

4.001 In this chapter, we review what Parliament needs to know about the objectives and consequences of expenditure by the Executive. We draw attention to a range of difficulties and make observations on the way in which some of them have been addressed by successive governments. We then suggest possible improvements.

What Are “Outcomes” and How Are They Described?

4.002 The Public Finance Act 1989 defines “outcomes” as the impacts on, or consequences for, the community of the outputs or activities of the Government. When determining whether or not to approve the Government’s expenditure proposals, Parliament is presented with two critical questions:

- What outcomes are the expenditure proposals intended to achieve (and should Parliament agree with them)?
- Is it likely that the proposed expenditure will achieve these outcomes?

4.003 Recognising this, the Public Finance Act 1989 provides that the *Estimates of Appropriations*¹⁷ (the *Estimates*) must contain information on *the link between the classes of outputs¹⁸ to be purchased by the Crown and the Government’s desired outcomes.*

4.004 We believe that the information currently supplied to Parliament concerning Government outcomes can be improved significantly. We have identified difficulties under seven general headings:

- Outcome descriptions have often been vague. There is no statutory requirement that such descriptions should be specific about what measures or criteria will be used to establish whether or not they have in fact occurred. We accept that the Government needs to express its desired

¹⁷ Parliamentary paper B.5.

¹⁸ It has been suggested to us that the words of the Act should be interpreted as relating only to non-departmental output classes. That does indeed appear to be a tenable interpretation. However, in practice the linkage has always been identified for all outputs, both departmental and non-departmental. We strongly support this practice.

outcomes in a way that is readily accessible to the general public. However, we believe that such statements need to be supported by further statements or specifications that indicate exactly how achievement of the outcome – or progress towards it – will be determined or measured.

- The Public Finance Act 1989 implies that intended outcomes be specified in advance, but does not require that actual outcomes be measured and reported. Given the foregoing comments, most outcome statements currently in use could not be measured and reported against.
- In the context of relating classes of outputs to outcomes, the term “link” (as used in the Public Finance Act 1989) has been interpreted narrowly. Usually, it has been thought sufficient simply to assert that a class of outputs will contribute to an outcome without describing how it is expected to do so.
- Often, there is little empirical research or evaluation information available to support assertions of linkages between outputs and outcomes.
- Several outputs from several departments or agencies may contribute to the same outcome, and any particular output may contribute to several outcomes. In general, the output/outcome linkage is not “one-to-one”, or even “one-to-many”, but “many-to-many”. Understanding these complex inter-relationships is crucial for the development of robust policy. If they are not well understood, policy initiatives and expenditure decisions will be uncertain, with consequences that are difficult to foresee and that may prove to be quite unfortunate.
- The Public Finance Act 1989 does not require an indication of the relative importance that the Government attaches to particular outcomes.
- There does not appear to be a strong reason why outputs are the only form of Government expenditure for which linkages to outcomes must be specified. For example, transfer payments such as social security benefits also contribute to Government outcomes and form a significant proportion of total Government expenditure.

Strategic Priorities and Overarching Goals: What Are They and Why Were They Introduced?

- 4.005 In theory at least, different outcomes can be in partial or complete conflict. They may also have quite different priorities. Uncertainty about the degree of coherence among different outcomes (and the relative priority that should be attached to them) has been an issue not only for Parliament but also for successive governments. In our view, the Government's expression of its strategic priorities is a very important component of its accountability dialogue with Parliament and the public.
- 4.006 In 1994, the then Government decided to define its strategic objectives more clearly. It adopted and promulgated a number of "strategic result areas" (SRAs) which covered the period 1994-1997. These were to be medium-term objectives for the public sector. The objectives were expected to contribute significantly to the Government's longer-term policy goals and objectives. The process of developing and defining the SRAs was co-ordinated by the Department of the Prime Minister and Cabinet. The SRAs were used to help link the various objectives of different departments – and ultimately the individual employment contracts of chief executives and employees – to the Government's goals.
- 4.007 Departments were charged with developing their own key result areas (KRAs), which were to define the critical areas which a department would concentrate on in the next two to three years in contribution to the Government's SRAs. A department's KRAs were (and still are) included in the performance agreement between chief executives and the Ministers responsible for their department. Progress towards the KRAs was (and is) assessed as part of a chief executive's performance review, which is conducted by the State Services Commissioner.
- 4.008 SRAs were also promulgated for the period 1997-2000. However, in 1998, at the initiative of Ministers, work was undertaken to revise the strategic approach. This work (which is ongoing) has resulted in a reduced set of "strategic priorities and overarching goals" (SPOGs) that were promulgated by the Government on 9 December 1998.

