TESTIMONY

From

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On

"Budget and Performance Integration and Its Application to the President's Budget for fiscal year 2004"

Mr. Chairman, I am honored to have been invited to testify before you on the tenth anniversary of passage of The Government Performance and Results Act of 1993 (GPRA).

The passing of the Government Performance and Results Act in 1993 was a farsighted undertaking by Congress to dramatically improve the honesty and integrity of accountability in the Federal Government. For the first time government organizations were going to be required by statute to produce evidence of their performance in terms of the quantity of benefit their programs had brought to the American people. In fact this may have been a first in the world, as I know of no other government at that time that used statute to require such accountability.

However it is also important to recognize the enormity of this change for government organizations. They had never regularly gathered information on the impact of their programs on the American public, except for sporadic evaluations that, at best, captured a single snapshot at a given point in time. Now questions of what to measure and how to measure it had to be addressed. Counting how many people you feed is relatively simple, but measuring by how much you had diminished hunger was an entirely different undertaking. Or in the case of the State Department measuring the success of democratization or diplomacy are real challenges.

First, let me point out that when Congress passed GPRA in 1993, it required that the Act not apply to government agencies until *six years later*; the first year of compliance throughout the government being Fiscal Year 1999. Consequently, as of today, we (Congress and the public) have received results information on only four fiscal years. So it would be quite wrong to look at this anniversary as ten years of experience with the Government Performance and Results Act when the truth is we have only four years to analyze in terms of its success or failure.

With four years of information and experience it is possible to draw some conclusions but it would still be premature to pass judgment on the Act's efficacy or lack thereof.

- First, the agencies' familiarity with the requirements of the Act has improved enormously, as has the attention paid to GPRA by senior agency executives.
- Second, the first round of strategic plans prepared in 1997 were woefully inadequate in nearly all respects. However the newest strategic plans appearing recently are a vast improvement on their predecessors.
- Third, agencies are becoming much more competent at the concept of managing to outcomes.
- Fourth, measures in original plans were very much a process of capturing the quantity of activity carried out but gave little indication of the public benefits produced.

- Fifth, in some organizations current measures of performance against outcomes are improving but still have a long way to go. Linking costs to outcomes was virtually non-existent in the early years, but now we are seeing some agencies making progress on activity based costing and linking costs to units of success.

I deliberately make an issue of the lag time between the passing of GPRA and its application to the management of agencies because I frequently hear comments that the Results Act is failing because it was passed in 1993 and there is little to show for the last ten years. Analysis of GPRA's effectiveness should keep in mind its actual length of service otherwise, a valuable tool for improved accountability will be damaged in the eyes of Congress and the public.

Drawing on my experience as an elected Member of Parliament and as a Cabinet Minister for my native country of New Zealand, plus my experience over the last six years working closely with U.S. government agencies, I would say GPRA is potentially the most powerful tool for bringing about productive change and meaningful accountability that has been introduced in the U.S. during the last 50 years.

Having made the plea <u>for</u> GPRA, I would like to address what I see as the current status in the evolution of GPRA: What should be the next steps, and how can the federal government – Congress and the Executive branch together – maximize the incentives GPRA is capable of producing?

<u>The Evolution of GPRA</u>

There are multiple distinct stages to the evolution of this Act:

The first is the planning stage, carried out in 1997, which required the preparing of long term strategic plans for government agencies. The purpose here was to identify all government activity and identify the priority of each of those activities - hence the use of the word "strategic". In fact these initial plans were little more than a reiteration of all the activity currently undertaken by the agency without any setting of strategic priorities. Although goals and measures were identified and included in the plans, they related almost exclusively to activities and said little or nothing about the public benefit that would flow from these activities.

The latest iterations of those plans in most cases are a vast improvement over their predecessors. Now we are starting to see a focus on the mission of the organization reflected in the goals of the organization and their programs as tools used to achieve these goals. Unfortunately there is still little evidence of real strategic thinking or of priority setting. Nonetheless, progress is being made.

The second stage is implementation – putting the strategic plan to work – which commenced with fiscal year 1999. The novelty of this stage is that for the first time agencies were required to measure the results of their efforts in terms of *outcomes*. Initially this process was clearly posing major problems both in the technical difficulty of measuring things that are difficult to measure, but also in getting senior management to recognize that this process was important to the future of their organization. Gradually meaningful results information is beginning to appear.

The turning point for the widespread acceptance among agencies that this process was important and that non-compliance would have consequences was the introduction of the President's Management Agenda (PMA). The commitment to performance budgeting in the PMA finally started to get managers' attention. Now that budget requests to the Office of Management and Budget (OMB) must be accompanied by evidence of the previous year's performance, the realization that poor performance could jeopardize budget allocations saw that ownership of performance and appropriate performance information spread up and down through organizations. I would estimate that it would probably be fiscal year 2005 before this process has matured to the point where quality outcome information is available across government.

The third stage is disclosure; it is at this point that the effectiveness of government activity in producing clear public benefits should become transparent. At the Mercatus Center at George Mason University, we have conducted an analysis in each of the four years reported to date. We decided to compare agencies' performance reports to each other based upon the quality and the fullness of disclosure. By highlighting the best and worst practices we hoped to bring attention to the importance of this process, and to encourage improvements to reporting standards. We did this because we believe the quality of the reporting and the completeness of the disclosure is crucial to the success of changing government accountability from accounting for money spent to accounting for public benefits produced. Our study ranks government organizations against each other based not on their performance but on the quality of the disclosure of the results of their performance. In the four years examined, there has been an appreciable improvement in both the quality and the fullness of disclosure.

