# Theme for Introduction of Evaluation of Administrative Performance

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## 1. Beyond lean management

The public sector is adopting administrative evaluation more and more. Could administrative evaluation reduce administrative/fiscal costs and central and local government bureaucracy, as expected?

For the public sector, which highly relies on administrative evaluation, and which did not downsize without policies, administrative evaluation is the last resort for administrative and fiscal reform. We can safely say that administrative evaluation is more scientific than the conventional downsizing approach and we can easily establish consensus based on numerical data.

However, administrative evaluation is only one of several administrative and fiscal management systems. Therefore, whether administrative evaluation succeeds or not depends on how it is formulated by the public sector, such as central and local governments and their management strategy.

First, the public sector must clarify why administrative evaluation is being used, or clarify the "political" purpose of using it in administrative and fiscal management.

Recently, central and local governments are faced with a serious fiscal crisis and the public sector is agonizing about how to downsize. Administrative evaluation should not be used as a convenient tool for downsizing.

On the other hand, the public sector basically doubts whether projects can be reviewed through administrative evaluation. However, the downsizing approach is not a perfect solution to administrative reform.

In imposing restrictions on personnel costs, the downsizing approach will not succeed unless public employee seniority-based pay is changed to merit-based pay under administrative evaluation. Therefore, administrative evaluation must be introduced while the downsizing approach is being implemented, and "same-wage-for-the-same-age" pay must be abolished.

In allocating funds for public investment, administrative evaluation can be effective as a means for setting scientific and reasonable evaluating standards and curbing lawmakers politically intervening.

For example, the road project evaluation used by the Mie prefectural government is an evaluative method shutting out political or administrative intervention.

"Time-based assessment" used by the Hokkaido prefectural government is highly regarded as an approach that has brought a Copernican revolution to self-interested bureaucratic administrations.

Administrative evaluation is usually introduced to reform bureaucratic administration methods, and downsizing

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is one result. Unless the public sector changes from current project-implementation organizations to policy-making organizations, we cannot expect efficient and effective public investment.

Second, we must be fully aware of the possibility that scientific administration will be introduced only as a formality in the public sector, although it has certain benefits. We must recall that the Planning Programming Budget System (PPBS), introduced amid considerable fanfare in the past, collapsed.

Although administrative evaluation provides an excellent scientific method, it may not be effective for actual local government policies. In other words, administrative evaluation may be used only as an excuse to say that administrative reform is underway.

For example, people have suggested lately introducing corporate accounting for local government accounting. Although Kobe City and other city offices have been trying to introduce corporate accounting, during the past twenty years, they have not officially introduced this accounting method in local governments [1].

This is because local governments did not take a positive stance to extract useful elements from corporate accounting and apply them to public accounting. Therefore, most importantly, persons involved in administrative reform must be strongly determined to introduce corporate accounting.

Regarding scientific administration, administrative-index-based master plans or civil-minimum-oriented planned administration used to exist. However, master-plan-based local development policies went to extremes, resulting in local environment deterioration. The civil-minimum-oriented approach expanded to bankrupt public sector finances. Therefore, contribution of these plans or the approach to scientific evaluating administrative and fiscal management was generally insignificant.

On the other hand, using Lasperyres index to restrain local government personnel costs, used by the Ministry of Home Affairs, and the current welfare administration guiding policies based on administrative indexes for the aged (day care, short stay, etc.) are getting excellent results.

Unlike PPBS, administrative evaluation has the precondition that advance, interim, and retrospective evaluations are made. Furthermore, individual evaluation is now generally used. Therefore, we can safely say that administrative evaluation is highly effective among various administrative reform methods.

Also, administrative evaluation aims at realizing reform by public sector self-reform and through external pressure resulting from project evaluation disclosure. Therefore, local government organizational improvement may be expected as with the information disclosure scheme.

However, evaluation for individual projects is not yet fully developed. At present, Mie, Miyagi and Hokkaido prefectural governments, Kobe City Office and other offices are implementing this evaluation method on a trial basis. Now, therefore, developing an evaluation method for individual projects, that is excellent in theory and suitable for practical use, is urgently needed.

Third, central and local governments have their own organizations to oversee administrative and fiscal operations. The central government has the Board of Audit, while local governments have Audit Commissions. However, conventional systems still cannot prevent wasteful projects through advance evaluations.

