

Enhancing Financial Management
in
the Government of the Virgin Islands

Diagnosis and Broad Design



December 2006

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1. INTRODUCTION

1.1 The Need for Financial Management Reform

Public Sector Reform

In recent years there has been a growing agreement about the need to improve the performance of the public sector in the British Virgin Islands. Much of the discussion has focused on the desire to improve the effectiveness, service delivery (including customer service) and efficiency of public sector agencies.

To date the major initiative designed to address these performance issues has been the Public Sector Development Programme (PSDP) which was initiated in 1999 as a result of a report from Ernst & Young. The PSDP was an ambitious project which contained some important public sector reform elements relating to agency strategic planning and creating a customer service focus. However, while the PSDP has been useful in raising awareness within the civil service that performance is important, it has not fundamentally changed either the performance or the culture of the civil service. A key reason for this is because the PSDP did not address the financial management arrangements.

The major management system (and therefore the major driver of behaviour) in any government is the *financial* management system¹, and in particular the budget process. The budget is the vehicle through which most decisions at the political level are made because most Government decisions have financial resource implications. It is also the system that drives many of the actions of civil service managers because, once again, nearly all activities and actions of ministries and departments have financial consequences.

The nature and focus of the financial management system is therefore a major determinant of public sector performance. This means that financial management reform needs to be an integral part of any programme of public sector reform.²

¹ The financial management system refers to the arrangements, rules and processes relating to the management of government finances including budgeting, accounting, reporting and financial decision-making.

² The importance of the financial management arrangements to the overall public sector management system explains some of the limitations experienced with the PSDP reform. The elements of the PSDP that were implemented did not change the budget process or any other aspects of the financial management arrangements. This meant that, for example, while the PSDP was encouraging agency strategic planning, the budget process continued to allocate resources without any reference to that planning process. The implicit message that was therefore being sent to managers was that strategic planning was irrelevant to getting resources for the agency. The implicit (or maybe explicit) incentive was therefore not to put a lot of effort into strategic planning. A similar situation existed with the service charters.

Enhancing the Financial Management System

In recognition of this, the Ministry of Finance has initiated a project to improve the way in which the government's financial management arrangements. The objective of this project is to fundamentally change the way in which the government's financial management system operates so that it provides:

- Executive Council with better mechanisms to control and execute government policy; and
- Managers with significantly greater freedom to manage within a more meaningful set of financial accountability arrangements.

In line with earlier discussions and decisions, the enhanced financial management system will, among other things, include the adoption of accrual accounting and output budgeting (sometimes also called performance budgeting).

Although these two management systems are increasingly common around the world, it would be a mistake for the BVI to simply adopt a specific financial management model from elsewhere. For the financial management reform to be effective it needs to be based on a management model appropriate to the BVI.

1.2 Purpose and Content of this Document

This document outlines the broad design for the enhanced financial management system of the Government of the Virgin Islands. The design was developed by a Design Group consisting of senior members of the BVI civil service during a workshop held over a three day period from 14-16 August 2006.³ A draft Design Report was prepared and circulated to the Design Group in September 2006. Following feedback on that draft this final version of the report was completed.

The broad design establishes the principles on which the enhanced financial management system will be based. Those principles will be used to develop the operational detail for the new financial management system (the "detailed design") as part of the next phase of the project.

This report consists of four further sections as follows:

- Section 2 summarises problems that exist under the current financial management arrangements.
- Section 3 outlines a broad solution to address the issues identified in section 2. That solution is based on an approach called New Public Management, the key ideas of which are also summarised in section 3.
- Section 4 contains the broad design for the enhanced financial management system based on the conclusions reached at the Design Workshop.
- Section 5 summarises and validates the design and outlines the next steps in the design process.

³ The membership of the Design Group is provided in the Appendix.

2. DIAGNOSIS

This section outlines the problems with the way the current financial management system operates. These issues were identified as part of a diagnostic exercise involving independent analysis as well as discussions with a cross section of Ministers and civil servants. The results of the diagnosis were validated and endorsed by the members of the Design Group as part of the Design Workshop.

The diagnosis is an important first step in the financial management reform process because it ensures that current deficiencies are clearly identified thereby allowing appropriate solutions to be developed as part of the design process.

2.1 Problems in the Current Arrangements

The results of the diagnosis exercise are provided in Table 1. In big picture terms, these can be summarised as follows:

- Ministerial frustration at the poor level of service delivery and their inability to make things happen, or to make them happen quickly enough. This is matched by managerial frustrations at their inability to deliver on their Minister's wishes, and their ministry's "mandate", with the resources available.
- Managerial frustration at their inability to manage their organisations in an efficient manner due to the centralised control of resources and the cumbersome, bureaucratic processes required to change the resource mix.
- Strategy, planning and policy formulation processes that are not well linked to either the Government's policy agenda or the budget process.
- Concerns about the lack of willingness amongst some managers to actively manage their organisations and to take responsibility for the financial management, efficient production and the strategic performance of their agency.
- Poor quality financial information for both financial decision-making and accountability purposes.
- Concerns about the lack of incentives in the financial management system to drive efficiency and effectiveness and to maintain fiscal control.

Table 1: Summary of Problems in Current Arrangements

<i>Ministers frustrated:</i>	<ul style="list-style-type: none"> • That they have difficulty getting the civil service to do the things they want done
	<ul style="list-style-type: none"> • With the slowness of the bureaucracy to make things happens
	<ul style="list-style-type: none"> • With the poor level of service delivery
<i>Managers frustrated that:</i>	<ul style="list-style-type: none"> • They don't have the financial resources to do everything their Minister wants and/or to carry out the mandate of their Ministry
	<ul style="list-style-type: none"> • Additional responsibilities get added without commensurate increases in funding
	<ul style="list-style-type: none"> • The things required of them change frequently during the year but production processes can't change that quickly
	<ul style="list-style-type: none"> • Ministers are not always explicit about what they want done and/or do not commit in writing to what they want
	<ul style="list-style-type: none"> • They are unable to manage effectively due to limited authority over resources (e.g. to move resources around during the year, procurement processes, HR processes)
<i>Ministry of Finance frustrated:</i>	<ul style="list-style-type: none"> • About the poor quality of financial information on which to make decisions
	<ul style="list-style-type: none"> • That the Budget doesn't show the complete picture because of the way things are accounted for through various Funds
	<ul style="list-style-type: none"> • That managers don't always take responsibility for the financial management of their organisation and rely on Finance & Treasury to sort things out
	<ul style="list-style-type: none"> • That not all revenue is collected and there are significant arrears
	<ul style="list-style-type: none"> • That increases in costs are automatically passed on rather than absorbed by Ministries
	<ul style="list-style-type: none"> • About the lack of incentives in the system to drive efficiency and effectiveness
<i>Other Comments:</i>	<ul style="list-style-type: none"> • There is a lack of any systematic focus on results
	<ul style="list-style-type: none"> • There is a lack of an effective strategic management process to give effect to the Minister's 92 point plan
	<ul style="list-style-type: none"> • The focus of some staff is not on the common goals of the organisation

2.2 Underlying Causes

While important, the issues identified in Table 1 are merely the symptoms of larger problems in the current financial management system. They result from the way in which the current financial management system is designed and operated. The underlying causes of these problems are summarised in Table 2. Identifying the underlying causes is important because the problems will only be solved if the underlying causes are addressed as part of the design for the new financial management system.

Table 2: Broad Problems & Underlying Causes

<i>Issue</i>	<i>Underlying Cause</i>
Ministers have difficulty getting the civil service to do the things they want done.	The existing arrangements: <ul style="list-style-type: none"> do not provide Ministers with a vehicle to specifically agree what they want done do not link funding to deliverables.
Ministers frustrated with poor service delivery and the slowness of the bureaucracy.	<ul style="list-style-type: none"> The existing arrangements focus on inputs rather than services to be delivered There are few consequences for good or bad performance
Managers frustrated that they don't necessary have the resources to do everything their Minister wants and/or to carry out their mandate.	<ul style="list-style-type: none"> Funding and delivery expectations not linked Difficult to prioritise where the deliverables and their cost is not clear.
Managers frustrated that additional responsibilities get added without commensurate increases in funding	Funding and delivery expectations not linked
Managers frustrated that the things required of them change frequently during the year and this does not reflect the reality of the production management process.	<ul style="list-style-type: none"> Lack of effective mechanisms for Ministers to specify and agree their expectations Lack of resource linked planning
Ministers not always explicit about what they want done and/or do not commit in writing to what they want.	No vehicle for creating an explicit agreement between ministers and managers about what is to be delivered.
Managers unable to manage effectively as they have limited flexibility to move resources around in a timely manner to meet changes in resource circumstances or demand for different services.	Centralised input control mechanisms: <ul style="list-style-type: none"> financial line item control PSC and centralised HR rules Centralised procurement processes.
Poor financial information on which to make decisions; the budget doesn't show the complete financial picture because of the way things area accounted for through Funds.	<ul style="list-style-type: none"> Cash accounting system Fund accounting is inherently confusing and non-transparent.
Managers don't always take active responsibility for financial management in their organisations and rely on Finance and Treasury to sort things out.	<ul style="list-style-type: none"> Responsibility for financial management is split ambiguously between central and line agencies. Little incentive for managers to do so.
Not all revenue that is collectable is collected and there are significant arrears.	Limited incentive to collect revenue as the budget of the agency is unaffected by revenue collection.
Increases in costs are automatically passed on to the Government rather than being absorbed by Ministries.	<ul style="list-style-type: none"> Inherent feature of the input budgeting approach. Little incentive on agencies to find and generate efficiencies
Lack of incentives to drive efficiency and effectiveness.	Current arrangements are designed primarily to control expenditure rather than encourage efficiency and effectiveness, both of which require knowledge of what is being produced and why.
Lack of systematic focus on results.	Input budgeting and reporting system provides no information about the outcome desired, their status, or the policy actions being used to influence them.
Lack an effective strategic management process to give effect to Minister's 92 point plan	Government's policy goals, Ministry strategic planning processes, and the budget process are not linked in any effective manner.
The focus of some staff is not on the common goals of the organisation	Reflection of what is expected of them and the way the personal appraisal system works.

