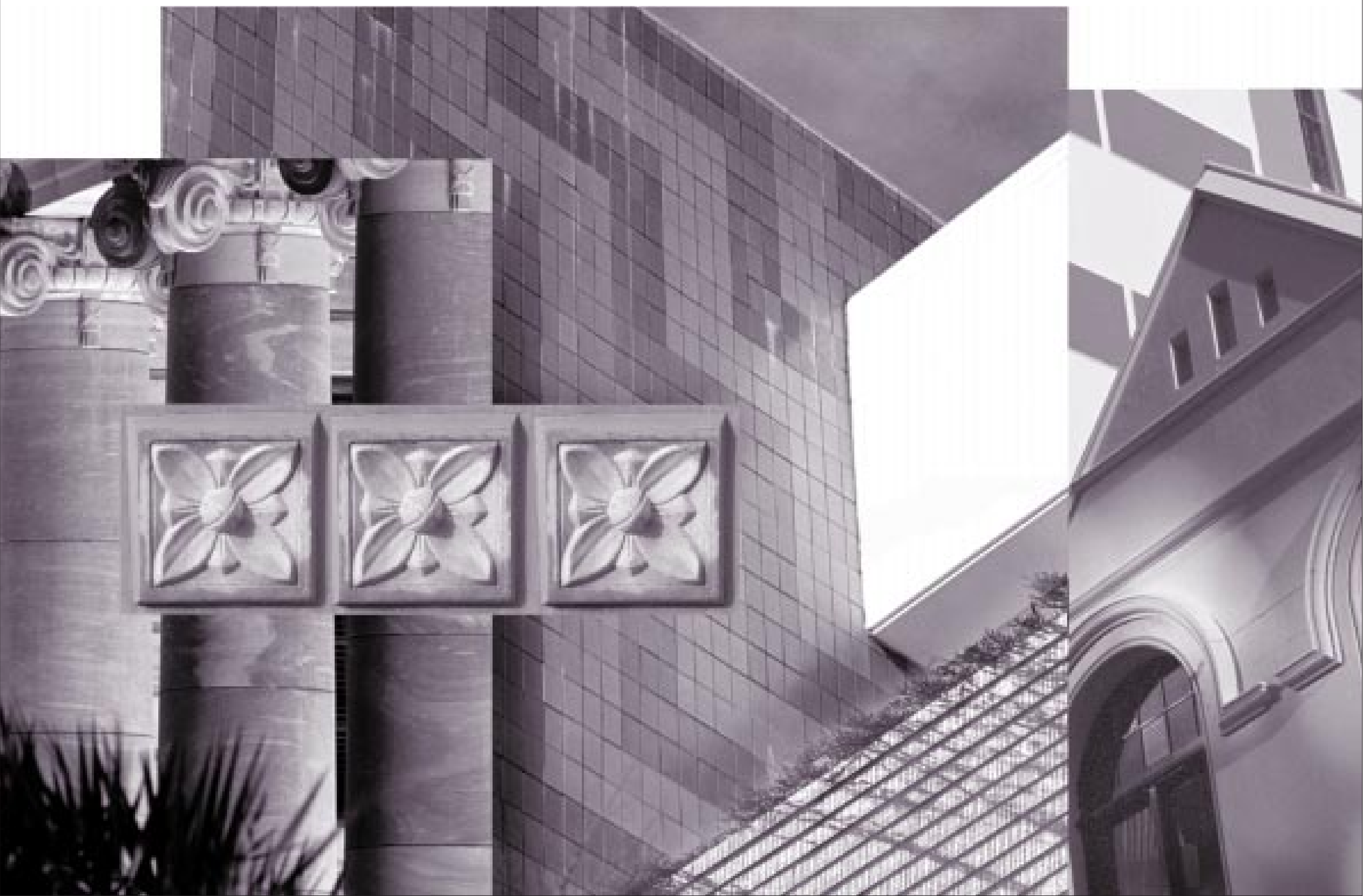
STATE SERVICES COMMISSION
Te Komihana O Ngā Tari Kāwanatanga