Civil control exercised by civic ombudsmen, etc. may be effective in controlling policies, only where we have project evaluation within local governments. Otherwise, such civil control will result only in identifying improper or illegal issues.

The information disclosure scheme is highly effective as an external control measure. To get adequate and effective oversight functions, we must fully evaluate subject projects under administrative evaluation. Otherwise, civilian control will invite erroneous results.

Are current public sector inspections or audits enough? More effective self-control systems should be established. In other words, we must improve or reform administrative operations so current program choice or

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1) Regarding local government financial accounting, refer to: Syouzou TAKAYOSE, “Atarashii Zaimukanri no Shiten” (New Financial Control Viewpoints); Shouzou TAKAYOSE, ed., “Jichitai no Keiei to Koritsu” (Local Government Management and Its Efficiency), Gakuyo Shobo, March 1977; and Syouzou TAKAYOSE, “Chiho Jichitai to Zaimu Kaikei” (Local Governments and Financial Accounting), Government Auditing Review, September 1997.

implementing current public sector projects will be improved.

Petitions for audits, ballots, information disclosure, public accounting, external auditing, non-official commissions and the Diet and local assemblies, which perform their own functions under comprehensive overseeing of the public sector, should be the driving force for administrative and fiscal reforms, in tandem with administrative evaluation.

Ballots, information disclosure or civil ombudsmen, scientific indexes and audit/inspection data to evaluate central or local government projects are indispensable as a standard by which central or local governments choose policies, or for external overseeing or controlling administration.

## 2. Policy Management

When introducing administrative evaluation, we need a vision of reforming public sector administrative and fiscal operations. Without this vision, administrative evaluation will end up as a means of downsizing, and project review will sooner or later face difficulties, although it may remain effective for a year or so.

Therefore, public sector operational methods should be upgraded from downsizing operations to managerial operations, and further, to political operations.

Strangely, today, central ministries and agencies are more ardent about administrative evaluation than local governments. For example, before determining projects subsidies would be allocated for in FY1999, the Ministry of Construction asked local governments to evaluate such projects that have not started for five years or longer, or that were not completed within ten years.

Before implementing public nursing care insurance, the Ministry of Health and Welfare is earnestly comparing medical expenses and welfare services among local governments using country-wide administrative indexes.

Administrative evaluation is a benchmarking method based on evaluating individual indexes, and is not a screening evaluation that reviews individual projects.

Central and local governments should realize policy management based on choosing administrative and fiscal operations' policies. For this purpose, we should shift from bureaucratic antecedent-based "lean management" to efficient "administrative management", choosing more than one program or method, and should shift further towards effective "policy management" aiming at optimizing chosen policies.

All public sectors need "lean management". We cannot say that lean management is not effective in administrative and fiscal reform. Basic conditions are that lean management should be implemented full-scale and public employees should be sensitive to expenses.

In lean management, however, administrative and fiscal operations and local public employee mind-set will remain unchanged, although the fiscal balance improves. Thus, local government reform is something we can

**Table 1. Local government management level**

| Classification | Feature | Evaluation standard | Contents |
|---|---|---|---|
| Lean management | Evaluating projects | Fiscal balance | Reducing personnel costs, cutting welfare expenses and organizational retrenchment |
| Administrative management | Evaluating programs | Effect of programs | Using auxiliary organizations, efficient assets management and administrative organizational reform |
| Policy management | Evaluating policies | Effect of policies | Choosing public works, coordinating with citizens and optimizing chosen policies |

Source: Syouzou TAKAYOSE, "Chiho Jichi no Gyoseigaku" (Local Government Administration), p.12.

almost never expect.

"Administrative management" basically pursues the "3Es" (economy, efficiency and effectiveness). Administrative management basically differs from lean management in its aim of eliminating typical bureaucratic characteristics and mind-sets by pursuing the 3Es principle.

For administrative management, "Management by Objectives" or the merit system is similar to program evaluation. The most typical administrative management method is using private expertise. Administrative operation, which effectively uses private expertise, such as PFI or NPO, conforms to the 3Es principle.

To put it bluntly, the public sector does not approach administrative and fiscal operations based on project's effect, but on amount of resource fund spending. For example, if a culture center is constructed but is rarely used by local people, or public housing is constructed, but remains unoccupied, these buildings will still be considered effective because more resource funds were spent than in the previous year.

