

OFFICE OF  
THE PARLIAMENTARY BUDGET OFFICER



BUREAU DU  
DIRECTEUR PARLEMENTAIRE DU BUDGET

# Analysis of Performance Budgeting During Recent Fiscal Consolidation

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## **Summary**

- The Parliamentary Budget Officer's (PBO) legislative mandate includes the responsibility to provide independent analysis to Parliament concerning the government's estimates. Over the past five years, parliamentarians and the PBO have sought greater insight concerning spending restraint, departmental and reductions in program spending and the consequences of these spending decisions on service levels.
- As part of ongoing efforts to monitor the fiscal sustainability of recent spending restraint, the PBO has developed a multi-year framework to analyse spending, performance and relative operational efficacy using public performance and spending data. The purpose of the framework is to determine whether performance is a good predictor of budgetary changes. This report has two key findings:
  - For fiscal years 2010-11 through 2012-13, no consistent statistically significant relationship exists between a department's performance and its budget growth in the subsequent year.
  - The performance data for 108 organizations does not suggest that financial resources have been reallocated from low-performing to high-performing programs. Rather, low-performing programs were somewhat more likely, on average, to receive budget increases in the subsequent year than programs that met targets or did not present measurable performance data.
- These findings are generally consistent with an earlier Organisation for Economic Co-operation and Development (OECD) survey. It concluded that performance budgeting data among member countries were "less influential" on decision making during the fiscal consolidation that followed the Great Recession.

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## 1. Context

The Parliamentary Budget Officer's (PBO) legislative mandate is to "provide independent analysis to the Senate and to the House of Commons about the state of the nation's finances, the estimates of the government and trends in the national economy".<sup>1</sup>

The estimates are part of the Expenditure Management System (EMS), an annual process renewed by the government in 2007 to develop and implement its spending plans within the limits established by the budget.

As part of this process, the government performs an ongoing review of all programs and services for streamlining or business transformation opportunities in order to improve efficiency and effectiveness.<sup>2</sup> The EMS is structured to reallocate funds from low-priority and low-performing programs to higher-priority and better-performing programs.

Non-financial data pertaining to expected and actual results of federal spending are a key input into the EMS. Under the *Policy on Management, Resources and Results Structures* (MRRS) each federal program is required to identify performance measures and results that are linked to the stated purpose of the program.<sup>3</sup> The MRRS indicates that these non-financial data are intended to support decision making regarding budgetary allocations.

Parliamentarians are responsible for reviewing and approving spending plans supported by performance management information. Legislators invest significant time and effort each year to study the performance data presented in Part III of the Estimates (the Reports on Plans and Priorities and Departmental Performance Reports).

Over the past five years, in an era of fiscal consolidation, parliamentarians and the PBO have sought greater insight regarding the decision-making process for restraint decisions. Specifically, to understand why certain programs have their funding reduced and eliminated, as well as the consequences of these funding decisions on service levels.

According to evidence published by the Organisation for Economic Co-operation and Development (OECD), many member countries reported that during the recent period of fiscal consolidation, performance data were "less influential" on budgetary decisions, compared to periods of fiscal expansion.<sup>4</sup>

In Canada, program performance is rarely the sole budgetary consideration, so this report analyses whether the OECD's general findings are specifically applicable to the Canadian federal context. This report assesses whether the historical performance of federal programs was a good predictor of decisions on resource allocation decisions during the Great Recession. It also tests whether, going forward, performance data are a good indicator of future resource allocations.

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<sup>1</sup> <http://laws.justice.gc.ca/eng/PDF/P-1.PDF>. Accessed August 2014.

<sup>2</sup> <http://www.tbs-sct.gc.ca/sr-es/index-eng.asp>. Accessed August 2014.

<sup>3</sup> <http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=18218&section=text>. Accessed August 2014.