- 4.009 Several aspects of the SPOG/SRA initiative are worthy of comment.
- 4.010 Before the first SRAs were promulgated, there was no single comprehensive statement of the Government's intended outcomes, and no indication of which outcomes the Government regarded as having a higher priority. The SRAs provided a comprehensive statement of, at least, the Government's strategic priorities. Over the last four years Ministers have often used SRAs in the Estimates as outcome statements. Similarly, they have used KRAs in purchase agreements as an adjunct to, or in substitution of, other performance measures in departmental forecast reports.
- 4.011 The SRA/KRA initiative is regarded by many as having merit. They argue that it has helped improve the strategic coherence of government activity. However, although it was first designed as a tool to be used largely *within* the Executive, it seems to us to have also been used as a substitute remedy for problems with the current accountability regime that should perhaps be corrected more formally.
- 4.012 In our view, informal arrangements can yield benefits but also pose some difficulties and create some risks. In particular:
- SPOGs/SRAs and KRAs are not defined or applied in any legislation. Their form and usage are effectively unregulated. However, they are being used in situations of fundamental constitutional importance. For example, SPOGs/SRAs have been used in the *Estimates* as outcome statements or as substitutes for outcome statements. In essence, they articulate the strategic direction of the Government and indicate the overarching objectives for the use of supply. Similarly, KRAs are often used in purchase agreements in a way that is similar to the way in which outputs are specified in the same document.
 - SRAs were not, and SPOGs currently are not,¹⁹ specified with any greater precision than other outcome statements. Work is currently being undertaken on how best to support SPOGs with meaningful and measurable indicators.

¹⁹ See *A Better Focus on Outcomes Through SRA Networks*, State Services Commission, October 1998.

- To the extent that some KRAs are also reflected in output descriptions, they risk being redundant. To the extent that some are not reflected in output descriptions (and therefore are not reflected in Parliamentary appropriations), they risk being unlawful.
- 4.013 SPOGs/SRAs, by definition, are intended to address matters of strategic importance. Since not every outcome can be regarded as having “strategic” importance, we do not believe they should be equated with, or purport to be, a comprehensive statement of the Government’s desired outcomes. We have formed the impression that they are often used in circumstances where other, more specific outcome statements would be more appropriate.

How Should Outcomes Be Specified?

- 4.014 The Public Finance Act 1989 does not impose any requirements on the way in which the Government’s desired outcomes must be described or specified. We believe this also poses problems and incurs some risks.
- 4.015 From the definition in the Act, it seems reasonable to infer that an “outcome” is a set of circumstances, or a condition of society, that the Government considers would be unlikely to occur in the absence of some intervention. By implication, there is an alternative or “counterfactual” position that the Government presumably considers would be more likely to occur if there was no intervention.
- 4.016 There is a complicating factor, however. Some desirable conditions of society may be only partly achievable through Government action. For example, achievement of better levels of health for all New Zealanders depends at least as much on what they as individuals do as on what the Government may do.
- 4.017 To the extent that the actions of other parties are unknowable, counterfactual positions sometimes cannot be estimated. In these circumstances, the desired outcome should not be “overstated”. If the statement does not represent an impact on, or consequence for, the community *of the outputs or activities of the Government*, it is not an “outcome” within the meaning of the Act.

- 4.018 To return to the health example, it is of course desirable that all New Zealanders be healthy. However, that is not only a consequence of the actions of the Government. Accordingly, it would be more tenable to advance as the desired outcome the availability of affordable health care, since that could be a direct consequence of the actions of the Government.
- 4.019 We believe that Parliament will be better able to judge the merit of the Government's expenditure proposals if the estimated impact of the expenditure is made clear. This will be facilitated if, wherever possible, outcome statements are underpinned by supplementary statements expressed in terms of a measurable expectation and forecast counterfactual position.²⁰ It will enable Parliament to judge whether or not the estimated impact appears to justify the sums that the Government proposes to spend to achieve it. If the potential impact of the actions of non-government parties is significant, that too can be made clear.

How Should Outcomes Be Reported?

- 4.020 To realise the benefit of specifying outcomes in measurable terms, it is essential that those outcomes, or progress towards them, are actually measured and monitored. In its 1997 report on its *Inquiry into Departmental Reporting to Parliament* [parliamentary paper I.3c], the Finance and Expenditure Committee stated that ... *it would be worthwhile to encourage chief executives to include more reporting on the strategic issues and achievements in their annual reports.* We agree with this view.
- 4.021 The Committee went on to observe that *the way in which select committees interpret and respond to information from departments on strategic progress needs to acknowledge the fact that definitive judgements on cause and effect, credit and blame will seldom be either feasible or constructive. We are looking for a willingness by select committees to engage departments in conversation about what decisions are most likely to lead to the result desired by the Government and what are the most critical issues and challenges for those decisions to address.*

²⁰ This presupposes that sufficient information is available to enable estimates and forecasts to be made. However, Parliament equally may wish to know that such information is **not** available and that the asserted benefits of an expenditure proposal are essentially speculative.

