ISSN 1608-7143
OECD Journal on Budgeting – Volume 4 – No. 2

Managing the Public's Money: From Outputs to Outcomes – and Beyond

by
David Webber*

* David Webber is a Principal of the Economics and Strategy Group, New Zealand.

1. Introduction

The search for better ways of budgeting and managing public finances is a continuous process. This may be because, like in many other areas of economics, there are always some who see a need or an opportunity to improve on existing approaches. It may also be because performance – that is, the results from public spending activities – is often disappointing or at least falls short of the political rhetoric that announced or accompanies it. Either way, the continuous pursuit of improvement is a good thing and one hopes that there are many successful innovations yet to be uncovered.

For a brief period in the late 1980s and early 1990s the New Zealand public sector was widely seen at the forefront of reforming public financial management. There were several dimensions to these reforms, all of which have been covered exhaustively in a range of publications.[1] "Output budgeting" was undoubtedly one of the more innovative components. It remains a core element of the New Zealand budget process 15 years on.

Nonetheless, despite the considerable international attention given to the New Zealand model of output budgeting, it remains an approach with few international disciples. Although some aspects of the output focus have been borrowed and adapted by other countries, the closest adherents of this approach have mostly been smaller or poor countries in the Asia-Pacific region receiving development assistance from New Zealand. In fact, a view has developed internationally that this and other New Zealand public sector reforms may often be inappropriate for less developed public sector environments, especially those that lack the level of institutional capability and developed legal environment that underpin their application in New Zealand.

Within New Zealand too, the efficacy of output budgeting has been openly questioned at times. A series of amendments to the Public Finance Act (PFA) of 1989, that provides much of the framework for budget appropriations by output class and the application of output budgeting methods, have been introduced in an attempt to refine and improve the overall model. Perhaps the most obvious indicator of a groundswell of support for modification of this approach, however, has been the gradual development over the last three years, including recent public sector-wide adoption, of the "managing for outcomes" initiative.[2] Proposed amendments to the PFA in 2004 effectively cement in these and other modifications to the output-based approach.

Throughout this period, international experience and experimentation with various new approaches and methods for budgeting and expenditure management have also progressed, both towards and away from the New Zealand model in different respects. "Performance budgeting" – an increasingly broad term that now describes almost any approach or methodology that embodies a significant focus on impacts (including output budgeting) – has gained increased acceptance. To a large degree, most recent refinements in budgeting practice have a common objective of improving the administrative performance, or service delivery, of budgetary institutions, rather than significantly altering the process of appropriation or financial control. In several of the more advanced economies, significant insights from the international managerial literature and private sector management practices – especially relating to strategic management – have also been increasingly overlaid on the task of managing public finances.

While each of these concepts and innovations may have added interest and richness to the subject, for most New Zealand government departments at least, they have also added greater expectations, complexity and compliance demands. Given the infusion of new ideas and methods over recent years, it is reasonable to ask whether we are still on track to achieving new and improved levels of effectiveness in public spending. Is there any risk that in our eagerness to sustain a continuous improvement approach – cycles of reform in effect – we may have inadvertently sidelined a core tenet of prudent public financial management: that before all else, changes or innovations should do no harm? Does the current approach still embrace all that is fundamental to good budget management?

2. What the public expects

A key theme of this paper is that a prolonged search for improvements and innovation in the theory and practice of public management may lead to a loss of coherence in the overall approach. It may also generate a tendency to move away, imperceptibly at times, from simply doing the basic things correctly. We have already seen some evidence of this in New Zealand in terms of excessive attention to "client focus" in the delivery of basic welfare services and in the undue weight given to "management solutions" in the delivery of hospital services. There are probably many such examples that managers and analysts in the New Zealand public sector, and in other developed public administrations, could cite as similar examples. In managing budget spending in New Zealand, there may also now be diminishing value added from a growing number – or in some cases just renaming – of "accountability documents". It is not always the case that more is better.

Since budgeting is really all about managing the public's money, improving the ways departments prepare, disburse and report their budgets can be aided by simply retaining, and in some cases restoring, a focus on what is important to the public. It is, after all, the public's money that departments are managing. Focusing on what the public expects highlights three basic concerns:

- For what purpose, or need, is the money to be allocated?
- How and where is it being spent?
- What has it achieved?

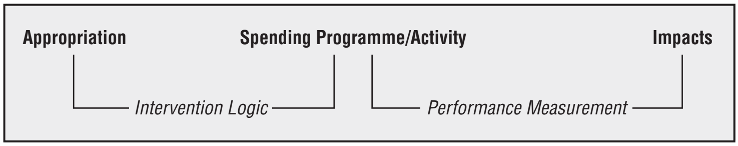
There are no doubt teams of accountants and others who will add a fourth concern: how fully and accurately was the spending accounted for? Indeed, that is often very important. However, the public's concern with the accounting for public expenditure is invariably less if the above three concerns have been adequately addressed.

All budgetary and expenditure management systems – whether they are labelled (or have their origins in) "programme budgeting", "performance budgeting" or "outcome budgeting" to name a few – respond to these three concerns to a greater or lesser degree. While economists may describe or assess them in terms of "aggregate, allocative, and technical efficiency", most public sector employees simply see them in terms of "appropriation, spending operations and performance measurement". However, what is less well recognised is that it is often the quality of the interactions, or managerial linkages, between these components that determine the efficacy of the system.