# Working Paper No. 3

## Canadian Policy and Expenditure Management Systems (PEMS) and New Zealand's Strategic Result Areas (SRAs): A Comparative Study



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## Canada's Policy Expenditure Management System (PEMS) & New Zealand's Strategic Result Areas (SRAs): A Comparative Study

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**August 1999**

## Summary

In 1989, the Canadian government declared a part of its public management system that had been in place for over a decade a failure. The Policy and Expenditure Management System (PEMS) aimed to improve planning in the public sector, control government expenditure and give Ministers some control over government direction, and has some parallels with the system envisaged in New Zealand under the SRA Networks.

On the basis of this parallel, this paper addresses the lessons that emerge from the Canadian experience and their relevance for thinking about public management in New Zealand. The fact that the two schemes had, under examination, quite different objectives, is used to justify the conclusion that SRA networks would not be destined for the same fate.

# Contents

# Introduction

As the SRA Networks paper was developed (see SSC Occasional Paper No. 3, *A Better Focus on Outcomes through SRA Networks*),[1] external reviewers and officials saw some parallels between the system it envisaged and the Policy and Expenditure Management System (PEMS) devised for Canada in the late 1970s. Since the PEMS was declared a failure by the Canadian government in 1989, it was thought that some investigation and comparative work on PEMS and the SRA Networks paper was warranted. This paper gives a brief introduction to the PEMS system, its objectives, and compares both the Canadian system and its objectives with the New Zealand public management model, and its extension as envisaged in the SRA networks paper. The conclusion is that while the Canadian example can provide interesting insights about our system, New Zealand's government sector is already insured against the type of problems that contributed to the failure of PEMS.

The SRA Networks paper contributed to the concept of the Ministerial teams announced by the Prime Minister, the Rt Hon Jenny Shipley in October 1998.[2] The reader, however, should be wary not to confuse the practice of those teams with the theory of this paper. This paper discusses only the theory of priority setting in government in New Zealand as put forward in the SRA Networks paper, and should not be mistaken for an evaluation or otherwise of the Ministerial teams.

Another caution for the reader; the comparison made here is highly anachronistic. The economy of Canada in the 1970s was very different to the New Zealand economy of today (as was the New Zealand economy of the 1970s). Judging PEMS as wrong, or ill-conceived, by the standards of New Zealand government in the 1990s, then, would be unfair and naïve. At the same time, however, we must try to learn from the past. So, with the knowledge that the comparison could have inherent difficulties, the paper attempts to find out why PEMS went astray, and questions whether those same problems could undermine the suggestions put forward in the SRA Networks paper.

# Canadian System

The Policy and Expenditure Management System (PEMS) was introduced to combat a series of problems in the management and administration of federal government in Canada. From the 1960s onwards, Canadian government, like other Western Governments, had seen the need to modernise to cope with demands placed on it. For instance, through the 1960s and early 1970s large fiscal reductions had become necessary, but no mechanism was available to plan these reductions, or even to stabilise the growth in government expenditure. Clearly then, planning and priority setting - in 1990s public servant speak, strategic decision-making - had become divorced from expenditure decisions at a Cabinet Committee level. As changes were made to policy procedures to solve these problems, it also became increasingly obvious that more significant changes were required, not only to link expenditures to policies and priorities, but also to consider long-term expenditures as the means to short term flexibility.[3]

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1 State Services Commission, 1998. The paper is available on the Commission's website; www.ssc.govt.nz.

2 Press Release, *New-look Cabinet Announced*, Rt Hon Jenny Shipley, 30 August 1998 (archived at www.executive.govt.nz)

3 Privy Council Office, *The Policy and Expenditure Management System*, Canada, March 1981, pp. 3-5.

The need for change was articulated by successive Auditors General and the Royal Commission on Financial Management and Accountability (Lambert Report):

> *We cannot accept that priorities and objective can continue to be set without a full awareness of the financial implication of attempting to achieve them*.[4]

PEMS was intended to solve three basic problems for Canadian government. They were:

- *Planning and priority setting were incoherent* - There was little information produced by the Public Service on priorities which Cabinet could consider, either in the long or short term, and so Cabinet had little ability to plan and dictate a work programme to the Public Service. Ad hoc programme setting was the rule of the day.