Such an evaluation does not consider how citizens' needs were satisfied with constructing the facility. This often results in excessive or wasteful investments.

Administrative evaluation establishes Management by Objectives based on certain indexes and creates a choice standard, thereby enabling a local government to compare all projects involved.

For example, excessive or deficient public administration can be adjusted by verifying public works, public facilities, public services, etc.

Administrative and fiscal operations in the public sector should be shifted from resource-fund-oriented to policy-oriented. In "time-based assessment", for example, projects should be chosen through cost-effectiveness analysis.

The public sector should aim at realizing "policy management". This is because administrative organization downsizing and the 3Es principle will be realized only through policy management. Efficiently managing any project chosen by an erroneous policy, or reducing applicable expenses will be difficult. Thus, optimizing chosen projects will be the most efficient approach and will lead to significant downsizing.

Unlike administrative management, policy management benefits will not be limited to effectively using resources. Policy management will prove its merits through using managerial resources to strengthen policy-making capabilities.

From the mid-1960s to the mid- 1970s, local governments imposed or enacted disproportional and excessive tax rates, guidelines for housing land development, additional pollution control ordinances, etc. to solve urban problems through their policies.

Without policy management, local governments will see general contraction of administrative services and betray local people's confidence in their administrative services. We can safely say that policy management is the only approach to achieve administrative targets.

At central government level, policy management based policy-making capabilities have unlimited potential.

Administrative evaluation will, at first, require the 3Es principle based administrative management, and will then require policy management to create a new administrative and fiscal system.

In the current post-industrial society where the administrative and fiscal environment has changed greatly, the public sector cannot get through a fiscal crisis without reforming its administrative and fiscal system. Whether the public sector can get through a fiscal crisis or not depends on whether or not they can change the conventional administrative and fiscal system to a new one, as indicated in Table 2.

**Table 2. Comparing previous and current administrative and fiscal operations**

| Classification | Administrative control operations | Administrative evaluation operations |
|---|---|---|
| Purpose for introducing | Downsizing administrative organization and abolishing projects | Improving administrative efficiency, and choosing projects |
| Administrative system | Resource-fund-oriented type | Policy-oriented type |
| Choosing standard | Subjective resource fund standard | Objective effect measurement standard |
| Policy-making and Participation | Closed and bureaucratic | Open decision by all staffs and citizens |
| Operational strategy | Meeting administrative needs based on expenditure-first principle | Meeting civil needs according to targets. |

## 3. Administrative evaluation problems

When introducing administrative evaluation, the public sector must resolve its technical problems and respond to other practical problems. The public sector must be sure to respond to concrete administrative evaluation problems, as indicated in Table 3.

First, the key to administrative evaluation success is establishing an evaluation standard and numerous indexes to assess projects. Surprisingly, the public sector has long been choosing projects without evaluation standards or numerical assessments.

The public sector tends to strongly reject evaluating projects based on numerical values. Today, however, all kinds of issues are handled based on numerical evaluation. For example, even consolation money for mental damage is calculated based on numerical evaluation.

Through administrative evaluation, the public sector must realize that projects can be evaluated based on numerical criteria.

For example, public employees' salaries link their capabilities and expertise to a numerical value. The question is whether numerical value is really appropriate as the basis of a pay system. The public sector does use numerical value.

Environment projects are often evaluated by numerical value according to Environmental Impact Assessment. General projects such as effect of traffic safety can easily be evaluated by numerical evaluation.

Some people are opposed to evaluating administration using numerical evaluation, claiming that numerical values in welfare or environment lack reliability. However, if surveys are made repeatedly, their accuracy will improve. For example, we may verify the effect of constructing a sewerage system by measuring river water quality each year.

Some people criticize that numerical values used in administrative evaluation do not necessarily reflect actual administration conditions or local people's needs. Making civil needs or livelihood surveys, we can get a numerical value for determining the effect of administrative investments or services.

Second, administrative evaluation is classified into policy, program, and project evaluations. Although Mie and Miyagi prefectural governments maintain that they have adopted policy evaluation, they are generally reviewing all projects based on project evaluation. Their strategy for shifting from project to policy evaluation is not really clear.

Although the Shizuoka prefectural government is implementing program evaluation, they seem to lack a strategy for shifting to policy evaluation. They may have excessively implemented program evaluation.