Different budgeting methodologies can and do give different emphasis to the various components or connections within this structure. The relative simplicity of the public's three basic concerns therefore understates the real difficulties in obtaining meaningful assurances of quality and integrity. In practice, the public relies heavily on various institutions, including parliament as well as private commentators and non-government agencies, to monitor and where possible ensure on their behalf the quality and effectiveness of the spending decisions and actions of the government. However, many of these institutions and observers have a tendency to focus on specific stages or components of the financial management process. The ultimate value and quality of their analysis and reporting therefore depends on a management process that is not only clearly defined, but also effectively linked.

As Figure 1 indicates, there is nothing particularly complicated in the way the principal elements of the public expenditure system reflect the public's expectations regarding appropriation, programme (or service) delivery and impact assessment. The difficulty lies in linking these components effectively. A major challenge for departments in their uptake of the "managing for outcomes" initiative over the last three years has therefore been the requirement for them to design and articulate both their **intervention logic** and a meaningful **performance measurement framework**.

Figure 1. **Linking the basic components of the expenditure process**



Source: Webber.

3. The pressures for change

The shift from an output to an outcomes focus for public expenditure management in New Zealand has occurred progressively since about 2001. It arose largely as a result of two factors: a developing view, from about 1997 onwards, that the output budgeting approach had failed to ensure that government departments were giving sufficient attention to the results of their policy interventions and, secondly, a change in government in 1999 which set about attempting to roll back a number of the policy reforms of the previous 15 years, including selected aspects of the "new public management" model. Although the shift to an outcomes focus was arguably more of a bureaucratic initiative than a political one, it was an integral part of a wider response by central agencies to the demands of a new government for different and more effective approaches in managing the public sector.

At the same time, an essentially political argument that government should be taking a more proactive role in the economy was not entirely separated from a growing technocratic perception that the linkage in the output budgeting model between the public sector's accountability for **outputs** and ministerial responsibility for determining **outcomes** was inadequate or flawed. A third and related nuance in these assessments was reflected in the "consensus" in the domestic public management research literature at this time that "a key weakness in the current regime is the lack of information on the effectiveness of the public sector" (Petrie and Webber, 2001, para. 119).

Lack of attention to, and information on, the impacts of public policies was not the only perceived shortcoming of the output-based approach. Problems were also apparent in the fact that departmental appropriations, once broken up into "output classes" (defined theoretically as groups of "similar outputs"), often failed to provide a meaningful basis for parliamentary scrutiny or debate. Increasingly, output classes had become (and still are) determined by individual departments on the basis of quite different criteria, even within departments, few of which provide a consistent or meaningful indication of purpose or intended impact. Given also that the size of output classes varies substantially in monetary terms, they have provided parliament and ministers with little additional information about, or meaningful control over, the purpose of appropriations. There is some evidence that ministerial understanding of and interest in the detailed spending activities of their departments may well have waned further, partly as a result (Economics and Strategy Group, 2003).

Another clear shortcoming of the model, of which central agencies had been aware for some time, concerned the lack of information about – and therefore, quite possibly, a lack of attention given to – the connection between departmental outputs and the intended impacts of spending programmes. One initiative to address this problem – key result areas (KRAs) – had been largely abandoned by the late 1990s, despite the fact that it had succeeded in some respects in drawing departments' attention to the importance of the relationship between the design of their interventions and their expected or intended policy impacts.

At a more operational level, there were also what might be termed "technical weaknesses" in the output model that had contributed to a gradual devaluing of its status as a budgeting innovation, both in New Zealand and internationally. Examples of these weaknesses included the difficulty in defining and measuring outputs meaningfully in significant areas of departmental administration, such as policy advice or ministerial servicing. Secondly, there was increasing frustration among some departments with the resource demands and perceived inconsistencies in the conduct of "output pricing" reviews.

Notwithstanding these concerns, there was (and still remains) broad agreement that the overall efficiency of government had improved substantially as a result of the public management reforms and that the strong focus on departmental outputs had been a significant contributing factor in those gains. However, there were formidable effects from a greater international focus on performance issues combined with the concerns expressed by a range of well-qualified commentators and advisers, including Schick (1996), Boston (1999), and the Auditor-General (1999) – arguing principally for greater attention to outcomes. The State Services Commission (SSC) too was pressing for the adoption by departments of a more "strategic management" approach.[3] By 2001, it was clear that some modifications to the output focus were both desirable and, given the change of government, inevitable.