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<sup>4</sup> [http://www.keepeek.com/Digital-Asset-Management/oecd/governance/budgeting-for-fiscal-space-and-government-performance-beyond-the-great-recession\\_budget-13-5jz2jw9t0pd3#page11](http://www.keepeek.com/Digital-Asset-Management/oecd/governance/budgeting-for-fiscal-space-and-government-performance-beyond-the-great-recession_budget-13-5jz2jw9t0pd3#page11). Accessed August 2014.

## 2. Methodology

The PBO has developed an analytical framework to compare information of program budgets, efficacy and efficiency using public information over a multi-year period. Spending is categorized and evaluated at the whole-of-government, thematic, department and program levels for a three-year period, from 2010-11 to 2012-13.

The framework provides a snapshot of the relationship between performance information and program spending, allowing for comparisons year-over-year, and over a longer-term trend.

### Data Sources

The framework relies on financial and non-financial data provided to Parliament in Part III of the Estimates. Spending data is sourced from the Public Accounts of Canada from 2009-10 to 2012-13.<sup>5</sup> Performance data is taken from the Reports on Plans and Priorities and Departmental Performance Reports of 108 federal organizations.<sup>6,7</sup> These reports comprise a key aspect of the estimates cycle and are tabled before Parliament by the President of the Treasury Board on behalf of ministers that preside over the appropriation-dependent departments.<sup>8</sup>

### Analytical Approach

The PBO's analytical framework focuses on results reported by program activity, a grouping defined by related resource inputs within a department and activities that are managed to meet specific needs and to achieve intended results. Each federal organization may have one or more program activities, which may be further segmented into one or more performance indicators/targets. Each performance indicator is evaluated relative to a performance target specified by the department, and presented to Parliament, at the outset of the year.

The PBO scored performance data in one of three ways:

**Met** – Targets that have been demonstrably and measurably met or exceeded within the evaluation year.

**Not Met** – Targets that have been demonstrably and measurably not met within the evaluation year.

**Not Applicable (N/A)** – Targets for which incomplete or immeasurable evidence was provided.

The "N/A" categorization is not provided in government reports. However, it was required by the PBO to segment targets with incomplete information, immeasurable standards or other data shortcomings from targets that had clearly met or did not meet their respective target(s).

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<sup>5</sup> [http://epe.lac-bac.gc.ca/100/201/301/public\\_accounts\\_can/pdf/index.htm](http://epe.lac-bac.gc.ca/100/201/301/public_accounts_can/pdf/index.htm). Accessed August 2014.

<sup>6</sup> <http://www.tbs-sct.gc.ca/rpp/index-eng.asp>. Accessed August 2014.

<sup>7</sup> <http://www.tbs-sct.gc.ca/dpr-rmr/index-eng.asp>. Accessed August 2014.

<sup>8</sup> <http://www.tbs-sct.gc.ca/ems-sgd/rc-cr-eng.asp>. Accessed August 2014.

Aggregate performance results are reported in two different ways, each with its own benefits and drawbacks.

Program- or department-weighted totals provide equal weight to each program or department) in relative importance to the aggregate, irrespective of the number of targets comprising that particular program or department. For example, a program or department with four performance indicators/targets will have each target contribute one-fourth to its composite performance score in that year.<sup>9</sup> This is the primary approach used in this report. All figures presented are consistent with this method, unless otherwise stated.

Spending-weighted totals are also presented throughout the report, by allocating performance results to the cash spending associated with that program.

Statistics in this report are isolated to direct program spending – programs delivered directly by the federal government. Direct program spending has been the primary focus of recent spending restraint. It consists of operating and capital spending as well as subsidies and transfer payments, such as grants and contributions made to provinces and territories. It excludes spending on major transfer programs such as Canada Health Transfer, the Canada Social Transfer and Fiscal Equalization, as well as major transfers to individuals, such as elderly benefits, children's benefits and Employment Insurance benefits.<sup>10</sup>

<sup>9</sup> For example, if a program met two targets, missed one target and did not provide complete information for one other, the composite performance score for that program would be (0.5 met, 0.25 not met and 0.25 N/A).