In the U.S., every state government uses benchmarking for program evaluation, and every city office uses project evaluation for output evaluation. On the other hand, many prefectural governments in Japan, including

Mie and Miyagi prefectures, are reviewing all projects; thus, their results do not seem to be convincing.

On the other hand, the Hokkaido prefectural government is doing retrospective evaluation of public works based on "time-based assessment", to identify public works that can be abolished. The Mie prefectural government has introduced a revolutionary system titled "scoring by evaluation item" in its "10-Year Road Improvement Strategy".

The Kobe City Office has developed facility management diagnosis based on scoring, but only for public facilities. Unless favorable results are obtained by these unique methods, the administrative evaluation boom will end, just as with PPBS.

**Table 3. Elements of policy, program, and project evaluation methods**

| Classification | Evaluation subject | Evaluation index | Evaluation time | Evaluation viewpoint | Evaluation method |
|---|---|---|---|---|---|
| Policy evaluation | Overall administration | Screening index | Advance evaluation | External evaluation | Qualitative method |
| Program evaluation | Specified program | Output index | Interim evaluation | Joint evaluation | Qualitative/ quantitative method |
| Project evaluation | Individual projects | Outcome index | Retrospective evaluation | Internal evaluation | Quantitative method |

In conclusion, evaluating all projects is not realistic. I hope subjects will be classified into three groups: investment, facilities and services, with appropriate evaluation methods applied to these groups.

If we establish far-fetched targets or ideals, related departments will not cooperate and reforms will fail. To diffuse administrative evaluation in the public sector choosing only highly effective systems will be strategically important.

Third, evaluation indexes are classified as screening, output and outcome indexes. Output and outcome indexes are now used in a confused way, and project evaluations are not made properly. For example, number of participants in a volunteer class represents an output index and number of participants involved in voluntary activities later represents an outcome index.

Administrative evaluation requires that all administrative activities be given indexes. However, calculating indexes presents the same difficulties experienced in calculating local tax allocation base, or fiscal demands. If the output index is not sufficient, it should be used as a supplementary index.

Depending on the case, modification coefficients should be used, or an additional survey should be made on local people's satisfaction.

For example, if we evaluate an administrative service for organizing a volunteer class by number of participants (output index) and number of participants involved in voluntary services later (outcome index), we can avoid wasteful services and improve user satisfaction.

Fourth, administrative evaluation comprises advance, current and retrospective evaluations. It becomes increasingly clear that many local governments' fiscal position deteriorated from excessive investments in local development activities, or that public investment invited environmental destruction. Thus, local people and local governments fully realize they should review public investment. One such example is the Hokkaido prefectural governments discontinuing some development projects based on their "time-based assessment".

In the past local government public investment has been determined based only on the resource-fund or expenditure-first principle. Many local governments overvalued public investment economic effects and undervalued negative economic effects, resulting in deteriorating fiscal conditions.

Public investment strategies at that time were inferior. When the bubble economy collapsed, many local governments faced fiscal crisis because development-oriented, semi-public joint venture companies went bankrupt

one after another. This is why administrative and fiscal operations begin to show a Copernican-like revolution, from the expenditure-first principle to policy evaluation.

Various pros and cons exist about implementing advance evaluation for public works, such as tideland projects, airports, roads, etc. Thus, no truly reliable policy evaluation has ever been implemented. For environmental problems, presumptive evaluation makes economic evaluation more and more possible for non-economic effects.

Fifth, evaluation viewpoint can be classified as; internal, joint, and external evaluations. In current administrative evaluation, internal evaluation, criticized by the general public, dominates. Even if we disclose information on thousands of projects, citizens cannot evaluate such projects.

For the time being, the right approach is civil ombudsmen identifying improprieties within particular projects, or introducing external evaluation for important projects.

Sixth, evaluation method can be classified as; quantitative, qualitative and combined methods. Although we cannot give numerical values to all administrative activities, another scoring method can be used for projects where numerical values are inappropriate.

In sports competitions, such as gymnastics and figure skating, more than one judge give scores. In local government administrative evaluation, A, B, C, D or E scores are generally given for each evaluation item (public benefit, urgency, effectiveness, etc.).

However, the problem is that concepts behind evaluation standards for effectiveness, public benefit, etc. are vague and chosen at random. As with personnel evaluation, we must improve the evaluation method so it is both realistic and reasonable.