- *Government expenditure was difficult to control and plan* - Cabinet Committees in Canada were able to make policy without reference to the impact on overall expenditure. Only after the committees had completed the policy development was the Treasury Board Secretariat asked for advice by its board on the financial implications for the Government. This piecemeal approach to policy development and its cost made it difficult for Cabinet to compare policy proposals. Also this process had the potential to, and frequently did, generate intense conflict between the Cabinet Committees and the Treasury Board over policy proposals, thereby disturbing Cabinet collective responsibility.

- *Ministers felt they had little control over the government direction* - Ministers felt that they were hindered both by the lack of priorities set by the Cabinet as a whole, and by the Public Service that was taking strategic decisions without reference to Ministers.

In light of these problems the Canadian government set about designing, in their own words, “a rational decision-making system” to “ensure greater Ministerial control over the management of policies and expenditures”.[5] The system focused on solving the three major problems of Canadian public administration as set out above through two major innovations.

- The preparation of a long-term fiscal plan encompassing government revenues over a five year period. This plan was to set out for Cabinet the overall financial constraints under which they were operating.

- The establishment of “envelopes” under which sets of departments were grouped by policy sector. These envelopes had capped budgets for each year, and managing the budgets was the responsibility of the Cabinet Committee in charge of each envelope of departments.

After these innovations the Canadian system of public administration looked - at first glance - pretty simple. The Canadian budget was planned over five years. The budget was divided into ten resource envelopes from which all policies and programmes were funded. Objectives were set for each envelope by Cabinet. The envelopes were administered by policy Cabinet committees formed by the Ministers who had departments in the envelope. These Cabinet committees were to achieve the agreed objective within the resources of their envelope. New policies and programmes were to be funded within the capped budgets of each envelope

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4 *Royal Commission on Financial Management & Accountability*, Final Report, Canada, 1979, p. 69.

5 *The Policy and Expenditure Management System*, *op. cit.*, 1981, p. 6.

thereby forcing the Cabinet Committees for each envelope to prioritise any new spending on the basis of whether it would achieve the priorities set for the envelope.

# The Main Features of the PEMS

As always with government administration, nothing is ever quite so simple or static. PEMS was created above an already existing machinery of government and budget system, and both the old and new systems altered to fit with each other. How the old and new system were intended to work together to solve the problems of Canadian public administration is described below. To keep the explanation of the system salient to the paper – the comparison of the aims of PEMS and the SRA networks, and whether the problems of PEMS could occur in the New Zealand system - description is limited to showing how PEMS would solve the three major problems discussed above.

## Setting Priorities

To enable the Canadian Cabinet to set priorities and plan for the five out-years envisaged in PEMS, the Public Service had to provide it with strategic information on those priorities and plans. Hence, departments were to prepare strategic overviews, and a multi-year operational plan. This was an innovation in Canada: most of the Public Service departments had never prepared a strategic plan before the introduction of PEMS.

The departmental strategic overviews were passed to the relevant policy Cabinet committee to review. The committees then each prepared a strategic overview of the envelope for Cabinet. It should be noted that all Cabinet Committees also had Committees of Deputy Ministers (Public Servants). More commonly known as "mirror committees", these committees were not "to determine the content or timing of proposals to their Cabinet Committees…Rather these committees of deputy Ministers are to ensure that the necessary co-ordination in the preparation of proposals has taken place and that the essential information is made available to Cabinet Committees".[6]

Dovetailing with this process two Cabinet Committees, Economic Development and Social Development were charged with creating overall national plans for Cabinet. They were each supported by new Ministries of State (Economic Development and Social Development in 1978 and 1980 respectively). In an iterative process with help from the departments, the Ministries prepared sectoral policies, and then obtained their Cabinet committee's approval before finalising national plans.

