand for the services of PBO, it has been enlarged to provide for more than 20 experts. With the new political system, it is expected that the demand on the budget office will increase, and there will be a need to fill any posts left vacant as a result of budget constraints.

Government's resistance to the Budget Act and the resulting Budget Office and budget committee continued even after the law was passed. By this time, parliament had also passed the Administration of Parliament Act, which allowed it to manage its own budget with the Ministry of Finance releasing funds required by parliament based on approved activities. However, the excuse of budget constraints affected the immediate setting up and running of the PBO. After the 2001 general elections, the 7th parliament came into being. Hon Kiraso, who had initiated the Budget Bill during the 6th parliament, was elected the first chair of the budget committee. The urgent need to carry out their work became very apparent. The chair sought assistance from US Agency for International Development (USAID), which at that time had an ongoing capacity building programme for the parliament. The special request for assistance in setting up the PBO was also shared with other donor agencies. USAID, the UK Department for International Development (DFID), the German Agency for Technical Co operation (GTZ), the European Union (EU), the World Bank, and NORAD all contributed assistance in form of furniture, computers and software, filing cabinets, and other office equipment, as well as the initial allowances for the officers. Within one year, the Parliamentary Commission was in a position to advertise posts and embark on recruitment of the PBO officers.

Later, the Parliamentary Commission ruled that any support to any department or section of the parliamentary service should be channelled to the common basket, and that the budget officers would be accommodated in the existing employment structure. They could not therefore benefit from additional funding outside the parliament's budget. Because of the heavy workload, some officers refused to accept the salary parliament was offering and opted to leave. However, the PBO attracted high calibre personnel from other organisations and later could afford to take on fresh graduates and train them. Organisations from which the initial personnel were attracted included the Ministry of Finance (budget department), Uganda Revenue Authority, the Central Bank and the Uganda Bureau of Statistics.

The PBO has been (and continues to be) non-partisan, objective, and highly committed to its functions provided for under section 21 of the Budget Act. The level of interaction with the parliamentary committees, the quality of the analysis of information, and the periodic (normally quarterly) budget performance reports have become better each year. Among the analysis that the PBO carries out are local revenue, foreign inflows, expenditure and economic indicators, as described below.

Local revenue

The Uganda Revenue Authority is required to submit monthly performance reports to the budget committee and the budget office. The budget office analyses this information and reports on it to the budget committee. The reports identify whether the revenue collections are on target, if the targets were correct or could have been better made, if there are short-falls or over performance and possible explanations.

If the budget committee finds that there is something critical that requires further analysis, it notifies the sessional Committee on Finance, Planning and Economic Development, which oversees the Ministry of Finance under which the Uganda Revenue Authority falls. The budget office's tax policy expert will then work with the sessional committee to prepare a report and recommendations for the whole house.

The PBO has proposed to parliament different ways in which the tax base could be widened; for example, introduction of property tax, which the Uganda Revenue Authority has attempted to implement since the 2004/05 budget. The PBO has also identified possible areas where a reduction in taxes could trigger increased consumption and therefore more revenue. It has also proposed tax education methods to enhance tax administration.

Foreign inflows

Section 13 of the Budget Act requires the president to present information on the total indebtedness of the state to parliament during the presentation of the annual budget.

The budget office, on behalf of parliament, scrutinises these presentations and reports to the budget committee, pointing out issues that require the attention and discussion of parliament. Article 159(1) of the constitution allows government to borrow from any source, but article 159(2) gives the authority to approve any loan or guarantee to parliament. Until recently, up to about 50 per cent of the national budget was externally funded, although the

percentage was reduced to about 42 per cent in the 2004/05 financial year. Any departure from budgeted disbursements of foreign funds would distort the budget. The PBO monitors and reports on such disbursements from both multilateral and bilateral donors in order to point out possible shortfalls that would require government to reprioritise its expenditures.

The PBO has greatly improved the relevant committee's capacity to understand the loan agreements between the government and the donors, and parliament no longer passes loans automatically. Parliament is now in a position to question or even request government to renegotiate provisions that are found to be unfavourable.

Expenditure

Section 6 of the Budget Act requires each minister to submit a policy statement to parliament by June 30 in each financial year. The statement is expected to reflect, among other things, the funds appropriated for that ministry for that financial year and to describe how much was actually released and what it was used for.

The PBO then reconciles the shortfalls (or in some ministries the supplementary funds) with the total budget performance, and if there are discrepancies, it brings this to the notice of the budget committee. The PBO has also developed measurement modules – which are still simple – that committees use to monitor the performance of the sectors they oversee. Whereas ministries are by law required to submit annual policy statements, the PBO has been producing quarterly budget performance reports, based on information collected from the treasury, as well as from all the sectors.

This has enabled parliament to follow the general budget performance and particular sector performance throughout the year.

Economic indicators

The PBO at any given time is able to file an independent report (independent of the executive) on the performance of the economy. Since the PBO was established, parliament has been able to follow the implications of macro-economic policies, receive independent information on poverty trends, and verify figures given by government on economic growth. Parliament is now able to debate from an informed position, the socio-economic trends and, as is required by the Budget Act section 2, analyse programmes and policy issues that affect the national budget and economy, where necessary recommending alternative approaches to government.

On issues that are budget and economy related, at the close of each financial year the PBO produces a record of parliament's recommendations to government, and government is expected to respond, showing where they have not complied, and give parliament the reasons for non-compliance. This procedure has greatly improved the quality of parliament's oversight role, and it has enhanced government's accountability and consequently the accountability of members of parliament to their constituents.

The budget cycle

The Uganda budget, under article 155(1) of the constitution, is prepared and laid before parliament no later than the 15th day before the commencement of the financial year. The financial year commences 1 July. Article 155 also requires the president to request the preparation of the following, to be presented to parliament:

- Fiscal and monetary programmes and plans for economic and social development covering periods exceeding one year; and
- Estimates of revenue and expenditure covering periods exceeding one year.

Parliament, in return, is expected to debate and approve the budget. Before the budget is passed, the constitution allows the president to authorise issuance of money from the consolidated fund account to meet expenditures necessary to carry out the services of government for up to four months. This authorisation is also endorsed by parliament and constitutes approximately one third of the total budget for that financial year.

Prior to passage of the Budget Act, parliament would receive the budget when it was presented on or about 15 June in each financial year. Committees would then look at the policy statements of their relevant ministries and present reports to the full parliament, which would pass the budget by the end of October. Meanwhile, government spent funds appropriated as vote on account. A vote-on-account is a temporary spending authority for the government to spend funds. This is normally applied when the budget has not been passed or for authority to spend funds during an election. In 2001, when the Budget Act came into force, parliament began participating more in the process by setting the expenditure priorities for the following financial year and for the three years to follow. The priority setting for the three years indicates government programmes with medium term expenditure frameworks, which in turn are drawn from the long term plan, the Poverty Eradication Action Plan.

Among the most important changes that demonstrate greater participation of parliament with the assistance of the PBO are the following:

- 1 Whereas prior to 2001 parliament would receive the budget figures at the time that the budget was read, the Budget Act section 4(2) now requires the president (represented by the Ministry of Finance) to request the preparation of the indicative, preliminary revenue and expenditure framework of government for the next financial year to be laid before parliament by 1 April in each financial year. The indicative figures are then committed by the Speaker to the budget committee and all sessional committees. Sessional committees consider, discuss and review the indicative allocations and prepare reports, which are submitted to the budget committee by 25 April. When sessional committees are reviewing the indicative allocations, an economist from the PBO is attached to each committee to give guidance and assist in pointing out areas of importance or discrepancy with earlier approved policies. Sessional committees are then able to agree or disagree with the activities and programmes for which funds have been allocated in that year's budget or to recommend reallocations (within the ceilings given to the respective sectors).

At the budget committee level, where all chairs of other committees participate, the ten sessional committees' reports are reviewed and recommendations are adopted or rejected, normally by consensus. It is at this level that reallocations across sectors are proposed to government. All these recommendations, proposals and advice on policy issues are contained in one comprehensive report which the budget committee, again with the assistance of the PBO, prepares and submits to the Speaker. The Speaker must then forward it to the President no later than 15 May. The period between this submission and the final budget (about one month) allows the executive to incorporate parliament's recommendations and wishes in the budget. If the executive has strong reservations about some recommendations, this one month offers an opportunity for the two arms of government to discuss and come up with commonly agreed upon positions.

- 2 The constitution requires that the President submit to parliament fiscal and monetary programmes as well as estimates of revenue and expenditure for periods exceeding one year. In practice, the President had only submitted one-year programmes and budget estimates. With the coming into force of the Budget Act, the practice changed, as the act, specifically in section 4(1), emphasises the constitutional requirement. Therefore, parliament now has received not only annual estimates but also estimates for the three consecutive years. The budget committee, with the assistance of expert scrutiny from the PBO, then reports to parliament, pointing out any inconsistencies, policy changes and justification (or lack of it), and revenue and expenditure projections for the following three years. MPs are now able to inform their constituents more authoritatively on government programmes with a clearer indication of when they will be implemented.
- 3 Policy statements, which used to be submitted any time before the budget was passed, are now submitted by 30 June (Budget Act section 1). This gives sessional committees enough time to scrutinise them and report to parliament as part of the appropriation exercise. Again, an official from the PBO is attached to each sessional committee as they scrutinise the policy statement. Section 6(2) requires that these policy statements reflect value for money and extent of achievement of targeted objectives. The standardisation of the policy statement was done by the PBO together with the Ministry of Finance and approved by the budget committee.
- 4 It was recognised that there are pieces of legislation that, when passed during a financial year, distort the budget, such as bills and motions whose implementation would require amounts of funds not previously budgeted for. The Budget Act section 10 now requires that every bill introduced in parliament be accompanied by its indicative financial implications, if any. The certificate of financial implications is tabled together with the bill on its first reading and is committed to the relevant sessional committee along with the bill. Committees seek the expertise of the PBO to verify the accuracy of these certificates and advise on the implications of the budget for that financial year. Parliament is now able to defer bills to another financial year after accommodating their implications in the MTEF (medium-term expenditure framework).

- 5 Section 11 of the Budget Act mandates that parliament analyse programmes and policy issues which affect the national budget and economy and, where necessary, recommend alternative approaches to the government. Parliament would not be able to do this without the assistance of the PBO, which prepares economic performance reports on a quarterly basis. These include revenue-related as well as expenditure-related issues.
- 6 The constitution provides for supplementary expenditure over and above what parliament has appropriated. Before the Budget Act came into force, these expenditures could be as high as 20 per cent of the initial budget. This distortion is addressed in section 12 of the Budget Act. The PBO helps the budget committee analyse the figures to ensure that the supplementary expenditure is within the 3 per cent allowed by law. The PBO is also in constant touch with the various ministries to ensure that budget execution is as approved by parliament. Parliament is now able to receive reports on reallocations both within and across ministries or departments. Such timely information allows parliament to keep track of budget discipline.
- 7 The reports from the President on the total indebtedness of the state are scrutinised by the PBO. A more simplified and easier to understand analysis is then prepared for the budget committee, which in turn presents a report to parliament. The Uganda parliamentary budget office, in doing all the above, carries out its important functions, namely:
 - Providing economic forecasts;
 - Formulating baseline estimates;
 - Assisting in analysing the national budget; and
 - Helping parliament analyse the MTEF.

The PBO has also been a key factor in identifying alternative policy approaches and has presented such modules, particularly on taxation, to the relevant committees. The non-partisan and professional nature of the unit has enabled it to perform the above functions to the satisfaction of parliament as well as the executive. The executive branch now recognises and appreciates that parliament is able to deal with budget issues on an equal footing.

The successes

With the assistance of the PBO, the budget process has been demystified. What was earlier overlooked as a specialised, difficult, and even boring area – dealing with figures – has now become accessible, interesting, and easier to understand. Budget discussions are livelier, both inside and outside parliament.

The strict measures prescribed in the Budget Act on how to deal with the budget have assisted in making budget formulation and execution more transparent. Since all parliament committee meetings are open to the press and the public, budget-related issues are now understood by most of the population.

The participation of MPs as people's representatives has enhanced the credibility of the budget. There is more ownership. Other stakeholders such as civil society organisations and the donor community, though not addressed specifically in the act, are able to inter-

act with the committees during the budget discussion stage. In fact, interest groups such as manufacturers, exporters, farmers, and so forth, who are affected by tax measures, are accommodated by parliament, which has a better understanding of the issues they face.

The deadlines in the Budget Act have improved the discipline in preparation as well as execution of the budget. Though at first there was resistance from the executive, the players now appreciate their roles, those of others, and the time frames. Government compliance has improved, and accountability has been promoted.

Parliament is able to respond rapidly to problems because of the better flow of information and greater scrutiny. Government is more alert and mindful of making mistakes in implementing the budget. Donors seem to have more confidence in the process than ever before, and this manifests itself when parliament is included among the stakeholders to be continuously consulted.

Parliament is now able to participate and contribute during public expenditure review meetings and formulation of poverty reduction programmes. All in all, the ownership between the executive and parliament was greatly improved by the Budget Act.

Challenges

In performing its duties outlined above, the PBO has faced a number of challenges. Key among them are the following:

- **Information.** Before the Parliamentary Commission insisted on having all funds that go to parliament as basket funds, the budget committee and the PBO had worked out the costing of having information technology connectivity to the key centres where budget related information could be accessed by the PBO more easily and quickly. This has not happened, since parliament itself has other requirements apart from strengthening the budget office. The PBO therefore relies on information provided by other centres, such as the Ministry of Finance, the Bank of Uganda and the Uganda Bureau of Statistics, and has no way of cross checking the information it receives. There are times when the information furnished to the PBO has been inaccurate, inadequate, or not timely.
- **Establishment structure.** Since the structure was revised to provide for more officers in the PBO, some posts have remained vacant because of budget constraints. The existing officers are therefore faced with a very heavy workload, and they work long hours, especially during the budget scrutiny period.
- **Co-operation.** Though co-operation with government sectors has generally improved, some ministries either deliberately or out of incompetence do not furnish PBO with the information it requires to assist parliament with comprehensive reports. The Prime Minister (leader of government business) has been particularly co-operative in compelling ministries to provide information but some still do not comply.
- **Discrimination and bureaucracy.** Surprisingly, the PBO suffers to some extent from discrimination by the administration of parliament under the Parliamentary

Commission. There is a general feeling among other officers that the PBO is a 'super department' because it has better facilities, including offices, office equipment, and vehicles. These facilities were provided by donors to support the establishment of the PBO. Some donor agencies have continued to directly fund the PBO outside the general budget of parliament, a practice that did not satisfy the Parliamentary Commission.

The bureaucracy in the administration of parliament sometimes causes delays in the PBO's work. The time spent between the requisitioning and the release of funds for office accessories (even small ones including paper, toner, fuel, and so forth) hinders the PBO's work.

- **Demands from Members of Parliament.** Most MPs have shown little interest in reading reports containing a lot of figures. Only a few MPs take advantage of them. At the same time, they continuously demand information, which has often already been provided to them, and some even expect information to be collected for them for individual projects. The PBO sometimes finds itself overwhelmed with individual MPs' demands. Although requests for information are required to go through the budget committee or the chair, some MPs do not follow the procedure.
- **Lessons for other parliaments.** Legislatures in different countries are at different levels in terms of participation in the budget formulation process. The need for as much participation as possible cannot be overemphasised, as the budget is the single most important tool through which economic and social policy can be influenced. With more participation, parliaments will be in a better position to play their three basic roles: representation, law making and oversight.

The executive branch in most governments will not support the parliament's increased participation in budget formulation. This means that parliaments, especially in Africa and other transition economies, should initiate their own legislation that will ensure that they are able to participate fully and in a meaningful way.

Parliaments can benefit by sharing experiences and assisting in building capacity in other parliaments to make them more effective and to ensure better public policies and more prudent management of public resources. Parliaments may need to be assisted with funds, personnel and initial office equipment, as well as capacity building to use mechanisms such as private members' bills, and lobbying skills to bring on board colleagues and non-governmental bodies, including civil society organisations that support more transparent budgeting.

Uganda's Budget Act and the subsequent establishment of the parliamentary budget office, its successes, and the challenges it has faced offer many useful lessons for other parliaments.

Note

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Chapter 4

Defence Procurement Reform in Australia

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Defence procurement has been a persistent subject of concern for governments across Western nations for several decades. The large dollar value of acquisition contracts, the positive employment return from major contracts, the advanced technology inherent in weapons systems to the national economy, the spin-off of political pressure on politicians in constituencies with a high concentration of defence employment, and the power of defence industry advocates combines to pressure national governments to generate employment through defence procurement spending. Indeed, the sophisticated, leading-edge technology necessary for the development and manufacture of advanced weapons systems produces the high-value employment that national governments want to foster, in large part for the 'multiplier effects' it provides within the domestic economy. The significant demand for defence-procurement funding stems from the rapidly evolving nature of modern warfare and the so-called revolution in military affairs. Most other government programmes are less dynamic and less prone to rapid technical change. Consequently, in comparison to these other government programmes, defence capital expenditure tends to overshadow capital expenditure in all other government departments.