Unless local governments can establish reliable administrative evaluation, they can neither expect to restore local autonomy, nor reform their organizations.

## 4. Applying the 3Es principle

To introduce administrative evaluation, we must resolve many real problems mentioned earlier. We must also address several theoretical problems. Basically, however, we must clarify the 3Es principle and the “public benefit” concept.

As indicated in Figure 1, economy, efficiency, and effectiveness relate to input, output and outcome, respectively. Therefore, we must do an outcome evaluation from viewpoints of administrative and fiscal effects. Advance evaluation relates to input evaluation. Interim evaluation of projects currently being implemented relates to output evaluation. Retrospective evaluation of projects already completed relates to outcome evaluation.

First, I will consider a numerical evaluation called input index. The most basic numerical value is one based simply on the expenditure principle, such as number of day nurseries established, total length of roads paved,

**Figure 1. Administrative evaluation economic indexes**

$$\text{Administrative activities} = \frac{\text{[Economy] input index: Expenses}}{\text{Evaluating standard: Administrative volume}} \times \frac{\text{[Efficiency] output index: Expenses}}{\text{Activity volume}} \times \frac{\text{[Effectiveness] outcome index: Target achievement}}{\text{Effective volume}}$$

etc.

Input evaluation is based on evaluating administrative performance. However, no local government can disregard other evaluation indexes, or amount of expenditure from the general account. In particular, the amount of initial project investment will greatly influence a local government in deciding whether to start a project or not.

The relationship between evaluating administrative activities, and economic evaluation thereof, is indicated in Figure 2. In general, the 3Es principle (economy, efficiency, and effectiveness) is used in economic evaluating administrative activities.

Second, I will consider a numerical evaluation called output index, such as number of users of public facilities, number of participants in a social education class, etc.

Output evaluation provides an output index, but not an outcome index. Therefore, if a certain project is effective only as a formality or superficially, the project is considered successful. For example, culture center use rate, public housing occupancy rate, or day nursery per-head operational cost, are output evaluations. How a facility is used, or occupants' satisfaction are not elements of this index.

Naturally, local governments and local people are very concerned about unit administrative cost of producing a certain output index. No matter how high the community center use rate is, for example, the outcome cannot be considered efficient if a huge amount of funds were disbursed from the general account. Thus, we must also analyze unit cost.

Third, I will consider a numerical evaluation called outcome index, such as public facility user satisfaction, reduced traffic accidents, etc.

Suppose in an organized environmental protection class many persons attended but few actually became involved in environmental protection activities later, and results were not satisfactory. Here, we should evaluate results using an outcome index, such as rejecting synthetic detergents, empty can collection rate, reduced waste discharge, etc.

With an outcome index, we must provide the causal relationship between administrative expenditure and results. With reduced traffic accidents, for example, we have to identify the cause from among various improved traffic safety facilities, traffic regulations, traffic safety education, reduced traffic volume, etc.

Comparing cases with and without administrative expenditure is not easy. The important thing is to assess how much fiscal expenses were needed to achieve a certain target. For example, suppose \2 billion was spent on decreasing the death toll from traffic accidents. A cost analysis based on an outcome index might reveal that fiscal expenses would not exceed \1 billion if the right programs had been chosen.

## 5. Administrative evaluation and public benefit

Administrative evaluation is closely related to the "public benefit" (external effect) problem. Although we say that administrative expenditure is the input, and its effect as output and its results as outcome are calculated as numerical values, we can conclude that the project had administrative/fiscal output and outcome, if project balance in the red.

Unlike private companies, we should adjust a project's cost and benefit (primary index) with project indirect output/outcome. For example, with welfare, environmental, or educational administration, their costs will be disproportionate compared to development, traffic, or housing administration. However, we cannot necessarily conclude that environmental or educational administration administrative/fiscal output and welfare outcome are less than those of development, traffic or housing administration.

This is the "public benefit" problem in public economy. If we cannot solve this problem local governments and local people will reject administrative evaluation, because the system is only a downsizing or rationalization policy tool.