Notwithstanding the national plans created by the two development Cabinet Committees, PEMS also included a Cabinet Committee with overall responsibility for setting the direction of government policy. This Priorities and Planning Cabinet Committee, central as it was to the efficient working of the PEMS, co-ordinated the whole system and, after Cabinet, was the most important Committee in the public administration system.

In the effort to solve problem of priority setting, PEMS bolstered the amount of strategic advice that Cabinet, Cabinet committees and envelope committees could draw on from the central agencies. The work of the Committees, was not only supported by the departments

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6 *The Policy and Expenditure Management System, op. cit.*, 1981, pp. 7-8.

servicing their Deputy Ministers on the mirror committees, and the two Ministries of State, but also at least three central agencies.[7]

The Privy Council Office provided the secretariat support to Cabinet and the Cabinet Committees, but also provided policy support to the Priorities and Planning Committee through its focus on overall government and Prime Ministerial priorities, cross-sectoral problems and the integrity and functioning of the overall system.

The Treasury Board Secretariat supported both the Treasury Board and the Policy Committees through its focus on the expenditure framework, resource costing, management systems, envelope system accounting and the efficiency aspects of programmes.

The Department of Finance also gave advice to Ministers on prospects of the economy, the fiscal framework, tax expenditures and fiscal policy, federal-provincial issues relating to major problems, and crown corporations.

## Expenditure Control

While it was crucial for Cabinet to set the Government's overall priorities, the designers of PEMS also wished to ensure that the policies stemming from them were integrated with expenditure control, both at the macro and micro level. Therefore PEMS was to inform Ministers of the resource implications of the policy choices they made to achieve their priorities. As already noted, the major innovation of the PEMS was to give control of resource envelopes containing all Government expenditure in a given area to a Cabinet Committee. A Committee would be responsible for ensuring that all policies and programmes and objectives were met within the limit for that envelope. In this way, PEMS was to ensure that Ministers would be compelled to examine the expenditures of existing programmes and policies, and prioritise their spending in a way which ensured both value for money in achieving objectives and a suitably demure need for extra funds.

The Government's overall fiscal plan for expenditure - on which the division of moneys between the resource envelopes was based - was created by bringing together all the departmental multi-year operational plans. The plan was set by the overarching Cabinet committee on Priorities and Planning.

Two central agencies were able to assist the Cabinet Committees in expenditure decisions. The Treasury board secretariat, through its Ministers, determined the level of resources needed to deliver existing and new policies and programmes. The Department of Finance, through its Minister, set overall spending levels, and the central reserves.

## Transfer of Decision-making Ability to Ministers

Before PEMS was introduced the Canadian Cabinet had delegated many of its decision-making powers to Cabinet Committees. Since these committees received all their material from the mirror committees, some criticism had been voiced both outside and inside the machinery of government that officials had too much power in decision-making. By ensuring Ministers received appropriate information on the cost of the choices made between policies

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[7] To avoid any conclusion by the reader that I am making up the overlaps, I have taken these descriptions almost verbatim from the following reference. *The Policy and Expenditure Management System, op. cit.*, 1981, p.8.

and programmes, it was assumed that Cabinet could make the strategic decisions, and Ministers would have the context for their decisions.

To sum, PEMS was to deal with the problems of a lack of strategic direction and expenditure control by putting in place a series of integrated strategic plans - fed by information from the whole Public Service - which were integrated with the envelope mechanism for controlling expenditure. The re-establishment of Ministerial control would flow naturally from the position of Cabinet and its committees as the final decision-making bodies in the system, and the plans issuing from these august bodies would circumscribe any decisions that officials took upon themselves.

## Reasons for the Failure of PEMS

That PEMS failed is without a doubt - it is unusual to see a public announcement of the failure of the programme from a Government, of the scale of the PEMS. Why it failed is not difficult to answer: the system depended on too many new advances in government planning which were critical to the success or failure of PEMS, and the system itself was too complicated. Priority setting could not happen where quality strategy was not generated. Expenditure control was not possible where there were neither accountabilities for fiscal control, nor agents that could enforce that control. Finally the attempt to give Ministers greater strategic decision making powers failed as the system generated more committees of officials, rather than fewer, between Ministers and the delivery of government policies. Below, the reasons for failure are developed more fully.