4. "Managing for outcomes"

Practical implementation of the concept of outcome-focussed public management, or "managing for outcomes" as the initiative is officially labelled, has been a combined undertaking on the part of the central agencies, principally the Treasury and the SSC. The concept, however, is by no means unique to New Zealand. Outcome-focussed management (or at least a more performance- or results-oriented approach to budgeting) could be found widely in the international public finance literature during the 1990s and had featured in the management of public finances in Australia for at least several years prior to 2001.[4]

What has perhaps defined the New Zealand approach over the last three years has been the degree to which an outcomes focus has been formally integrated with insights and tools from the managerial literature. These have included an emphasis on strategic development within organisations combined with the description, integration and reporting of a strategic/outcomes management framework in a range of budget-related and accountability documents. Much work has been done by central agencies to guide and support departments in the uptake of these tools,[5] and recent evaluation work suggests that good progress has been made in some areas.[6]

This should not imply that all is well. Arguably, there have been considerable weaknesses in the approach taken by central agencies to modification of the public management framework that are now clearly evident in the design, management and reporting of public expenditure activities. Understanding how these weaknesses occurred helps to throw light on the difficulties now encountered by some departments at least in implementing the managing for outcomes approach and indicates where additional work is required in both conceptual development and practical application. Notwithstanding the experimental or institutional learning objectives that have underpinned implementation of these outcome-focussed reforms, it is far from clear that these are helping departments to achieve a higher level of effectiveness. Furthermore, in the context of the "do no harm" principle, there would seem to be strong arguments for much firmer limits on the extent to which departments should be encouraged to adapt these concepts through a trial and error process.

Much of the public management reform process of these last 3-4 years is based, in particular, around the analysis and recommendations work of the "Review of the Centre" (RoC) – in essence an officials committee review process involving representatives from the central agencies, with input from a small number of external advisers. The RoC reported its initial findings to ministers in 2001. These were expanded on by the review team and officials through a number of reports and presentations over many months, through until about December 2002.[7] Considerable further work has followed, though much of it is at the level of central agency interaction with individual departments and other public sector entities.

The approach taken in the Review, quite legitimately perhaps, was to focus specifically on the more obvious shortcomings that had been identified in the public management model established by the reforms of the late 1980s. The RoC grouped these perceived problems into three main categories: a lack of integration in service delivery; fragmentation and lack of alignment within and between sector departments and agencies; and weaknesses in building and sustaining institutional capabilities and organisational culture. It is beyond the scope of this paper to assess the accuracy or validity of the Review's overall analysis of these problems, or the linkages between them. However, on the whole, there was a broad consensus within the public sector that these were indeed the principal areas in need of attention. Particular concern with insufficient attention to the outcomes from public expenditures was identified in the context of the policy fragmentation and alignment problem.

The main thrust of the RoC's recommendations for modifying the budgeting and expenditure management process involved adding on a much stronger results (outcomes) focus to the existing output-based model. As the review committee had stated, the public management reforms of the late 1980s had "hard-wired in an output-based management system" (SSC, 2001). The aim, therefore, was to soften this output-based model rather than to replace it with a new or different approach. Subsequent guidance under the "managing for outcomes" initiative has therefore encouraged departments to build into their annual planning activities a requirement for more formal inclusion and development of internal strategic planning methods, aligned to their chosen outcomes.

A major initial component of this re-focusing has been the requirement for departments to produce annual **statements of intent** that emphasise a "strategic outcomes framework". An explicit consequence of this focus has been less reliance on the previous, narrower, output-based planning. This more explicit focus on outcomes in the planning process is required to be reflected and reinforced by parallel adjustments in official departmental documents relating to *ex post* performance reporting.

Thus the prior balance of accountability between departments (for outputs) and ministers (for outcomes) has been subtly but incontrovertibly discarded. A practical reflection of these changes has been that departments now have a considerably greater role in both defining relevant outcomes and in ensuring that their policies and operations are strategically aligned to them. Although one might argue that the formerly clear line between ministerial and departmental accountability for outputs and outcomes has become more than somewhat blurred as a result of these changes, one cannot deny that they have modified the expenditure management framework more or less exactly in the manner intended by the RoC.

Modification of the expenditure management process has therefore occurred through a series of further planning and reporting requirements being added to the original output-based model. At no stage did the RoC provide a formal analysis of the strengths and weaknesses of the output model itself, nor describe how the changes it proposed would fit within a coherent new expenditure framework. Indeed, the minister of finance confirmed in 2003 that the legislation underpinning the output-based model did not require major amendment: "Experience shows that the fundamentals of the two Acts (the State Sector Act 1988 and the Public Finance Act 1989) are sound."[8]

Decisions on which parts of the public management model should be modified, and how, thus occurred largely as a process of central agency discussion, learning, negotiation and, to some degree it would seem, compromise. There is nothing inherently wrong with that. Moreover, the way in which the New Zealand public management process has gravitated towards an outcomes focus has been entirely consistent with international trends in favour of performance (*i.e.* results-oriented) budgeting. For example, Brumby and Robinson state:

> *A strong argument can be advanced for outcome-focused performance budgeting. Outcomes are the intended effects of government programmes, whereas outputs – the goods or services delivered by government – are the means of achieving those outcomes. It can therefore be argued that outcomes are what really matters, and that to focus too much upon outputs in a performance budgeting system is to run the risk of focusing too little upon the effectiveness and quality of services. ….Nevertheless, it can be argued that outputs must have a central role in a workable form of performance budgeting.*
>
> (Brumby and Robinson, 2004, p. 7)

A lot of hard work has been done by both the Treasury and the SSC to achieve this unspecified balance and, in New Zealand's case, to reconcile the methodological uncertainty and institutional ambivalence that accompanies it.

