



Performance Based Budgeting

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Trends in Developing PI

- **Continuing to move forward with initiatives** to improve the use of PI in budgetary decision making
- **Widespread trend** : 75% of OECD countries include non-finance performance data in budget documentation
- **Long term trend**: 40% of countries working on outputs for over 10 years (*Source OECD 2005 Questionnaire on PI*)
- **Constantly evolving**: 35% of countries introduced a new initiative in past year (*Source OECD 2005 Questionnaire on PI*)

Performance Budgeting Categories

Type	Linkage between PI and funding	Planned or actual Performance	Main purpose in the budget process
Presentational	No link	Performance targets and/or performance results	Accountability
Performance informed budgeting	Loose/indirect link	Performance targets and/or performance results	Planning and/or accountability
Direct/formula PB	Tight/direct link	Performance results	Resource allocation and accountability

Country	Most recently implemented Reform	Year	Main Purpose
Australia	Revision of Expenditure Review exercise	2006	Revision of expenditure review to give a greater role to the MOF identifying and managing reviews.
Canada	Management, Resource and Result Structure	2005	MRRS provides guidelines on how to collect, manage and report financial/non financial information
Denmark	Accrual Accounting and Budgeting	2007	Accrual accounting and budgeting are being implemented for the central government sector.
Korea	Strategic Plans	2006	Development of strategic plans which will be updated every 3 years.
Sweden	Budget Bill	2001	Policy areas are introduced for government activities in order to be able to evaluate them.
UK	Comprehensive Spending Reviews and Public Service Agreements	2000-2007	Reallocate money to key priorities and to improve the efficiency and delivery of public services

Different implementation strategies for PB

- Top-down versus bottom-up
- Incremental versus big band
- Comprehensive coverage versus partial

Summary of Country Implementation Strategies

Country	Strategies More		Coverage more		Timescale more	
	Top-down	Bottom Up	Comprehensive	Partial	Big Bang	Incremental
Australia		X	X			X
Canada		X	X			X
Denmark		X		X		X
Korea	X			X	X	
Sweden		X		X		X
UK	X		X			X
USA	X		X			X

What is relationship between budget allocations and performance?

- Mechanical model – performance changes directly reflected in budget
- Incentives model – performance affects a portion of funding
- Agenda model – performance one factor in budget decisions
- Performance changes not yet reflected in budget

Changing budget structures

- Budget structures more conducive to integration of PI – program structure or outputs/outcomes structure
- Countries change structure as part of efforts to introduce accrual- based budgeting e.g Australia, NZ, and UK
- Does not necessarily change budgetary decision making needs also to alter the budget process and incentives of actors in process

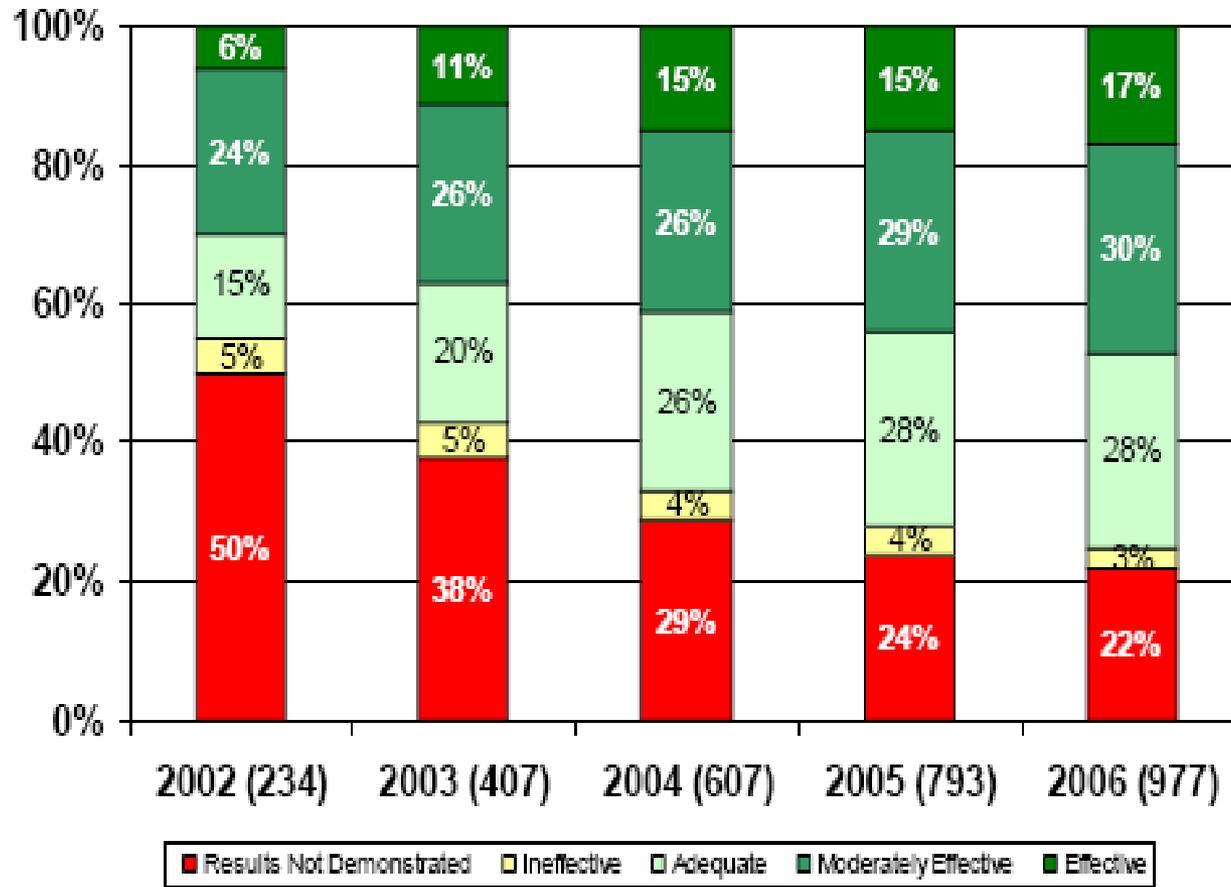
Budget negotiations between MOF and spending ministries