<sup>10</sup> <http://www.tbs-sct.gc.ca/sr-es/faq-eng.asp#q7>. Accessed August 2014.

### 3. Results

#### Overview of Data Trends

Since 2010-11, the government has met less than one half of its performance objectives: for about 41 per cent of programs and 48 per cent of direct program spending (Figure 3-1). About 44 per cent of programs did not provide sufficient evidence to evaluate performance, representing about one-third of direct program spending.<sup>11</sup>

Performance has deteriorated somewhat throughout the evaluation period. The proportion of targets met has declined by 4 percentage points from 43 to 39 per cent, while the percentage of spending on successful performance fell from 52 to 45 per cent. The share of targets not met has also declined, although these improvements are offset by an increase in the share of targets for which inadequate or immeasurable data are provided.

**Figure 3-1**  
**Government Performance**

Percentage of total				
Program weighted				
	2010/2011	2011/2012	2012/2013	Average
Met	43%	41%	39%	41%
Not Met	19%	15%	12%	15%
N/A	38%	45%	49%	44%
Spending weighted				
	2010/2011	2011/2012	2012/2013	Average
Met	52%	47%	45%	48%
Not Met	21%	23%	18%	21%
N/A	27%	30%	38%	31%

Sources: Office of the Parliamentary Budget Officer; Government of Canada.

<sup>11</sup> Each department defines expected results for all of its spending, measures performance against these anticipated results and sets a standard of performance against best practices. The difficulty in meeting performance targets may vary across programs and departments, and results in this analysis should be interpreted accordingly. <http://www.tbs-sct.gc.ca/ems-sgd/exms-sygd-eng.asp>. Accessed August 2014.

The government classifies spending into four broad themes:<sup>12</sup>

- Economic Affairs
- Social Affairs
- International Affairs
- Government Affairs

Economic affairs constitute the largest share of direct program spending, about 31 per cent, on average. Spending on economic affairs has declined as a percentage of direct program expenditure since 2010-11, from 36 to 26 per cent in 2012-13.<sup>13</sup> Conversely, direct program spending on the three other themes has increased.

**Figure 3-2**

**Thematic Spending Trends**

Percentage of total direct program spending

	2010/2011	2011/2012	2012/2013	
Economic	\$ 32.4	\$ 27.1	\$ 25.2	
Social	\$ 21.6	\$ 19.1	\$ 25.0	
International	\$ 19.8	\$ 25.5	\$ 25.8	
Government	\$ 16.4	\$ 17.9	\$ 19.1	
	90.2	89.6	95.1	

	2010/2011	2011/2012	2012/2013	Annual growth
Economic	36%	30%	26%	-12%
Social	24%	21%	26%	8%
International	22%	28%	27%	14%
Government	18%	20%	20%	8%

Sources: Office of the Parliamentary Budget Officer; Government of Canada.

Budget changes and performance results for the four primary themes of direct program spending do not exhibit a discernable pattern consistent with the reallocation of spending from low-performing to high-performing programs for the three years examined. Throughout

<sup>12</sup> <http://www.tbs-sct.gc.ca/ppg-cpr/descript-eng.aspx>. Accessed August 2014.

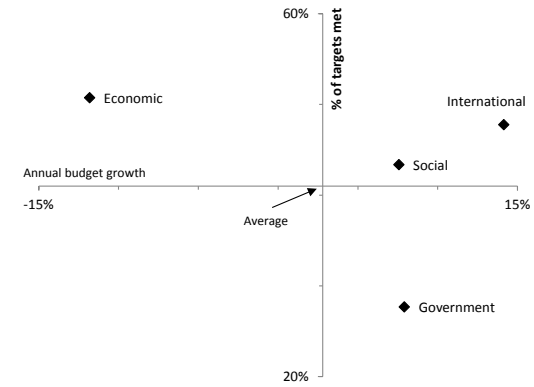
<sup>13</sup> The 2010-11 fiscal year featured economic stimulus spending (e.g. the \$2.5 billion infrastructure stimulus fund) which was temporary in nature, accounting for part of the estimated \$7 billion decline in economic affairs spending from 2010-11 to 2012-13.

the period, economic programs have exhibited the best performance, on average, and have been the primary target of spending reductions.