While many of the former requirements on departments relating to output planning, specification and reporting remain, the roles of both outputs and output classes are much less clear and fit less comfortably within this new expenditure management framework. Proposed amendments to the PFA aimed at reconciling the two models may forge a compromise, but fail to provide either conceptual or practical clarity on many issues. Whether the difficulties that have arisen for departments in adopting this new hybrid are just teething problems or reflect deeper incompatibilities in design is yet to become clear. Nevertheless, it can be argued that practical application of the new structure is not only difficult to describe, but certainly more difficult, and onerous, for departments to implement.[9]

This lack of a clear and fully articulated model in which output and outcome concepts are effectively integrated in the budgeting and expenditure management process has generated two particular difficulties for senior managers in the public sector. First, in terms of Figure 1, it has presented departments with considerable challenges in linking the rationale for their spending operations with both appropriations (*i.e.* relevance) and impact assessment. Not surprisingly, the requirements to develop a meaningful intervention logic **and** an effective structure for performance measurement have clearly emerged for all departments as the most difficult aspects of implementing the "managing for outcomes" initiative. The newly modified model of expenditure management provides no inherent process and little clear guidance for how these critical linkages should be made, only that they **should** be made.[10] Current practice therefore largely involves a range of department-specific responses and practices that vary significantly in both content and merit (Economics and Strategy Group, 2003).

The lack of a formal and coherent framework for expenditure management may have also increased the difficulty in integrating other critical facets of improved public management. For example, the conclusions and recommendations of a subsequent committee on the role and conduct of formal evaluation processes in public sector management were disappointingly non-specific (SSC, 2003). A relatively simple but clear budgeting and expenditure management framework may have provided the review process with a much better starting point for determining where and in what form evaluation activities might contribute, given various policy objectives and performance measurement needs. Supporting the general utility of evaluation capabilities while leaving the role, structures and methods largely to individual departments to determine was an arguably weak conclusion that reflected, in part, the uncertainty surrounding the integration of output and outcome methodologies, including where evaluation could therefore best contribute to policy development.

Finally, reports that some departments may also be considering organisational restructuring involving, apparently, greater alignment to outcomes is a cause for even greater concern. At no stage yet have any departments demonstrated a clear, consistent and direct relationship between their functions and the achievement of outcomes.

5. International experience with outcomes-based budgeting

The New Zealand public sector has not been alone in recent years in struggling to achieve an effective integration of output and outcome concepts. Brumby and Robinson cite the British Public Service Agreement (PSA) system in this context:

> *When the system started off in 1998, most of the PSA targets were output targets. In the two subsequent rounds of PSA target setting, there has been a progressive and deliberate re-orientation towards outcomes, so that today most PSA targets are outcome rather than output targets. Nevertheless, outputs have not been forgotten. Service Delivery Agreements have been introduced at a more operational level, and these set targets for outputs which are intended to mesh together with the top-level PSA outcome targets.*

(Brumby and Robinson, 2004, p. 8)

The fact that the United Kingdom started this process two or three years ahead of New Zealand may be encouraging. Although the authors do not comment on the success of the "meshing" process so far, anecdotal reports suggest that a slightly messy, but perhaps more structured relationship has developed in some areas between the two sets of concepts and measures – albeit through a mostly ad hoc, experiential process.

In 2001, the Finance Committee of the Scottish Parliament commissioned a study of outcome budgeting to help guide it on the possible introduction of these concepts (Flynn, 2001). The study included a survey of experience in other countries that is summarised in Table 1.[11]

Table 1. **Survey on outcomes budgeting for the Finance Committee of the Scottish Parliament: "Lessons from Other Countries"**

Surveyed country/jurisdiction	Summarised conclusions
Australian states	"In no case does the budget process dispense with specifying outputs as part of the process. The budget documents and process link overall aims and outcome aspirations to the outputs but the link is not firm as to be able to directly connect the expenditure of money on outputs to the achievement of outcomes. It is possible however to see clearly which outputs are purchased for what purposes. This implies a disciplined thought process to inform the outcome aspirations with what the government can do to achieve its goals, and to inform the people running the services about what the ultimate purposes of their activities are."
United States	"The main lesson from the USA is the time that it takes to develop outcome based budgeting systems, even where there is legislation in place to make it happen. It also shows that the solution is not to generate huge amounts of data and numbers of targets that only swamp the process of outcome assessment. On the other hand it is now difficult to imagine governments at any level in the USA retreating from performance based budgeting."
New Zealand	"The main lesson is that while it has been possible for the New Zealand government to specify outcomes and its aspirations for the effects of public services, the planning process is still concerned with outputs and it has discovered that it is not possible to make a watertight connection between a stream of outputs and the flow of outcomes that results from them."
Singapore	"(The) Singapore … government is recognised as a modern and progressive manager of the civil service and the economy. It adopted a system of performance-based budgeting and then decided not to try to integrate its outcome definition, quality programmes and special initiatives into the budget process, leaving the budget purely for resource allocation."
Sweden	"(The Swedish Government concluded that) … the generation of information does not in itself constitute a capacity to use that information in resource allocation or scrutiny. Giving managerial freedom to agencies in exchange for a definition of outcomes may simply replace one set of detailed bureaucratic controls for another, the bureaucracy of outcome measurement replacing the bureaucracy of input controls. The third lesson is that creating a relationship between departments and agencies that focuses on outcomes does not automatically produce a better process from parliament's point of view."

Source: Flynn, 2001, p.5.