- Presentational PB – No formal mechanism incorporating PI into budget process e.g. Canada, Denmark, Sweden
- Performance Informed Budgeting- PI informs budget allocation along with other information
 - PI for planning purposes – loosely linking planned performance to funding e.g. NZ , UK, and Australia

Budget negotiations between MOF and spending ministries (continued)

- Performance results for accountability purposes – loosely linking performance results to funding
 - Countries do not automatically link funding to results
 - Weight given to PI depends on policy area, information available and political and economic context
 - Agency performance agreements and contracts e.g. Australia, Netherlands, NZ and Nordic countries
- Performance results as part of ad hoc or systematic expenditure review exercises
 - Ad hoc e.g. Canadian program review exercise 1995-96 and 1998-99. First review cut departmental budgets on average by 21%
 - Systematic review e.g. the Netherlands interdepartmental policy reviews
 - Reviews introduced under conditions of fiscal stress. In conditions of fiscal surplus more difficult to control increases and reduce expenditure

PART Score Trends



Direct/Formula PB

- Directly and explicitly links performance results to funding
- Mainly applied in certain sectors and countries
- Sectors – higher education and health (diagnostic related groups)
- Requires clear and explicit output measures and information on unit costs
- Issues with
 - Dysfunctional behaviour and gaming in health sector- skimping, dumping, and creaming
 - Quality of service provision
 - Implications for control of aggregate financial control

Incentives available to MOF to motivate agencies to improve efficiency and performance

- Financial rewards and sanctions
- Increase or decrease financial and managerial flexibility
- Public recognition

% of OECD MOFs that often use PI for the following courses of action

Performance measures	Evaluations
To eliminate programmes: 4%	To eliminate programmes: 11%
To cut expenditure: 10%	To cut expenditure: 15%
To determine pay: 11%	To determine pay: 5%

Financial rewards and sanctions

- MOFs do not automatically financial reward or punish agencies based on performance results
- Exception Korea- announced a 10% budget cut for ineffective programs
- Most MOF use PI as a signaling device and serves as a trigger to more closely monitor poor performing agencies
- With poor performing agencies most common course of action to hold resources constant and review during the year

Factors influencing the use of PI in budgetary decision making

- Process to integrate PI into the budget process
- Quality of PI
- Institutional capacity of MOF and spending ministries
- Wider economic and political institutional structure and context

Reported benefits

- Greater focus on achieving results
- Mechanism to set objectives and to monitor progress
- Improves planning, especially when used in conjunction with MTEF
- More information on
 - Government goals/priorities
 - How national programs fit in with goals
 - Actual results and performance
- Improves transparency

Reported benefits (Continued)

- Signaling device highlights policies and programs that work and those that do not work
- Improving Management
- Informing citizens' choices
- Improving efficiency
 - Gap in research no comparative cross-country studies on impact on efficiency or even studies within countries
 - Although case studies and anecdotal examples support thesis
 - More evidence to support that direct/formula PB improves efficiency

Reported benefits (Continued)

- PI used to inform budget decision in certain contexts
- A few examples of PI –mainly evaluations- being used a part of expenditure reallocation or prioritization exercises
- Generally not used systematically at a government wide level for reallocation purposes
- No evidence to support thesis that it impacts on aggregate fiscal discipline

The Challenges

Countries continuing to struggle with

- Integrating PI into the budget process in a systematic manner
- Measurement of outputs & outcomes
- Gaining agreement on clear objectives and setting targets
- Improving the quality, credibility, relevance and timeliness of PI
- Perverse incentives

The Challenges (continued)

- Developing the capacity of MOF and spending ministries
- Resistance to change from public servants
- Changing behaviour and culture of politicians and civil servants
- Convincing politicians to use PI in decision making

Lessons Learned for designing budget systems that use PI

- Contextual variables – No one “best” model.
- Aligning financial information and performance information
- Longer term strategy necessary to phase in changes
- Avoiding government wide systems that tightly or directly link performance results to resource allocation
- Improving quality of PI and independence evaluation of information

Lessons Learned for implementing budget systems that use PI

- Finding an implementation approach appropriate to the wider governance and institutional structures
- Importance of leadership
- Developing the capacity of the MOF and spending ministries
- Consultation and ownership
- Having precise goals and measuring and monitoring progress towards achieving them
- Realistic expectations for role of performance in decision-making process

Conclusion

- The road from incremental towards results-based budgeting: long and difficult
- PI has proven useful but not met expectations – problems remain
- However, most OECD countries cannot imagine operating a budget system today without PI
- Countries evolving their performance approach rather than discarding
- There is a need for more realistic expectations and greater efforts to get all stakeholders on board