### Priority Setting

The ability of Cabinet to set high quality strategy through its priorities and programmes Committee rested on the quality of the departmental strategic overviews. The departments ability to make strategic plans was therefore crucial to the development of the five year plans that PEMS envisaged. Unfortunately, the quality of the reports from departments was often low, leaving the central agencies with little information to set national plans.

Commentators have noted three possible reasons for the failure of departments to produce quality strategic plans. First, for many departments, the introduction of PEMS was the first time they had been asked to produce strategic plans, and inevitably it took some time for departments to establish what was wanted and/or needed by Ministers. Second, departments had few incentives to spend resources on such a document, when the outcome of producing it was uncertain. The lack of incentives on departments to produce quality strategic documents was intimately connected with a lack of real Ministerial input into the documents. Ministers, under time pressure and more concerned with short term politics than long term planning did not want to wade through lengthy reports. Yet, it was only if Ministers concerned themselves with such documents that departments would move above incrementalist and self serving long-term plans to produce a strategic perspective.[8] The lack of incentives on Ministers to engage with departments on strategic planning was clearly crucial to the failure of PEMS.

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[8] Van Loon, Richard, "The Policy and Expenditure Management System, *Canadian Public Administration*, vol. 26, no 2, Summer 1983, pp. 266-267.

Whatever the reasons for the failure of departments to produce quality strategy in their sector, the Ministries of State were left with the job of collating the departmental views into a more palatable form for the Cabinet policy Committees. Unfortunately they never consolidated their position in the machinery of government, and were disbanded by 1984. While commentators have been reticent on the reasons for this disbandment, one has suggested that the loss of senior public servants in the first years of operating created a capability problem, with too few staff left who had a clear idea of the Ministries role.[9]

Including the Ministries there were five central agencies (whose roles are explored in the next section) deeply involved in strategy planning under PEMS which put excessive strains on co-ordination and Government administration.

## Expenditure Control

PEMS failed in its bid to give greater control over expenditure to Government. At a macro level government expenditure blossomed. Many commentators pointed out that the failure to control expenditure cannot be blamed solely on the PEMS, given the need to assist economic recovery from the recession of 1981-82. However, even with increased spending the doubling of Government expenditure between 1980-84 is difficult to reconcile with the avowed fiscal control of the PEMS.[10]

There were several reasons that PEMS had so little impact on overall government spending.

First, on average less than 5% of the total Canadian budget was amenable to the direction envisaged in the PEMS, because much of the expenditure was committed by programmes set by statute, making re-allocations difficult.

Second, the excessive fragmentation of responsibilities among the central agencies had negative effects on both control and allocation of resource. Basically too many agencies were acting to control different parts of the budget, without co-ordination. Five or more central agencies[11] - who mixed guardianship and advocacy roles - could access the budget at different points, with seemingly little oversight, giving rise to problems in control over government budgeting. For instance, the Treasury controlled the fund that held savings made on programmes, the two Ministries of State could freely take funds from envelopes that the envelope committees had made available through savings in policies, and finally, the Department of Finance, with its taxation powers could take budgetary decisions unilaterally outside the PEMS.

Third, there were few incentives on the envelope policy committees, to produce any savings in programmes. Initial savings produced by the policy committees went to the policy reserve fund, rather than to the policy committee for reprioritisation into new or better policies. New

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9 Charih, Mohammed, “The Policy and Expenditure Management System: lessons from experience”, *Optimum*, vol. 22, no 4, 1992, p. 50-51.

10 In the years 1980-84, average expenditures grew 13.9% and public debt grew by 23.5% per year.

11 The basic central agencies were Department of Finance, Treasury Board Secretariat, Privy Council Office, Ministry of Economic Development, Ministry of Social Development, The Priorities and Planning Committee Secretariat, and The Office of the Comptroller. However, the list is not exhaustive because at different times other secretariats were formed that played central agency roles e.g. all the envelope committees had a mirror officials committee controlling the flow of information upwards.

policy expenditure was drawn from that fund until there was nothing left. Only then did savings produced by a policy committee return to the Committee itself.