A combination of significant and persistent cost growth in defence acquisition programmes and 'a systematic bias toward underestimating the costs' of procuring weapons systems (Arena et al., 2006) makes national military capital procurement programmes a lightning rod for the media, opposition parties, and interest groups opposed to defence spending. For these reasons defence procurement processes are constantly under review by governments seeking to increase efficiency, effectiveness, and timeliness in the acquisition process.

Australia is unique among Western-oriented nations because of its particular location in the Asia Pacific region, its size and primary export markets for goods and services. The considerable distance between Australia and allied Western nations necessitates a certain level of indigenous support for the defence industrial base in Australia.

Furthermore, the extensive geographical mass of the island nation makes the country – like Canada – both secure and indefensible. Again similar to Canada, although the protection of the country takes precedence, the focus of the Australian armed forces is deployed operations. The recent series of defence procurement reforms in Australia demonstrates that national governments make particular choices (Sokolsky and Middlemiss, 1989), a fact that is not adequately acknowledged.

Defence procurement reform in Australia in the post-cold-war era began with the Defence Reform Program in 1997 and continued through to the Defence Procurement and Sustainment Review in 2008. Over this period of dramatic change and active involvement by the Australian military in overseas operations, the focus of procurement reform – as in the case of the United Kingdom – has been remarkably consistent. Yet, the Australians have chosen a distinctly national approach to defence acquisition reform, shaped in part by their unique geopolitical situation.

Defence Reform Program

The management framework of defence in Australia for the past decade was largely established by reforms instituted by the 1997 Defence Reform Program (Department of Defence, 1997). The objective of the reform programme was three-fold:

- 1 To consolidate individual Service support and training activities to increase efficiencies;
- 2 To improve management effectiveness by merging headquarter functions; and
- 3 To produce savings through the sale of surplus defence properties.

These reforms resulted in a relatively centralised structure, as individual services left with limited control over numerous military capability inputs (Thompson, 2007). Although the Australian Defence Reform Program was not centred on acquisition reform, it did provide the foundation for the management framework under which subsequent acquisition-related reform would take place.

Defence and Industry Strategic Policy Statement

The 1998 *Defence and Industry Strategic Policy Statement* was noteworthy in that it explicitly linked defence policy at the strategic level with industrial policy at the national level. The statement provided a clearly defined policy framework that unequivocally identified Australian industry as an integral element of national defence capability. Indeed, the Australian Defence Force and industry were heralded as partners in the provision of national security. The 1998 *Defence and Industry Strategic Policy Statement* offered six strategies (listed below) to integrate the military and the defence industry better. In addition, 49 significant initiatives were identified to support the implementation of the policy.

Six strategies to integrate the military and industry better

- Integrate industry into capability development;
 - Enhance industry's contribution to the nation's capability edge;
 - Reform procurement;
 - Establish new ways to involve Australian industry in defence business;
 - Increase Australian exports and materiel co-operation; and
 - Commit to cultural change and improved communication.
- (Department of Defence, 1998)

A key initiative contained in the *Defence and Industry Strategic Policy Statement* was the building of a mechanism to move formally to a less adversarial relationship between the defence establishment and defence firms. While this approach was common in Western nations during the period, in Australia it was framed as 'partnering.' The statement took the position that 'partnering has become increasingly common in the private sector, where it has been found to reduce cost and schedule runs, encourage innovation, and make risk more manageable. Partnering can produce similar benefits for Defence.' (Department of Defence, 1998)

The objective of this desired partnership was to link defence and industry together in a relationship where both risks and rewards were shared. Given the significant problems faced by defence planners at the time, the potential advantages of collaborative problem-solving with industry were an attractive prospect, as was the possibility of transferring some risk to industry. Nevertheless, overcoming the long history of sometimes-difficult relationships between these two parties was a significant undertaking.

Few saw the strategy as a panacea that would resolve entrenched problems such as cost overruns or schedule slippage, even though the policy framework did provide both industry and defence with an explicit policy-based framework within which to improve their relationship.

Defence policy statements related to domestic industry provide direction to the defence department on how to relate to industry and are successful to the extent that the guidance is explicit and the implementation period provides time for the relationship to develop and mature. In the case of the 1998 *Defence and Industry Strategic Policy Statement*, the six strategies generally provided a suitable framework for industry and defence collaboration.

Defence 2000: Our Future Defence Force

The 2000 Defence White Paper, *Defence 2000: Our Future Defence Force*, continued the reforms begun in 1998 with the *Defence and Industry Strategic Policy Statement* and committed to organisational stability by providing significant, long-term additional funding. The Australian government's commitment to the defence industrial base was re-emphasised, with priority given to combat and system software and support as well as data management and signal processing. In-country support for repair, maintenance and modification of military equipment was also identified as a priority (Department of Defence, 2000:99). In particular, support for advanced technology was viewed as a key underpinning of the government's approach to the defence industry. However, in a nation outlaying only one per cent of world military expenditure (Department of Defence, 2000:99), this appears to be an improbable objective. Similarly, government support for defence exports – given their small market size – also appears to be over-ambitious.

A key decision announced in the White Paper related to acquisition reform, and was the adoption by the Australian Defence Materiel Organisation of commercial best practices as the standard organising principle. In addition, performance standards in the Defence Materiel Organisation would be measured against industry benchmarks. Furthermore, to improve the relationship between defence and industry, the defence department was given the responsibility of encouraging a closer relationship between the parties.

Defence Procurement Review

After a wide-ranging review of the national acquisition process, the 2003 *Report of the Defence Procurement Review* concluded that 'there is no single cause of the failures that have become apparent in the development of capability and the acquisition and support of defence equipment. Consequently, there is no single remedy that will ensure that problems do not occur in the future' (Department of Defence, 2003:47). This review both continued and re-emphasised the procurement reform begun in the preceding decade. Taking a more broad-ranging view, however, and mindful of the new and emerging threats in the international security environment, the report urged more rapid change, while stressing the need to fundamentally remodel existing structures, departmental systems and the culture inherent within the defence department. Specifically, the review emphasised that changes were needed within each phase of the acquisition process, as well as throughout all subsequent in-service life-cycle phases.

This review echoed defence reports in other Western nations and emphasised the importance of improving the departmental process for defining and assessing capability requirements. It followed similar approaches recommended in the United Kingdom, including an increased investment in the early stages of programme development and a special emphasis on technological, schedule and cost risks. The Australian review emphasised, especially, the importance of cost analysis for both acquisition and subsequent life-cycle costs.

In a period of change within any organisation, external advice and support is usually beneficial. The report recommended two important initiatives in this regard. First, it recommended the establishment of an advisory board, independent of operational processes, to 'provide the advice of people who have acquired business skills and experience in the private sector' (Department of Defence, 2003:32) to senior managers in defence acquisition. The board, it was assumed, would consequently enhance the commercial orientation within that department. Second, the report recommended that the mandate of departmental project governance boards shift from managing simply acquisition to managing both acquisition and through-life support in order to provide continued oversight of fleet operating costs.

One innovation specifically, making the use of off-the-shelf acquisitions a key project benchmark, has the potential to cause a positive, enduring change. In this regard, the report states: 'Off-the-shelf equipment is often cheaper and can usually be delivered faster. Accordingly, an off-the-shelf alternative must be part of any set of options put forward to government to ensure that a benchmark is established against which the costs, military effects, and schedule of all proposals can be assessed' (Department of Defence, 2003:19)

Inquiry into Materiel Acquisition and Management in Defence

The terms of reference of the *Report on the Inquiry into Materiel Acquisition and Management in Defence* (Foreign Affairs, Defence and Trade References Committee, 2003:v) centred on whether the existing defence materiel acquisition and management framework was effective in fulfilling military equipment requirements. Although the terms of reference were reasonably broad, the report was essentially a snapshot of a year and a half of reform following the December 2000 Defence White Paper.

Although the objective was to develop a series of benchmarks to facilitate measurement of the success of future materiel acquisition and management reforms, the report recommendations were quite narrow in their application. In essence, given the short time since the reform process had been initiated by the Defence White Paper of 2000, these fundamental observations on reform core processes or functions were made too soon and were, thus, only preliminary.

Nevertheless, the broad consultation of the committee and the examination of the reforms made to date did bring forward a number of appealing ideas.

The unequivocal Australian government endorsement of close links between government and the defence industry, and the 1998 *Defence and Industry Strategic Policy Statement* that explicitly encouraged Australian industry to be proactive in presenting ideas and innovations to the department of defence, resulted in the committee recommending 'an efficient formal mechanism for the promotion and handling of unsolicited proposals' (Foreign Affairs, Defence and Trade References Committee, 2003:59) from small and medium Australian enterprises.

This innovative approach to doing business was intended to help leverage the 'knowledge edge' of primary leaders in a range of defence technology fields.

The committee endorsed the merits of defence partnerships and alliances with industry, while recognising that both partners needed expertise in managing their relationship and negotiating effective, collaborative joint ventures. The committee acknowledged the efficiencies and benefits that a competitive market can bring to defence acquisition, noting that the Australian government policy commitment to partnerships could impede future competition among potential suppliers.

To counter potential decreases in future long-term contracts, the committee recommended that the department 'remain in regular contact with the unsuccessful bidders' (Foreign Affairs, Defence and Trade References Committee, 2003:92) The committee envisaged regularly updating, from government to firms, with any changes to capability requirements during the long-term contract, informing of developing strategies, and assisting potential future suppliers to be in a competitive posture at the contract renewal point. While this approach may not always succeed in maintaining competition in specific markets, it demonstrates government transparency and counters perceptions of preferential treatment towards the existing contractor. In a country with a defence industry the size of Australia's, it is imperative that the government nurture and encourage competitive firms in the defence sector, and governments have done this through an ongoing dialogue with corporations in that sector.

Parliamentary oversight of the defence capital programme and the publication of detailed programme information are indispensable to providing the visibility and transparency of projects. To this end, the committee recommended an annual progress report on major capital projects that would include project costs, time frames, technical performance data, and an analysis of project performance and trends.

Defence and Industry Policy Statement

The 2007 *Defence and Industry Policy Statement* builds on the foundation established by the 1998 *Defence and Industry Policy Statement*. The 2007 policy statement stresses the necessity of a domestic defence industry that is capable of simultaneously maintaining, repairing and modifying fleets purchased from external markets, while ensuring the ability to design and manufacture equipment domestically according to unique Australian Defence Force requirements (Department of Defence, 2007). While acknowledging the underpinning of the 1998 policy statement, the document criticises the lack of vigour in the implementation of that policy.

Nevertheless, the 2007 *Defence and Industry Policy Statement* endorses too many dissimilar policy objectives, some of which appear to be contradictory. Specifically, the diverse objectives of securing value for money and concurrently creating opportunities for Australian firms are both endorsed. Indeed, the expectation that a country with the economy and population of Australia could simultaneously support a domestic defence industry that can give priority to local industry capabilities, create opportunities for Australian businesses, encourage small and medium indigenous enterprises, as well as facilitate defence exports is not realistic in the current internal defence weapons market dominated by the United States and, to a lesser extent, some European firms, and a resurgent Russian defence industry.

Although the scope of the policy statement may be too broad, the emphasis of early joint government and industry engagement in project development in order to clarify capability requirements, refine costs and identify project risks together is well placed in the current international strategic environment. In addition, the report recognises the impact of globalisation and post-cold-war commercial realities in the defence sector. The importance of membership in multinational weapons systems programmes is acknowledged, and increased use of commercial off-the-shelf technology within military applications is again emphasised.

Defence Procurement and Sustainment Review (2008)

The 2008 *Defence Procurement and Sustainment Review* is a formal evaluation of the Defence Materiel Organisation within the Department of Defence, which aims to determine the effectiveness of reforms implemented subsequent to the 2003 *Report of the Defence Procurement and Sustainment Review*. The Australian government's expectations of the defence procurement and sustainment systems were four fold: first, achieve superior results for the Australian Defence Force; second, shift to enhanced transparency and accountability; third, move to superior efficiency and effectiveness; and fourth, obtain better value for money (Department of Defence, 2008:vii).

Although it was acknowledged that the reforms advocated in the 2003 *Defence Procurement and Sustainment Review* had improved the procurement system over the ensuing five years, the desired outcomes had not been fully achieved. Consequently, this report proposed a number of further defence procurement and sustainment reforms to the existing system. Significantly, they 'can be characterised under the themes of making the Defence Materiel

Organisation more business-like and imposing discipline on the defence procurement and sustainment processes' (Department of Defence, 2008:ix). The report identified five principal areas of concern, detailed below.

Procurement and sustainment: principal areas of concern

- Inadequate project management resources in the Capability Development Group;
- Inefficiency of the process leading to government approvals for new projects;
- Shortages in Defence Materiel Organisation personnel;
- Delays due to inadequate industry capacity; and
- Difficulties in the introduction of equipment into full service.
(Department of Defence, 2008:xi)

Although the review was geared towards progressing defence procurement reforms initiated in the preceding decade, and the majority of recommendations followed from that theme, a number of them have the potential to make a distinct difference. First, oversight is strengthened through the recommendations to establish an independent project performance office and an independent sustainment efficiency office. The proposed role of the project performance office is to review projects, as well as to facilitate problem solving within projects, where necessary. The proposed role of the sustainment efficiency office is to benchmark and to explore methods to enhance the delivery of sustainment to the military. Finally, the review recommended the dismantling of artificial – yet historical – financial barriers between procurement and sustainment budgets when deciding to purchase new equipment or maintain existing equipment. The primary financial consideration would be directed at subsequent life-cycle operating costs.

Conclusion

Australia, like the United Kingdom and Canada, has charted a distinctly national and consistent course in defence acquisition reform since the 1997 *Defence Reform Program*. Prominent throughout this period has been the relationship between the defence department and industry. Indeed, the clearly defined policy framework linking national defence capabilities and Australian industry has largely endured throughout the past decade. The benefit of this policy was that it provided defence and industry with a structure to improve their relationship. Although perhaps somewhat ambitious given the relatively modest size of the Australian defence industry and the changes that were occurring in the defence sector globally during this period, it did cater predominantly to the unique geographical and security circumstances of the country. The distinctively national approach taken with industry was complemented by the adoption of a number of defence acquisition reforms implemented by the United States and the United Kingdom. This consisted of embracing commercial best practices, taking a whole-life approach to equipment, increased investment early in procurement programmes, and enhanced programme oversight.

Table 4.1 Major Australian acquisition reforms

Defence Reform Program (1997) Although the Australian *Defence Reform Program* was not centred on acquisition reform, the management framework under which subsequent acquisition related reform would take place was established.

Defence and Industry Strategic Policy Statement (1998) The contribution of this statement is that a clearly defined policy framework was established that unequivocally linked Australian industry as an integral element of national defence capability.

Defence 2000: Our Defence Future Force (2000) Continued the reform begun in 1998 with the *Defence and Industry Strategic Policy Statement* and provided a commitment to organisational stability by providing significant long-term additional funding.

Defence Procurement Review (2003) Taking a more broad-ranging view, and mindful of the new and emerging threats in the international security environment, the report urged more rapid change, while stressing the need to fundamentally remodel existing structures, departmental systems, and the culture inherent within the organisation. One innovative proposal was to make off-the-shelf requirements a key project benchmark.

Report on the Inquiry into Materiel Acquisition and Management in Defence (2003) Given the short time frame that the reform process has been in progress since the defence white paper, fundamental observations on reform core processes or functions were too preliminary. In addition, the committee recommended the establishment of a formal mechanism for the promotion and handling of unsolicited proposals, as well as an annual progress report on major capital projects.

Defence and Industry Policy Statement (2007) The policy statement stresses the necessity of a domestic defence industry that is capable of simultaneously maintaining, repairing, and modifying fleets purchased from external markets, while ensuring the ability for unique Australian Defence Force requirements to design and manufacture equipment domestically.

Defence Procurement and Sustainment Review (2008) The reforms proposed in the report can be characterised under the themes of making the Defence Materiel Organisation more business-like and imposing discipline on the defence procurement and sustainment processes. In addition, improved oversight through the establishment of an independent Project Performance Office, as well as an independent Sustainment Efficiency Office was proposed.

The enduring themes in defence acquisition reform throughout the past two decades are perhaps not evident to the casual observer, or even to those working within defence department procurement organisations.

In a period of constant change it is imperative that all parties in this field understand the shifting landscape and be capable of responding appropriately. Defence acquisition reform consists of three distinct, yet interrelated, themes. In the current procurement environment, policy can and does make a difference. The role played by policy is integral to setting the appropriate conditions to facilitate success. An active policy regime also engages parliament and intensifies the relationship between the defence department and government. Policy also establishes the parameters for departmental management of the defence acqui-

sition process. Effective management through clear lines of communication, accountability and authority can make a difference, as can stability in project management leadership.