The Scottish study recommended that: "all decisions made about resource allocation should be illuminated by explicit statements about the outcomes that are expected to result from those allocations. This implies that MPs should keep pressing departments for better objectives and targets, including expected outcomes" (Flynn, 2001). It further concluded that: "outcome measures should form the main basis for the parliamentary scrutiny of government" (*ibid.*, p. 6). However, the report cautioned the Finance Committee against having high expectations of what outcome setting could reliably add to the quality of resource allocation decisions.

This conservative assessment also seems well supported on the basis of wider evidence. Other countries engaged in outcome specification have experienced significant challenges in maintaining consistency in the definition of outcomes (in terms of the level at which outcome objectives are set), in maintaining the feasibility and practicality of outcome targets (in the face of political pressure to aim higher) and in maintaining specific outcome targets long enough and sufficiently clearly enough to enable meaningful performance measurement and policy assessment to occur.

New Zealand departments are also encountering these problems. The definition of an outcome – as opposed to other potential policy impacts – has been wide and variable within and across departments and in some cases set at levels well outside the feasible reach or direct policy influence of the department. The identification of an "outcomes focus" has already been coined as a trendy (but invariably insubstantial) indicator of the relevance of policy or research.[12] There is also slow but increasing realisation in some parts of the public sector at least – for example with regard to the targeting of welfare payments – that this year's policy problems are not infrequently last year's policy outcomes. Policies often do not achieve what politicians or bureaucrats may have hoped or expected of them, and the expenditure management framework needs to ensure that policy design can respond quickly and appropriately when needed. This may be more difficult if it involves a government "giving up" on particular outcome statements.

6. Connecting management decisions

The eventual success of the New Zealand model as it has now evolved relies explicitly on departments acquiring, or developing over time, the skills and capability required to achieve an effective integration of output and outcomes concepts. Whether this confidence is justified remains uncertain. A key constraint, already apparent during the piloting stage, is that the technical expertise necessary to develop a sophisticated and effective strategic and performance framework for guiding management decisions requires skills that are not only in short supply across the wider public sector, but are often limited to even one or two individuals within the larger departments.

What is already clear is that no amount of guidance material can seem to make the outcomes structure a readily applicable tool at the general operational level. Much of the work required for outcomes specification and the associated documentation is thus being assigned to relatively small groups of strategic managers or policy analysts whose task it is to make the framework "fit" with departmental policies and operations. There is a risk that by ceding responsibility to a very small number of these specialists, or worse to out-sourced consulting expertise as has also occurred, will simply distance the process further from the day-to-day managerial and operational teams. Put another way, the expenditure management framework of the public sector should be a valuable tool in the hands of budget managers in spending agencies as well as for economists and governance professionals in the central agencies; but it should put the needs of budget managers first.

This concern is further reflected in the fact that an outcomes focus does not easily fit with the way many public sector organisations "think" – that is, how they are internally structured and managed. Many larger departments in particular must be constantly focused on the management and delivery of core programmes and services that need to meet relatively simple but invariably high public expectations. While they can "see" in an institutional sense (that is, identify, assess and report back on) the consequences of their activities, it is much more difficult for them to develop effective policies back from the longer-term outcomes of those activities – even assuming that accurate and timely performance data are available. This problem is closely linked to the Swedish conclusion reported in Table 1 that producing outcome information does not by itself imply (or engender) a capacity to use that information to design more effective interventions.

An outcomes focus therefore makes substantial demands on departments to "think backwards" (in terms of Figure 1) from the impacts of their activities to the design of policies and operations and to appropriation and sub-appropriation needs and groupings. The difficulty of this task is made more acute by the fact that a great majority of the activities of most departments are ongoing (baseline) policies and activities. New policies that provide an opportunity to focus first on outcomes – *i.e.* before detailed operations and organisational structures are determined – mostly occur only occasionally, or at the margin of ongoing departmental expenditures. This is a difficult point at which to inject an outcomes orientation. Even then, the broad purpose or objectives of the policy may have been determined at the political level, probably involving a very non-analytical approach to outcome relevance, much less outcome achievement.

It is therefore no surprise that the organisations which appear to have implemented the outcomes model most readily – for example, the Department of Corrections – are those whose mandate implies a relatively tightly-constrained "outcomes set".[13] Similarly, departments such as the Ministry of Fisheries appear able to apply an "outcomes" focus more readily, provided that this is constrained to quite specific resource monitoring and management functions.

In practice, these "more successful" departments are actually focusing on quite narrowly defined policy **results**. Take away this narrow results focus – for example, by introducing broader industry development goals and/or by consolidating ministries – and the task of specifying an outcomes-focussed intervention logic, with relevant performance measures, becomes much more difficult.