However, different local governments have different “public benefit” standards. For example, the Hokkaido prefectural government has established the following six conditions: 1) necessity (whether necessity or significance varied because of changing economic or social conditions); 2) appropriateness (whether a plan meets today’s needs; whether Hokkaido prefectural government involvement has to be re-examined); 3) priority (whether a project has to be carried out urgently; whether local people need the project; whether a project has priority over other projects in the long-term plan); 4) effectiveness (whether a project can achieve desired results; whether a project is highly appreciated by local people); 5) local people’s awareness (whether local people’s awareness of a program has changed); and 6) alternatives (whether alternatives exist).

If above conditions were classified into screening standards, projects could be more properly screened.

We can classify above conditions into three groups (necessity, sufficiency, and operational conditions), as shown in Table 4.

**Table 4. Screening standards**

| Condition | Item | Application standard |
|---|---|---|
| Public benefit (necessary condition) | External effect | External effect of traffic, housing, and facilities is less than that of roads and parks. |
| | Contribution to social benefit | These services, including welfare, environment and culture, are hard to provide privately. |
| Responsibility (sufficient condition) | Eligibility | Prioritizing projects based on administrative responsibility, local people’s needs, etc. |
| | Operational formula | Administrative responsibility changes depending on the operational formula or cost sharing. |
| Effectiveness (operational condition) | Cost effectiveness | This can be measured by unit administrative cost or facility use rate. |
| | Project profitability | General account subsidization rate differs depending on extent of public nature of investment or services. |

With public benefit, a necessary project condition, the first element is that external effect must be extensive. Public bodies and facilities, such as the police, fire fighting, roads and parks, have extensive external effect because users, and society as a whole, benefit from them.

No conditions apply to public bodies and facilities when screening projects. Local governments must carry out road, sewerage, or disaster prevention projects. Local monopoly enterprises, new business development projects, etc. are exceptional enterprises.

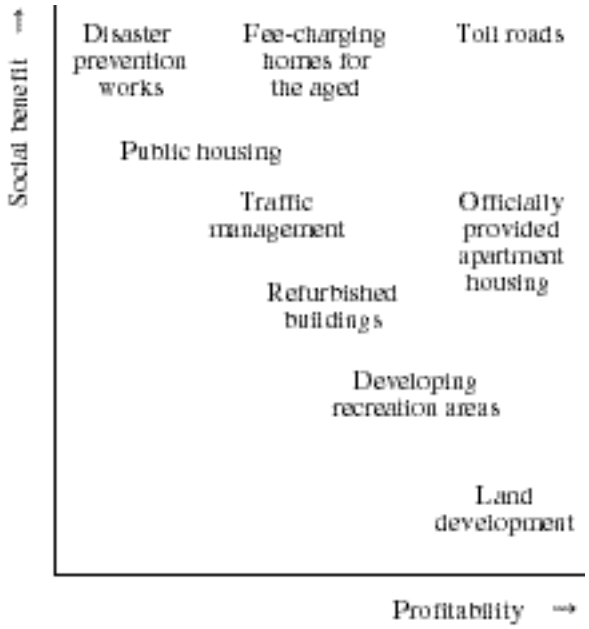
The second element is contribution to social benefit. We cannot expect to find, in the market place, public investment or services with a higher social benefit that things such as life security service and welfare services provided by special nursing homes for the aged. If services or investment has an extensive external effect, realizing profits will be more difficult.

We can consider “contribution to social benefit” as public interest that is hard to respect under market or bureaucratic mechanisms. “Contribution to social benefit” is not necessarily for many and unspecified person. For example, “contribution to social benefit” for certain persons, such as handicapped persons, relates to administrative services, which often decline under market or bureaucratic mechanisms.

We can indicate public investment as in Figure 2. We cannot say that a certain investment satisfies the 3Es principle based solely on profitability. Investment with a high social benefit tends to have less profitability in a sense. However, we cannot say that all public investment should be permitted to incur deficits.

A subsidy may be disbursed from the general account depending on extent of social benefit of a public

**Figure 2. Profitability and social benefit of public investment**




investment. If a project gets more subsidies than needed in light of its social benefit, people will question its operational method or investment strategy in relation to its social benefit and indirect effect/non-economic effect, as described below.

"Contribution to social benefit" is a concept the effect of which has the following non-economic elements: "welfare", "culture", "environment" and "human rights".

We should allocate resources to services or investments that contribute to social benefit as a priority.

From a welfare economics viewpoint, we should give priority to projects with higher social usefulness. As seen in progressive income taxation, \10,000 paid by a person with a \1 million annual income has higher social usefulness than the same amount paid by a person with a \30 million annual income.