Finally, knowing, understanding and applying emerging leading-edge private sector practices is vital to improving performance metrics. The strategic, business, and procurement environments are now changing at a rapid pace, leaving the defence establishment continually struggling to keep pace. This reality has broadened the scope of needed reform and in recent years has ushered in a series of further studies aimed at better aligning acquisition processes with the needs of operational military units. What is noteworthy is that the pace of change does not appear to be abating. Consequently, a series of further defence acquisition reforms can be expected on the horizon as defence departments continue to strive towards a closer alignment of military operational requirements and delivery of timely new operational capability through the acquisition system. These enduring international themes in defence acquisition reform are listed below.

Enduring international themes in defence acquisition reform

Policy

- Establishment of a defence industrial strategy;
- Parliamentary oversight of the defence acquisition system;
- International collaboration;
- Close links between government and industry; and
- Use of an advisory board for defence acquisition.

Management

- Clear responsibility and accountability;
- Effective project governance regimes and decision processes;
- Configuration of technology to meet military needs; and
- Stable acquisition leadership.

Private sector practices

- Use of best-in-class private sector practices;
- Use of commercial products and processes;
- Improved cost-estimating practices;
- Consideration of both acquisition and in-service costs in decision making; and
- Responsiveness of the acquisition system.

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Chapter 5

Implementing Effective Performance Management in a Public Service Organisation

Patrick Nomo, Director-General of the Internal Audit Agency, Government of Ghana

Introduction

Implementation of performance management in the public sector of Ghana has been a challenge since the 1980s. Successive governments have tried without success to get the public service to implement an effective performance management system. Managers who have the responsibility to ensure performance as well as employees whose performance must be monitored, reviewed and rewarded have borne the effect of ineffective performance management in the public sector. The challenge in Ghana partly stems from managers' inability to deal with socio-cultural aspects of the performance management process.

This case study presents how the Internal Audit Agency of Ghana, a public institution, designed, implemented and sustained its performance management system to support the achievement of the agency's statutory and organisational goals. The case highlights lessons learned and concludes that effective performance management is crucial for creating and maintaining the required environment for achievement of statutory and organisational objectives.

The challenge of public sector performance management in Ghana

Performance management in the public sector of Ghana has been ineffective and has not been improved since the 1980s. What remains of the system of performance management is a form-filling exercise for the records, based on a standard appraisal form designed before 1985. This form is hardly completed by anybody until it is required as an attachment to documentation in preparation for a promotion interview or a similar purpose.

Targets for individual employees are hardly defined and agreed. Personal accountability is therefore lost in the existing public service performance appraisal system. Chief directors of ministries and chief executives of state owned enterprises are made to sign performance agreements with their ministers and boards respectively. The review process for these agreements is yet to be regularised.

Sector performance reviews are also held to assess sectoral performance against agreed targets (usually with development partners). Unfortunately, these sectoral reviews rarely have

the participation of central government agencies like the Ministry of Finance and the Public Services Commission. The reviews therefore become a dialogue with development partners to explain why targets could not be achieved and why additional resources are needed to implement planned activities.

The solution by the Internal Audit Agency

The Parliament of Ghana passed the Internal Audit Agency Act (Act 653) in 2003. The act was implemented in 2005 by the establishment of the Internal Audit Agency. It became clear that the Government of Ghana wanted to improve risk management, control and governance processes in the public sector. As part of the process of improving governance within the Internal Audit Agency itself, a performance management framework was approved by the board of the Internal Audit Agency in 2007. This was intended to stimulate and guide accountable performance across the agency.

The agency's performance management framework was implemented for the years 2007 and 2008 with great passion, professionalism and integrity.

The performance management framework of the agency involves:

- Strategic planning;
- Annual planning;
- Performance indicators and targets;
- Performance agreements;
- Institutional performance reviews;
- Staff performance reviews;
- Operational systems;
- Risk management tools;
- Financial management tools;
- Internal and external audit management tools;
- Audit report implementation committee; and
- ICT management tools.

The following outlines how the agency's performance management framework works.

Strategic planning

The board of the agency understands that it is critical to have clarity of purpose and a full understanding of priorities in order to effectively manage performance. Systematic and consistent arrangements for linking vision and strategy with practical implementation throughout the agency are crucial in ensuring that all personnel of the agency know

exactly what they are required to achieve, and what needs to be measured in order to assess performance.

The strategic plan of the agency which spans a five-year time frame, its concomitant annual programme of work and the performance indicator matrices are all products of the planning and review process under the agency performance management framework.

As a living document, the strategic plan is modelled to reflect the long-term thinking and orientation of the board and management to achieve the objectives of the agency. The plan is reviewed annually to maintain its relevance in providing direction to the agency's efforts at fulfilling its role as a change and improvement catalyst in the management of public resources and good governance. As a governance tool, it is aligned with the Government of Ghana's priorities as reflected in the Growth and Poverty Reduction Strategy (GPRS II).

Annual planning

In order to ensure systematic progress towards the achievement of the agency's strategic objectives, an annual work plan is prepared by the agency and reviewed and approved by the board. The work plan specifies the activities to be carried out in a year. These activities are prioritised within the constraints of the agency's annual budget and other resource constraints. The annual work plan forms the basis of monitoring annual performance of the agency. The work plan is designed to show the expected dates of activity completion, the responsible official, and resources allocated to the activity.

The agency implements its plans and policies using a result-based project team approach. There are four main divisions headed by directors, who are assisted by sectional heads and their teams that are responsible for key deliverables required under the work plans. Teams are assembled and reassembled for special assignments based on the skill set required for the execution of the job. Occasionally external experts are brought in to assist.

Performance indicators and targets

Selected outputs from the annual work plan are used to develop indicators for the purpose of monitoring the overall performance of the agency. Indicators are developed for each level of performance measurement. The indicators are carefully selected to ensure that indicators cover all key performance areas of the agency. Indicators are also developed for the personal development plans of individual staff.

Targets are set for staff using the work plan related to each employee's expected outputs and related indicators. The targets are proposed by the employee and discussed with sectional and divisional heads and eventually with management. The targets are influenced by national targets set by the board and top management.

Performance agreements

The agency uses performance agreements to formalise responsibilities for agreed performance targets at the following levels:

- Level 1: Internal Audit Board and Director-General;
- Level 2: Director-General and Deputy Directors-General;
- Level 3: Deputy Directors-General and Divisional Directors;
- Level 4: Divisional Directors and section heads; and
- Level 5: Section heads and unit heads / team members.

At each of the above levels, performance agreements are signed to reflect the respective authority and responsibilities for ensuring monitoring and attainment of agreed performance targets. The levels of performance agreement listed above also represent the levels of direct accountability within the agency.

Institutional performance reviews mid-year

The agency's institutional performance is reviewed periodically. The following mechanisms are used to monitor and review performance:

- Quarterly meetings of the board;
- Mid-year review programmes; and
- Annual review programmes.

Quarterly meetings of the board

The board of the agency meets quarterly to consider management and operations reports of the Director-General prepared for the board. These report progress made by the agency towards achievements of its annual objectives as stated in the work plan. Challenges and action required of the board are also highlighted.

Mid-year review programmes

Mid-year reviews of the agency's performance are undertaken in July/August each year. This enables any shortfalls to be corrected to mitigate any risks to the achievement of annual targets. This enables comparison to be made between the first half of the year and the second half of the year. The mid-year review may result in reallocation of resources to enhance performance. The mid-year review forms the basis for the preparation of the ensuing year's work plan, budget, performance indicators and performance agreements. Internal audit reports covering the first half of the year are an important input to the mid-year review process.

Annual review programmes

A review of the agency's performance in the immediate past year is undertaken in January. This helps to identify achievements, challenges, strengths and weaknesses. The results of the annual review process are used to improve implementation of the ensuing year's work plan.

Staff performance reviews

The agency recognises that its staff are its most valuable asset. Effective management of the workforce is therefore critical to the achievement of the agency's vision, strategies and plans. A performance-enhancing organisational structure is a key element in its performance management framework and the organisational structure must be kept under regular review to ensure that management controls are aligned to strategic leadership in the most effective manner. The current management structure is based on function-related departments, which are represented at management team level by directors. Each director has divisional management responsibilities. The structure below the management team is 'flat' across the agency and each manager has unit management responsibilities.

The critical importance of effective management of human resources in delivering its objectives is not lost on the agency. It tries to use 'best practice' management tools such as team briefing, staff appraisal, staff briefing and regular meetings between the management team and the senior managers to ensure effective flow of communication within the organisation. Employees are encouraged and supported in undertaking professional training where appropriate, and a wide variety of 'general competencies' training are included in the agency's staff training and development plan.

Annual staff performance appraisals enable the strengths and weaknesses of the individual staff member to be identified. They also enable individual's weaknesses to be addressed and their strengths leveraged to improve performance. Staff performance is evaluated at two stages. Stage 1 occurs after completion of each assignment covered by specific terms of reference. Stage 2 staff appraisal occurs at the end of each year and covers agreed institutional and personal performance targets.

The 360° panel appraisal method

The '360 degrees multiple-rater' method of appraisal is used for all staff appraisal in the agency. Under this system, appraisees are assessed by their supervisors, subordinates and peers. Staff are also given the opportunity to appraise themselves.

The averages of the results are then collated to determine the level of performance. This system helps minimise the rater biases associated with single-rater appraisal. The combined effect of this appraisal system aids in boosting staff confidence levels.

Panel composition

The panel for each staff member's appraisal is composed of:

- The immediate supervisor;
- The supervisor's supervisor;
- A colleague of the staff member;
- A subordinate of the staff member;
- A technical expert in the profession of the staff member; and
- The Director-General.

Secretariat support

The panel is supported by a team made up of:

- The manager responsible for monitoring and evaluation; and
- The manager responsible for capacity planning.

Documents required prior to panel sittings include:

- Profile of the appraisee (CV, joining date, positions held in the agency over reporting period);
- Job function of the appraisee; and
- Performance agreement of the appraisee (including agreed targets).

Preparation by appraisees

Staff appearing before an appraisal panel must prepare to demonstrate the following:

- Description of their job function and how it relates to the agency's objectives;
- Performance in the reporting period;
- Targets achieved;
- Innovations introduced;
- Challenges faced;
- Missed opportunities;
- Collaboration with other staff, sections, divisions, departments and organisations;
- Job-related training obtained;
- Job-related training needed;
- Career objectives achieved;
- Career objectives for next period; and
- Job-related targets for next period.

Scoring criteria

The standard criteria to be used to assess the performance of each staff are made known to all staff before the appraisal. In fact, staff have the opportunity to make inputs into the criteria before starting the appraisal process.

Time budget

A time budget is developed to show the total number of working hours required to appraise all staff of the agency. The time budget provides the number of persons in each staff cate-

gory, the estimated duration for each appraisal in the category and the resultant duration required to appraise that category of staff.

The time budget is converted into an appraisal calendar and shared with all staff. The appraisal calendar shows clearly dates and time when each staff is expected to appear before an appraisal panel. Care is required to ensure that a staff member is not empanelled on a day he or she is also expected to appear before a panel.

Implementation work plan

An implementation work plan is developed to list all the activities that need to be undertaken to ensure that the staff appraisal is completed smoothly and on time. A typical implementation work plan is reproduced below.

Activity	Date	Output
Compile table of appraisees and panel	30 Sept	Appraisal panel table
Develop appraisal timetable	07 Oct	Appraisal panel table
Design score sheets	10 Oct	Score sheets
Obtain and compile current profiles of the appraisee (CV, joining date, positions held in the agency over reporting period)	15 Oct	Appraisee folder
Update job functions of appraisees	15 Oct	Job descriptions
Obtain performance agreement of the appraisee (including agreed targets)	15 Oct	Performance agreements
Assemble dossier on each appraisee for each panel member	24 Oct	Completed appraisee folder
Invite panel member (including external experts; with timetable)	24 Oct	Mail invitation letters (appraisee folder to follow later)
Call a general meeting to inform staff about appraisal dates.		
Educate staff as to what to expect as appraiser/ appraisee.	27 Oct	Minutes of General Staff Meeting
Arrange and set up venue	31 Oct	Venues ready for interviews
Commence appraisal	03 Nov	Attendance sheet
Complete appraisal interviews	04 Dec	Draft appraisal report
Review and issue report	23 Dec	Appraisal report

Reward and sanctions

The agency's performance management framework provides the basis for rewarding good performance while appropriate sanctions are applied to challenge staff towards good performance.

Various rewards/awards are given to staff that score 75 per cent or above. The rewards/awards are decided by management and range from a personalised, handwritten letter of commendation/recognition from the Director-General, to token cash prizes.

Communication

Ongoing performance communication is a vital process in the agency. There are a variety of reports that are churned out monthly, quarterly and annually to track progress and identify problems or barriers to performance. These reports are made available to staff to keep them current. In addition, there are short monthly divisional meetings and quarterly general staff meetings during which progress and challenges are discussed, as well as informal communication channels where directors and managers walk around and chat with employees.

Lessons learned

The key lessons learned by the agency while implementing its performance management framework are provided in the following paragraphs.

Orientation and preparation of staff prior to commencement of performance appraisals is vital. It helps to reduce the tensions that go with the appraisal process. It also enables staff to make suggestions to improve the process and results in greater employee buy-in.

It is important to assess the level of information technology support required by the performance management system and how to provide this within the context of available resources. Manual systems of scoring and computation of scores result in avoidable errors and tensions. Spreadsheets were found useful but a tailor-made software for performance management would add value significantly.

Appropriate administrative support for the appraisal process is as important as the appraisals themselves. Communication with all stakeholders prior to the appraisal days, reminders to panel members and appraisees as well as site preparation for the appraisal sessions are equally important.

Employees need to see that the reward system within the agency is aligned to the performance management process. Any perception of a disconnection between performance and reward in the agency is likely to affect staff motivation and consequently performance. There is therefore the need to carefully think through any reward or sanction actions to ensure that they are transparent and that they complement the performance management system.

Conclusion

Effective performance management is crucial for maintaining the required environment for delivering organisational and statutory objectives. Staff have personal objectives that may vary widely from the organisation's objectives. A well-designed and effectively implemented performance management system helps to narrow the gap between organisational and personal objectives. This provides the required staff resources for achievement of organisational objectives and rewards staff performance while assisting staff to achieve theirs.

Chapter 6

The Ontario Municipal Benchmarking Initiative

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Case background and origins of material

This case provides an example of both the development of performance measurement systems in a complex environment, and the linkage of that exercise to providing more effective financial management practice. It also is a case that points to the benefits of the development of cross-jurisdictional comparative measurements leading to the identification of benchmarks and leading practices within those jurisdictions. As such, the case can be used in the academic setting for exploring these topics in the application of theory in these areas as well as in the organisational setting to review steps taken and lesson learned in this process. This initiative is ongoing and, subject to change, its website – www.ombi.ca – provides a rich source of documentation about the initiative. This case also benefited from interviews with participants who have been involved in it for some time.

Origins and goals

The Ontario Municipal Benchmarking Initiative (OMBI) was established in 2000 as a result of collaboration between the Ontario Ministry of Municipal Affairs and Housing, regional administrative officers of municipalities across the province and 15 municipalities which committed to be part of the actual project. Member municipalities include the Canadian cities of Great Sudbury, Thunder Bay, Hamilton, London, Toronto, Windsor and Ottawa, the County of Brant, the District of Muskoka and the regional municipalities of Halton, Niagara, Peel, Durham, York and Waterloo. These OMBI municipalities, which represent about 72 per cent of the population of the Province of Ontario, are working together to identify and share performance statistics, create financial costing models that permit comparison of the costs of the services measured and identify operational leading practice.

The goals of the initiative are two-fold:

- To identify and develop appropriate service-specific performance measures, capture performance data, analyse and benchmark (i.e. create comparative performance standards against which performance is compared); and
- To provide a useful management tool that integrates financial and performance data to assist municipal decision-making, e.g. methodologies and systems for activity-based cost account and asset management.

The initiative has adopted the following mission statement:

‘The Municipal Chief Administrative Officers’ Benchmarking Initiative is the result of their partnership effort to continuously strive for service excellence in municipal government. Participating municipalities are working together to identify and share performance statistics, operational best practices and to network in the spirit of innovation and entrepreneurship to push for even greater success.’

As the Mayor of one of the participating municipalities said early in the process, ‘OMBI is sharing collective wisdom’.¹⁵

This case study examines how the OMBI began and grew. It reviews the uses to which the performance information is put. It explores how the OMBI created a common performance platform across varied and profoundly different municipalities. However, challenges have also arisen with respect to the interpretation of the data and the capacity to create a true basis for direct comparison; the chapter will also examine the role that transparency continues to play in this programme.