3. THE NEW PUBLIC MANAGEMENT APPROACH

3.1 Solution Approach

As indicated by the underlying causes, for the most part the issues identified in the diagnosis exercise result from the way in which the financial management system operates, and in particular, the behaviours that the system encourages from those operating within it. This being the case, the problems can only be addressed by changing the system itself.

Reform experience in the BVI to date has also shown that minor adjustments to the current system won't be sufficient to solve these problems. A fundamental change to the way the government's financial management system operates is required.

This sort of change can only be achieved by moving away from the traditional input and control-based management system currently operating in the BVI and adopting a "New Public Management" approach.

3.2 Traditional Public Management

A traditional public management system has a control orientation with a heavy focus on probity and compliance with rules. It is characterised by centrally run and controlled managerial decision-making and rule books (such as Financial Regulations and General Orders) designed to minimise decision-making discretion by line managers.

These systems also focus predominantly on the inputs that are consumed by the Government during a budgetary period. Inputs are items such as salary and wages, stationery and office furniture. While the input approach can provide extensive information about what money is being spent on, it typically provides very little information about what is being produced with that money i.e. what services are being delivered to the citizens.

Traditional input and control based management systems operated relatively well when there was relatively little pressure on government performance. However, this is no longer the case. In most countries, including the BVI, government's now face considerable fiscal and service delivery pressure from citizens and residents. The management system needs to provide both politicians and civil servants alike with the ability to respond to these pressures in a timely fashion.

In addition, the rapid globalisation of the world economy means that all countries are now quickly and deeply affected by events elsewhere in the world. As a result, government's need to be able to nimbly adjust policy settings to reflect changing circumstances. The management system needs to provide this agility.

Thirdly, and perhaps most importantly, there is now clear, overwhelming evidence that government performance directly affects the economic and social performance of the

country as a whole. In other words government performance matters! The management system therefore needs to focus on, and encourage, good performance at all levels at all times. Traditional public management systems are not designed to do this.

3.3 New Public Management

New Public Management (NPM) systems have an explicit and deliberate focus on performance and for this reason are often referred to as performance (or results) orientated management systems.

The NPM approach has evolved primarily from the public sector reform efforts of some leading Westminster countries⁴ over the last two decades. Of particular importance has been the realization that bottom-up reforms (like PSDP) do not result in a lasting improvement in government performance at either the individual agency or whole of government level.

NPM reforms therefore use a top-down approach to generate individual and institutional incentives that encourage people to behave and perform in a way that is consistent with good overall government performance. NPM reforms do this by changing the way the government's strategic, financial and HR management systems operate. They do it in a holistic and integrated way by addressing all elements of the management system (e.g. planning, budgeting, production, delivery, reporting) so that they send the same signals about performance.

NPM systems also recognise that while there is an ongoing need to prevent corruption and other unacceptable forms of behaviour in the public sector, systems of highly centralised control are detrimental to good agency performance. This is because centralised systems are based on a "one-size-fits-all" set of rules that provide insufficient flexibility in a modern managerial environment.

3.4 Key Features of New Public Management Systems

Although there are many variants, there are a number of key features which are typically found in NPM systems:

- An explicit focus on results (outputs and outcomes) through the use of output budgeting;
- Improved financial measurement through the adoption of accrual accounting;
- Improved mechanisms for politicians to establish and execute policy;
- Greater delegation of managerial authority to managers;
- Improved fiscal control mechanisms through the use of fiscal principles and strategic budget processes;
- Improved accountability mechanisms; and

⁴ Initial NPM leaders were New Zealand, Australia, UK, and Canada, together with Iceland and Scandinavia. Reforms in these countries began in the 1980's and since that time NPM type reforms have become widespread and can be found in most regions in the world. The leading example in the Caribbean is the Cayman Islands.

- Improved transparency through regular forecasting and reporting mechanisms.

It is notable that these features correspond closely to the problems identified in the diagnosis, confirming the appropriateness of a NPM approach to redesigning the BVI financial management system.

Output Budgeting

One of the most frequently talked about aspects of NPM is the adoption of a performance budgeting approach, of which the most precise is output budgeting.

Output budgeting allocates funding to the outputs (or services) that the Government wants delivered rather than to the inputs (or resources) that will be consumed in producing those outputs (as a traditional budget does). Consequently, an output budget identifies all the outputs that are to be delivered in a financial year and the amount of funding to be provided to an agency to produce each of those outputs. Examples of an output budget for three different types of outputs are provided in Figure 1.

Figure 1: Examples of an Output Budget

TOU 14	Tourist Accommodation Licensing & Inspection	\$111,571	
Description Inspect and license tourist accommodations on behalf of the Hotel Licensing Board			
Measures		2004/5 Budget	2003/4 Forecast
Quantity Number of properties inspected and licensed		200	180
Quality Licenses only granted to properties that comply with the standards specified in the Tourism Law.		100%	100%
Timeliness Ongoing throughout the year.		100%	100%
Location All three Islands.		100%	100%
Cost		\$111,751	\$101,323

Source: Cayman Islands Government Annual Plan and Estimates.

PWD 13	Maintenance of Public Roads	\$1,150,664	
<p>Description Maintenance of public roads, junctions and pedestrian improvements involving:</p> <ul style="list-style-type: none"> • Base and surface maintenance; • Maintenance of traffic signals; • Provision and maintenance of signage and road markings; • Maintenance and repair of drainage installations; • Bush cutting of shoulders and verges. 			
Measures	2004/5 Budget	2003/4 Forecast	
<p><i>Quantity</i> Miles of road maintained</p>	380-400	350-380	
<p><i>Quality</i> Roads meet safety and related requirements as stated in the "Standard Specifications for Roads, 1986"</p>	100%	100%	
<p><i>Timeliness</i> Maintenance carried out in accordance with specified maintenance programme on an ongoing basis throughout the year.</p>	90%	90%	
<p><i>Location</i> All public roads in Grand Cayman</p>	100%	100%	
<p><i>Cost</i></p>	\$1,150,664	\$1,050,322	

Source: Cayman Islands Government Annual Plan and Estimates.

SOC 16	In-Home Care for Elderly and Adult Disabled Persons	\$990,257	
<p>Description Provision of in-home, residential and/or day care for indigent elderly and adult disabled persons involving:</p> <ul style="list-style-type: none"> • Personal care (e.g. bathing and grooming); • General housekeeping duties (e.g. cooking and cleaning); • Basic home nursing (e.g. administering medication, blood pressure monitoring); and • Social stimulation (e.g. arts & crafts, reminiscing, community outings). 			
Measures	2004/5 Budget	2003/4 Forecast	
<p>Quantity</p> <ul style="list-style-type: none"> • Number of persons serviced: <ul style="list-style-type: none"> • Grand Cayman <ul style="list-style-type: none"> ○ In-home 10-12 10-12 ○ Residential 16-18 16-18 ○ Day care 18-20 18-20 • Cayman Brac <ul style="list-style-type: none"> ○ In-home 40-42 40-42 ○ Residential 14-16 14-16 ○ Day care 1-2 1-2 • Social worker visits to assess client's overall well being; per client 12 12 <p>Quality</p> <ul style="list-style-type: none"> • Services provided in accordance with established individualised care plans 90% 90% • Social worker visits include physical evaluations using prescribed evaluation criteria. 100% 100% <p>Timeliness</p> <ul style="list-style-type: none"> • Services provided: ongoing throughout the year 100% 100% • Social worker assessment visits: once per month 100% 100% <p>Location Grand Cayman and Cayman Brac</p> <p>Cost \$990,257 \$990,257</p>			

Source: Cayman Islands Government Annual Plan and Estimates.

Output budgeting has a number of advantages over a traditional input budget. First it specifically identifies the exact services that are to be delivered. This focuses governmental strategic and budgetary decisions on the service delivery mix. It therefore provides a specific mechanism for politicians to articulate and agree the outputs and other policy actions they want delivered and/or to make changes to that mix over time.