**Figure 3-3**

**Direct Program Spending and Performance Trends: 2010-2011 to 2012-13**

Percentage of total



Sources: Office of the Parliamentary Budget Officer; Government of Canada.

Almost two-thirds (63 per cent) of government affairs programs, targeted to building “strong and independent democratic institutions, a transparent, accountable and responsive federal government and well-managed and efficient government operations”, did not provide measurable performance data.<sup>14</sup>

**Figure 3-4**

**Thematic Performance by Program: 2010-2011 to 2012-13**

Percentage of programs

	Met	Not Met	N/A
Economic	51%	18%	31%
Social	43%	17%	40%
International	48%	17%	35%
Government	28%	9%	63%

Sources: Office of the Parliamentary Budget Officer; Government of Canada.

<sup>14</sup> <http://www.tbs-sct.gc.ca/ppg-cpr/descript-eng.aspx>. Accessed August 2014.

**Figure 3-5**

**Thematic Performance by Spending:  
2010-2011 to 2012-13**

Percentage of spending	Percentage of spending		
	Met	Not Met	N/A
Economic	54%	23%	23%
Social	48%	15%	36%
International	47%	32%	21%
Government	40%	8%	52%

Sources: Office of the Parliamentary Budget Officer;  
Government of Canada.

One-half of all expenditure on government affairs was not supported by any measureable performance data over the three-year evaluation period. Furthermore, performance in this area is worsening. Relatively fewer performance data are being provided throughout the evaluation period.

Performance in administering government affairs has declined, as the government has met fewer of its performance objectives. Furthermore, a greater share of performance targets cannot be evaluated, because of data limitations or data availability.

*Predictive Value*

As noted earlier, spending and performance are managed at the program level across the whole of government to ensure funding is allocated to high-priority and better-performing programs.

While the government's priorities cannot be defined using this framework, low-performing programs are identifiable.<sup>15</sup> The PBO analysed whether programs reporting low performance were observed to experience larger than average budget

<sup>15</sup> Low- and high- performing programs and departments are classified according to the percentage of performance targets met in the three-year evaluation period. Bottom 20 per cent programs (departments) are considered low-performing, and top 20 per cent programs (departments) are considered high performing.

decreases or a higher likelihood of outright elimination.

From 2010-11 to 2012-13, prior year's performance did not strongly influence budget changes, as programs were more likely to receive a budget increase, on average, irrespective of whether performance targets were met or not met. Only programs that failed to provide measureable performance data were more likely to receive budget reductions in the subsequent year (Figure 3-6).

**Figure 3-6**

**Prior Year's Performance Impact on  
Program Budget: 2010-2011 to 2012-13**

Percentage of total	Budget		Difference
	Increase	Decrease	
Met	44%	39%	4%
Not Met	16%	15%	1%
N/A	40%	45%	-5%

Sources: Office of the Parliamentary Budget Officer;  
Government of Canada.

Performance did not have strong influence on program termination. About three-quarters of discontinued programs (programs defined as those that once, but no longer receive funding) either met performance targets or did not provide measurable performance data in the preceding year (Figure 3-7).