A note on benchmarking and its role in this case

Benchmarking is a commonly used comparative performance management methodology. It provides a means of comparing one jurisdiction or organisation’s performance against an accepted level of performance that is arrived at either through comparison with another similar entity or group of entities or measures arrived at through research or set by a professional body. In many instances, benchmarks are set as standard in the field of practice. It can be debated about whether, in the case of OMBI, there is true benchmarking taking place, as standards per se are not applied throughout. There is a greater tendency to use the average or mean as the basis of relative comparison.

In this case, the municipalities developed two forms of benchmarking suited to their needs. Through a process of data collection and clarification, outlined below, a series of common measures were developed for the services that each municipality offered, e.g. social assistance cases per 100,000 population that enabled the municipalities within the initiative to compare their performance with the benchmark as it developed. If no benchmark existed, however, the municipalities would still have data comparisons, often with some form of ranking. This then drove the analysis to define a mean for comparison purposes. In each case, we are dealing with what is in essence a numerical measure, devoid of context. As the project developed, a series of intense studies were developed, aimed at identifying the practices behind good performance to be used by all municipalities in assessing their capacity for improvement. These can be called leading practice benchmarks.

Project design

Project resources and the commitment of time and energy came from the chief administrative officers (CAOs) of the participating municipalities. They saw the value in building up a body of knowledge through a variety of methodologies that would enable them to better understand:

- Their relative level of services;

- Their relative cost per unit of service;
- What an appropriate standard or best practice for each service element would look like; and

How this could be communicated to decision makers and citizens in a meaningful way. However, to reach such goals required considerable attention to the front-end work of defining services in a way that permitted comparison, developing measurement methodologies and then testing them with the experts in the fields being assessed in their own municipalities. For the first time, these specialists, be they in the field of social service, water management, waste management, or policing, were being asked to collaborate in order to come up with common definitions and costing models that would expose them to comparison with their colleagues.

The CAOs were also conscious that the province, which has overall jurisdiction over municipalities under the Canadian constitution, was developing its own measurement system – the Municipal Performance Measurement Program (MPMP) – as a means of gathering certain costing and performance information. The OMBI was, in part, a defensive measure to ensure that the CAOs maintained some control over the measurement process and that they gathered the information relevant to their needs. They were conscious that the concerns of their political masters, the city councils, would benefit from this approach. As such MPMP and OMBI developed in parallel, serving somewhat different purposes: one focused on the province as a whole and the other on the specific municipalities. The province did not oppose OMBI and provided some initial financial support. Further, as in the instance of the development of the asset valuation protocol which provided for the first time some guidance on the valuation of assets, the province deferred to the work of the OMBI team in meeting the need for this protocol across the province.

While the MPMP measures and reports met certain provincial needs, they were seldom used within municipalities for planning. The level of generality was not found to be useful and there was little basis for comparison. On the other hand, the OMBI information generated considerable media and political interest.

Project overview

As noted, the purpose of the project was to:

- Identify and develop appropriate service-specific performance measures;
- Capture performance data in a consistent manner in all participating municipalities;
- Provide financial costing information for comparative purposes; and
- Analyse and benchmark results in order to identify best practices of service, efficiency and quality.

In doing these activities, the objective was and remains to provide a useful management tool that integrates financial and performance data to assist in decision making within municipalities to support continuous quality improvement.

The key elements of the work plan to get the project started were as follows:

Assessment

In developing the OMBI, the following actions were taken to assess the state of municipal performance benchmarking:

- National Research Council;
- National Quality Institute;
- Municipal Performance Measurement Program; and
- International City/County Management Association's Centre for Performance Measurement.

It was clear that some cross-jurisdictional comparative data had been developed in other parts of the world. Within the group of participating municipalities, some experimentation in developing comparative data had taken place.

Standards and systems

Intense work, involving expert practitioners in each field, had to:

- Establish standardised financial policies and activity-based-costing accounting standards across all the municipalities; and
- Identify opportunities to jointly develop information technology systems to capture measurement data for service specific data in individual municipalities and then in a central repository data warehouse.

Develop strategies

The data definition, collection and analysis were never the end in themselves, but means to:

- Create activity-based costing models further, to encompass support services and infrastructure costs;
- Communicate findings within the municipalities and to the public;
- Benchmark methodology, processes and data templates for further use, sharing of information and making the system available to other governments;
- Connecting with the MPMP information from the province;
- Create training opportunities and best practice forums for service segments, general municipal managers, councillors and the public; and
- Manage data and website for the project.

Funding support and project approach

While there was some initial sponsorship from the provincial government, it was only as seed money in the first year. There has been no ongoing funding from the province for this initiative. The province funded development of a training document, and a pilot project on

capital asset accounting. Therefore, the participating municipalities paid their own way in both direct money contributions and staff time. The initial project cost was about US\$1,200,000 per annum in 2000. The cost as it evolved became US\$280,000 annually (2006 figures). This has enabled the creation of a project office and the appointment of a full-time project director. However, by far the largest contribution has been the time of staff in the service areas for work on expert panels, consultations and the development of consensus understandings of the measures. Further, staff are engaged in documenting benchmarked practices for sharing across the municipalities. It is estimated that each municipality contributed approximately 1,200 hours of staff effort. This would vary given the uneven distribution of expertise and the need for a concentrated effort for a specific period of time on specific projects. Over time, some municipalities have questioned the relative benefits of this investment. This is exacerbated by changes in governing councils.

This ambitious work plan was built around the commitment to devote resources to getting the measures and costing figures right and useful for municipal public servants, but also for politicians and for engaged citizens. The work plan was even more difficult as comparative 'apples to apples' measures did not exist and those that did failed any intensive scrutiny. Data elements, even carrying the same name, were not necessarily common among the municipalities. As time passed and measures were agreed upon, fault lines appeared in how such information was understood. In some cases, most notably those with legislated standards, the creation of measures was relatively straightforward. In many others, difficulties arose. However, one design challenge that could potentially have unintended consequences was the use of cost per unit of service as a basis of measurement. It was realised that, once this kind of measure was in the hands of political decision makers or the media, there could potentially be a 'race to the bottom' in which the only factor of the service was cost. Therefore, in most instances, two steps were taken to mitigate this danger:

- Use of a number of measures for each service area, including cost; and
- Detailed explanations for cost variations, e.g. distance between service units in a geographically dispersed municipality will affect transportation costs.

Further, the analysis and extension of the use of such measures to deem them as established 'best practices' for sharing knowledge was even more difficult. For instance, while there was reference to activity-based costing as the preferred measurement tool, accounting practices across municipalities were insufficiently standardised to permit any credible basis of comparison at the outset. The project was therefore challenged to move into setting accounting standards as a basis for moving forward. This, in fact, is what happened in a number of areas. Finding a sound basis for determining what was a best practice proved elusive without a focus on governance as well.

To that end, steps were devised to standardise approaches to data collection, dealing with the analytical phase and then the presentational phase. The methodology adopted at the outset proved to be robust in moving the objectives forward. It had the following features:

- Expert-panel-driven: experts in the specific functional areas being measures, e.g. waste management, would collaborate to build the data set and standards for comparison;

- Core service activities to be used in benchmarking were identified and agreed upon;
- An activity-based costing protocol was established;
- Data performance indicators were agreed upon;
- Data was normalised through an intense phase of consultation to filter out exceptions and poor bases of comparison; and
- Agreement was reached in each service area to establish the best practices of performance.

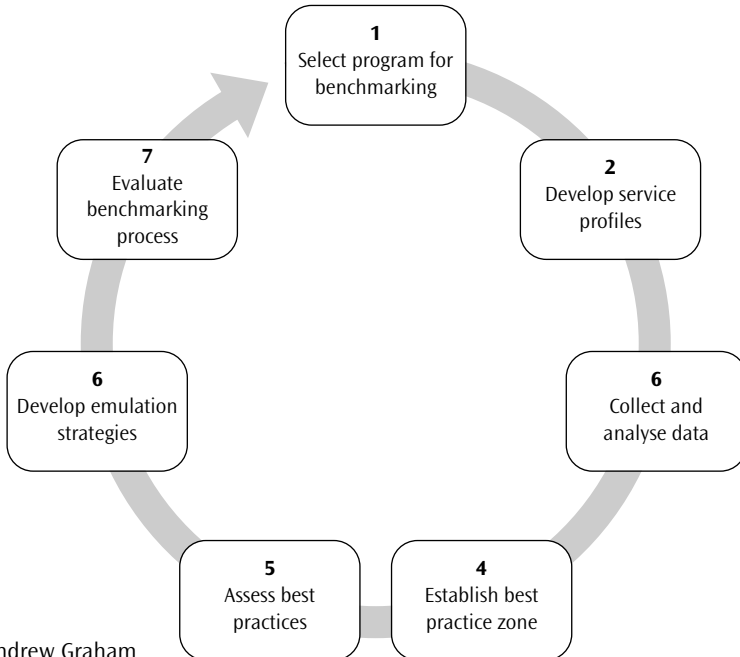
An OMBI steering committee was created, reporting to the CAOs of the municipalities who already worked together through their own committee structure. A project manager was appointed. Funding was secured through the participating municipalities.

With the governance elements in place, attention now had to turn to the underlying processes, intellectual assumptions and means of analysis. The project was guided by a series of methodological underpinnings, developed in a series of steps, all designed to instil confidence in that methodology and the performance indicator outcomes, which had to be credible to be useful.

Step 1: Establishment of the OMBI

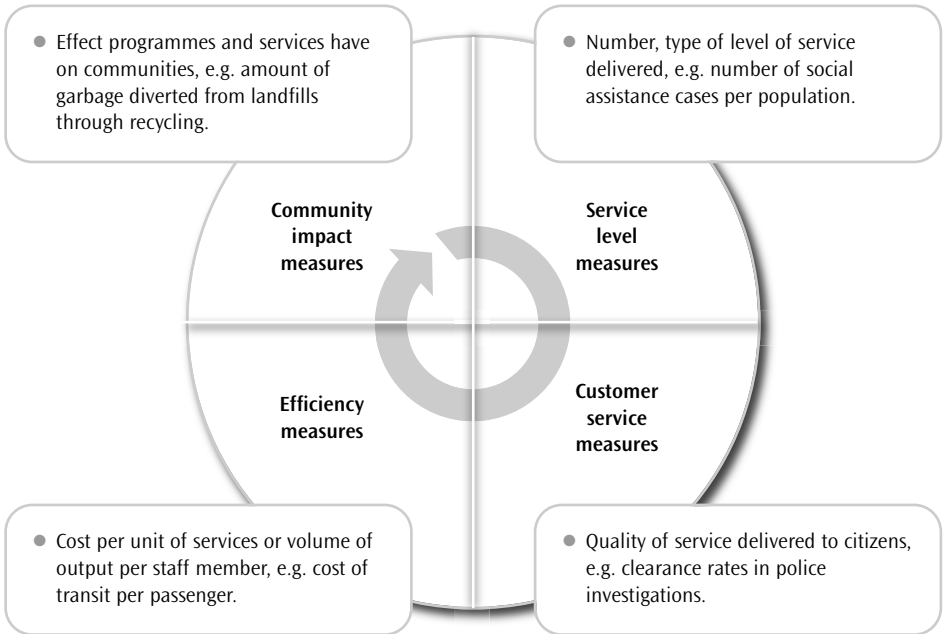
Municipal services cover a spectrum of services from policing to waste and water management. In order to build a common enough platform for data comparison, the OMBI steering committee early in the project adopted a single methodology.

Figure 6.1 OMBI seven-step benchmarking methodology



Source: Andrew Graham

Figure 6.2 The Ontario Municipal Benchmarking Initiative model



Source: Andrew Graham

This process was based on a concept of performance management that encompasses the elements one would find in most of what are designated balanced measurement approaches. These take into account the following areas of concern:

- Cost;
- Impact;
- Client or customer rating; and
- Service efficiency.

The model developed to guide the OMBI process is outlined in diagrammatic form in figure 6.2.

Step 2: Development of data sharing protocols

This case is uniquely challenging in that the development of performance data and benchmarks across several jurisdictions has, from the outset, been voluntary. The resources required to sustain the project have come from the participating municipalities, for the most part. The challenge this poses is that participants may have differing views on the use of the information once it is generated. Further, as this initiative is, by its very nature, comparative, there will be performance variances that may embarrass some participants. As can be seen by how the media have used this information, that could lead to some effort to avoid making such information public. It is also difficult in real political terms to sustain support for a project that makes you look bad.

To this end, a series of information protocols were developed for the original group of municipalities and for those joining later. Contextually, all the information generated by

OMBI would be subject to the Province of Ontario information-access legislation. The protocol was intended to ensure consistency in its use and application.

A series of principles were put in place to guide the management of the information generated by the initiative. These are as follows.

- **Mutual benefit:** Data developed through OMBI work is intended for the mutual benefit of participating municipalities and focused on process improvement.
- **Equal access:** Each member municipality will have equal access to OMBI data.
- **Public dissemination of OMBI data with clear identification:** In general, the OMBI performance measures can be reported upon both by OMBI and by individual municipalities.
- **Definition of public reporting:** Public reporting is defined as any report that is released to council, a committee of council, a report to any public agency, board or commission, a report that is made available to the media or general public or the use of any OMBI measure in any way in any such reports.
- **Eligibility of measure for public reporting:** Only those measures that have been agreed to by the service panel experts and approved by the steering committee as being eligible for public reporting can be reported on.
- **Content of public reports:** The objective of using this information is to provide context for the municipality's performance, but no public report should lead a reader to make conclusions based on raw OMBI data. Local public reports must not make any value judgements about benchmarking results of other municipalities. Where references to other jurisdictions are made, they must only be made to provide context to the reporting jurisdiction's information. No public report will present numbers only. Influencing factors must always be included. Direction about where to find additional information could also be provided.
- **Source of the data:** The OMBI data warehouse is the only source of OMBI data when preparing public reports.
- **Existing measures only:** The data contained in the performance measures must not be used to create or hybrid measures.
- **Review of reports:** Prior to release of any OMBI data by an individual municipality, all reports that include OMBI performance measurement data must be reviewed by the municipal champions, i.e. those persons from the different service area who lead their municipality's contributions in that area, and by relevant service panel experts.
- **Sharing of reports:** All reports using OMBI performance measurement data with municipal comparators will be made available to other members via the OMBI data warehouse.
- **Guiding principle:** Any reports using the OMBI performance measurement data should follow the principles in the Canadian Institute of Chartered Accountants (CICA) Statement of Recommended Practices for Public Reports¹⁶.

- **Non-provision of OMBI data:** Consistent with the spirit of sharing data for the mutual benefit of all municipalities, each municipality must make every effort to generate the appropriate data for data call by expert panels.
- **Sharing the data between expert panels:** The sharing of OMBI data between expert panels is encouraged (for example road congestion and its impact on EMS response times). Such request should be co-ordinated between the expert panel leads and the OMBI project office should be notified for information purposes.
- **Working with consultants and confidentiality and ownership of OMBI data:** Guidelines were set out to avoid conflicts of interest and application of data use restrictions when consultants were used (OMBI, 2007a).

Creation of expert panels

Given the broad range of services being benchmarked and the need to develop cross-service data protocols, it was decided by the CAOs to rely heavily upon the expertise within each function, bound by the concept of benchmarking and protocol to develop the measure, standardise measurement tools and then work on the high performance practices to share across the municipalities. To this end, a series of expert panels were created. Representatives of the service area were named to the panel. In addition, provincial or external expertise was called upon to join the panel. For example, with respect to fire protection, the Office of the Ontario Fire Marshal was invited to the expert panel.

These panels are a continuing feature of the OMBI process as new issues arise. Further, as measurements develop that identify leading practice, the focus of the expert panels has changed to disseminating such practices to member municipalities.

Cutting across services

A second element of the governance process has been the creation of the financial advisory panel to ensure that costing practice is either uniform or measured in an accurate way. Costing is the basis of many of the performance measures in place. This panel ensures that there is consistent guidance. One notable results of its work has been the publication of the *Municipal Guide to Accounting for Tangible Capital Assets* (OMBI, 2007b). This group also worked on the challenging issue of indirect costs of services measured, always a point of contention in full costing scenarios.

OMBI in practice

Between 2001 and 2003, OMBI worked primarily on building a foundation to achieve its objectives. To that end, work focused on an indirect costing methodology, a data sharing protocol and a web-based data warehouse.

In 2004, OMBI partners collaborated and developed measurement definitions and influencing factors for up to 33 services and programme areas across all 15 participating municipalities.

In 2006, OMBI CAOs were prepared to move to a more transparent level by the publicly released *2005 Performance Benchmarking Report*. At that point, all the players were sufficiently confident in the data and were prepared for both potential political and media reactions. By 2007, the report had expanded to 22 services.