Secondly, output budgeting provides managers with clarity over what is expected of them (in service delivery terms). This not only provides the basis for improved managerial performance it also provides a meaningful basis for accountability.

Thirdly, by linking funding with delivery requirements, it ensures that an explicit link is maintained between the two.

Fourthly, output budgeting provides information about the cost of producing each output. This focuses managerial attention not just what on is being delivered, but also on what it is costing to produce.

Accrual Accounting

The most common NPM element found internationally is accrual accounting (see Table 3). This is because financial performance is more accurately measured using accrual accounting than it is with using the cash accounting approach historically used in the public sector. This is because:

- Cash accounting only recognises a transaction when the cash flow occurs, otherwise it ignores it. Accrual accounting recognises a transaction when the economic substance occurs;
- Cash accounting adds together transactions with a one-year benefit (operating) with those with a multi-year benefit (capital). Accrual accounting strictly separates operating activity from balance sheet (capital) activity.
- Cash accounting ignores assets and liabilities. Accrual accounting records and reports all assets and liabilities in a balance sheet.
- Cash accounting has no standard set of rules or reporting formats and is therefore open to manipulation and hard for external users to interpret. Accrual accounting has independently set accounting rules (Generally Accepted Accounting Practice as reflected in the International Public Sector Accounting Standards – IPSAS) and, as it is used in the private sector, is easily understood and interpreted by accounting professionals, financiers, and rating agencies alike.

Table 3: Countries Implementing or Using Accrual Accounting

Argentina	Marshall Islands
Australia	Mongolia
Azerbaijan	Netherlands
Barbados	New Zealand
Canada	Peoples Republic of China
Cayman Islands	Philippines
Czech Republic	Poland
Denmark	Portugal
Fiji	Spain
Finland	Sri Lanka
Germany	Sweden
Greece	Switzerland
Iceland	United Kingdom
Indonesia	United States
Italy	Uzbekistan
Korea	
Japan	European Commission
Latvia	United Nations Organisation
Malta	

Source: International Federation of Accountants and others.

3.5 “The BVI Model”

Although output budgeting and accrual accounting are often the foundation on which NPM reforms are built, international experience has shown that the key to a successful NPM reform is the specific management arrangements and decisions authorities that surround those particular budgetary and accounting techniques. Such arrangements need to reflect the cultural, political and constitutional circumstances of the country concerned.

Accordingly it is inappropriate for the BVI to simply adopt the NPM approach used in the UK, New Zealand, the Cayman Islands or anywhere else. Instead there is a need to develop an approach – the BVI Model – that is appropriate for the Government of the Virgin Islands.

Establishing the basic principles on which the BVI model will be based was the primary purpose of the Design Workshop held in August 2006. Those principles are reflected in the next section which outlines the Broad Design for the BVI Model and the key design concepts from which it was developed.

4. BROAD DESIGN FOR AN ENHANCED FINANCIAL MANAGEMENT SYSTEM

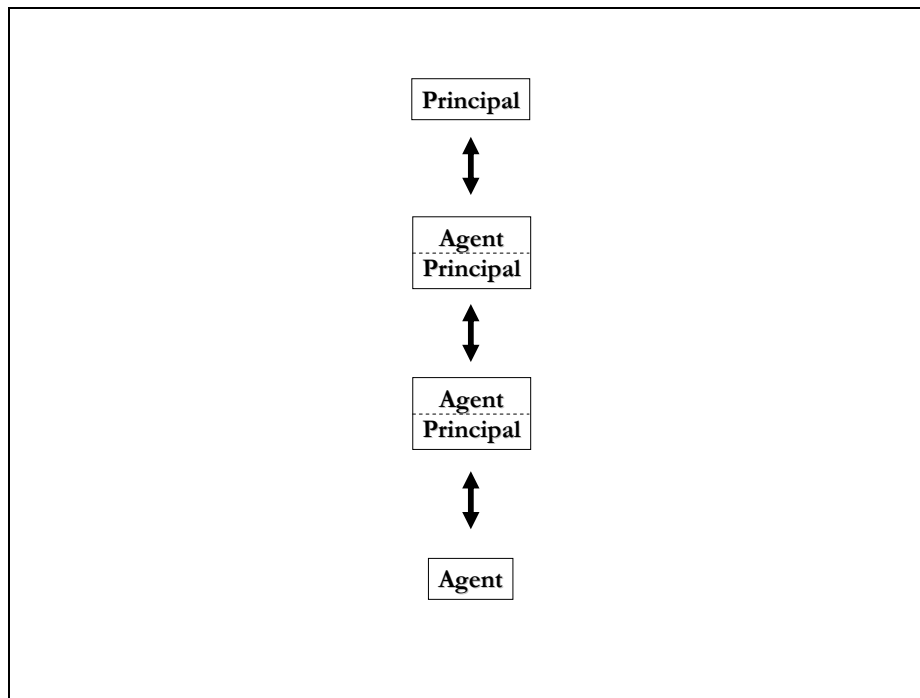
This section outlines the Broad Design principles established for an enhanced financial management system for the Government of the Virgin Islands during the course of the Design Workshop held in August 2006.

4.1 Lines of Accountability

Design Concept

From a performance accountability perspective, the public sector can be seen as consisting of a series of accountability relationships between two parties as illustrated in Figure 2. In the economics literature these parties are often referred to as “principals” and “agents” reflecting the fact that the agent is accountable to the principal. Put another way, the agent’s authority comes from the principal, to whom the agent is then accountable for the use of that authority.

Figure 2: Accountability Relationships

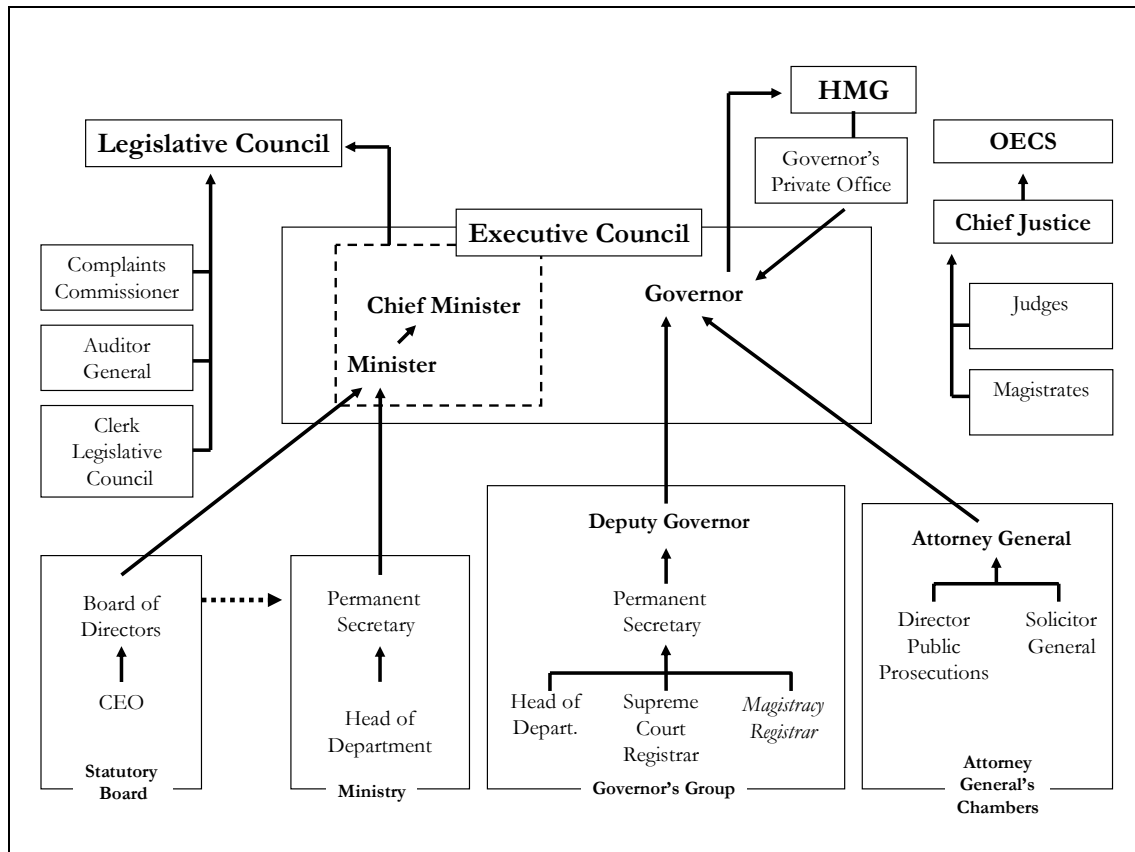


The starting point for the establishing the broad design is to determine what the various principal-agent relationships (i.e. lines of accountability) are (or should be) within the BVI public sector. This is the essential first step to defining and clarifying roles and responsibilities – an essential pre-requisite for effective public management.