**Figure 3-7**

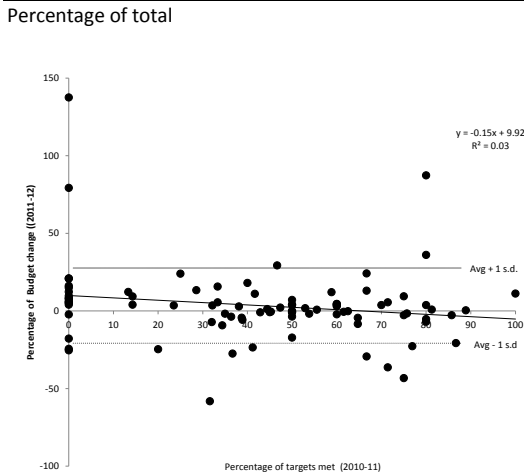
**Prior Year's Performance Impact Program  
Termination: 2010-2011 to 2012-13**

Percentage of total	Terminated	
	Average	
Met	42%	41%
Not Met	26%	15%
N/A	32%	44%

Sources: Office of the Parliamentary Budget Officer;  
Government of Canada.

No consistent statistically significant relationship exists between a department's performance and its budget growth in the subsequent year (Figures 3-8 and 3-9).<sup>16</sup> Given these results, it cannot be concluded that the recent period of fiscal consolidation has effectively and efficiently reallocated government funds away from low-performing programs. Nor have low-performing programs been targeted for funding termination.

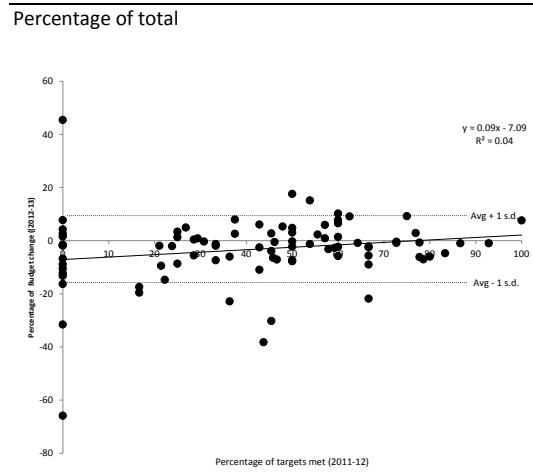
**Figure 3-8**  
**2010-11 Performance Impact on 2011-12 Department Budget**



Sources: Office of the Parliamentary Budget Officer; Government of Canada.

Notably, spending reviews are not the sole budgeting framework used to allocate funding and define spending priorities, and program performance is not the sole budgetary consideration. For example, funding could be increased to a low-performing program to address observed performance shortfalls or a perceived lack of financial resources.

**Figure 3-9**  
**2011-12 Performance Impact on 2012-13 Department Budget**



Sources: Office of the Parliamentary Budget Officer; Government of Canada.

Overall, recent program performance was not a strong determinant of program budget changes year-over-year. This is consistent with the findings of the OECD, which found that performance data were generally not consulted in implementing recent fiscal consolidation.

<sup>16</sup> See Annex C for detailed statistical results.



## Annex A - Departmental Performance

The best and worst performing departments, ranked by the percentage of performance targets met are listed in Figures A-1 and A-2.

Several federal organizations did not provide any measureable performance data over the three-year period for which data were available, or provided very little.

### Figure A-1

#### Highest Performing Government Organizations: 2010-11 to 2012-13

Percentage of total

Department	Met	Not Met	N/A
Military Police Complaints Commission	94%	6%	0%
Natural Sciences and Engineering Research Council	78%	10%	12%
Canadian Radio-television and Telecommunications Commission	77%	7%	15%
Finance	76%	0%	24%
Shared Services Canada	75%	0%	25%
Supreme Court of Canada	75%	16%	9%
Office of the Superintendent of Financial Institutions	72%	3%	24%
Commissioner for Federal Judicial Affairs	70%	25%	5%
Veterans Affairs	69%	5%	26%
Registry of Competition Tribunal	67%	16%	17%

Sources: Office of the Parliamentary Budget Officer; Government of Canada.