## 6. Sufficient conditions other than public benefit

Public benefit is not enough for the public sector to choose a project. The project should satisfy sufficient conditions other than public benefit.

The first condition concerns administrative responsibility. National or civil minimum education, housing and health care standards must be guaranteed by central or local governments as a priority. Local governments must also provide such services as may satisfy local people's needs, as a priority.

In local government crisis management, prioritizing disaster prevention measures against earthquakes, fires, typhoons, storms, etc., would be very difficult. Therefore, establishing standards for choosing policies under administrative evaluation will be difficult, although we can establish standards for reviewing such projects.

Also, responsibilities are multi-layered. Social responsibility (local governments, etc.), community responsibility (corporations, volunteers, etc.), and individual responsibility (families, etc.) are mingled. For example, local people paying premiums under public nursing care insurance will expand administrative responsibilities.

Screening public services is very difficult. Operating bus lines in major cities may be a local government minimum civil responsibility. Table 5 summarizes operational costs and deficit amounts by bus line for the Kobe City Office. Eight bus lines generate profit, while two bus lines, with 200 or more operational cost co-

**Table 5. Deficit and occupancy rate by operation cost co-efficient for bus lines operated by Kobe City Office (FY1997)**

| Operational cost co-efficient | Number of bus lines | (Deficit) | | | | | | (Occupancy rate) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Less than ¥100 mil. | Less than ¥200 mil. | Less than ¥300 mil. | Less than ¥400 mil. | Less than ¥500 mil. | ¥500 mil. or more | 20% or more | Less than 20% | Less than 15% | Less than 10% |
| Less than 100 | 8 | – | – | – | – | – | – | 7 | 1 | | |
| 100 or more, less than 150 | 32 | 25 | 3 | 4 | – | – | – | 21 | 9 | 2 | |
| 150 or more, less than 200 | 20 | 15 | 2 | 1 | 1 | 1 | – | 5 | 10 | 4 | 1 |
| 200 or more | 19 | 12 | 2 | 2 | 1 | – | 2 | 2 | 1 | 6 | 10 |
| Total | 79 | 52 | 7 | 7 | 2 | 1 | 2 | 35 | 21 | 12 | 11 |

(Source) Kobe City Traffic Operation Council, Kobeshi Basu Rosen Saihensei no Kangaekata Nikansuru Toshin (Report on Reforming Kobe City Bus Lines) (July 21, 1999), p.7.

efficient, incur \500 million or more deficits.

For example, bus line operating labor cost is \16,860 million, while revenue from fare is \16,060 million. This is attributed to public employee labor cost being about 1.5 times that of private bus operators. Therefore, optimal policy will not be abolishing bus lines with 200 or more operational cost co-efficient and \500 million or more deficit, but to provide a \300 million subsidy to a private bus operator, if the operator agrees to operate such a bus line. This may be the best solution.

Second, we must examine such projects cost sharing and operational formula. As projects get more diverse, their cost sharing and supply formulae are also diversified.

In the past, no problem occurred when the public sector allocated its personnel and financial resources to achieve an administrative objective. In essence, room for choosing alternative policies was comparatively small.

In a regional economy, total costs remain the same, whether such costs are borne by the pubic sector or by local people. Therefore, the sole task concerns how to create a fair and efficient system.

Regarding the supply formula, the essence of Thatcher reforms in England is that the public sector should be an enabler and not a supplier or provider.

If the conventional idea of public benefit, that public services should be provided by the public sector, radically changes, public sector responsibilities' scope will expand.

Even if a certain project's public benefit is low, the project may be implemented by an auxiliary organization. This is true for public lodging facilities being questioned today. If a project is directly local government operated, its cost will be too high. The project may be operated at lower cost by a local private company.

If the amount of resource fund to be disbursed from the general account for a certain project is comparatively small, the project will meet implementing conditions, even if its public benefit is small. On the other hand, even if a certain project has extensive social benefits, a toll will be levied or an indirect operational method will be used, if the amount of resource fund to be disbursed from the general account is comparatively big.

Administrative services have a "twilight zone" in that local governments have trouble deciding about providing services. This is because certain factors prevent local governments from deciding about services by themselves.