Fourth, the central agencies and Cabinet committees, such as Priorities and Planning, had a tendency to overrule other envelope committees, generating conflict and confusion for departments and Ministers. For instance, Priorities and Planning, with the support of the Department of Finance could make special allocations, or new tax programmes, which seriously compromised the policy envelope committees' ability to allocate resources in any planned way.

Finally, the confusion generated by the central agencies meant both Ministers and departments found various ways to subvert the controls of PEMS. For instance, with confusion between the central agencies, its was relatively easy for a department to turn last year's expenditure ceilings into the next year's expenditure floors, so that it could claim from the policy reserves fund. Ministers also stepped outside the system. In one telling example, a "Dutch auction" was instituted in the economic development envelope so that on one day the Committee of Ministers could decide both the cuts and initiatives for the coming year. This let Ministers step outside the PEMS because, as one commentator put it:

> *While the whole committee identifies cuts [in programmes] some unfortunate Minister responsible for the programme upon which the fickle finger of fate has descended will be obliged to announce and defend the reduction. Even the most hard headed Ministers are reluctant to sentence colleagues to this form of political torture without providing some compensation to the victim.*

While it is to be expected that this form of bartering would go on - it is politics after all - that it had to do so outside the PEMS, is indicative of how the far apart was the system and the incentives operating on Ministers. As the commentator goes on to say the Dutch auction was "a very personal and political activity from which officials are enthusiastically excluded".[12]

## Enabling Strategic Decision-making by Ministers

PEMS did not transfer to Ministers the ability to strategise for government. Instead, Ministers were encumbered with a multitude of central agencies, and officials' committees that did not push strategic decisions upwards. Mohammed Charih suggests that between 1979 and 1984 eight central agencies were involved in operating PEMS, all with - as we have already seen - cross cutting functions. These were the Prime Minister's Office, the Federal-Provincial Relations Office, the Privy Council Office, the Treasury Board Secretariat, The Office of the Comptroller General, the Department of Finance, the Ministry of State for Economic Development and the Minister of State for Social Development. Also, each of the Cabinet committees was served by a mirror committee of deputy Ministers - senior civil servants - who controlled the flow of information upwards from departments. Ministers were wary of a system that involved so many high level bureaucrats. This wariness seems especially pertinent given the abilities of the central agencies and Central Cabinet Committees to undermine the decisions made.

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[12] Van Loon, Richard, "The Policy and Expenditure Management System", *Canadian Public Administration*, vol. 26, no 2, Summer 1983, p. 264.

Many Ministers involved in envelope Cabinet committees complained that they were having to do too much managing of the envelope as they fought over each others' spending proposals. At the same time ensuring Cabinet collective responsibility often meant that strategic resource allocation decisions were pushed aside by the short term needs of Ministers.

Enabling strategic decision making by Ministers is not only about bottom up information, it is also about the willingness of Ministers to take a strategic approach. PEMS may have provided Ministers with the information to make strategic decisions, notwithstanding the apparent co-ordination problems within PEMS at central agency and Cabinet Committee level. However, for Ministers to have incentives to make the necessary strategic decisions based on this information, there needs to be reliable and responsive mechanisms in place to ensure that strategy, once developed will be given effect by the Public Service.[13] It is difficult to establish where in the design of PEMS, assurance was provided to Ministers that their strategic decisions would be implemented.

A result of this divorce of planning and expenditure control was that the Canadian Cabinet continually had to adjudicate between the divergent Treasury Board (a Cabinet Committee through which all expenditure decisions had to pass) and Cabinet Committee recommendations.