How benchmarking has been used

‘Changes don’t come much bigger than this’ – the Implementation of Accounting for Tangible Capital Assets, OMBI

While it may be a case within a case, the decision of the OMBI to develop a common standard of accounting for capital assets is an example of the type of work that is needed to develop a robust basis for comparison and benchmarking. It was recognised that comparing capital costs, both infrastructure value and maintenance costs, was a vital part of municipal performance measurement. Municipalities have an important role in infrastructure construction and maintenance, being the largest public sector spenders in this area in Canada. A significant part of municipal budgets is taken up with these. Therefore, early on it was recognised that the data protocols had to be developed quickly for capital assets if there was going to be a basis for comparison. What emerged from the financial advisory panel was guidance on capital assets that has proven to be a new standard for the entire province.

In June 2006 the Public Sector Accounting Board (PSAB), Canada’s national public sector accounting standard setter, approved revisions to the existing standard for how to account for and report tangible capital assets, for implementation in fiscal year 2009 based on this work. A key requirement is that municipalities should record and report their tangible capital assets in their financial statements.

OMBI and the financial advisory panel have invested considerable time and effort in developing an infrastructure accounting model to ensure that its approach meets those reporting standards. A key initiative has been the development of a guide which, consistent with the PSAB research report, provides direction on how municipalities might account for tangible capital assets.¹⁷

Public users of the information

After several years of development, OMBI began publishing a comparative results report in 2005. This quickly became a focus of interest for both politicians and the media. It began to figure in budget deliberations as municipal councils used it increasingly to put the decisions before them into a broader, comparative context. One of the pitfalls of using comparisons is that some data may not be completely comparable. The quotation from an Ottawa media source shows how the OMBI reports, read only in the context of the numbers without the explanations, can lead to confusions:

“The article also reports that there is a discrepancy between what the staff (of the municipality) says it will cost to collect and maintain each parking spot with what was reported in the latest Ontario Municipal Benchmarking Initiative (OMBI)

report. Unfortunately, the OMBI numbers do not provide an accurate reflection in terms of Ottawa's on-street parking program. The primary concern is that most municipalities that participated were not able to include enforcement costs, whereas Ottawa's did. As a result, most municipalities' reported costs were artificially low compared to Ottawa.'

(The Windsor Star, 2007)

Similarly, comparative data generated by OMBI has figured increasingly in municipal budget debates. Another story from *The Windsor Star* (2007) illustrates the use of the data and increasing focus on cost comparison, and the continued pitfalls that it poses when the reports are not fully read:

'... it's the substantial hike in sewage rates that will make Windsor's combined water and sewer utility charges among the highest in the province. The average Windsor households pay \$635 per year for 294 cubic meters of water and sewer treatment. Next month the cost will rise to \$1021 annually, a 60% increase that puts it well above the \$894 currently charged by Sudbury, which in a study of 2005 figures charged the highest rates in the province.

'Kingston and London, cities with higher-than-average rates in 2005, currently charge about \$798 per year for about 300 cubic meters of water and sewer treatment. Ottawa pays about \$776, Kitchener pays \$720 and Oakville and Burlington pay \$674. But officials say Windsor's new rates are high because it is the first to come to grips with the common dilemma of deteriorated sewer and water pipes and increased environmental requirements.

'One thing to be clear is you can't make comparisons with other municipalities not doing the infrastructure upgrades', Councillor Ken Lewenza said. 'This isn't a Windsor problem. It's a North America problem.'

As OMBI matured and data was better standardised, the platform for identifying best practices emerged. Expert panels provided the ideal means to do this and then to publish the information for use within municipalities and to the public. The following is an example of an OMBI 2006 press release about such reports:

'the Ontario Municipal Benchmarking Initiative Water and Wastewater Expert Panel recognized the following Ontario municipalities for their best practices in water and wastewater operations resulting in exceptional energy management practices:

- City of Ottawa – energy management with alternative sources of energy,
- City of Thunder Bay – energy management with water distribution optimization modeling,
- Region of Durham and Region of Peel – energy management with metering, billing control and verification,
- Regional of Halton and City of Thunder Bay – energy management with water loss control – lead detection,
- Region of Peel – corporate energy management strategy.

According to the news release, ‘combined savings for the five municipalities are estimated in the millions over the past three years. Savings in energy consumption and operations costs for water supply and wastewater services have been documented by the publication of six best practice reports.’¹⁸

The accompanying data and case studies provided much detail about how the results were measured and what specific practices were of note. Much of this knowledge and experience was transferable to other municipalities within OMBI and outside as well.

Conclusion

OMBI remains a voluntary programme of the participating municipalities. While it has enjoyed considerable recognition, some participants view its overall use as limited. There is a concern that the comparability of the data has created a tendency to look for the least cost while ignoring the policy decisions inherent in cost differences. Further, experience in some instances has shown that the information generated only gets used when it is negative. It has also suffered to some extent from cases of what might be called the ‘we are different’ syndrome, which rationalises away comparative information on the basis of local exceptions. The key to success in reducing these tendencies is to ensure that contextual information is always provided as the numbers are. Further, the clear statement of the basis of measurement provides an understanding of the numbers.

A final concern is that of the sustainability of such an effort. It is clear that the creation of the expert panels has provided a breakthrough for those involved in that it has reduced their isolation, leveraged their expertise and opened up to a large number of best practice investigations. However, as funding is entirely from the volunteer participants, there is no guarantee it will carry over the medium term. The test will be, as is often the case, in the utility of the information.

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- 16 Available at www.cica.ca [last accessed July 2011].
- 17 The full case study of the pilot implementation is available at <http://www.ombi.ca/docs/db2file.asp?fileid=186> [last accessed July 2011].
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Chapter 7

The Queensland Charter of Social and Fiscal Responsibility

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Fiscal responsibility legislation (FRL) is an attempt to provide an institutional mechanism for the reporting and accountability requirements underpinning public expenditure management. This legislative approach was particularly spearheaded by New Zealand in 1994 and has been implemented in various forms in the United States, Latin America, Europe and Asia (Corbacho and Schwartz, 2007:58; Scott, 1995; Webb, 2004). The idea behind FRL is that a legislated mandate will assist in governments exercising, and being made accountable for, public financial discipline.

Different jurisdictions have relied on unique types of FRL. The first category of FRL embeds procedural rules on the fiscal game (usually demanding the development and transparent reporting of fiscal strategies that will be monitored and assessed) whereas the second category looks to numerical rules to guide fiscal activity (usually setting specific constraints on the fiscal activity that is allowed, including balancing the budget and deficit, borrowing and expenditure limits) (Corbacho and Schwartz, 2007:60). As one would predict, the procedural approach tends to provide greater flexibility in the fiscal process, whereas the numerical strictures usually act with greater effectiveness to actually constrain fiscal action.

Corbacho and Schwartz (2007) have done an admirable job in detailing key lessons learned from the implementation of FRL across the globe. The key advantages associated with FRL – notably improved credibility, predictability and transparency – are set against the challenges which include gaming and weak enforcement and sanctions. Overall, Corbacho and Schwartz (2007:75) conclude that:

‘FRLs potentially promise better fiscal management and policy outcomes by improving coordination and enforcement mechanisms, but they should not be considered as a magic bullet to improve fiscal performance.’

This case study goes beyond the Corbacho and Schwartz assessment by investigating the political context and drivers associated with the enactment of one such FRL in an Australian state, the Queensland Charter of Social and Fiscal Responsibility (legislated under part 1A of the Financial Administration and Audit Act 1977). The case provides an interesting take on FRL because it challenges the traditional technical policy assessments associated with FRL enactment to look at the political dimensions that underpin its existence and use.

The study presents a number of lessons learned by suggesting six political risk barometers that can help indicate success of such an innovation from a political perspective.

The Queensland Charter of Social and Fiscal Responsibility offers unique innovation in public sector management for a number of reasons:

- It combines social and fiscal responsibility as an intertwined package;
- It establishes a charter approach that, while embedded in legislation, speaks also to the citizen engagement phenomenon sweeping the world of public sector governance; and
- It is set at the secondary tier of government, in this case a state, rather than a country level and therefore raises issues of fiscal federalism as part of its development and enactment.

Context

The Queensland Charter of Social and Fiscal Responsibility was developed while the Queensland Branch of the Australian Labor Party (ALP) was in opposition.

The newly appointed shadow treasurer, David Hamill, became interested in the concept of a charter as a way of developing new policy ideas and shoring up party unity in the aftermath of the surprise 1996 ALP electoral defeat. The ALP had achieved two election wins under Premier Goss after an extremely lengthy period of conservative rule, but an uneasy balancing of unfulfilled progressive social reform with economic managerialism took its toll on the electoral mood.

Several significant factors imposed a context within which Hamill assessed charter concepts. Labour governments across the country were suffering either from questioning of their economic management credentials or criticisms regarding a lack of commitment to social objectives in the name of pursuing financial responsibility. Given that Queensland ALP had worked hard to establish and maintain a strong economic management record under Goss, it could not afford to lose its credibility in reckless pursuit of social programmes. Yet, social policy needed some priority. The electoral loss had thrown open the inevitable ALP review of party leadership and policy platforms in post-election-defeat soul-searching.

One perception of Goss's electoral defeat had been the accusation that social objectives had been 'lost' in favour of economic management (Hamill, 2001).

Concrete policy action was needed at the local level to quell this nationally inspired questioning of ALP credentials on economic management, yet simultaneously to inspire confidence in the community that the ALP retained its commitment to progressive social policy. Bearing in mind that state governments in Australia are relatively limited in their capacity to exercise control of the economy – states are restricted in their budgetary capacities, and with economic levers being stronger at the federal level a 'vision' was needed to unite the party on a social policy framework that concurrently retained as 'hard-nosed' a fiscal policy platform as possible to take to the next election.

The ALP also needed a political response to the conservative government-initiated Queensland Commission of Audit Report that had reviewed the state's financial position and practices and recommended the enactment of a 'Charter of Fiscal Responsibility' (Robinson, 1996). As an opposition convinced of its ability to return quickly to government (the conservative coalition had only a one-seat parliamentary majority by virtue of the support of an independent), the ALP needed to remain on the political offensive with respect to every coalition policy position. Differentiation and policy alternatives were needed to ensure that the electorate was convinced of the desirability of returning the ALP to office. An ALP response to the audit report recommendation was necessary.

Under the Goss government, treasurer Keith DeLacy had successfully promoted and implemented the so-called 'financial management trilogy' which advocated:

- Fully funding long-term liabilities such as superannuation and worker's compensation;
- Funding social infrastructure such as schools and hospitals from recurrent revenues and borrowing only for economic assets that could generate an income stream sufficient to service the debt; and
- Maintaining Queensland as the 'low-tax state' (Queensland Government, 1995:13).

This trilogy was hailed as having helped the Queensland budget consistently operate in structural surpluses throughout the 1990s, a record unmatched by other states (Queensland Government, 1995:13). However the trilogy also helped promote an aura of stigmatism around any public sector debt-raising, especially given the financial scandals experienced in southern states such as Victoria and South Australia regarding state bank collapses. Over time, the debt-raising strictures enforced by the trilogy had increasingly limited the expenditure programmes of the Queensland ALP. Greater flexibility was needed on the trilogy policy position so as to allow for more generic capital expenditure debt-raising to be viewed as a viable and financially defensible policy tool (Hamill, 2001).

Political risk

For Hamill as shadow treasurer, the political risk posed by this context was both personal and policy-based in nature. His personal and party credentials as an economic manager were at stake; he had to prove that he and his party were serious about social objectives as well as fiscal responsibility. Political risk also emerged from a sensitive policy change concerning debt-raising that was needed if the ALP was to pursue its intended social policy spending. He had to increase flexibility in debt-raising policy within the context of an existing 'no-debt' mentality, without raising the concern of the business sector or the electorate.

Policy response

Taking his cue from implementation of charters in New South Wales, the United Kingdom and New Zealand, Hamill's policy response was to proactively develop the unique idea of a Charter of Social and Fiscal Responsibility. Jarred (2000) has noted that Queensland is the only jurisdiction with a charter elevating social concerns to equal status with fiscal responsibility.

The idea matched the contextual factors that drove Hamill's political risk position. To start, it repositioned the party with a new agenda and signalled Hamill's political skills as a treasurer-in-waiting. It also responded in a philosophically and pragmatically attractive manner to the Queensland Commission of Audit Report by publicly promoting the ALP as a responsible economic manager as well as a defender and guardian of the social cause (Hamill, 2001). Such a response was necessary to appease community perceptions that questioned ALP economic credentials, yet promote internal party unity that increasingly necessitated strengthening of the ALP's social policy commitments.

The Charter of Social and Fiscal Responsibility also loosened what the ALP now felt were restrictive fiscal parameters previously held in DeLacy's 'financial management trilogy' so as to allow a future labour government to manoeuvre the previously stringent no-debt position to a more flexible policy as necessary (Hamill, 2001). The commitment to responsible economic and financial management clearly established in the charter would thus prevent fiscal analysts from criticising a labour government for slack financial management should it wish to pursue debt financing as a policy tool. The charter would also act to progress the wider debate on debt financing so as to establish acceptability of the position that public sector debt-raising can be fiscally responsible (Drabsch, 2001).

Conscious of his shadow treasurer responsibilities, Hamill was provided by the Charter of Social and Fiscal Responsibility with a neat tactical method for curbing the potential budgetary extravagances of fellow party members who were busily hatching election commitments and arming themselves with social policy ideas to be launched at treasury by departments when government was regained. As one player described it: '... it was actually a strategy around how to manage all of the optimism of all the ministerial colleagues who had great ideas about how to spend money. It was a way of actually getting them all to sign up to a policy framework which caused them to discipline themselves' (Senior treasury bureaucrat, 2003).

The ALP has often grappled with marrying its enthusiasm for social change with economic responsibility.

The beauty of the charter election commitment was that it set in place, before office, a stringency for curbing 'excess' enthusiasm in order to achieve a social agenda of which to be proud. Quoting a key senior treasury bureaucrat (2003):

'... coming on the heels of the Borbidge [conservative] government, where there had been a fair loosening of the fiscal parameters, internally within government people knew 'Heh, we need to get this thing under control and we need to actually, right at the very start of the process of government sign up to some clear policy parameters here that we're going to stick to. If we don't keep the budget under control then we'll lose our way on our social agenda.'

The ALP regained office in 1998. Once in government, the charter provided now treasurer Hamill with some additional unintended benefits (Bradley, 2001). It married with the newly established managing for outcomes (MFO) agenda that had moved the Queensland budget to an accrual basis and promoted the gathering of information and implementation of performance standards (Smyth et al., 2004). Because MFO required departments to budget by

formulating 'inputs' and 'outputs' that would achieve the government's specified community 'outcomes', the charter's social objectives could be linked with the outputs and outcomes (Reddel and Woolcock, 2004). Performance measures established by MFO could measure progress on social policy success. The charter furnished a useful piece of propaganda with which to persuade and comfort international investors and ratings agencies as to Queensland's financial credibility.

Further, the charter proved a handy tool for assuaging the sensitive topic of treasury costings of election commitments (Flavell, 2001). As part of the 1998 election campaign, a public row between the ALP and the Coalition had erupted regarding the use of treasury to cost election promises (Australian Broadcasting Corporation, 1998). Treasury had been required to cost the election promises of the major parties and this had placed political pressure on the department to produce certain outcomes. The treasury assessments were disputed, causing parties to seek competing figures from accounting firms. The result was a costings war that caused confusion and compromised the independence of treasury department.

The charter was used by the ALP to set out specific financial information that was to be made freely available by treasury prior to an election. This avoided treasury having to provide different advice to different parties and its being 'used as a political football' (Beattie, 1999). By removing treasury from electoral platform costings, the charter furnished a useful tool for the ALP to further promote itself as 'keeping government honest' (Queensland Government, 1999).

The Government publicised itself as a responsible economic guardian concerned with the gravity and independence of its financial responsibilities.

The charter was constructed carefully because politicians, bureaucrats and advisers were all aware that making public commitments tied to clearly enunciated standards could potentially lock in the Government to future principles that might limit its flexibility (Senior treasury bureaucrat, 2003; Bradley, 2001; Davis, 2001; Drabsch, 2001; Flavell, 2001; Hamill, 2001). A significant amount of attention was paid to this issue when framing the charter principles so as to provide the Government with enough 'outs', yet still provide a reasonably rigorous set of commitments.

For example, the charter required that 'The Government will ensure that its level of service provision is sustainable by maintaining an overall General Government operating surplus, as measured in Government Finance Statistics terms' (Queensland Government, 1999). This principle is rigorous and accountable, using credible measurement sources as part of the performance measurement criteria. However, the requirement is less stringent than a first glance suggests. The term 'general government' allows for a sufficient degree of definitional flexibility and 'creative accounting', where necessary, in terms of inclusion or exclusion of specific public sector enterprises and trading activities to achieve the requisite operating surplus.