Broad Design Principle: Lines of Accountability

Figure 3 illustrates the lines of accountability on which, in the view of the Design Group, the enhanced financial management system should be based. The proposed lines of accountability differ in a number of respects from existing arrangements.

Figure 3: Proposed Lines of Accountability



The revised lines of accountability are based around two key accountability relationships: that between EXCO and LEGCO; and that between Permanent Secretaries and Ministers.

In relation to the EXCO: LEGCO relationship, Figure 3 recognises that Executive Council is made up of two groups: the political directorate comprising elected Ministers; and the Governor.⁵ From an accountability perspective only the political directorate is accountable to LEGCO (albeit for the collective actions of EXCO including those of the Governor). Similarly, the Governor is accountable to HMG for the collective actions of EXCO and in a more general sense also to the people of the Territory (as of course are also the political directorate and other members of LEGCO).

⁵ The Attorney General also attends EXCO but as an advisor. From an accountability perspective, therefore, the Attorney General is not a member of EXCO.

With the exception of the Governor (who has certain powers vested in him by the constitution) EXCO operates as a collective and legal authority rests with the Governor in Council. Consequently the authority of individual members comes from EXCO itself, or put another way, actions taken by individual EXCO members are actions taken on behalf of EXCO as a collective. While all members are therefore accountable to EXCO as a collective, within this context individual Ministers are accountable to the Chief Minister as reflected in Figure 3.⁶

Permanent Secretaries are accountable to their Minister for the performance of their Ministry and through them to EXCO as a collective. Accordingly Heads of Department are accountable to their Permanent Secretary.

In relation to the Governor's Group the same accountability relationships exist except that the Permanent Secretary reports to the Deputy Governor, who in turn is accountable to the Governor for the performance of the Group. In this context the Governor acts in EXCO in a manner equivalent to a Minister in relation to a Ministry; in this regard the Governor can be viewed as a "minister equivalent".

Under current arrangements the Attorney General substantively acts as the permanent secretary equivalent for the Attorney General's Chambers. As shown in Figure 3, the Design Group proposes that this be formally recognised in the new financial management system with the Attorney General's Chambers being treated as a separate "ministry" rather than as part of the Governor's Group. The Attorney General (as PS equivalent) would then be accountable directly to the Governor (as minister equivalent) for the performance of the Chambers.

As shown in Figure 3, the accountability of the judiciary is to the Chief Justice and this is independent of the executive branch. This accountability is unchanged from existing arrangements. In this context the judiciary refers to the judges and the magistrates rather than the departments that provide administrative support to the judiciary. The Supreme Court Registry Department will continue to be part of the Governor's Group and therefore accountable to the Permanent Secretary and Deputy Governor. This arrangement of having the department servicing the judiciary as part of the executive branch is common in Westminster jurisdictions.

In order to enhance both judicial independence and effective accountability the Design Group proposes that the Magistracy and the magistracy support functions be separated – currently the judicial magistracy function is carried out by civil servants. The separation will allow the Magistrates to be fully part of the judicial branch and accountable to the Chief Justice, while the magistracy registrar is part of the civil service and accountable to the Permanent Secretary of the Governor's Group in the same way as the Supreme Court Registrar.⁷

⁶ The Constitution also vests certain authorities in the Attorney General and in these respects he/she operates independently from the EXCO collective.

⁷ Alternatively, consideration could be given to forming a single Judicial Support Department to support both the Supreme Court and the Magistracy.

There are also three departments whose function is to support the Legislative Council or assist LEGCO monitor the activity of the Executive. As such these departments are really part of the legislative rather than executive branch of government and their accountability should be to the Legislature rather than to EXCO. Accordingly, it is proposed that the Complaints Commissioner, Auditor General and the Clerk of the Legislative Council be accountable directly to LEGO and that this be operationalised through the Speaker who would act as the minister equivalent in relation to these three departments.

In relation to Statutory Boards, it is proposed that these be accountable directly to the relevant Minister, as illustrated in Figure 3. This reflects the rationale for establishing the Boards in the first place. In accordance with good governance practice the Board of Directors, as the governing body, would be the accountable as a collective for the organisation's performance. This would be operationalised through the chairperson who as the chair of the Board has overall responsibility for the organisation. The chief executive of the organisation would be accountable to the Board of Directors.

Accordingly it is proposed that there be no direct line of accountability between a Statutory Board and a Permanent Secretary as to do so would effectively turn a Statutory Board into a department. However, Permanent Secretaries would have a role to act on behalf of the Minister in agreeing performance expectations and monitoring the achievement of that performance by the Statutory Board.

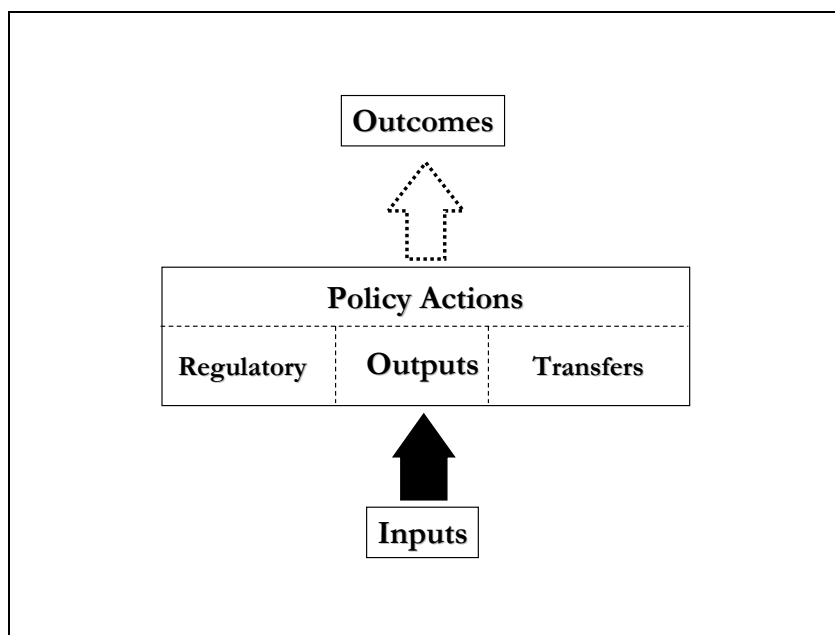
4.2 Performance Accountabilities

Design Concepts

Having established the lines of accountability, the next step is to establish which elements of performance are relevant to each accountability relationship. In order to do this it is necessary to be clear about what is meant by "performance".

Inputs, Outputs and Outcomes

A fundamental aspect of the NPM approach is to redefine the performance expected of public sector agencies so that it focuses on results (outcomes and outputs) rather than on resources consumed (line-item inputs). An analytical framework for this is provided in Figure 4.

Figure 4: Outcome/ Policy Action/Input Relationship

The primary objective of all governments is to achieve outcomes, which are states of well-being in the community. Examples include:

- a safe community with low levels of crime and violence;
- a high standard of health for all citizens;
- a well-educated society with high standards of literacy;
- a good standard of living for all citizens through sustainable economic growth;
- a natural environment preserved for future generations.

Governments seek to bring about outcomes through a series of policy actions. These policy actions are designed to influence society and/or the economy (i.e. influence the outcomes) in a positive manner. There are three broad types of policy action:

- passing laws and regulations (regulatory interventions);
- arranging for the delivery of goods and services (outputs);
- making transfer payments such as welfare benefits.

Outputs are the goods and services produced by organisations. Examples include policing, health and education services.

An organisation cannot directly produce (or deliver) an outcome. However, it can produce a good or service that in some way contributes to the outcome. For example, the Police cannot produce/deliver lower crime. What they can do is patrol the streets more frequently. Providing that this output has a direct causal link to the outcome, more street patrols (the output) will help reduce the level of crime (the outcome).

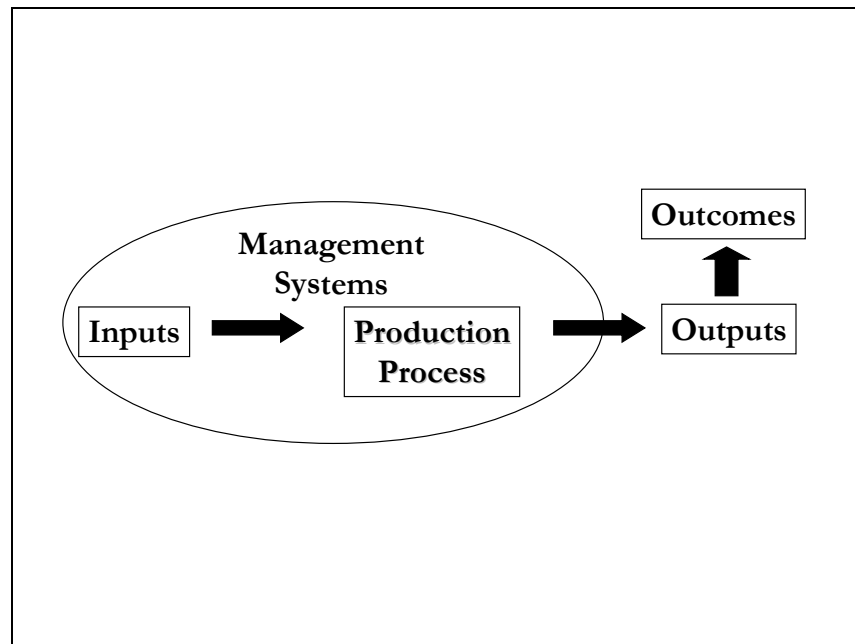
The distinction between outcomes (the results Government wants to achieve) and outputs (what ministries produce) is vitally important because all that any organisation (including public sector ones) can do is deliver outputs. It cannot produce outcomes, only hope to influence them through the outputs delivered.