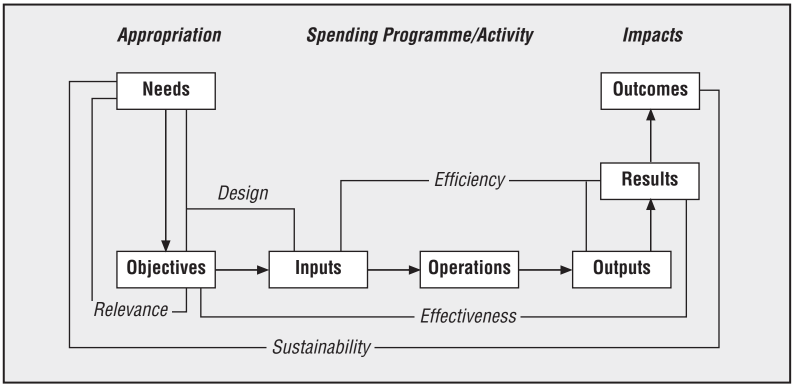
7. Beyond outputs and outcomes

The "managing for outcomes" initiative has undoubtedly succeeded in moving departments to a more performance-oriented view of their activities. It has not, however, prompted this development in a way that guarantees an improvement in the quality and impact of government interventions. On the contrary, the "do no harm" principle is at risk as departments experiment with intervention logic and performance measurement frameworks in the outcomes model and as some of the sharper accountability features of the previous public management regime are eroded. The absence of a clear conceptual understanding of the linkages between the main elements of budgeting and expenditure management with a more results-oriented system has left many departments, especially those with a wider and more complex mandate, with insufficient skills or tools for this transition. There is a need to keep the best aspects of what has been developed so far, but to complement these with a methodology that is aligned with their institutional capacities, operational priorities and organisational behaviour and that enables them to integrate much more effectively policy design, operations, service delivery and impact assessment.

To help achieve this, Figure 2 attempts a more detailed exposition of the nature and composition of the budgeting and expenditure management process, including a more integrated expression of the core relationships. Moreover, it links the contribution and performance of each of these functions to the diversity of public management objectives that are invariably relevant in most well developed public administrations. It demonstrates that operational activities are at the heart of departmental management priorities and resource allocation decisions and that the impacts of these decisions may be measured and assessed at varying distances from the delivery function.

Outcomes are shown as clearly at the end of this process. For this reason, they may often be the most difficult point from which to work back to improved policy and operational decisions, much less to an expression of the department's intervention logic and its funding (*i.e.* appropriation) criteria. Furthermore, Figure 2 indicates the linkages between the essential components of the

Figure 2. **The expenditure management process***



* The power to design public policy evaluation approaches based on the dotted relationships presented across the public expenditure management process is an important feature of this figure, but one that is not fully elaborated in this paper.

Source: Webber, adapted from an idea in a working paper on designing evaluation (European Commission, 2000).

expenditure management process in a way that meets parallel and specific demands for "relevance", "efficiency", "effectiveness" and "sustainability".

7.1. Programme design and delivery: the essence of intervention

The difficult task of determining intervention logic is best undertaken in the course of designing and developing the department's operational programmes and activities. This is the point at which the government's broad policy objectives implied by their appropriation decisions are converted into practical functions and operations. Thus, it is at this point that a department must make its policy objectives explicit and link them to specific spending decisions that will generate quantifiable outputs. Determining the department's intervention logic cannot and should not be separated from the process of determining what operational activities those interventions will involve.

The logic in this approach of starting with the integration of policy objectives and the design of programmes should be readily apparent to most departmental managers. It is consistent with internal structures, including clearly assigned managerial responsibilities. It should avoid the problems now being encountered with the current outcomes-based approach that staff may become isolated from the planning process and therefore unable to closely or usefully relate their activities to specific outcome targets.[14] On the other hand, it also avoids the problems that were experienced with an almost exclusive focus on outputs where managers and operational staff expressed dissatisfaction with a comparatively sterile description of purpose and incomplete or unchallenging measures of performance and accountability.

Once the core rationale for the department's intervention has been established through this linkage of policy objectives and programme operations, it is a relatively simple process to work outwards (in both directions) towards appropriation and performance measurement without losing any of the benefits of either the outputs or outcomes-based concepts. Departmental programmes may well be further broken down into sub-programmes that align best with organisational structures and responsibilities, each with their corresponding performance frameworks.

7.2. Appropriations

The organising principle for budget appropriation in New Zealand has traditionally been institutional. It is only by assigning public monies clearly to specific organisations, within which managerial and financial accountabilities are clearly identified, that full accountability can be maintained. Attempts elsewhere to appropriate by outcome or other organising principle have almost always given way in a short space of time to a need for improved transparency and accountability through at least de facto assignment to specific institutions. New Zealand should resist any tendency to appropriate budget funds on the basis of "joint" or "cross-sectoral" outcomes. Where such outcomes or broad objectives may exist, they can be pursued much more effectively, and with greater transparency and accountability, through co-ordinated departmental management and operational or service delivery mechanisms.

Effective parliamentary scrutiny and control of expenditures requires that aggregate appropriations (Votes) in most cases need to be broken down into smaller categories of expenditure. As noted earlier, the current sub-appropriations, or output classes, are now effectively redundant within the current expenditure management framework. In fact, they were probably never a satisfactory sub-appropriation mechanism. These should be replaced in favour of classes of sub-appropriation that are organised or grouped on a functional, programmatic basis – *i.e.* programmes with broadly related expenditure objectives or common goals. However, it may be quite possible, in addition, for each of these sub-appropriation classes to be aligned to a common specific outcome or sub-set of outcomes within the sector.

Outcomes may, of course, be common to more than one appropriation or sub-appropriation. However, which outcomes may be relevant to each sub-appropriation can only be established **after** the performance measurement framework has been defined at the programme (or sub-programme) level.