- 4.022 It might be argued that successive governments may have been reluctant to be more specific about their desired outcomes to avoid complications that might arise if they failed to achieve them. However, it seems to us inescapable that, if outcome statements continue to be expressed in a way that is vague and immeasurable, the information conveyed by them becomes extremely limited. Parliament and the public will find them virtually worthless.
- 4.023 We agree that, except in the rare cases where the achievement of a desired outcome is wholly controllable, individual departments and agencies cannot be held to account or blamed merely because that outcome does not occur. We will elaborate further on this issue in the context of risk management (Chapter 8). We believe that it is reasonable for Parliament to require that outcomes be measurable²¹ and be measured.
- 4.024 The potential advantages of this approach can be illustrated by two examples.
- 4.025 First, the Fiscal Responsibility Act 1994 is quite specific as to the nature and purpose of the reports that the Minister of Finance must submit to Parliament and some of the measures that must be used. For example, the Minister must present to the House each year a budget policy statement and fiscal strategy report that use (but are not limited to) such measurable variables as the Crown's total operating expenses, total operating revenues, total debt and total net worth. It is possible, therefore, to determine afterwards the success of fiscal policies and strategies in terms of their stated objectives.
- 4.026 Secondly, in recent years the Ministry for the Environment has been researching environmental indicators to support the Environment 2010 Strategy. Using the indicators already developed, it is possible to monitor key characteristics of the environment. Environment-related outcomes framed in terms of such indicators will make it readily apparent whether or not environmental initiatives and regulations appear to be achieving the desired results.²²

21 To clarify this view in the context of the points we made in paragraphs 4.016-4.019, some conditions of society may be measurable as they occur but impossible to forecast before they have occurred.

22 For a comprehensive account, see *The State of New Zealand's Environment*, Ministry for the Environment, GP Publications, 1997.

What Are “Impact Evaluations” and Should They Be Undertaken?

- 4.027 Impact evaluations are empirical studies that are conducted to measure and establish the real consequences of an agency’s actions or programmes.
- 4.028 Unlike some overseas countries, the New Zealand Parliament has not previously required the impact of government spending be subject to empirical research or evaluation. The absence of empirical information means that it is difficult for Parliament to obtain assurance that the very considerable sums spent on many government activities are having the intended effect (or, indeed, any effect).²³
- 4.029 Experience overseas has been salutary. There have been many examples where government programmes were established on the basis of policy models that appeared perfectly reasonable. However, subsequent empirical evaluation demonstrated that those programmes were having little or no impact in achieving their stated objectives. Some were even found to be counter-productive.
- 4.030 It is worth noting, however, that impact evaluations are more useful for informing policy development than as a tool of accountability. Usually, they cannot be undertaken until the programme being evaluated has been in place for sufficient time for the asserted benefits to be realised (which can be a period of years). In addition, the evaluations themselves often take some time to perform.²⁴
- 4.031 Nonetheless, we are convinced that more research and evaluation of key areas of Government spending would be extremely beneficial. Properly directed and conducted, such studies would yield valuable information to support policy development. They would also reduce the risk of important outcomes not being achieved and substantial sums of public money being wasted.

23 For example, in the early 1970s, many evaluations were conducted in the USA of programmes to rehabilitate convicted criminals. They were so universally disappointing that some criminologists speculated that rehabilitation might be effectively impossible.

24 A very good recent example of an evaluation of a complex policy initiative, and one that will inform future policy debate, is provided by an evaluation of the 1995 changes to the legislation relating to domestic violence. See *The Domestic Violence Legislation and Child Access in New Zealand*, Ministry of Justice, May 1999.

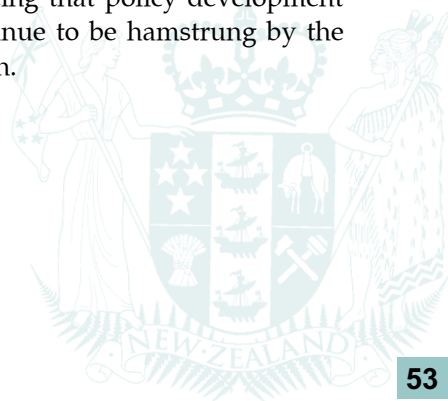
4.032 In this respect, we see considerable advantages in ensuring that evaluation methods are determined and put in place when key programmes are being designed and implemented. It is also important to try to ensure, on a case-by-case basis, that particular evaluations are likely to be cost-beneficial, and to follow up and ensure that the evaluation is completed and reported. If the evaluation seems unlikely to be cost-beneficial, it is important to make the best use of whatever relevant data is available – whether from within the organisation or from other sources – and to understand and make clear its limitations.