## An Overall Comment on PEMS

One commentator on the failure of PEMS was not so concerned with the systemic problems of the system, but rather the assumptions of its designers. He argues that the system fundamentally misunderstood the nature of the political process:

> *The system's designers assumed that Ministers would adhere to a set of priorities, even if these priorities were not in their interest, and would voluntarily cut their own programmes to finance those of their colleagues. This assumption shows that the architects of PEMS had underestimated the elementary behaviour realities of the political players. They had failed to understand that politicians would not agree to live within the parameters of a system that prevented them form achieving their objectives and ambitions.*
>
> *Basically politicians come to Ottawa to develop new policies and put forward new programmes. Two of their ultimate objectives are to build political capital and to remain in office. Any decision-making method inconsistent with their deepest motivations is bound to fail, no matter its inherent worth. PEMS was able to survive only a few years because it quickly lost its raison d'être, which was to instil in politicians a commitment to expenditures and to align new policies an existing programmes with government priorities.*[14]

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[13] I am indebted to Ian Ball for this point.

[14] Charih, Mohammed, "The Policy and Expenditure Management System: Lessons from Experience", *op. cit.*, 1992, p. 53.

# New Zealand's Approach to the Goals of PEMS

This section of the papers compares with the changes that PEMS proposed to Canadian government administration with the proposed changes to the public management mode of New Zealand as outlined in the SRA Networks paper.[15] The objectives of the two systems are quite different. PEMS was a theoretical rational decision-making system built for a basic input government accounting system. In New Zealand, the design of the SRA networks is based on the lessons learnt since the introduction of output budgeting - and a number of other key changes including the introduction of the Fiscal Responsibility Act – and seeks better linkage between budget and strategy.

The comparison first examines the objectives of PEMS, and how they fit with the current state of the New Zealand public management model. Then a brief description of the SRA Network model sets the scene for a comparison between the changes suggested by the networks model and PEMS. As suggested at the start of the paper, readers should remember that the concepts in the SRA Networks paper only contributed to, and are not descriptive of, the Ministerial teams created by the Prime Minister, the Rt Hon Jenny Shipley.

As befits the twenty years of evolution in the theory of public administration since the introduction of PEMS, there is a marked difference in approach between the PEMS system and the current New Zealand public management system. For instance, none of the three objectives of that Canadian system - setting priorities, controlling expenditures, and the enabling strategic decision-making by Ministers - are new objectives for public policy management in New Zealand. The objectives of PEMS have already been addressed in New Zealand, albeit imperfectly in some areas, for instance;

- *Priority setting* - In New Zealand, the setting of Government priorities has been established for over 6 years in the SRA-KRA system; a system that enables and encourages strategic conversation between the Ministers and their departments. Thus, the New Zealand system has already moved beyond the Canadian experience of departments simply presenting cumbersome strategic overviews to a group of Ministers, via an elongated central agency system.

- *Expenditure control* - The control of expenditure is well established in New Zealand with the aid of the Public Finance Act and the use of commonly accepted accounting practice (accrual accounting).

- *Enabling decision-making by Ministers* - The PEMS was designed to allow Ministers to operationalise their priority setting, and remove the Public Service from such considerations. It was hoped this would counter the divorce of policy choices from considerations of expenditure.[16] The Cabinet process of New Zealand, with its Cabinet Manual procedures already provides a process to expose Cabinet to the important decisions. However, there are weaknesses in the New Zealand system. The strategic conversation to set clear and achievable outcomes often does not occur between Ministers and departments, and Cabinet is frequently focused on short term rather than longer term strategic decisions.

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[15] The SRA networks description offered here is necessarily brief, and the reader is urged to also read the SSC Occasional Paper No. 3, *A Better Focus on Outcomes through SRA Networks* (State Services Commission, 1998).

[16] Privy Council Office of Canada, *The Policy and Expenditure Management System*, March 1981, p. 5.

## Summary of the SRA Networks Paper

In New Zealand "SRA networks are designed to refocus the Public Service on the achievement of the Government's key priorities. They operate on a three-year cycle akin to the current system, but emphasise clearer strategy, better leadership, and more co-ordination".