Inputs are the resources used by an organisation to produce its outputs. Examples include personnel, travel, vehicles, land and buildings.

Inputs are linked to, but are not the same as, outputs. Organisations produce outputs by acquiring inputs and then putting them through a production process which generates the output. This relationship is illustrated in Figure 5.

Inputs are consumed by an organisation and are a reflection of what the organisation spends its money on. They are therefore important from both a financial and a production perspective. However, on their own they provide little indication of what the organisation produces and even less information about what outcomes are being affected. Inputs are, therefore, an unhelpful measure of results.

Figure 5: Output Production



One of the important benefits of an output budgeting system is its focus on policy actions.

From an allocative efficiency point of view, it is essential that resources are allocated to policy measures that make the best contribution to government outcomes. Funding the right policy mix is therefore the key to effective public administration.

To achieve this, Ministers (with the policy research and advice support of the civil service) need to be able to:

- identify the optimal policy mix;
- monitor whether that policy mix is having the desired impact over time; and
- adjust the policy mix to improve outcome gain as necessary.

This requires good information about outcome states (i.e. measures and trends of outcomes over time), the policy actions being used, and the impact existing and alternative policy mixes might have on those outcome trends. Input management systems are typically devoid of this information, at least in any organised and comprehensive way. A good output management system has a systematic focus on this outcome/policy mix linkage – the strategic policy dimension.

Purchase and Ownership Performance

Another performance distinction often used in NPM reforms is that of purchase and ownership performance. This distinction recognises that Ministers typically have two different relationships with government agencies.

On the one hand, Ministers are concerned that the services (outputs) or other policy actions to be delivered by the agency are actually delivered, and done so as specified. This relationship is analogous to the interest that a *purchaser* or *customer* has when purchasing a good or service in a private sector context.

On the other hand, Ministers are also concerned that the agency operates within its assigned budget (or where relevant, generates a surplus) and also maintains (or creates) the capability necessary to deliver the outputs that it will be required to deliver in the future. This relationship is analogous to the interest that an *owner* has in a private sector context.

The two roles are not always consistent with each other. For example, as purchaser, the Minister will want to ensure that as much service as possible is delivered with the amount of funding available. However, as owner, the Minister will want to ensure that the financial position of the agency is protected by ensuring that the funding is sufficient to cover the costs of producing the specified level of output. International experience has shown that this conflict is often best addressed by making it explicit. This allows Ministers to consider the trade-offs involved.

The typical dimensions of purchase and ownership performance are shown in Table 4.

Table 4: Dimensions of Purchase and Ownership Performance

Purchase Performance (what a purchaser expects)	Ownership Performance (what an owner expects)
Output:	Nature and scope of activity
• Quantity	Financial performance
• Quality	Capability:
• Timeliness	• financial
• Location	• physical
• Cost	• human
	Management of risks surrounding the business

Broad Design Principle: Performance Accountabilities*Responsibility and Accountability for Performance Dimensions*

The Design Group was of the view that both the input/output/outcome distinction and the purchase /ownership distinction are relevant and useful in the BVI context.

The Design Group's allocation of responsibility for each of these performance dimensions is summarised in Table 5. Table 6 then allocates these responsibilities to the various accountability relationships shown in Figure 3 resulting in a specification of who is accountable to whom for what performance. Table 6 therefore provides the performance accountabilities on which the enhanced financial management will be based.

Political and Civil Service Roles

Tables 5 and 6 help to clarify the roles and decision rights of politicians and the civil service in the BVI public management system. They are based on the view that in a democratic society, it is the role of the elected representatives to determine the economic and social outcomes to be pursued and the mix of (regulatory, output and transfer) policy actions that will be used to influence those outcomes. Citizens' satisfaction (or otherwise) with those choices is then reflected through the electoral process.

Accordingly, the responsibility (and accountability) for setting policy and monitoring its implementation has been assigned to EXCO, which in turn is subject to the broad oversight of LEGCO. This responsibility is focused around:

- determining the outcomes it wishes to pursue;
- selecting the policy mix (including outputs) that it wants to use to achieve those outcomes;
- agreeing with Permanent Secretaries (and other providers) what outputs they are to deliver; and
- monitoring that delivery is occurring in accordance with those agreements.

Table 5: Responsibility for Different Performance Elements

Performance Dimension	Responsibility
Specification of Desired Outcomes	EXCO subject to broad agreement by LEGCO
Achievement of Desired Outcomes	EXCO
Determining the Mix of Policy Actions	EXCO subject to broad agreement by LEGCO
Achieving the Agreed Mix of Policy Actions	EXCO
Enactment of Regulatory Actions	EXCO (political directorate)
Delivery of Outputs: <ul style="list-style-type: none"> • Establishing specification • Monitoring delivery (as purchaser) • Production and delivery 	Individual Ministers subject to collective agreement by EXCO Ministers Supplying agency <ul style="list-style-type: none"> • Ministries: Permanent Secretaries • Statutory Boards: Board of Directors • Non-Governmental Suppliers: that organisation
Making of Transfers: <ul style="list-style-type: none"> • Determining eligibility criteria • Monitoring delivery • Making payments & administrating arrangements 	EXCO Ministers Ministries: Permanent Secretaries
Acquisition and Use of Inputs	Agency producing the output: <ul style="list-style-type: none"> • Ministries: Permanent Secretaries • Statutory Boards: Board of Directors • Non-Governmental Suppliers: that organisation
Determining Desired Ownership Performance	Individual Ministers subject to collective agreement by EXCO
Achieving Required Ownership Performance <ul style="list-style-type: none"> • Monitoring achievement (as owner) • Achieving the ownership performance 	Ministers Head of agency: <ul style="list-style-type: none"> • Ministries: Permanent Secretaries • Statutory Boards: Board of Directors

Table 6: Performance Accountabilities

Person Accountable	Accountable To	Performance Accountable For
EXCO (political directorate)	LEGCO, including where applicable via the Public Accounts Committee	<ul style="list-style-type: none"> • Selection of outcome goals • Achievement of outcome goals • Selection of policy action mix • Delivery of policy action mix • Whole of Government financial performance • Ownership performance of government owned agencies
Ministers	EXCO	<ul style="list-style-type: none"> • Specification of specific policy actions • Ensuring policy actions are delivered • Specification of agency ownership performance • Ensuring agency ownership performance is achieved
Deputy Governor Attorney General Permanent Secretary	Governor Governor Minister	<ul style="list-style-type: none"> • Provision of policy advice on outcome achievement and policy action mix • Delivery of outputs produced by the Ministry inclusive of its departments, including outputs relating to: <ul style="list-style-type: none"> ○ Servicing and support for the Minister ○ Agreeing and monitoring Statutory Board performance on Minister's behalf ○ Administrating transfers ○ Development of law and regulations ○ Delivery of specified services to the public or other government agencies • Achievement of ownership performance by the Ministry inclusive of its departments
Head of Department	Permanent Secretary	<ul style="list-style-type: none"> • Delivery of outputs produced by Department • Achievement of ownership performance for Department
Directors of Statutory Board	Minister	<ul style="list-style-type: none"> • Delivery of outputs • Achievement of ownership performance
CEO of Statutory Board	Directors of Statutory Board	<ul style="list-style-type: none"> • Delivery of outputs • Achievement of ownership performance
Auditor General, Complaints Commissioner, Clerk of Legislative Council	LEGCO through Speaker	<ul style="list-style-type: none"> • Delivery of outputs • Achievement of ownership performance

By contrast, in a Westminster-based political system such as that of the BVI, the appropriate role for the civil service is to implement rather than determine policy.