### Figure A-2

#### Lowest Performing Government Organizations: 2010-11 to 2012-13

Percentage of total

Department	Met	Not Met	N/A
Chief Electoral Officer	0%	0%	100%
Privy Council	0%	0%	100%
Registry of the Public Servants			
Disclosure Protection Tribunal	0%	0%	100%
Canadian Northern Economic Development Agency	0%	0%	100%
Director of Public Prosecutions	0%	0%	100%
Canadian International Development Agency	2%	5%	93%
Courts Administration Service	9%	0%	91%
Justice	10%	4%	85%
Patented Medicine Prices Review Board	15%	36%	49%
Veterans Review and Appeal Board	16%	26%	58%
Office of the Public Sector Integrity Commissioner	17%	41%	42%
Royal Canadian Mounted Police			
Public Complaints Commission	17%	16%	67%
Office of the Correctional Investigator	18%	26%	57%

Sources: Office of the Parliamentary Budget Officer; Government of Canada.

Note: The performance of the Courts Administration Service and the Director of Public Prosecutions was consolidated in the initial publication of this report. Whole of government figures and analysis remain unchanged, but data in Figure A-2 has been revised to reflect the distinct performance of the two organizations.

## Annex B – Background

The Government of Canada's evaluation policy has evolved on many occasions since it debuted in 1977, progressing toward the current framework, the Expenditure Management System (EMS). Historically, the government had an incremental approach to budget making, that is, annual increases in the government's planned spending were added without reference to the performance of existing programs in the base (OECD 2008). The EMS included more performance information in the budget-making process and increased the emphasis on decision making supported by planned and actual results.<sup>17</sup>

The consequences and results of these decisions are reflected in departmental budgets and priorities, and are reported within each department's Report on Plans and Priorities and Departmental Performance Report. Each department segments its priorities and responsibilities into programs, each with one or more measureable performance indicators. These data are the primary, publicly-available link between spending inputs and performance outcomes on a government-wide basis.

One element of the EMS process that has been a recent government focus during the period of fiscal consolidation is spending review. As part of the EMS, all government programs follow a periodic evaluation process called strategic review, with an objective of ensuring value for money. While summary strategic review results are published in the government's annual budget, this information is not generally isolated for reporting in key budgeting documents such as Reports on Plans and Priorities and Departmental Performance Reports.

<sup>17</sup> <http://www.tbs-sct.gc.ca/sr-es/faq-eng.asp#q1>. Accessed August 2014.

### Box B-1

#### Revenue and Expenditure Review Mechanisms

The government's spending review and realignment has taken place using a number of evaluation frameworks, each with unique guiding principles:

- **Strategic review:** federal departments and agencies assessed all spending to identify the lowest-priority and lowest-performing programs.
- **Administrative review:** identified opportunities to consolidate administrative functions, achieve savings and improve service delivery.
- **Ongoing assessment of grants and contributions** sought to further government priorities and achieve results.
- **Corporate Asset Management Review:** Ongoing review to improve efficiency and effectiveness and reallocate financial resources from low to high priorities.
- **Tax loopholes** initiatives.
- Departmental **operating budget freezes** placed increased focus on improving the efficiency of departments' internal operations and administration.

All departments must undertake strategic reviews on their program spending and the operating costs of major statutory programs. Reviews demonstrate whether programs provide value-for-money, through assessment of program relevance, effectiveness and efficiency.<sup>18</sup>

<sup>18</sup> <http://www.tbs-sct.gc.ca/sr-es/faq-eng.asp#q1>. Accessed August 2014.

**Annex C – Statistical Annex**

**Figure C-1**

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**Statistical Relationship Between  
Performance and Next-Year Budget  
Changes**

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	Coefficient	Standard Error	t-stat	R- squared	n
2010-2011	-0.152	0.09	-1.65	0.031	88
2011-2012	0.094	0.05	1.85	0.038	88

Sources: Office of the Parliamentary Budget Officer;  
Government of Canada.

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