7.3. Outputs

Figure 2 shows that there is a clear and logical hierarchy of performance measures that flow upwards from outputs to results and on to outcomes. Outputs are thus a key starting point within the performance measurement framework that enable departments to express their policy decisions and programme design in terms of practical and transparent purchases of goods and services. Outputs ought therefore to remain an integral part of the expenditure management framework as a key **accountability** device and as the principal and most effective basis for establishing and measuring **efficiency** issues.

7.4. Results

Policy and programme interventions are, or should be, designed to achieve a clear and measurable set of results that sit between outputs and outcomes. Results should be directly linked to programme objectives as the direct consequences or impacts of the expenditure. They differ markedly from outcomes in two main respects: their achievement is totally or very substantially the result of the policy or programme and this impact or improvement is evident and measurable within a policy-relevant period. As Figure 2 indicates, this is the only level at which it is feasible and meaningful to assess the **effectiveness** of interventions. If relevant and measurable results cannot be articulated, then the policy or programme design needs to be revisited. As with outputs, the measurement of results should for most programmes be limited to a small number of critical indicators (2-5).

7.5. Outcomes

The budgeting and expenditure management framework proposed in this paper includes a continuing, albeit adjusted, role for outcomes. Their most important function is to indicate the **sustainability** of the range of government expenditure policies embodied in current appropriations. The sustainability objective is best measured by the degree to which government policies collectively – *i.e* taking into account the interventions of all public agencies within the sector plus the incentives or controls applied to private behaviour, through regulation for example – have a positive or negative longer-term impact on societal outcomes. Monitoring of these outcomes, most likely at the sectoral level for most departments, should therefore enable departments to advise the government on the degree to which the total sum of their policies and operations may be contributing to positive change. Measurement of outcomes cannot, however, provide a particularly useful indicator of either the efficiency or effectiveness of individual agencies or expenditure programmes and ought not to be used for this purpose. They should most certainly **not** be used as a basis for determining organisational structures.[15]

This proposed configuration of the outcomes focus implies a different but no lesser role for outcomes from that currently assigned to them in the "managing for outcomes" initiative. Indeed, some departments with comparatively limited operational functions – such as policy ministries in health and research, science and technology – are now (after some initial missteps) recognising the need to assign outcomes to this broader (*i.e.* sectoral) performance measurement role. Other ministries ought to follow this example, ensuring in the process that outcomes are expressed as sectoral, not departmental, goals. This implies that outcomes – and outcomes measurement – should play only a background role in assessing the effectiveness of policies and therefore in the accountability framework of the department.

7.6. Evaluation

Finally, it should be evident that this framework makes it easier to assign clear objectives and an explicit focus for the evaluation of public expenditures. The performance measurement hierarchy in Figure 2 not only identifies the various types of evaluation – any one or more of which may be appropriate for different purposes – but links these concerns to the corresponding form and level of objectives. From here, it should be possible in most cases to establish clearly and unequivocally the principal, or appropriate, locus of institutional accountability. This improved expenditure management framework, including the roles of the various components described above, is summarised in Table 2.

8. Conclusions

An output-based budgeting framework brought much-needed specificity and accountability to the spending operations of the New Zealand public sector. However, it was perceived as failing to generate sufficient attention to or improvement in the impacts of government policies. Recent requirements for an increased focus on outcomes have been directed at these problems, but have created many difficult challenges for most departments. The "managing for outcomes" approach also risks eroding clear understanding of the determinants of policy effectiveness and may have already removed some of the sharp edges from organisational accountability. These developments raise serious concerns for the quality of public spending. Sound management of public finances should be pursued by moving beyond outputs and outcomes to a clearly articulated and effectively integrated expenditure management framework. This will be one that puts policy design and programme delivery back at the core of the expenditure management process and binds them to clear, modest and achievable policy objectives and results.

Table 2. **Beyond outputs and outcomes: improving the expenditure management framework**

Appropriation	Sub-appropriation	Programme design	Output specification	Performance measurement
Appropriations, or **Votes**, are allocations determined by the executive and approved by parliament (as at present). They are based on the operational funding requirements of a department and/or sector institutions.	Sub-appropriation categories ("**programme classes**") are aggregations of similar or related departmental functions/programmes. They are approved by parliament in the context of the budget legislation. (They replace the current output classes.)	Departmental **programmes** are determined and designed on the basis of core management functions, operations and activities. They both reflect and determine the coherent assembly of inputs, organisational structures and capabilities.	**Outputs** (as at present) are the specification of deliverables – *i.e.* the quantity and quality of goods and services that each programme or activity generates.	**Results** are the principal expression of programme impacts and the key indicator of performance. They sit below outcomes and within the feasible short-medium term influence of the department's policies and operations.
The purpose of the appropriation is expressed in terms of the government's desired sector-level socio-economic goals.	Sub-appropriations provide an increased level of information and financial control to parliament. They enable parliament to ensure that the design and implementation of departmental functions have relevance and alignment with the overall appropriation.	Programmes are the key mechanism for translating appropriation purpose into specific interventions. For this reason, they are the basis on which departments are structured, managed and resourced.	Outputs remain a key accountability mechanism for the expenditure of public money. In addition, they provide a means for departments to improve programme impact through variable output configurations.	Results are directly related to programme objectives. Their purpose is to focus programme managers on specific and achievable impacts that will enable the department, and outside agencies and monitors, to measure the effectiveness of public expenditures.
The overall impact of appropriations are measured and reported in the form of high-level, medium-term sectoral outcomes.	Sub-appropriations may be limited in total number and maximum financial size for each appropriation. They do not require measurable impact criteria, but may be aligned with specific outcomes within the broader outcomes set.	All programmes require explicit objectives that describe the results they are expected to achieve. These results are the principal measures of programme effectiveness.	Outputs are measured through quantity, quality and price. They are the principal mechanism for assessing both departmental and programme efficiency.	Results are likely to be expressed and measured in terms of the *direct* impacts that policies, operations and the delivery of services have on their respective targets. This may include service recipients (*e.g.* waiting lists), resource levels, business efficiency, environmental quality, prison security, etc.