Measurement Difficulties

4.033 An objection might be made that introducing a requirement for measurability is likely to cause attention to be devoted to issues that are readily measurable but less important, and diverted away from issues that are important but difficult to measure. This objection has substance and must be confronted.

4.034 In our view, it will be an important task for governments and their officials to retain a clear focus on issues of importance, notwithstanding that those issues may be difficult to analyse and measure. The approach must be to measure what *needs* to be measured. If that proves difficult, the response must be to address the difficulties rather than refocus on things that are easier to measure.

4.035 We concede that there will be real practical and technical problems in measuring outcomes and in understanding the causal relationships that affect them. However, we also see little alternative to undertaking this work. If it is not done, everyone will be tacitly accepting that policy development and implementation will continue to be hamstrung by the absence of essential information.



Experience in the United States of America

4.036 In 1993 the United States Legislature enacted the *Government Performance and Results Act*. This Act is the primary legislative framework through which federal agencies are required to set “strategic goals” (a term that is broadly equivalent to “outcomes” in the New Zealand context), measure performance, and report on the degree to which the strategic goals were met.

4.037 Each agency must develop strategic plans that:

- cover a period of at least 5 years and include the agency’s mission statement;
- identify the agency’s long-term strategic goals; and
- describe how the agency intends to achieve those goals.

4.038 In doing so, agencies are required to:

- identify critical external factors that have the potential to affect the achievement of strategic goals and objectives;
- include a description of any evaluations used to establish goals; and
- set out a schedule for periodic future evaluations.

4.039 In addition, the Act requires each agency to prepare an annual performance plan. These plans must provide the direct linkage between the strategic goals outlined in the agency’s strategic plan and what managers and employees do day to day. In essence, the plans must contain the annual performance goals that the agency will use to measure its progress toward achievement of its strategic goals, and the associated measures that will be used to assess annual performance and progress.

4.040 Although this legislation was enacted in 1993, it provided for significant lead times to enable agencies to undertake the necessary work. In doing so, they encountered many of the difficulties discussed above. This was especially true when determining how to specify and measure their strategic goals²⁵ and how to cope with the problems that arise when those goals are only partially under the agency’s or the government’s control.

²⁵ *Managing for Results: Measuring Program Results That Are Under Limited Federal Control*, General Accounting Office, December 1998.

- 4.041 However, the results achieved so far appear to be encouraging. For example, a study undertaken by the US General Accounting Office in 1997²⁶ found that:
- 88% of agencies rated themselves as “moderately successful” or better in identifying suitable measurable goals; and
 - 62% rated themselves as “moderately successful” or better in developing suitable performance measures to assess their achievements in relation to those goals.

Summary of Conclusions

- 4.042 Outcomes are the impacts on the community of the outputs or activities of the Government. At present, outcome statements are commonly rather vague. The Public Finance Act 1989 does not require that outcomes be measurable, or actually measured. It also does not require that there be any indication of their strategic priority. It requires only limited information on the relationship between outputs and outcomes, and the strategic coherence of that relationship.
- 4.043 This has caused difficulties. To address some of these difficulties, successive Governments have developed ancillary statements such as “strategic result areas” or “strategic priorities and overarching goals”. These ancillary statements were first developed as tools to be used within the Executive, at present are not regulated, and are also generally not measurable.
- 4.044 Parliament may wish to consider whether or not it is satisfied with the information it currently receives in relation to outcomes and, if not, how some of the difficulties might be addressed. There is a range of possibilities, which may include imposing statutory requirements for some or all of the following:
- provision by the Government in the Estimates of a complete set of coherent outcome statements which also identify the subset of such outcomes that are regarded as having particular strategic significance;

26 C.f. *Managing for Results: Analytical Challenges in Measuring Performance*, General Accounting Office, May 1997.

OUTCOMES OF GOVERNMENT EXPENDITURE

- outcome statements supported by further statements or specifications that indicate how achievement of the outcome – or progress towards it – will be determined or measured;
- brief but explicit statements of the nature of the causal links being asserted between each class of outputs and its associated outcome(s);
- similar statements of the links between transfer payments and outcomes;
- measurement and annual reporting of the extent to which the Government's outcomes have been achieved or advanced; and
- evaluation of the impact of key expenditure.