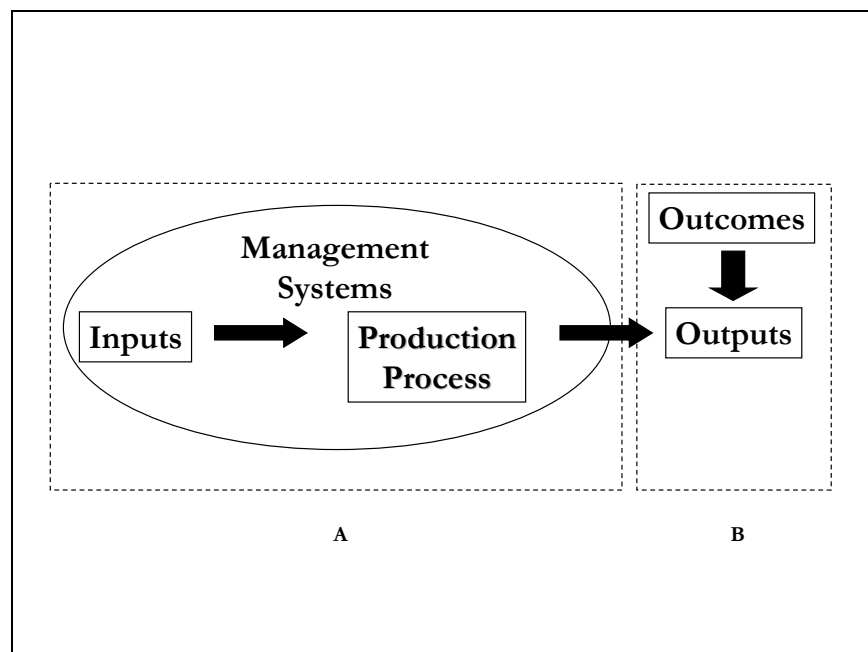
Accordingly the civil service has been assigned responsibility for:

- providing high quality policy advice to Ministers (and EXCO collectively) on their outcome goals and the best mix of outputs (and other policy actions) to achieve those outcomes;
- delivering the outputs they have agreed to deliver at the cost specified; and
- acquiring and managing the inputs and production processes required to produce the outputs.

This means that the role of a civil service manager in the enhanced financial management system will be similar to that of a private sector manager: to produce the outputs required by its customers (Ministers and EXCO as a whole), as efficiently as possible, and to the satisfaction of the customers; and to position the organisation to be able to continue to do so in the future. This division of political and civil service roles is illustrated in Figure 6. The broad design principle is that the politicians (EXCO and LEGCO) would have decision rights over Box B in Figure 6, while the civil service would be responsible for Box A.

This approach is almost the complete opposite of existing arrangements where the politicians control the inputs (via the appropriation process) and the civil service has significant discretion over what is produced. The Design Group's proposal to reverse those responsibilities will address many of the issues identified in the diagnosis particularly Ministers' concern about their inability to execute policy, and managers' frustration with the lack of resources and/or managerial restrictions on those resources.

Figure 6: Allocation of Decision Authorities



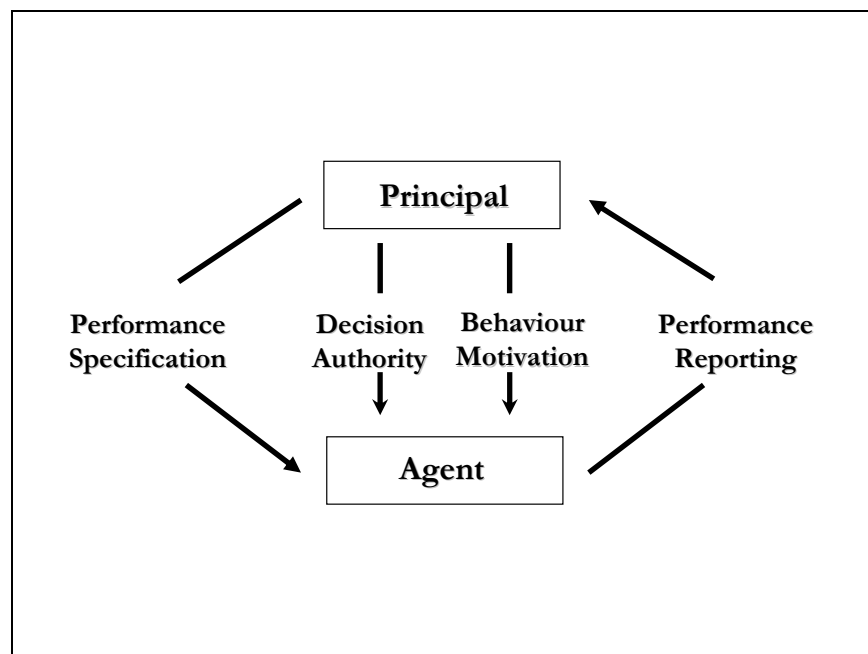
4.3 Accountability Mechanisms

Design Concept

Defining the performance accountabilities is necessary but not sufficient to generate good public sector performance. It needs to be supported by accountability mechanisms that encourage the achievement of that performance.

An effective system of accountability requires four elements, as illustrated in Figure 7. For the financial management system to operate effectively, all of these four accountability mechanisms need to be in place, be consistent with each other and be mutually reinforcing.

Figure 7: Elements of Effective Accountability Relationships



Specification

Specifying and agreeing performance expectations at the beginning of a period is fundamental to effective accountability. Ex ante agreements enable the two parties (e.g. the Minister and Permanent Secretary) to have a clear and common understanding as to the nature and level of performance expected for the year.

Reporting

There is, however, little point in specifying and agreeing performance expectations if there is no monitoring or reporting to assess actual progress against those expectations. Performance specification therefore needs to be matched by reporting of performance.

This monitoring and reporting needs be done on the same basis as the specification. In other words, if ministry performance is defined in terms of outputs then reporting should also focus on output delivery.

Decision Authority

Performance expectations need to be matched with an appropriate level of delegated authority. This is because it is impossible to hold people accountable for their performance (or the performance of their agencies) if they do not have control over the factors that significantly influence that performance.⁸

This means that in an output management environment, a manager can only be held accountable for the delivery of outputs if he/she has reasonable control/influence over the inputs used to produce those outputs, the production process used to convert the inputs to the outputs, and the management systems used to manage the organisation (see Figure 6).

As an aside, the importance of sufficient control is why it is very difficult to hold civil servants accountable for outcomes. There are many factors influencing outcomes that a civil servant (or even a politician for that matter) has little control or influence over and as a result there will always be legitimate reasons why the outcome was not achieved. As it quickly becomes impossible to meaningfully differentiate the items that were and were not controllable by the civil servant, effective accountability quickly breaks down.

Motivations and Incentives

Another key feature of NPM systems are processes and mechanisms to ensure that managers are motivated to perform well. It is unlikely that consistently high levels of performance will be achieved if there are no consequences for poor performance or recognition of good performance.

NPM motivation mechanisms fall into two categories: organisational and individual:

- Organisational incentives are embedded in the arrangements that form part of the overall management system. They are designed to create an operational and managerial environment that encourages managerial behaviour that is consistent with the public sector performance desired. A key such mechanism is coherence – ensuring that all elements of the public sector management system send the same performance signals to managers. Other key organisational incentives are generated by budgeting and reporting processes and the transparency they generate. Yet other incentives can be generated by clarifying roles and taking away opportunities for excuses.
- Individual incentives are overtly focused directly on individuals rather than the environment in which the individual's agency operates. Individual incentives

⁸ In this context the manager's control doesn't have to be absolute, but it does have to be sufficient for the manager to be able to be held reasonably accountable for performance.

include appraisal systems that link individual performance to the achievement of organisational performance, performance-based employment arrangements, and performance-related remuneration systems.

Broad Design Principles: Accountability Mechanisms

Specification and Reporting of Performance

Documentation

The Design Group was of the view that the enhanced financial management system needs to provide for revised planning, budgeting and reporting documents that specify the performance expected each year using the new definitions of performance, and then report against that specification in an identical manner.

In accordance with the performance accountabilities outlined in the section 4.2, the Design Group's view was that the documentation needs to distinguish between:

- the performance of the government as a whole (which EXCO is accountable for) and the performance of an individual Ministry (which the Permanent Secretary is responsible for); and
- multi-year strategic dimensions and one-year delivery aspects.

The broad content for the revised documentation, based on these dichotomies, is provided in Table 7. The exact form and content of this documentation will need to be established as part of the detailed design phase.

Specification Processes

Although there were differing views as to whether the specification document should be driven from a strategic planning or budgeting perspective, the Design Group agreed that the specification documentation needs to flow out of the government's strategic planning and budgeting processes.

In reality the planning and budgeting processes need to operate as a single integrated process with a strategic component that precedes a detailed specification and resource allocation component. This is necessary to ensure that policy mix decisions are informed by strategic considerations (outcome goals) on the one hand, and are seamlessly integrated with resource allocation decisions on the other.

The current budgeting and strategic planning processes will need to be redesigned in order to achieve this. This will need to be done as part of the detailed design phase.