This is not to say that the charter is open to manipulation at will. Rather, as this example indicates, careful and prudent attention was paid to the terms and obligations that were incorporated into charter requirements so as to provide for unforeseen circumstances fac-

ing future governments. If anything, the premier and treasurer and their respective advisers were the most aware of the need to provide these 'outs' in the charter. They were the least forthcoming in trying to make performance information truly transparent and publicly available (Senior treasury bureaucrat, 2003).

Overall, then, the charter was a tool for providing both public perceptions of economic management and actual fiscal discipline over party and governmental policy initiatives. As one observer commented: '... it was certainly government itself putting a framework around how it was going to manage its own political and policy agenda over that term of government' (Senior treasury bureaucrat, 2003).

Yet the charter attracted almost no attention from the media when it was introduced in August 1999. Commentators did not regard it as particularly newsworthy and only an interested local academic took any pains to debate the financial aspects of the initiative and its contents (Robinson, 1996).

What did occupy the media and general public's attention at the time was the so-called Net-Bet scandal embroiling treasurer David Hamill (Franklin, 2000; Thomas and Whittaker, 1999). Instead of preparing the inaugural presentation of his charter to Parliament, Hamill had stepped down from the treasurership on 1 August pending investigation into his role in the granting of an internet gaming licence to a company linked to three ALP figures. One of the ALP figures was Member of Parliament Bill D'Arcy who was later convicted of child sex offences.

While Hamill was later cleared of any wrongdoing, his absence meant that the charter was introduced by premier and acting treasurer Peter Beattie. The delicate situation demanded that Beattie tread warily. His government only had a one-seat parliamentary majority and the NetBet scandal was dominating the media and generating government unpopularity. The charter could not be introduced with fanfare as originally hoped, but instead was downplayed because of its association with Hamill. Without its protagonist, the charter idea sat quietly behind the scenes as a framework document to be cited only casually and infrequently in the esoteric chambers of bureaucratic financial circles.

How would traditional policy analysis evaluate this policy?

The Charter of Social and Fiscal Responsibility was an attempt to provide rigour to government's fiscal and social obligations through setting standards and targets that could be measured and made public. From a policy perspective, the initiative was regarded as a token scheme in that it lacked hard-edged mechanisms to tackle the issue of how governments would bind themselves to prescribed fiscal and social targets (Robinson, 1996). The charter's social objectives were nebulous and it espoused principles that could be met by any successive government as political needs and fortunes changed; it did not place strictures on government expenditure patterns that would drive fiscal responsibility. For others, the policy could only ever be 'smoke and mirrors' because of the inability of Australian state governments to control the economy and their ultimate reliance on the federal government to drive budget discipline through fiscal federalism (Robinson, 1996).

Traditional policy analysis would view the Charter of Social and Fiscal Responsibility as aspirational and lacking in concrete policy outcomes. In itself, the charter arguably did not substantially change government policies or activities. Rather, it merely added another level of bureaucratic reporting requirements on treasury and line departments who now had to report to parliament from year to year on adherence to charter requirements.

Political risk analysis

From a political risk perspective, the Charter of Social and Fiscal Responsibility is generally conceived by political players themselves as politically neutral; it was neither a political failure nor a political success (Senior treasury bureaucrat, 2003; Bradley, 2001; Davis, 2001; Drabsch, 2001; Flavell, 2001; Scrivens, 2003).

Hamill's charter was an entirely logical policy to pursue given the political risks he was facing at the time. It was inoffensive to the party, provided a measure of vision and a framework and helped Hamill's own treasurer-in-waiting credentials. It also addressed the ALP's need for a more flexible debt-financing policy, and provided another electoral platform to publish which made labour 'different' from the conservatives (a precious commodity in days of increasing ideological alignment between the major parties). Once in government, the idea also unexpectedly fitted with 'managing for outcomes' and helped the ALP provide a mechanism to assuage the treasury election-costing fiasco and further promote its image as a responsible economic manager.

Furthermore, political risk management associated with the policy was neatly undertaken. Possible policy 'hotspots' that may have caused the government problems, such as having a charter limit the government's fiscal flexibility and potentially exposing poor performance through public scrutiny, were managed by Hamill and his political advisers using the technical expertise of treasury and premier's department officials to frame a suitably 'flexible' charter document. While the charter withered, given Hamill's political exit, the policy legacy of debt flexibility and the usefulness of the charter to Hamill at the time in political risk terms meant, at the very least, the charter was neutral, if not a modest success.

What lessons can be drawn from this case for public sector management? The obvious dominant lesson is that political dimensions to innovations in the world of public finance need to be taken into account when assessing the merits and drawbacks of any particular new policy idea. Reforms and innovations do not exist in a political vacuum but are often driven by political necessity and, indeed, can be heavily influenced in their design and implementation by political agendas. While Hamill neatly drove the Queensland charter with political acumen in its infancy, in the end his own political downfall acted as a stumbling block to the charter's overall success.

There are several motivations inspiring the enactment of FRL. It can provide important accountability functions (see, for example, Santiso, 2005), actual fiscal constraints, improved budget reporting and policy-making over the long term and, as this case especially shows, fulfilment of significant political agendas. Being clear about the objectives behind the FRL is therefore important in assessing the desirability and transferability of

any such charter. While some authors are sceptical of the ability of FRL to bring about fiscally responsible behaviour (Robinson, 1996), this case shows that other factors are at play.

At least six political risk barometers can be identified that stand to assess the overall political risk success or failure of any policy (see Althaus, 2008) and which can be used to predict the political risk status of a suggested policy innovation. Three are situational:

- Confronting and reducing policy and political uncertainty;
- Concern for constituent and community impacts; and
- Awareness of policy settings and control over policy levers;

and three are personal:

- Presence of a political champion;
- Potentiality of policies and use of experience; and
- Reliance on politics over policy technicalities.

Together, these political risk barometers form a framework that helps us look at policy innovations with fresh eyes. The Queensland Charter of Social and Fiscal Responsibility was a specific political tool that provided a fresh, innovative approach to joining social and fiscal agendas that was cognisant of the limited scope of action available to a state government in the Australian federal system but which provided enough political flexibility to meet the needs of a newly elected ALP government with specific agendas to communicate confidence in its economic credentials at the same time as providing credibility to the notion that public sector debt-raising can be a socially and fiscally responsible act. This innovation does not necessarily transfer easily from one jurisdiction to another.

The case does offer important ideas concerning the possibilities for FRL and promotion of the idea that the politics of FRL are as important as the technical issues underpinning its development and implementation.

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Chapter 8

The Constituency Development Fund Experience in Kenya

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Introduction and background

The Government of Kenya has been praised by many in Africa and elsewhere for introducing the Constituency Development Fund (CDF), an innovative system of transferring part of central government revenues to the grassroots. Geek (2006), in praising this system, says that it has contributed a lot in promoting growth and development of individual enterprises through provision of loans for businesses. He also says that the system has helped to raise the level of education in Kenya because it supports the building of schools, provision of equipment and bursaries for poor children. Bagaka (2008) also says that the CDF system of fiscal decentralisation promotes efficiency and equity of fund allocation. More praise for the benefits of CDF came from Kimenyi (2005) who says that the CDF is 'one of the ingenious innovations of the NARC government of Kenya'. He says that this system provides people at grassroots level an opportunity to make expenditure decisions that will maximise their welfare. Another source of praise came from Senator Russell Feingold of the state of Wisconsin in the USA. He was quoted by Kenya's Presidential Press Service on November 2006 as saying 'the initiation of the CDF concept was a positive move towards ensuring equitable distribution of resources' (Feingold, 2006).

The system was introduced in 2003 through an act of parliament, the CDF Act. It is an attempt by the Kenya government to decentralise development planning and implementation (Chweya, 2006). The government has tried over many decades to bring about various decentralisation programmes. Some of these are: The District Development Grant System (1966), the Special Rural Development Programme (1969/70), the District Development Planning System (1971 and the District Focus for Rural Development System 1983/4). (Bagaka, 2008). All these failed due to lack of funding and excessive bureaucracy. There is evidence that the Kenyan public has been demanding more effective fiscal decentralisation and CDF is the response (Odhiambo, 2007).

The CDF system uses the constituency as the focal point. It provides additional resources for development at the local level by channelling them directly to the constituency through the normal budgetary allocation system. Initially the act provided an annual transfer of Ksh12.5 billion or US\$150 million annually through the central government budget to the CDF or roughly 2.5 per cent of the total government ordinary revenue. This has since been revised upward through a motion in parliament raising the ratio to 7.5 per cent. Seventy-five per cent of the amount raised is allocated to the 210 constituencies in the

country equally. The balance is allocated on the basis of the constituency poverty level (KIP-PRA, undated). Constituencies have been ranked in terms of poverty level by the Kenya Integrated Budget Survey. The survey focuses on the proportion of people living below the poverty line: those who cannot afford the minimum nutritional requirement of 2,250 calories per day. The cost of this amount of food is estimated at Ksh1,562 for the rural areas and Ksh2,913 for the urban centres (Ogosia and Namunane, 2008). Based on this, the constituencies are ranked.

The money is sent directly to the constituency to fund local projects identified and implemented by the local communities. The act also empowers the management of the fund to source for additional funds from elsewhere other than the government. The fund is managed and controlled through various committees and a CDF board.

The overall decision-making body for the CDF system is the Constituency Fund Committee (CFC). This is the main policy-making body and sets the rules guiding the management of the fund. It is the final authority and oversees the implementation of the CDF Act. It is a committee of parliament and draws its membership from sitting Members of Parliament. It operates at national level.

To manage the day-to-day affairs of the fund is the CDF board which is answerable to the CFC. The board is basically the national CDF management committee. This board is administered by a board of management which consists of a total of eight members and a chief executive officer. The chairman of the board is appointed by the minister. The board also includes representatives from Ministries of Planning and Finance, the Attorney General's office and the clerk of assembly. The chief executive officer is appointed by the board. The board is answerable to the CFC for all its activities. The act says that the board shall be responsible for the assets of the fund, its financing and investment. The act also says that the board will consider proposals for project funding from constituencies, approve and disburse funding to the respective constituencies.

At the constituency level, the CDF committee takes charge of the affairs of the fund. This committee is convened and constituted by the local Member of Parliament who also becomes a member of the committee. It is made up of men and women representing various interests at the local level such as religious groups, gender, NGOs and the administration. The committee receives funding applications and evaluates them and makes recommendations to the national CDF board. It is also responsible for monitoring of the implementation of the projects funded by the board.

Justification for the establishment of the CDF

The CDF is a creation of the parliament. The MP is faced with demands for funds to meet all sorts of social and developmental needs of people at constituency level. For many years since independence, Kenya has successfully employed the system of Harambee to raise funds for community projects. This is a self help system whereby the people themselves identify a project and then come together to raise the required finance from among themselves. The term 'Harambee' means pulling together. It was initiated by the country's first president, Jomo Kenyatta. However, with the increasing community needs, MPs have found it

difficult to cope with the number of Harambee-type projects the community wished to undertake. In addition, the government realised that some leaders had been misusing the Harambee system and therefore it needed to find a means to discourage such abuse as part of the war against corruption. MPs therefore felt challenged with this development. To be credible as a leader elected by the people to address developmental issues, he/she needed a source of money. Okungu (2006) says that the MPs dreaded another five years of Harambees for endless projects in their constituencies as they had promised their electorate. Harambees had become sitting MPs' nightmare. This is why the bill to create the CDF act went through parliament and was passed in a single day. However, to justify the creation of the fund, a number of reasons have been given.

It was argued that the CDF gives people at the grassroots level an opportunity to determine priority in terms of the projects that should be implemented in their areas. It allows for participation in project selection and implementation. This is part of the decentralisation process meant to empower the people and give them autonomy in setting their own development agenda. As more people are involved in the development of the community, it is reasoned that this will improve on efficiency, effectiveness and productivity. In addition, involving the community in development will facilitate the monitoring of the selected projects. Another argument is that sending the money directly to the constituency avoids the bureaucratic process and red tape typical of all government systems. Money is transferred directly from the exchequer to the CDF board account to be held on behalf of the constituency. The direct transfer avoids leakages of the funds and ensures that the beneficiaries get all that was allocated to them.

Kimenyi (2005), referring to the many consultations that take place when the government is building its planning and strategy documents (e.g. PRSP, ERSP, Vision 2030) says that though there are cross cutting problems facing Kenyans, different communities rank these problems differently. He raises the question as to whether the government budget in its current form has the capacity to address the specific priority ranking concerns of the communities. It is felt that maybe the transaction costs associated with the implementation of an allocation scheme that reflects the community ranking will be quite high. The range of projects necessary to meet the community needs is large and the sizes are very small. Implementing them using a government agency is definitely involving and expensive. Monitoring projects will require resources and management information and reporting systems that might be expensive to put in place. This is why it was prudent to involve the communities in the allocation of funds to the priorities they have identified themselves. It is more effective and cheaper to let the communities identify and rank projects and then give them money to implement and monitor them.

Another justification for CDF is that it stimulates development at community level. Apart from funding projects at community level directly, this action has a multiplier effect. Local suppliers of goods and services at community level do benefit. The CDF activities have helped to improve purchasing power at community level. Pumping close to one million dollars annually to a constituency in a rural area is likely to put money in the hands of the local people who in turn will be able to purchase goods and services produced there. It will also help to stem rural–urban migration and retain the young workforce in the rural areas.

Experiences of the Constituency Development Fund

The CDF initiative has been lauded as one of the best innovations coming out of the Kibaki government. The local people talk of the many things they have been able to do since the fund was created. They tell you this is the first time they are able to see and benefit from government revenues. However, there are alternative voices talking of the negatives about the initiative.

Okungu (2006) says that the beauty of the CDF may be hidden in the management structure that the CDF Act put in place at inception. He says that the act was ill conceived when it gave the sitting MP the power to manage the fund. He also says that nearly 70 per cent of the constituencies are talking of gross mismanagement, theft, fraud, and misuse and misappropriation of funds. He suggests that the dominant role played by the MP in the management of the CDF presents a risk in terms of misuse of the funds and says, 'the MP plays a big role all the way from making the law, sitting in the oversight committee of parliament, down to the appointment of the constituency CDF committee and therefore influencing resource allocation and project implementation at community level'. This violates the principle of separation of powers. The MP makes the law, implements CDF projects and when the fund is audited, the auditor general presents his report to parliament where the MP is sitting. In this case, the MP is accountable to himself almost exclusively. The parliament cannot effectively perform its oversight role in which it must monitor and examine the activities of the executive. It is also playing a role similar to that of the executive through the CDF.

The involvement of the politician in resource allocation is likely to lead to distortion of priorities and wastage. The politician is concerned with gaining political mileage in whatever project is selected. There are cases where the MP facilitates funding procurement of a transformer for electricity whereas parts of the same constituency have no access to water. Another example is construction of a school administration block when other schools have no classrooms. He wants to maximise political returns as opposed to economic and social welfare returns. To achieve this, the politician makes sure that members of the committee are his supporters who will help channel resources to areas that supported him in the last elections whether the projects they present are priority or not. This will lead to partisan development and marginalisation of certain areas within the same constituency.

Thirdly, the CDF system is seen to have created a parallel structure within the budget process. In Kenya there is a clear system of budgeting and resource allocation involving the central government, the district administration and local authorities. Budget estimates and allocations are done using this structure. The CDF system adds another structure and might lead to duplication of not only activities but also funding. It is possible for a school that is building classrooms to receive funding through the Ministry of Education and also through the CDF. There is no forum for the two arms of government to meet and discuss the appropriateness and adequacy of the allocations. The Kenya Government budget system has been going through various reforms to improve efficiency and effectiveness in resource allocation as well as fiscal discipline. Unfortunately, resource allocation through the CDF system, which is outside the budget system, is likely to lead to suboptimal allocation of resources. It fails to benefit from the discipline of the reformed budget system.

It is argued that CDF is a form of fiscal decentralisation. However, Kimenyi (2005) calls it partial decentralisation as it only decentralises expenditure whereas revenue is guaranteed from central funds. Complete decentralisation and devolution means assignment of both revenues and expenditure hence giving the community responsibility to carry out certain functions and holding them accountable for the resources. He says that CDF will lead to fiscal illusion which will minimise the extent to which the beneficiaries will monitor use of the funds. They see the funds as free and therefore are not motivated to monitor their utilisation, which will in the end lead to inefficiency. The criteria for allocation shifts from social welfare returns to trying to ensure that everyone gets a share whether or not the project they have is viable.

Another problem that is already being experienced is the lack of willingness of the community to contribute their own funds to finance local projects. Before CDF, the locals worked hard to raise funds to build schools, health centres and water supply. Now they are not willing to contribute even the labour which is in plentiful supply. The effect is making the community less independent and more dependent and lazy.