The fourth stage is the utilization of the information produced by GPRA. Unless the results information agencies produce is used to make future management and resource allocation decisions, then GPRA becomes only a paper exercise. Progress here had been disappointing until the President introduced his Management Agenda. This initiative has totally changed the landscape and major progress is now being made.

OMB's development and utilization of their Program Assessment and Rating Tool (PART) has certainly captured the attention of agencies across the federal government. This is a major step forward and should be applauded. However it is also important to remember that it is one tool, that it can probably be improved significantly over time, and that its purpose is to give better information to decision-makers so that precious dollars are only invested in those programs that are likely to achieve the desired outcome. OMB also deserves to be congratulated for making the PART process and its findings open and transparent to all so the efficacy and appropriateness of the application of the PART can be analyzed.

I would describe the PMA as the second wave of change. The first wave of change was the requirement to capture and disclose information on performance achievements. The second wave of change is the PMA because it now produces consequences for good and poor performance. Good performance or success in achieving public benefit goals is rewarded with either the retention of budget allocations or an increase. Poor performance or failure to achieve goals is punished by loss of part or all of the budget allocation. This is a marked change from historic practices where poor performance was often rewarded with more money in the mistaken belief that more money would cure the problem. On the other hand achieving or exceeding goals was often punished by the loss of funds. Clearly this historic practice set all the wrong incentives while at the same time denied the public a benefit it sorely needed.

Clearly from the comment above it can be seen that GPRA and the PMA are not independent stand alone initiatives, but are mutually dependant interacting initiatives which would each fail in the absence of the other.

Congress and The Administration

The actions taken by these two bodies can create powerful incentives that could change the entire culture of government agencies. Congress and the Administration must demonstrate that results information will be a major influence in future decision-making. The Administration is sending a powerful message by explicitly considering performance information as they develop the government's budget. Congress should cite the prior fiscal year's results as major factors in appropriation decisions.

It is very encouraging to see that President Bush and the OMB Director Mitch Daniels are linking performance to funding in the 2004 budget. This will have an immediate and profound effect on agencies. This single action should turn around the disappointing statistics revealed in the May 2001 GAO survey, and seemingly reinforced by the findings of the OPM federal workforce survey data released last week, of the use of performance information in decision-making in agencies. In my opinion, the limited use of performance information is due to the fact that there has been no consequence for either using or not using the information. With OMB's powerful incentives to maximize performance, all the aids to improved performance - including the use of performance information - are going to be used more extensively.

Congress now needs to address its strategy to hold agencies accountable for high performance. The work of authorizing and oversight committees could be used as research that informs appropriation committees, allowing them to pass a budget that constitutes the best possible allocation of resources. The goal would shift from an emphasis on appropriate spending, to maximizing the benefit to the public. This will complete the tight and visible connection between performance and appropriations.

Removing Barriers

In order to carry out the theory above most effectively, a few information gaps must be addressed. Our study of the annual reports of agencies has identified the lack of quality financial information on the costs of programmatic activity. While it seems that eventually, activity-based costing will become widespread throughout government, it is outcome-based costs that are most useful to political decision-makers. The cost per unit of success is possible to determine in many instances, and having this would serve the purposes discussed above until more sophisticated systems are in place. For example by using common measures it is possible to give a fairly accurate cost per person placed into work for employment programs. FEMA is able to quote a benefit of $2 saved for every $1 spent on risk mitigation in disasters, and OMB was able to make comparisons between operators based on cost per acre of wetland provided. This type of information allows legislators to make value judgments about quantity of activity versus quality.

Accountability Processes

Traditionally Congress and the Administration have used an accountability process based upon assessing the performance of individual departments or agencies. We would recommend that in a results-oriented accountability environment, a better approach would be to select particular outcomes and then examine all activities that have an impact on that outcome.

The purpose of this approach is that decision-making would then be advantaged by having results information on all activities affecting an outcome available to the decision maker – regardless of which agency delivered the program. The process of comparing programs across outcomes creates competition for what would effectively be a common pool of money, where the best providers would clearly get the major share of the resource. Such competition would create strong incentives to continually improve performance by discovering innovative and creative ways of maximizing program achievement. It is the absence of these incentives that is currently limiting progress in much of government.

Finally the ability to be able to make comparative assessments of different activities that address a common goal provides a unique new opportunity to assess opportunity costs. With the information on the various performance levels of different programs it is a relatively simple exercise to look at what level of public benefit could be produced if the existing resources were redeployed to the most effective programs. This exercise then tells decision-makers what the public benefit cost of the status quo allocation is.

At the Mercatus Center we have developed a process that can be used equally effectively by Congress or the Administration to achieve the above results. This process, which we call "Outcome-Based Scrutiny", can easily be adapted to look at outcomes across many agencies or inside a single agency depending on the needs of the examiner. I would welcome the opportunity to further discuss this process with the Committee at the appropriate time and venue.

I trust this testimony, Mr. Chairman, will be helpful to the Committee in its deliberations on the progress and potential of the Government Performance and Results Act.

Respectfully prepared and submitted by:

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