Source: Webber.

Notes

1. See for example, Scott (1996), Boston *et al.* (1996) and Schick (1996).
2. A number of papers describing the managing for outcomes initiative are available at *www.ssc.govt.nz/managing_for_outcomes*.
3. For a discussion of this, see Tahi (1998).
4. Strictly speaking, "outcome budgeting" involves the appropriation of public funds on the basis of defined outcomes. Outcomes-focussed management does not

necessarily imply that budgets are appropriated on this basis, though the increased orientation of policy towards measurable results is certainly common to both.

5. Much of this guidance material can also be found at *www.ssc.govt.nz/managing_for_outcomes*.
6. See, for example, Economics and Strategy Group (2003).
7. Many of the more significant documents and recommendations resulting from this process are consolidated at *www.ssc.govt.nz/roc*.
8. Rt Hon. Michael Cullen, Minister of Finance, Address to the Public Sector Conference, Wellington, 19 August 2003.
9. Some evidence for this can be found in the volume and relative complexity of the guidance materials on "managing for outcomes".
10. An attempt was made early in the "managing for outcomes" development process to provide departments with a business planning model that could perhaps have generated a more effective planning process. However, this initial model failed to gain acceptance among the pilot agencies, and no further formal attempts were made in this direction.
11. Note that the survey of, and reference to, New Zealand's experience is based on the (previous) public management model that was operating at that time.
12. A recent report for an Auckland regional authority was titled: "An action plan to deliver improved stormwater outcomes" (*The Herald*, Friday, May 21, 2004, p. A2).
13. For example, re-offending rates among former prison inmates.
14. It is worth noting in this respect that one or two departments which have made considerable efforts to involve line managers and operational staff in the initial outcomes planning process have commented that they hope it will not be necessary to undertake such extensive consultation in future years.
15. The Treasury's initiative to assign specific staff to co-ordinate the pursuit and achievement of outcomes **across** branches of the organisation may have merit, though the sustainability of this approach has yet to be fully tested.

Bibliography

Boston, Jonathan (1999), "The New Zealand Model of Public Management: A Brief Assessment", paper prepared for a Summit on "Process of Governance and the Role and Place of the Individual, Community and Markets", Wellington, 31 May.

Boston, J., John Martin, June Pallot, and Pat Walsh (1996), *Public Management: The New Zealand Model*, Oxford University Press.

Brumby, J. and Marc Robinson (2004), "Performance Budgeting, an Overview", paper prepared for the International Seminar on Performance Budgeting, (IMF and Brazilian Ministry of Planning, Budget and Management), Brasilia, March.

Controller and Auditor-General (1999), *Third Report for 1999* to the New Zealand House of Representatives, Wellington, *www.oag.govt.nz*.

Economics and Strategy Group (2003), "Departmental Uptake of the Managing for Outcomes Initiative", an independent evaluation undertaken for the Managing for Outcomes Steering Group, August, available at *www.ssc.govt.nz/departmental-update-mfo*.

European Commission (2000), "Indicators for Monitoring and Evaluation: An indicative methodology", *Working Paper 3*, Directorate-General XVI, Regional Policy and Cohesion, Brussels, *http://europa.eu.int*.

Flynn, Norman (2001), "Moving to Outcome Budgeting", Paper commissioned for the Finance Committee by the Scottish Parliament Research and Information Group, available at *www.scottish.parliament.uk*.

Petrie, Murray, and David Webber (2001), "Review of Evidence on Broad Outcome of Public Sector Management Regime", *Treasury Working Paper* 01/06, available at *www.treasury.govt.nz/workingpapers*.

Schick, A. (1996), "The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change", report to the State Services Commission, Wellington, *www.ssc.govt.nz/spirit-of-reform*.

Scott, Graham (1996), "Government Reform in New Zealand", *IMF Occasional Paper* No. 140, Washington DC, *www.imf.org*.

State Services Commission (2001), "Review of the Centre", December, available at *www.ssc.govt.nz*.

State Services Commission (2003), "Doing the Right Things and Doing Them Right – Improving Evaluative Activity in the New Zealand State Sector", Published by the State Services Commission in conjunction with The Treasury, available at *www.ssc.govt.nz/doing-the-right-things*.

Tahi, Brenda (1998), "Strategic Management as a Management Approach for the New Zealand Government", MBA Dissertation, Henley Management College.

Ussher, Chris, and Andrew Kibblewhite (2001), "Outcomes Focussed Management in New Zealand – A Background Paper", *Treasury Working Paper* 01/05, available at *www.treasury.govt.nz/workingpapers*.

Table of Contents