Poor planning has also complicated the management of the CDF. In many cases initiated projects are never completed for a number of reasons, chief among them inadequate funding to cater for more or less similar projects in almost every village. The tendency has been to spread resources thin among many projects leading to underfunding of many.

Succession has also been an issue, especially given that in the last general election over 60 per cent of the MPs did not get back to the parliament. Projects initiated by them were abandoned by the incoming MPs who wanted to entrench their own CDF team and myopically labelled the old projects negatively to malign their former opponents.

CDF has helped to initiate and implement many projects for the local communities. The question to ask is how the government is going to finance the recurrent component of the completed projects. Health centres will need drugs and personnel, schools will require teachers, books and equipment. Bagaka (2008), in his study on fiscal decentralisation in Kenya, concludes that CDF promotes allocative efficiency and equity. However, this comes at the cost of exporting tax burdens to central government which is going to pay for the operation and maintenance of the completed projects. A system is therefore needed that links the community's activities and the government's plans in terms of resource allocation in the future so that adequate budgetary allocations are provided for to meet the recurrent portions of the completed projects.

Action taken

To address most of the problems associated with CDF is quite difficult unless the CDF Act is amended and the structural weaknesses rectified. However, the CDF secretariat has made an effort to develop rules and regulations within the framework of the act, in order to reduce the impact of the problems outlined above. Equally important is the role being played by the Kenya Anti Corruption Commission which has done a lot of work to investigate and prosecute those involved in malpractices associated with CDF. Specific aspects of these interventions are highlighted in the paragraphs that follow.

To avoid cases of duplication whereby one project is funded by many sources, the CDF secretariat stipulates that funds provided by CDF must be used to finance auditable phases of a project. If the project is, for example, the construction of a house, it should either fund the foundation phase or the roof or any clearly identifiable and auditable phase of the building.

Another introduction is the employment of fund managers to aid in the identification and implementation of projects. These are professionals with skills in project management, economics or finance. Most of them are university graduates. They are being sent to the constituencies to aid in project identification and implementation. The plan is to ensure that each constituency has a fund manager. These officers will help the CDF committees in harmonising projects to avoid duplication, develop an information system to aid project decisions and keep records, to develop constituency activity plans and sort out issues of underfunding to ensure projects are completed. At the moment, these managers report directly to the CDF board.

The CDF board has also developed a policy that puts a limit on the number of projects to be implemented by a constituency at any time. It limits them to between five and twenty-five. This is intended to avoid an accumulation of unfinished projects. The policy also states that the funding priority shall be for ongoing projects. It is hoped that if few projects are handled, the chance of completion is higher.

There is a plan to make each constituency a district. Districts are part of the central government administration structure. They are headed by a commissioner. A number of districts form a province. There are eight provinces in the country, each headed by a provincial commissioner reporting to the office of the president. Below the district we have a division, a location and a sub location in that order. It is because of the bureaucratic nature of this system that the CDF system came into being. Converting the constituency into a district would help harmonise the two systems and reduce duplication. It would also help in reducing the role of the MP as each district has a complete system of government administration that would administer the way the funds are being allocated. For now, the CDF is trying to link its committee with the District Projects Committee in order to help in identifying cases of duplication of projects. The committee is also making an effort to consult the Public Procurement Act as well as the line ministries to which the specific projects relate. The government is continuously creating districts (at the time of writing the president has gazetted a notice to create 53 new districts). The stated intention is to ensure each constituency is a district.

The act provides that MPs must call for public meetings (commonly known as Barasa) to seek the community's views on project priorities. However, the experience of the CDF board is that this requirement is ignored by the MPs. The board now uses the media, open days and public events to sensitise the public on this requirement and urges the people to demand that their MPs consult them through a Barasa before CDF funds are allocated.

The board has also started to insist that constituencies develop strategic plans as a condition for funding.

The CDF board has also embarked on training those involved, to develop the relevant skills.

Training programmes have been conducted for CDF committee members, MPs, district accountants, district officers and chiefs countrywide on various topics ranging from procurement to project management, budgeting and financial management. Another step that has been taken is to invite the Kenya Anti Corruption Commission to investigate and prosecute anyone suspected of misappropriating CDF. At one time there were 15 cases involving Ksh30 million (US\$400,000) in various courts where people who stole the money from CDF are being prosecuted, one of them an MP.

Lessons learned

A lot has been learned from the introduction of the CDF system in Kenya. When people are given the chance to manage resources at the community level, they come to own the project and will work hard to ensure it succeeds. There are cases where people are raising money to meet the recurrent budgets of CDF projects. This has also reduced vandalism of community projects. The participatory process of selecting CDF projects acts as a system of communication to the locals about the objectives of the projects and therefore people understand that these are activities that will benefit them.

Another lesson learned is that the constituency is not well structured to channel resources for development at grass-roots level. The idea is good but protecting the resources and ensuring that they will be applied as intended is a challenge. It also shows us that the MP is not the best person to steer this exercise.

Another lesson that has come out is that the completion of a development project is not the end of that development problem. That project must be funded continuously for operation and maintenance. It is also clear that at grass-roots level there is a serious lack of skilled people to support project planning and implementation.

One negative fact that has come out is that there is corruption at community level. There is a likelihood that implementers will collude with somebody at community level to steal from a CDF project.

Conclusion

The CDF system has a number of benefits to the community and the nation at large. It has the potential for helping the local communities address their developmental concerns. However, this system has a number of pitfalls as we have seen. The main challenge is to determine what needs to be done to make it a viable tool for community development. We must find out how to minimise the negatives and strengthen the positive aspects of this system to make it work better for the benefit of the community and the nation at large.

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Chapter 9

Participatory Budgeting in the United Kingdom

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Introduction

Participatory budgeting is, in brief, local people deciding how to allocate part of a public budget. A longer definition that has been officially recognised in the UK is:

'Participatory budgeting directly involves local people in making decisions on the priorities and spending for a defined public budget. This means engaging residents and community groups representative of all parts of the community to discuss and vote on spending priorities, make spending proposals, and vote on them, as well as giving local people a role in the scrutiny and monitoring of the process.'¹⁹

Participatory budgeting began in the 1980s in Brazil, following the reinstatement of democratic governance after a long period of military rule. In the city of Porto Alegre, state officials told the people living in the very poor areas that there was no money to improve their living conditions. The people lobbied for a very small amount of the state budget to be used in their areas, and eventually managed to obtain about 0.5 per cent of the budget. They then used people's assemblies to decide how the money should be spent, and participatory budgeting (PB) was born.

Now, over 300 municipalities all over the world are using PB. In Porto Alegre local authorities have devised a system where up to 18 per cent of the municipal budget is allocated by PB. They have neighbourhood assemblies in which issues are discussed and agreed upon; these are taken by elected delegates to city-wide meetings where, after a period of time, the list of priorities for each neighbourhood is agreed and projects to address the priorities are agreed. The city government then works to implement the projects.

The purpose of PB is to open up public budgets to citizens to encourage transparency and greater accountability in the way that public resources are allocated. Its purpose is also to empower citizens to get involved in their local area and to feel that what they say has an impact. In the United Kingdom, representative democracy is at an all-time low with very low electoral turnouts and many people feeling that they cannot influence decisions about their area.

In 2007–08, only 39 per cent of the population had been involved in some form of civic participation (the lowest level of involvement measured). Only 38 per cent of people felt

they could influence decisions in their local area and only 20 per cent of people felt they could influence decisions affecting Great Britain (Communities and Local Government, 2008d).

The purpose of PB in the UK is to reinvigorate democracy, to provide participative democracy that supports and coincides with representative democracy. From the PB Unit's point of view, those that are in poverty are in receipt of the most public services and their lives could be improved and poverty reduced if those public services were delivered in a way that met their needs and empowered them to become more involved in their community.

In 2000, a group of activists from Salford and Manchester went to visit Brazil to find out how PB worked in order to bring it back to the UK. On returning, they started to work with third sector project Community Pride Initiative (CPI) to develop some possible models that would work in the UK context. In 2003 the first PB pilots were launched. In 2004, a central government department decided to fund some PB work.

In 2006, the Participatory Budgeting Unit was officially formed (as part of the charity Church Action on Poverty) and continues to be funded by the Ministry of Community and Local Government (CLG). There are over 65 PB projects happening in England, and over 100 areas interested in starting PB, with more in Wales and some starting in Scotland. However, what is more interesting than the numbers is the variety of different projects and processes being developed.

Applying the concept in the UK

This chapter looks at two different projects to demonstrate some of the variety in participatory budgeting in the UK. The first case study is from Manton in Nottinghamshire. Participatory budgeting started in Manton in 2006 and is going from strength to strength. The unique aspects of this project are the way the organisers and authorities work with the community at every step of the process, how they use actual ballot boxes to encourage voting and an approach that encompasses both public sector services and community or voluntary sector projects. Manton has also been successful in getting other public sector partners involved in the process and allow some of their budgets to be allocated by PB. The amounts of money are still relatively small but their ambition is to allocate far larger amounts of money and in the process improve public services for a very deprived area.

The second case study is about children and young people in Newcastle-upon-Tyne. In Newcastle they have taken a fairly radical and innovative step by opening up a budget of £2.25 million for children and young people to decide how it should be spent on activities for them. Not only is the budget decided on solely by people under the age of 13, they have actively engaged with vulnerable and disadvantaged young people and put them at the centre of the process.

To understand how PB has developed in the UK, it is important to understand the background of how and why it came about.

Background

Participatory budgeting is being implemented in the UK against a backdrop of highly centralised government fiscal control alongside a community empowerment agenda that is aimed at devolving decisions and power down to local communities with explicit support of PB. The two policies do appear to conflict, and because of this the way PB is implemented is quite different in the UK than elsewhere in the world.

Another key difference is the motivation for bringing PB to the UK. Participatory budgeting was brought by local civil activists focusing on community empowerment, rather than left-wing politicians as in many of the other European nations (Rocke, 2008). For this reason it has been seen as an empowerment tool.

Former Secretary of State Hazel Blears incorporated PB as a key part of her policy, but until this happened not only was PB relatively unknown, it was also not seen as a political policy. In 2003, PB went from being something that very few people were involved in, to a policy of central government. Blears, then Communities and Local Government Secretary and MP for Salford, decided that PB was central to the achievement of the government's empowerment agenda.

Central government's ambition then became for every local authority (municipal government) to implement some form of PB by 2012. To support this, PB formed an integral part of the Communities in Control: Real People, Real Power white paper (CLG, 2008a), and government subsequently produced a national strategy for PB (CLG, 2008b). A key aspect of the white paper (which has since received ascension and become the Local Government and Public Involvement in Health Act 2008) is the 'duty to involve'. The duty to involve 'requires named bodies to take appropriate steps to involve people in decisions, policies and services that may affect them or be of interest to them.' (CLG, 2008:28).

The duty is enforced through the new comprehensive area assessment (CAA), which is the successor of the corporate performance assessment (CPA). The CAA assesses local authorities and other local public sector agencies on their performance and plans for the future. Local authorities are graded and ranked according to a set of criteria. One of those criteria is the *Use of Resources Key Line of Enquiry* (Audit Commission, 2008), which is concerned with good use of public resources.

Part of that assessment is based on whether citizens have been involved and engaged around the decisions made in the use of financial and other resources that are at the public body's disposal. Furthermore, PB was not just a one-department policy, as it gained the support of former Home Secretary Jacqui Smith. In a policing green paper produced by the Home Office, there is explicit support of PB:

'The Home Office and CLG, working with volunteer police forces and local authorities and building on existing participatory budgeting schemes, will pilot Community Safety Participatory Budgets in a few forces this year. This will build understanding of what works best and inform wider roll out in 2009.'

(Home Office, 2008:20)

The Home Office financially supported 24 community safety PB pilots in December 2008

to March 2009, with £20,000 each to use towards PB. Many provided match funding to the £20,000, increasing the pot of money to be allocated.

The PB Unit is working to widen central government support. By putting PB as an integral part of legislation designed to empower communities and give more power to citizens and including citizen involvement and engagement within the inspection and assessment of local authorities and other public sectors has brought PB into the spotlight and there is an increasing interest in PB and diversity in how it is applied.

Central government support of PB successfully raised awareness and prominence of PB among the public sector in a way that would not have been possible otherwise. There would have been far fewer projects in England without central government's overt support. This is demonstrated by there being significantly less PB activity in Wales and none to date in Scotland or Northern Ireland. This is now changing and the Scottish Executive is showing an interest in PB.

On the flip side, it has also served to politicise PB. It is now seen as a Labour Party policy and Blears' policy in particular. Both the Conservative and the Liberal Democratic Parties have policies of community engagement and empowerment within which PB could sit, but as it stands there are political vulnerabilities with PB in the UK. In keeping within Church Action on Poverty the PB Unit has retained some distance from political wrangling and PB continues to have credibility as a tool for improving the circumstances of people in poverty. Because the PB Unit is part of a charitable organisation within the third sector it is able to create that distance from government when needed and to influence from outside the public sector, perhaps finding ways around barriers that civil servants are unable to overcome on their own. It is also able to retain credibility within the sector, which is vital to empowering communities.

Variations in participatory budgeting

Participatory budgeting has not been going for very long in the UK, so there is a great deal of innovation and variation across the country as people have tried to establish which processes work best in which situation. There is also a good deal of variety in models being adopted in different areas. Over time these practices are expected to become more embedded and standardised. Variations are seen in a number of areas including:

- The amounts of funds available for allocation: £500 to £2.4 million;
- Numbers of people participating: 13 to 1500+; and
- Political party involvement.

In fact, there are projects run by all the political parties. There are projects being run in very small rural parishes and urban neighbourhoods of a few thousand residents to city-wide and even county-wide projects covering wide geographic areas and many thousands of residents with a complete mix of needs. Below is a brief summary of the different models and other differences.

Community grants schemes

Participatory budgeting community grants schemes are very popular in the UK. They are generally relatively small pots of money, which are distributed to the local third sector (community and voluntary groups). The groups apply for the funding to implement a project that meets the aims of the area or the funding criteria (if any have been specified). Local citizens will be involved in agreeing the aims or priorities of the area and suggesting possible solutions or projects that meet those priorities. There is a sifting process by the steering group (usually citizen-led) to remove those projects which do not meet the criteria or priorities or with which there is concern about financial accountability or other aspects of the group itself. Then either at a decision day or through a decision process (for example postal voting or ballot box voting) citizens hear about the projects, deliberate amongst themselves about the projects and vote on which ones should receive funding. The funds are allocated according to the votes until the money is used up. Citizens can also be involved in the monitoring and scrutiny of the projects.

'They provide an immediate connection between decision making and spending, are highly participatory and create a real local feel to the process of allocating resources. Small grant schemes help foster social cohesion as they bring local people together and they can help to develop closer working relationship between officers, councillors and the community.'

(PB Unit, 2008b:12)

Some people would not consider this to be participatory budgeting per se, in the Brazilian interpretation of the term, but to be participatory grant giving. This is because it is not about the redistribution of public resources and services but the giving of public sector funds to the third sector (community and voluntary groups). However, it has been found to be a useful entry point to PB and so far has proven very popular in the UK as a way to 'test out' PB with small amounts of money which do not directly impact of public services, before councillors commit to much bigger sums and much more involvement by citizens in public services.

The case study from Manton falls into this category. The level of participation and engagement in Manton is a demonstration of the community's commitment to PB and also to proper community engagement processes.

'Mainstream' funding/public services

Using mainstream funding is about changing the way services are delivered in neighbourhoods. By using core service budgets (whether that's top sliced and devolved to sub-municipal areas or if it's by service area) there is a much greater impact on the local authority in terms of changing relationships between officers, councillors and communities and also the way the local authority goes about its business. Because of these changes that can occur, mainstream budgets used for PB can have a much more transformational impact on people's lives.

We are beginning to see a shift in approach from the community grants pots to more mainstream funding PB initiatives. There has been growing scepticism about the value of

community grants pots, particularly in an economic recession when there are no 'extra' pots of money available to be given to other organisations, but people are beginning to realise that by allocating mainstream budgets via PB they can actually engage with and have the community 'on board' with the local authority funding plans at a time when resources are scarce.

In the London Borough of Tower Hamlets, which is a very ethnically and also financially diverse area (including the regenerated London dockyard area, but also areas of high deprivation), authorities have allocated £2.4 million of mainstream budgets via PB for 'top-up' services in all their wards in March and April 2009. The services were linked to local priorities identified through local meetings with citizens.

Citizens then attended events in their area, heard about different projects and services, deliberated the options and voted on which services they would like to see in their area. This was not about basic service provision but about additional services or 'top-ups' to enhance services already provided. What was most interesting was the 'contract' that was agreed between the service providers and the community. The service providers set out what the community could expect of the service but also what the service expected of the community (i.e. sense of responsibility, to not deface public items such as park benches etc.) so that a dialogue has begun in which there is a shared sense of responsibility between the public sector and the community.