### *SRA Specification and SMART Outcomes*

The SRA networks are predicated on good SRA specification, with each SRA disagreggated into a set of SRA outcomes which are drafted to ex-ante SMART (specific, measurable achievable, realistic, and time-bound) criteria. In Canada, the attempt to set even general priorities like New Zealand's SRAs fell apart. The quality of departmental strategic overviews is held to be the main reason for this, though it should be noted that these overviews were introduced by PEMS, and therefore departments had little experience in creating useable strategic documents that could be monitored. Also, with the confused central agency structure, monitoring the achievement of priorities was the responsibility of different central agencies. The Canadian experience should not apply in New Zealand because:

- departments have had more experience in creating strategic policy, especially with the policy / operations split introduced in the reforms;
- the SRA networks envisage that;
  - greater incentives are put in place for Ministers to define SRAs and specific SMART outcomes;
  - ex-ante specification and monitoring will be in existence;
  - the achievement of the priorities will be measurable;
  - achievement toward the SMART outcomes will be monitored; and
  - accountability for the achievement of SMART outcomes will be clear.

### *SRA Champions*

An SRA Minister will be champion of the SRA, and responsible to Cabinet for the achievement of its SMART outcomes. In Canada, the comparable Minister was a chairperson of a group of Ministers with little responsibility, and no incentives or mechanisms to achieve any particular outcomes or expenditure control. Also the different central agencies, and their respective Ministers could easily overturn any agreed plans that such a powerless Chair may have obtained. In New Zealand, the SRA Minister will not be as weak, given the advantages and incentives that SRA networks provide in comparison with the PEMS. For example, where the Canadian envelope Ministers had few incentives and little support, the SRA Ministers will be:

- responsible for the specified SMART outcomes;
- given clear information - e.g. intervention logic, outcome progress reports - by a dedicated policy group;

- clear on the financial accountabilities for outputs bought to achieve the SRA; and
- responsible to Cabinet for the achievement of SMART outcomes.

### *SRA Committees*

Network Ministers will be those Ministers who are likely to purchase substantial strategic outputs from their departments or Crown entities in support of an SRA. No such test of substantiality was applied in the PEMS. The Canadian budget was simply carved into groups of departments, with their Ministers following the departmental budget into an envelope. Envelope Ministers therefore had little incentive to participate in any strategic objectives, and were more inclined to fight to protect their own budget. In New Zealand, the likelihood of such budget fights is lessened because:

- the intervention logic of each strategic purchase will be clear;
- the SRA Minister will be in a stronger position; and
- network Ministers' are only to be involved on the basis of their strategic purchases so they will not have to protect their whole budget.

## Lessons from the PEMS

While the differences between the envisaged New Zealand system and the PEMS are marked, two points are of particular interest as they reiterate lessons already learnt during the reforms: the need in a public management system for clear lines of responsibility and accountability, and the need for a disciplined approach to fiscal control.

### Responsibilities and Accountabilities

In the PEMS system, accountabilities and responsibilities were difficult to assess and follow at all levels. Eventually failures in the system, such as the lack of expenditure control, were blamed on the system, rather than management of the system. For example, while there was a inner Cabinet in PEMS - such as would be formed by the SRA Ministers in New Zealand - those Ministers had no responsibility assigned to them to lead and champion their envelopes and ensure that their envelopes stayed within the budget. New Zealand should ensure that accountabilities remain clear at all levels.

### Fiscal Control

In PEMS the central agencies (and their Ministers) were able to disable fiscal control over the Canadian budget. While this would seem difficult in New Zealand with the fiscal transparency of the Public Finance Act, the Canadian example shows that the New Zealand should be wary of any attempts to undermine the Treasury Ministers' position as gatekeepers of the overall budget, while being mindful that the Budget should serve strategy rather than vice versa.

# Overall Conclusions

The Canadian PEMS sought many of the gains already largely achieved in the New Zealand reforms such as fiscal control, the ability of the Government to set priorities, and to ensure that politicians were making the strategic decisions. New Zealand's enhanced networks have a different objective: to create better conditions for Ministers to define their strategic outcomes, the Budget serves strategy. The failure of the Canadian system warns against lessening accountability and fiscal control and offers practical insights about not building a confused central agency structure.