Table 7: Documentation to Specify and Report Performance

Entity	Specification Documentation	Reporting Documentation
Whole of Government: <ul style="list-style-type: none"> Strategic dimension Delivery dimension 	<ul style="list-style-type: none"> Medium- term outcome <u>goals</u> Medium-term economic & fiscal goals <p><i>Frequency: annual</i></p> <ul style="list-style-type: none"> Policy actions <u>to be</u> pursued (legislation, outputs, transfers) Financial performance to be achieved <p><i>Frequency: annual</i></p>	<ul style="list-style-type: none"> Trends in <u>actual</u> outcomes Trends in <u>actual</u> economic and fiscal measures <p><i>Frequency: annual</i></p> <ul style="list-style-type: none"> Policy actions <u>achieved</u> (legislation, outputs, transfers) Financial performance to be achieved <p><i>Frequency: quarterly or half yearly</i></p>
Ministry: <ul style="list-style-type: none"> Strategic dimension Delivery dimension 	<ul style="list-style-type: none"> Medium-term scope of business <u>plan</u> Medium-term financial <u>projections/plan</u> Medium term capability development <u>plans</u> <p><i>Frequency: annual</i></p> <ul style="list-style-type: none"> Outputs <u>to be</u> delivered including quantity, quality, timeliness, location & cost Ownership performance <u>to be</u> achieved including scope of business, financial performance, capability & risk management <p><i>Frequency: annual</i></p>	<ul style="list-style-type: none"> <u>Actual</u> scope of business trend <u>Actual</u> financial trends <u>Actual</u> capability development levels <p><i>Frequency: annual</i></p> <ul style="list-style-type: none"> Outputs <u>actually</u> delivered including quantity, quality, timeliness, location & cost Ownership performance <u>actually</u> achieved including scope of business, financial performance, capability & risk management <p><i>Frequency: quarterly or half yearly</i></p>
Statutory Board: <ul style="list-style-type: none"> Strategic dimension Delivery dimension 	<ul style="list-style-type: none"> Medium-term scope of business <u>plan</u> Medium-term financial <u>projections/plan</u> Medium term capability development <u>plans</u> <p><i>Frequency: annual</i></p> <ul style="list-style-type: none"> Outputs <u>to be</u> delivered including quantity, quality, timeliness, location & cost Ownership performance <u>to be</u> achieved including scope of business, financial performance, capability & risk management <p><i>Frequency: annual</i></p>	<ul style="list-style-type: none"> <u>Actual</u> scope of business trend <u>Actual</u> financial trends <u>Actual</u> capability development levels <p><i>Frequency: annual</i></p> <ul style="list-style-type: none"> Outputs <u>actually</u> delivered including quantity, quality, timeliness, location & cost Ownership performance <u>actually</u> achieved including scope of business, financial performance, capability & risk management <p><i>Frequency: quarterly or half yearly</i></p>

Reporting Processes

In order to minimise information costs, the Design Group took the view that the same information used for internal management decision-making should also be used for external reporting purposes. This not only ensures consistency of decision-making with reporting, it also means that ex-post information will have multiple uses.

Current data collection and reporting processes will need to be redesigned to accommodate this and to reflect the different type of information that will be reported.

There was some debate within the Design Group about the frequency of external reporting. One view was that in order to reduce compliance costs external reporting should occur only twice a year (half-year and annual). The alternative view was that bi-annual reporting is too infrequent for management purposes as it provides too few, and too late, opportunities to take corrective action; much more frequent information is needed for management decision-making purposes - at least quarterly and probably monthly. This issue will need to be considered again as part of the detailed design phase but provided that the same information is used for both managerial decision-making and external reporting purposes the additional compliance costs of frequent external reporting are likely to be minimal.

Individual Performance Appraisal Processes

The Design Group recognised the desirability of linking organisational performance with individual performance. In order to achieve this, the individual performance appraisal processes will need to be revised to reflect the new dimensions of performance for which agencies (and therefore the staff within them) are responsible. For coherence, as well as efficiency reasons, revised personal performance agreement and assessment documents should drive-off agency performance specification and reporting documentation as much as possible.

Delegations and Authorities

The Design Group's view was that, as a general principle, managers should have extensive authority of the inputs, production processes and management systems necessary to run their organisations but little to no authority over the choice of outcomes or policy actions to be delivered. This is consistent with the performance accountabilities and roles specified in section 4.2 and illustrated in Figure 6.

The Design Group's view was that the issue of appropriate delegation of authority was not just a matter of the division between politicians and the civil service; it was equally an issue of centralized control by central agencies (such as Finance and HR) versus decentralization to line agencies. The Design Group's view was that performance gains would result from much greater decentralization to line agencies. Such decentralisation will also be necessary for accountability to be effective under the new output-based financial management approach.

However, the Design Group noted that some economy of scale benefits can be derived from centralisation (e.g. in relation to information systems) and this needs to be taken into account. However, such benefits need to be weighed against any performance losses that would result from the centralisation.

The Design Group also recognised that uniformity of decisions is also often desirable (e.g. in relation to employment terms and conditions) and in order to achieve this it will be necessary to establish parameters with which decentralized authorities much conform.

An indication of the extent of managerial authority that should be decentralized under the new system is provided in Table 8. The exact extent and nature of the decentralization will need to be determined as part of the detailed design phase.⁹

Table 8: Extent of Managerial Authority

Issue	Extent of Authority for Managers
<i>Outputs</i>	
Determining what outputs to produce	None
Determining changes to, or between, outputs during the year	None
<i>Inputs</i>	
Determining the staff needed to produce outputs	Extensive
Determining staff remuneration and terms & conditions	Moderate; must comply with centrally set parameters
Determining other operating inputs needed to produce outputs	Extensive
Determining capital inputs needed to produce outputs	Extensive
Making changes between inputs (line items) during the year	Extensive; subject to there being no change to total expenditure
<i>Production Processes and Management Systems</i>	
Output production processes	Extensive
Procurement processes	Moderate; must comply with centrally set parameters
HR management systems including processes for hiring & firing of staff	Moderate; must comply with centrally set parameters
Accounting systems	Limited; must operate within JDE system
Payment of bills, cheque writing, management of bank accounts	Extensive; must comply with Treasury cash management parameters ¹⁰
Strategic planning systems	Extensive; subject to compliance with overarching strategic planning approach
Maintaining appropriate financial controls	Extensive

⁹ The Design Group's view was that decentralised authorities should be vested in the Permanent Secretary who as chief executive of the Ministry would then establish the level of sub-delegation to Heads of Department. However, it was noted that the same accountability principle applies and that it will be difficult for a Permanent Secretary to hold a Head of Department accountable if little or no sub-delegation occurs.

¹⁰ While there was agreement within the Design Group that decentralised authority is desirable, there were differing views about whether individual agencies should actually carry out these functions themselves or contract with Treasury to do so on their behalf. This is an implementation question that needs to be revisited in due course. The design principle is that agencies should have authority over these matters.

Motivations and Incentives

In relation to motivational and incentive mechanisms, the Design Group reviewed a range of incentive mechanisms used in NPM systems in other jurisdictions for their relevance in the BVI context. The results of this review are summarised in Table 9. The specific mechanisms to be incorporated into the enhanced financial management system will need to be determined as part of the detailed design phase.

Table 9: Relevance of Possible Incentive Mechanisms

Performance Incentive Mechanism	Relevant in the BVI?
General	
Legislative parameters, requirements & prohibition	Yes but possibly weak impact
Transparency resulting from frequent reporting	Yes
Monitoring & analysis of performance	Yes
Output Delivery	
Output based appropriations	Yes*
Output purchaser arrangements	Yes
Payment on delivery	Yes*
Input Acquisition	
Procurement parameters	Yes
HR management parameters	Yes
Scope of Business	
Transparent reporting	Yes
Legislative prohibition	Yes
Financial Performance	
Establish as a “business unit”; make revenue driven	Yes*
Full costing of outputs	Yes*
Inter agency charging (no free inputs)	Yes*
Retention of trading revenue (Net funding)	Yes*
Deficit prohibition	Yes*
Capital charge	Possibly
Cash management incentives	Possibly
Human Capability	
Standard measures	Yes
Capability development plans	Yes
Financial Capability	
Standard measures	Yes*
Long-term capital replacement plans	Yes
Funding of depreciation allowing self funding of asset replacement	Yes*
Risk Management	
Risk management plans	Yes
HR- Based Incentives	
Performance based appraisal system	Yes *
Performance – based remuneration component	Possibly

* Mechanisms considered particularly relevant in the BVI context.

5. SUMMARY AND CONCLUSION

5.1 Problems and Solution Approach

A diagnosis of issues in the current financial management system identified a range of problems. Key amongst these were ministerial frustrations at the poor level of service delivery and their inability to get the civil service to do what they want, managerial frustration at the mismatch between what is expected of them and the resources provided, and concerns about the quality of financial information for decision-making and the lack of incentives for effective financial management.

The major cause of these problems is the current financial management system itself with its focus on inputs, use of cash accounting, separation of funding and delivery decisions, and lack of effective mechanisms to specify, report and monitor performance.

The solution is to implement an enhanced financial management system based on a New Public Management approach. The key features of a NPM system include:

- An explicit focus on results;
- Improved financial measurement;
- Improved mechanisms for politicians to establish and execute policy;
- Greater delegation of managerial authority to managers;
- Improved fiscal control mechanisms; and
- Improved accountability mechanisms.