Where appropriate NPOs or private companies exist, however, local governments may commission them to provide such services. The point is whether local governments adhere to bureaucratic norms.

Recently, projects that cannot be implemented or financed only by local governments has increased. There-

fore, local governments are using administrative activities of “creating mutual-society” or “cooperating with local people”, or economic development through “creating cultural industry” or “public-private coordination”.

As we have an increase in people’s needs for local welfare services (home welfare services), environmental preservation (recycling waste and saving resources), revitalizing communities (association among local people or crime/disaster prevention), international associations (cultural or relief aid), community development (event or product development), etc., local governments cannot respond to such needs only by reviewing administrative organization or bureaucratic personnel management.

The public sector must develop an awareness of importance of policy evaluation or choosing, by applying administrative evaluation and try to optimize policy choice.

## 7. Operating conditions other than public benefit

Besides necessary conditions (public benefit) and sufficient conditions, we need to consider the condition that the public sector may operate a project efficiently and effectively. The public sector must examine whether or not investments are made effectively, and whether necessary services are provided based on strict cost-benefit analysis.

To obtain investments and provide services efficiently, the public sector must fully analyze project management to ensure it is carried out effectively.

The first problem concerns project cost-effectiveness. A cost-benefit analysis may be applied to any stage. A simple unit administration cost calculation will be effective.

For facilities, input expenses and input effects can be compared by calculating use rates. This use rate clarifies local people’s needs for, and administrative effect of, such facilities.

For public investment or services, however, their effects cannot be evaluated based only on project profitability, because even a deficit-ridden project may be effective if it is publicly responsible, as mentioned earlier. This applies to major city subway systems or rural area tourism-development projects.

In general, public investments and services often have non-economic effects or indirect ripple effects as indicated in Table 6. For example, local railways or metropolitan area subway systems often incur deficits. However, these transportation systems provide a welfare service for disadvantaged people (transportation means), indirect economic effects (reducing pollution and road accidents) and fiscal advantages (reducing investment in roads). Therefore, these effects should be reflected in a cost-benefit analysis.

Public benefits of public investments or projects reflect various effects, as mentioned above. The important thing is to assess not only project profitability, but also such effects, and determine permissible proportion of project deficit.

**Table 6. Scope of public investment effects**

| Classification | Tourism project | Railway project | Disaster prevention project |
|---|---|---|---|
| Direct economic effect | Increase in number of tourists | Expansion of local economic activities | Reduction in damage from disasters |
| Indirect economic effect | Increase in sale of local products | Improvement in traffic convenience | Continuance of economic activities |
| Direct non-economic effect | Environmental improvements | Reduction in traffic pollution | Safety and Health |
| Indirect non-economic effect | Improvement of local image | Comfort of traffic means | Increased security |

The second problem concerns project profitability. Not all projects are public services or investments in a strict sense. Depending on project character, therefore, some must use self-supporting accounting.

Depending on a project's degree of public benefit, quasi self-supporting accounting should apply as indicated in Table 7. For public developers selling building lots, however, self-supporting accounting should apply, according to degree of public benefit. For public sector operated fee-charging life-time homes for the aged, self-supporting accounting should apply, too, in principle.

In many cases, profit-making public facilities are constructed and operated by local governments because they have a reasonable degree of public benefit. In these cases, various kinds of financial support are provided, such as land, non-interest bearing funds, or construction subsidies, distributed from the general account.

However, we must realize that too easily gotten subsidies could spoil project operators, and umbrella operational assistance could damage operator autonomy, when standards for providing such subsidies are unclear. Thus, financial assistance should be given very carefully.

**Table 7. Applying quasi self-supporting accounting**

| Facility/project | Expenses to be borne by the operator |
|---|---|
| Toll road | ○ Land, ○ Building, ○ Personnel cost, ○ Current cost |
| Recreational facility | × Land, ○ Building, ○ Personnel cost, ○ Current cost |
| Culture hall | × Land, × Building, ○ Personnel cost, ○ Current cost |
| Museum | × Land, × Building, × Personnel cost, ○ Current cost |

Introducing administrative evaluation involves the many difficult problems described above, in terms of theory, strategy, and operation. Therefore, we cannot establish a perfect administrative evaluation system from the beginning. However, if we keep trying to develop evaluation indexes for individual projects, we can create, at the minimum, an administrative evaluation system that is more appropriate than current project screening/operation.

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