As this process is still ongoing and evaluation has not yet been completed it could not be included here as a full case study, but it is expected that this kind of PB activity will become more commonplace.

The Newcastle Children and Young People's project does come under this category. The Children's Fund that was being allocated was additional funds from central government rather than service budgets already being used. Nevertheless, the children did engage in commissioning public services rather than allocating funds to community projects.

Communities of interest

This is a term to indicate using participatory budgeting with particular groups of people rather than all people in a geographic location. Communities of interest in the UK have included, so far, children and young people (one project worked with children as young as six years old) and social housing tenants on specific housing estates. The Newcastle Children and Young People's project detailed in this case study would fall under this category (as well as the mainstream funding approach).

There can be a mixture of approaches depending on the process, the people participating, the amount of money and what the money should be used for.

Partnership approaches

This is another term that encompasses a variety of different partnerships and processes. Partnerships to date have included local strategic partnerships (statutory partnerships of

all local public sector bodies with private and third sector representatives), crime and disorder reduction partnerships (partnership of local bodies involved in crime and disorder reduction), informal partnerships between 'new deal for communities' or neighbourhood management bodies and other public sector bodies such as the local health trusts or police forces.

Partnerships can include the pooling of financial resources: for example, recent police pilots have included the pooling of home office funds, police authority funds and local authority funds into a larger pot for allocation by PB. Partnerships can also be the pooling of staff resources or general support for PB, but with the staffing and financial resources coming from one partner. Partnerships can cover wider geographical or thematic boundaries than single organisations, which can spread the effects of PB further and include more people. It is also a way for organisations that are trying out PB to spread the risks.

Case study 1: Voice your Choice in Manton, Nottinghamshire

Manton is a large residential estate in the south-east ward of Workshop in Nottinghamshire. It has a population of over 6,500 residents; the estate is a former coal mining village and was built around the mine that closed in 1994. Since 1994 Manton has seen high levels of deprivation and is one of the most deprived areas in the UK (ranks 94 out of 356 areas) with low income levels and high unemployment, low health outcomes, high levels of social housing, low educational attainment and high crime levels (CLG, 2008c). Manton has a low electoral turnout rate of only 22 per cent compared with the county rate of 35 per cent and the national rate of 42 per cent. Most people in Manton had never voted before.

The short-term aim of the process was to build trust within the community and to give residents real power over the way money allocated to Manton Community Alliance (MCA), a third sector organisation with responsibility for neighbourhood management, is spent in the area. The board agreed that residents would never really have any power until they held the purse strings for their area and felt as if they could make a difference. In the longer term, the aims are to increase democratic activity in the area and shape the way organisations deliver public services in the area.

In 2006 MCA decided to pilot participatory budgeting. The aim was to allocate a budget for priorities in the area that have been set by the community. In 2007 the MCA board agreed to give the opportunity for local residents to decide where £50,000 of MCA's money should be spent through a participatory budgeting process.

In 2008 the MCA board gave £40,000 and Bassetlaw Primary Care Trust²⁰ agreed to give £10,000 of their budget to the process. In 2009, the Primary Care Trust planned to give part of their budget along with the local police authority and MCA (final figures have not been confirmed). After two cycles of the process the pilot had achieved a total of 1,554 votes. Participation in the second year of PB increased by 113 per cent, with 1,056 votes over the process compared with 498 in year 1 (1,056 votes equates to 14 per cent of the population of Manton).

A steering group comprising residents and councillors was set up to organise and direct the PB process. In 2007, the scheme was promoted as 'Voice your Choice' and there were three stages to the process:

- 1 People decide what the priorities for Manton are through local events;
- 2 People decide what proportion of the money is allocated to each priority; and
- 3 People decide which project/organisation gets the money to address the identified priorities.

For the first stage the organisers used a 'Budget Bingo' sheet (bingo is a game that residents could easily understand and relate to). The bingo sheet had 42 priorities that were identified using the knowledge collected from issue focus groups and resident members. People were asked to number their top five priorities, 1 being the most important.

The second stage was the money allocation and to give a real feeling of voting making a difference they used official local authority ballot boxes and Manton money (each resident was given M£50,000 in M£5,000 denominations). Residents were asked to put the amount of money they wanted to spend on a priority into one of the ten priority boxes that had been identified from the budget bingo.

Once the first two stages were completed, local organisations, groups and services were invited to bid for the money by offering projects that would address the priorities. The scrutiny panel reviewed the bids and shortlisted projects against the application criteria for the project voting stage.

In 2007 the groups and organisations were invited to promote their projects at a voting event held in a community hall. Each project was given the same amount of space and time to promote their idea. People were asked to register for their voting sheet at the entrance.

After the 2007 process, an evaluation identified that having a room full of displays for projects that are competing against each other could potentially cause tension between community groups, so in 2008 a different approach was taken. A DVD was made of each of the proposed projects in the form of a short TV-style advertisement for their idea. Each of the projects submitted the outline of the project and the script was developed by MCA staff to make sure that each project was given the same amount of time.

The DVD meant that people were no longer confined to one place and time to vote. The organisers visited numerous community groups and organisations with the DVD. It was also played in local cafés and work places as well as special voting points that were set up. Voting took place over a week to make sure that more people got the chance to vote. Each of the events and stages were promoted by advertising in the local newsletter, through the website, leaflets in schools and shops inviting people that had voted in the previous year or had been involved in other MCA events, and by word of mouth.

Outcomes

Many people taking part in the process had never voted before. Participation in PB in year 2 (2008) increased by 113 per cent with 1,056 voters compared with year 1 (2007). The

process led to public services being more closely linked to particular local priorities. It is hoped that this will bridge an expectation gap as some services are adjusted to suit local need.

Although further evaluation is needed regarding outcomes there is evidence that environmental services are changing because of participatory budgeting. For example, improvements have been made in the provision for removal of white goods from the area, which previously was not happening and was causing 'flytipping', or the illegal dumping of waste. Investment into the redevelopment of Manton Club (one of the projects to receive funding via PB) is delivering substantial return in attracting external funding into the venue. The Manton Club is a major facility locally and this re-development will deliver added value to Manton and the surrounding area in terms of access to sport, improved public health and more activities for children and young people. The PB process has given £5,000 towards the redevelopment of the club. As a result of this investment, the club has attracted a further £37,000 in other funding for the area. On top of that, most projects came with either match funding or a contribution towards the projects.

This has resulted in a further £18,500 being invested into the area on the back of the PB process. The first event in 2007 got very positive feedback from the community who found it 'interesting to see various projects', and felt 'it is time to see something being done in our community' and that it would 'foster good relations between the community and the police'. People participated 'to make a difference' because they 'felt a need for change in the community', and to 'have a vote'.

Ward councillors were also positive about the event. They felt that Manton Community Alliance was achieving a lot for the area and that PB was helping to build a sense of community.

The future

Manton had £100,000 to allocate via PB in 2009–2010, which includes funds from Nottinghamshire County Council and possibly the Primary Care Trust (although this has yet to be confirmed). This increase in funding and in public agencies providing financial commitment to the process demonstrates not only the project's effectiveness in engaging with partners but also their ability to leverage money for the area.

Members of Manton Community Alliance realise that their neighbourhood management project will come to an end as the funding agreement with central government ends. It is quite important to them to embed their various activities with the public sector in the area so that the work is continued, including PB. Thus their aims for the future are to encourage public sector partners to contribute to PB by:

- Committing finance into the process;
- Committing to deliver particular services to meet local priorities highlighted by a PB process;
- To apply the outcomes of PB into mainstream service delivery; and
- To merge the PB process with the development of a neighbourhood charter.

To this effect, Manton are planning to link PB to the neighbourhood agreements the public sector services have with the area. The priorities identified through the PB process will be used to ensure that the priorities identified in the agreement correlate with what local people have said.

Part of this plan also includes asking each service provider to allocate a portion of their budget to specifically tackle the locally identified priorities. While this is not direct decision making by residents, it is a step nearer to them being able to influence service delivery in Manton and to ensure it meets their needs.

Case study 2: Newcastle Children and Young People's 'Udecide'

Newcastle-upon-Tyne (normally referred to as Newcastle) is the twentieth most populous city in England, located on the river Tyne in the north-east of the country. During the industrial revolution it was a major centre for coal mining and manufacturing. As in many other northern English cities, manufacturing heavily declined in the second half of the twentieth century. Newcastle has a population of nearly 260,000. The population has a strong mix of different ethnicities (Wikipedia). Like most large cities in England, Newcastle has a mix of affluent areas and areas of high deprivation. Newcastle ranks 37th out of 256 in the indices of deprivation (CLG, 2008c).

Newcastle has been implementing PB, which is branded 'Udecide', since 2004 – mostly in ward areas with adult participants. Participatory budgeting has a strong profile in Newcastle and the council has a commitment to embedding it for the long term. In May 2008, 139 young people voted at a participatory budgeting event in Newcastle to allocate funds for the city's £2.25 million Children's Fund.

It was the latest in a series of events held as part of the city's Udecide participatory budgeting programme which has given thousands of children in the city the opportunity to influence the allocation of £3.81 million to improve the lives of their peers. In the previous year, young people were able to try out PB with a £120,000 fund. But in 2008, the amount of money allocated was significantly increased, as were the numbers of participants.

Recognising that children and young people are the experts, the project aimed to give those young people in the city who were most likely to benefit from the fund a chance to have a real say in how it was allocated. The project also sought to demonstrate that participative approaches could be reconciled with complex decision-making processes by integrating the popular Udecide method with the fund's procurement arrangements. Finally, by challenging providers to pitch their idea to young people, the project aimed to make them think differently about their services and how they involve young people.

The fund targeted those young people aged 5 to 13 who were most at risk of low self-esteem, poor school attendance and entry into the criminal justice system. The project therefore engaged children and young people across the city, in a variety of settings, who closely matched this profile, by involving a targeted group of projects and schools. Many of the children involved were previously unknown to the council children's services department.

This project was also the first in the programme where the young people voting were not always direct beneficiaries of the project ideas, so the Udecide team were interested to see whether the young people would remain interested in spending decisions.

The project involved 450 young people at various stages of the process. These young people are often considered 'hard to reach' and came from a variety of settings including a pupil referral unit (works with pupils who have been or are at risk of being excluded from school), a young careers group (children from families where a parent or sibling has a major illness or disability) and a number of black and minority ethnic (BME) groups. Their enthusiasm and commitment have shown that, with the right method, these young people are eager to participate, setting a new benchmark for the engagement of young people in the city.

The children and young people were asked to evaluate the bids against a specific set of criteria, worth 20 per cent of the overall decision. The young people would score the bids against the criteria at a special Children's Fund Conference using electronic voting. The criteria were in the form of three questions:

- 1 Were young people involved in creating this idea and would the project listen to children and young people?
- 2 Will it reach the young people who need it most?
- 3 Will it make a difference?

Every young person had to complete three preparatory sessions in order to attend the final Children's Fund Conference, where delegates from each group would score the bids. In the first session, the young people thought about their experiences and those of others to offer advice to three imaginary characters, drawn by the young people, who were facing particular challenges associated with the three themes. Using some dummy projects, the young people explored the criteria questions in the second session and began making judgements based on these criteria and the findings from the first session. By the final session they were ready to take a look at the final short-listed bids and begin thinking about how they might vote at the conference. Over the three sessions the young people built up their knowledge incrementally, applying learning from previous sessions to each successive session so that, by the event, every child could feel confident casting their vote.

An important element of Udecide's success has been its transparency. The introduction of electronic voting in the second year of the pilot enhanced this transparency, with participants able to see immediately how their votes had made an impact. The procurement (of public services for children) process is notoriously complex and it was essential that this transparency was retained in the eyes of the young people involved. For the remaining 80 per cent of the procurement process, projects would be scored 0, 1, 2, 3 or 4. The Udecide team decided to adopt this scoring for the engagement with young people, as opposed to the conventional Udecide 0–9 system, so that their scores fed transparently into the overall decision-making process. Officers could then evidence, on their return visits to these settings, exactly how the young people's participation had affected the final allocations.

The 'competitive' element of past Udecide projects (because people were bidding for a pot of money for a project in a community grants scheme approach) has also added to the exhilaration of taking part and team members were interested to see whether the young people would respond so enthusiastically to a Udecide process where they were not direct beneficiaries (because it would be public services that were allocated the funding, not community projects). The increased focus on deliberation, however, both in the preparatory sessions and on the day, brought a new dynamic to the fore with young people embracing the opportunity to share their opinions with each other and represent their peers.

Outcomes

The Children's Fund Conference was the city council's most ambitious Udecide project to date. The scale of the engagement, the magnitude of the decisions, and the rigour demanded of the process were unprecedented. These challenges were compounded by the short timescales in which the work had to be delivered. However, the engagement was successful in terms of both breadth and depth.

Four hundred and fifty young people took part in the process from all parts of the city. Although these young people are often considered 'hard to engage', experience from this project has shown local partners that the barriers to engagement are not insurmountable and that the young people are eager to have their say, with 93 per cent saying they enjoyed the Conference. The views of young people captured in the three sessions also provide important intelligence which Children's Services can feed into future activity.

Moreover, the project has challenged local partners' ideas of procurement and dispelled any comfortable notions that participative approaches cannot be transferred to more rigorous decision-making environments. The project acted as a mandate for local providers to think differently about their services and give more priority to the views of young people in the design, promotion and delivery of these services.

In terms of the operating structures, the approach is becoming more streamlined as the Udecide profile grows with more resources and commitment offered from both the public and third sector to support this project. This broader, cross-sector support will be critical to the sustainability of the method.

Five of the top six projects chosen by the children at the event were successful with their bids, while five of the six lowest rated projects were unsuccessful. This reflects the impact that young people's involvement had on the final outcome.

The project was awarded the Eurocities Award for Participation in November 2008 for the ability to change and modernise through participation. The award recognised the contribution to creating strong communities by involving and listening to people and by innovating.

The future

In a recent evaluation, Udecide realised that the area they needed to develop most was the area of deliberation. Most of their decision-making events did not, they felt, provide suffi-

cient time and focus to enable real and effective deliberation among participants. As a result they piloted increased and focused deliberation at a decision-making event in Newham ward using money provided by the Home Office for community safety projects. The results of the pilot were positive and they plan to develop the deliberation aspect further.

Newcastle are developing a five-year plan for participatory budgeting, which includes implementing participatory budgeting processes in all their wards, and continuing their work with children and young people.

The plan also includes moving to more mainstream budgets, to influence how services are delivered in the wards. Newcastle continues to be a key PB project, innovating with new areas within which to develop PB. Their plans include the creation of a 'PB academy' to share knowledge and expertise within the council and its partners beyond the small team that currently runs PB in Newcastle. The PB Unit will work with Newcastle to develop the academy with a view to sharing experiences across the UK.

Next steps for PB in the UK

Participatory budgeting continues to grow from strength to strength in the UK, with more areas undertaking innovative and ambitious projects as well as more areas overall trying out PB. Central government remains strongly supportive of PB and still aims to have every local authority implement PB by 2012. As the number of projects continues to grow, the PB Unit's focus is shifting from quantity of projects to the quality. We are concerned with developing some good practice models for others to adapt for their areas. We would like to see more mainstream budget approaches which are transformative in their outcomes in terms of providing services that people really want and need (especially the poorest).

The amount of innovation is encouraging, as in the children and young people's project in Newcastle where they succeeded in engaging with young people who traditionally do not engage with public sector in such a way that they could participate and understand complex procurement procedures; and also the level of community engagement and strong partnership working achieved in Manton. Their commitment to embedding PB within public services demonstrates that PB is beginning to move from the community grants pot approach to have a public service focus that will bring about real transformation in the relationship between the public sector and the communities it serves.

We are keen to see the outcomes of projects such as the Tower Hamlets allocation of £2.4 million across their borough as these will feed into PB which is still fledgling in the UK. Given the strength of commitment the projects have to PB, it is unlikely PB will disappear from the UK altogether, although the change in government could mean that there is less overt support for it centrally so that it does not develop into more meaningful processes with real empowerment outcomes for citizens.

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Acknowledgements

The case studies have been reproduced in part on the PB Unit's website. For more information on the case studies please visit our website or contact the organisations directly. www.participatorybudgeting.org.uk

Note

19 Reference found on website <http://www.participatorybudgeting.org.uk/about>, [accessed 3 August 2011].

20 Primary Care Trusts manage provision of healthcare services in a specific area of England.

A key feature of a professional and credible public service is transparent and accountable expenditure management. In a rapidly changing and often challenging public sector environment, public servants are seeking new and creative approaches to enhance the efficiency and effectiveness of their work.

This collection of case studies, broadly drawn from Commonwealth developed and developing countries, examines innovations in public expenditure management and provides practical information on best practices and recommendations for new initiatives. It will be valuable for public sector leaders and policy-makers as they work to improve their public expenditure management systems.



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