These correspond closely to the problems identified in the diagnosis:

5.2 Summary of the Broad Design

Adapting NPM ideas into the BVI context has resulted in a broad design for an enhanced financial management system involving the following key elements:

- The adoption of accrual accounting (and budgeting and reporting);
- The adoption of output budgeting, management and reporting;
- The adoption of clarified lines of accountability as illustrated in Figure 3 of this report.
- Redefining performance in terms of the outcome results desired and the outputs, transfers and regulatory policy actions to be used to achieve them, rather than on the basis of inputs as currently;
- The establishment of specific performance accountabilities for EXCO, civil service managers and Statutory Boards as specified in Table 6 of this report, with EXCO responsible for setting policy (establishing the outcomes and the policy actions to achieve them) and the civil service and Statutory Boards responsible for implementation (delivering the specified outputs and achieving the agreed ownership performance);
- An integrated strategic planning and budgeting process focused on the identification of the Government's outcome goals and the selection of the policy action mix to best achieve it, while still maintaining aggregate fiscal control;

- A new performance-oriented accountability framework based on:
 - New documentation to specify and report performance in outcome, policy action and ownership performance terms, and differentiating between whole of government and individual agency performance, as specified in Table 7 of this report;
 - The delegation of substantially greater input, production process and management system authority to managers as specified in Table 8 of this report;
 - The adoption of relevant motivational and incentive mechanisms to encourage the delivery of the desired performance as specified in Table 9 of this report; and
 - A revised personal appraisal system to ensure the alignment of individual and organisational performance.

5.3 Confirming the Solution

There is no doubt that the broad design will result in a financial management system that is significantly enhanced from that currently operating. However, to be successful it needs to effectively address the issues identified in the diagnosis exercise.

Table 10 shows how the various elements of the broad design address the diagnosis issues and underlying causes. As can be seen from the Table, the broad design addresses each of these issues in a robust and integrated way. In particular it provides Ministers with greatly enhanced mechanisms to control policy and drive service delivery; it provides managers with the clarity and authorities necessary to manage their organisations effectively; and it provides the Ministry of Finance with significantly better information about financial and non-financial performance at both whole of government and agency level. Importantly, the broad design also contains incentive elements to encourage good performance on an ongoing basis, including a continual drive for efficiency and effectiveness.

The broad design therefore meets the criteria established for the financial management reform project i.e. to fundamentally change the way in which the government's financial management system operates so that it provides:

- Executive Council with better mechanisms to control and execute government policy; and
- Managers with significantly greater freedom to manage within a more meaningful set of financial accountability arrangements.

5.4 Next Steps

The Broad Design represents the first stage in the design process. Once the Broad Design has been confirmed and adopted, the Detailed Design will be developed. This will contain the detail necessary to operationalise the Broad Design. The final design stage is to establish the sequencing and timing for the implementation of the design in the form of an Implementation Strategy and Plan.

Table 10: Design Solutions that Address Diagnosis Issues

Issue	Underlying Cause	Broad Design Solution
Ministers have difficulty getting the civil service to do the things they want done.	The existing arrangements: <ul style="list-style-type: none"> do not provide Ministers with a vehicle to specifically agree what they want done do not link funding to deliverables. 	<ul style="list-style-type: none"> Integrated strategic planning & budgeting processes. Explicit performance specification processes and documents. Enhanced accountability framework including performance incentives and the linking of individual and organisation performance.
Ministers frustrated with poor service delivery and the slowness of the bureaucracy.	<ul style="list-style-type: none"> The existing arrangements focus on inputs rather than services to be delivered. There are few consequences for good or bad performance. 	<ul style="list-style-type: none"> Adoption of output budgeting. Deliberate output specification, monitoring & reporting processes. Output delivery incentives.
Managers frustrated that they don't necessary have the resources to do everything their Minister wants and/or to carry out their mandate.	<ul style="list-style-type: none"> Funding and delivery expectations not linked Difficult to prioritise where the deliverables and their cost is not clear. 	<ul style="list-style-type: none"> Adoption of output budgeting and the linking of funding with deliverables.
Managers frustrated that additional responsibilities get added without commensurate increases in funding.	Funding and delivery expectations not linked	<ul style="list-style-type: none"> Adoption of output budgeting and the linking of funding with deliverables.
Managers frustrated that the things required of them change frequently during the year and this does not reflect the reality of the production management process.	<ul style="list-style-type: none"> Lack of effective mechanisms for Ministers to specify and agree their expectations. Lack of resource linked planning. 	<ul style="list-style-type: none"> Integrated strategic planning & budgeting processes linking government planning with ministry planning with resource allocation. Decentralisation of input, production process and management system decision-making authority.
Ministers not always explicit about what they want done and/or do not commit in writing to what they want.	No vehicle for creating an explicit agreement between ministers and managers about what is to be delivered.	<ul style="list-style-type: none"> Adoption of output budgeting. Explicit performance specification processes and documents.

<i>Issue</i>	<i>Underlying Cause</i>	<i>Broad Design Solution</i>
Managers unable to manage effectively as they have limited flexibility to move resources around in a timely manner to meet changes in resource circumstances or demand for different services.	Centralised input control mechanisms: <ul style="list-style-type: none"> • financial line item control • PSC and centralised HR rules • Centralised procurement processes. 	<ul style="list-style-type: none"> • Decentralisation of input, production process and management system decision-making authority.
Poor financial information on which to make decisions; the budget doesn't show the complete financial picture because of the way things are accounted for through Funds.	<ul style="list-style-type: none"> • Cash accounting system. • Fund accounting is inherently confusing and non-transparent. 	<ul style="list-style-type: none"> • Adoption of accrual accounting. • Specification and monitoring of ownership performance.
Managers don't always take active responsibility for financial management in their organisations and rely on Finance and Treasury to sort things out.	<ul style="list-style-type: none"> • Responsibility for financial management is split ambiguously between central and line agencies. • Little incentive for managers to do so. 	<ul style="list-style-type: none"> • Clarification of roles and performance accountabilities. • Enhanced accountability framework including performance incentives and the linking of individual and organisation performance. • Decentralisation of input, production process and management system decision-making authority.
Not all revenue that is collectable is collected and there are significant arrears.	Limited incentive to collect revenue as the budget of the agency is unaffected by revenue collection.	<ul style="list-style-type: none"> • Enhanced accountability framework. • Net funding and revenue retention incentive mechanisms to encourage collection.
Increases in costs are automatically passed on to the Government rather than being absorbed by Ministries.	<ul style="list-style-type: none"> • Inherent feature of the input budgeting approach. • Little incentive on agencies to find and generate efficiencies. 	<ul style="list-style-type: none"> • Adoption of output budgeting allows prices for outputs to be set, thereby requiring agencies to control their costs accordingly. • Adoption of ownership performance dimension.

<i>Issue</i>	<i>Underlying Cause</i>	<i>Broad Design Solution</i>
Lack of incentives to drive efficiency and effectiveness.	Current arrangements are designed primarily to control expenditure rather than encourage efficiency and effectiveness, both of which require knowledge of what is being produced and why.	<ul style="list-style-type: none"> • Adoption of new performance oriented management approach. • Enhanced accountability framework. • Adoption of output budgeting. • Adoption of the ownership performance dimension. • Performance incentive mechanisms.
Lack of systematic focus on results.	Input budgeting and reporting system provides no information about the outcome desired, their status, or the policy actions being used to influence them.	<ul style="list-style-type: none"> • Adoption of new performance oriented management approach. • Regular reporting of performance. • Integrated strategic planning & budgeting processes.
Lack an effective strategic management process to give effect to Minister's 92 point plan	Government's policy goals, Ministry strategic planning processes, and the budget process are not linked in any effective manner.	<ul style="list-style-type: none"> • Integrated strategic planning & budgeting processes. • Adoption of output budgeting.
The focus of some staff is not on the common goals of the organisation	Reflection of what is expected of them and the way the personal appraisal system works.	Enhanced accountability framework including performance incentives and the linking of individual and organisation performance.

APPENDIX: DESIGN GROUP

Members Who Attended the Design Workshop on 14-16 August 2006

HE The Governor	David Pearey
Financial Secretary	Neil Smith
Permanent Secretary/DGO	Otto O'Neal
Permanent Secretary/CMO	Clyde Lettsome
Permanent Secretary/MC&W	Rosalie Adams
Permanent Secretary/MNR&L	Josephine Callwood
Permanent Secretary/ME&C	Julia Christopher
Permanent Secretary/MH&SD	Shelia Brathwaite
Accountant General	Kharid Fraser
Ag. Auditor General	Mignon Brewley
Postmaster	Kevin Smith
Chief Physical Planning Officer	Louis Potter
Ag. Chief Agricultural Officer	Bevin Brathwaite
Director of Internal Audit	Wendell Gaskin
Budget Coordinator	Jeremiah Frett
Public Management Consultant	Tony Dale

Other Members Unable to Attend the Design Workshop

Director of Financial Management	Lucia Lettsome
Director of Human Resources	David Archer
Deputy Permanent Secretary/CMO	Petrona James
Project Engineer	Shaina Smith