

© OECD, 2002.

© Software: 1987-1996, Acrobat is a trademark of ADOBE.

All rights reserved. OECD grants you the right to use one copy of this Program for your personal use only. Unauthorised reproduction, lending, hiring, transmission or distribution of any data or software is prohibited. You must treat the Program and associated materials and any elements thereof like any other copyrighted material.

All requests should be made to:

Head of Publications Service,
OECD Publications Service,
2, rue André-Pascal,
75775 Paris Cedex 16, France.

© OCDE, 2002.

© Logiciel, 1987-1996, Acrobat, marque déposée d'ADOBE.

Tous droits du producteur et du propriétaire de ce produit sont réservés. L'OCDE autorise la reproduction d'un seul exemplaire de ce programme pour usage personnel et non commercial uniquement. Sauf autorisation, la duplication, la location, le prêt, l'utilisation de ce produit pour exécution publique sont interdits. Ce programme, les données y afférentes et d'autres éléments doivent donc être traités comme toute autre documentation sur laquelle s'exerce la protection par le droit d'auteur.

Les demandes sont à adresser au :

Chef du Service des Publications,
Service des Publications de l'OCDE,
2, rue André-Pascal,
75775 Paris Cedex 16, France.

Outcome-focused Management and Budgeting

by

Jens Kromann Kristensen, Walter S. Groszyk and Bernd Bühler*

1. Introduction

Over the last two decades, the focus of public sector budgeting and management in most OECD Member countries has changed from inputs towards outputs. While important elements of an input-based management approach remain, many managers are now more often judged by how their programmes perform rather than by how well they adhere to administrative controls and procedures, or how successful they are in obtaining resources for their programme. The jury is still out as to the details of actual gains and losses connected to this change, but generally it is the view of central budgeting and management institutions that this change in focus has enhanced the quality of management and increased programme effectiveness and efficiency.

Despite this generally positive view, it is recognised that the output approach has a number of limitations:

- An emphasis on quantitative output measures can distort attention in delivery agencies, with agencies losing sight of the impact their programmes have on society.
- Politicians and the general public tend to think in terms of outcomes and not of outputs. An accountability mismatch may arise between politicians thinking in terms of outcomes and agency managers administering in terms of outputs.
- Outputs typically do not forge a strong link between government policies (whose purpose is likely to be phrased in terms of outcomes) and their implementation.

* Jens Kromann Kristensen is Administrator, Budgeting and Management Division, Public Management Service, OECD. Walter S. Groszyk is Senior Adviser for Performance Management, Budget Review and Concepts Division, Office of Management and Budget, United States. Bernd Bühler works in the Department for Budgeting and Planning, Ministry of Finance, Hamburg, Germany.

- With an output focus, little information is obtained or “learned” by the government for subsequent use in formulating policies or examining what programmes are actually accomplishing.

These limitations have led several OECD Member countries to begin placing more emphasis on outcomes, while continuing to be attentive to costs, inputs and outputs.

While several OECD Member countries are already implementing an outcome-focused approach, other Member countries are considering if, and how, they should embark on this next step in the development of public management and budgeting. In these countries, practitioners in central policy institutions, as well as programme managers, are examining ways to define, evaluate and use outcome measures. And they are striving to establish links between policy formulation, political decision-making, management, audit and evaluation.¹

The purpose of this article is to provide an overview of the conceptual framework, the motives for moving to an outcome focus, the implementation challenges and problems, the options available when designing systems and the actual approaches in selected OECD Member countries.

2. Framework

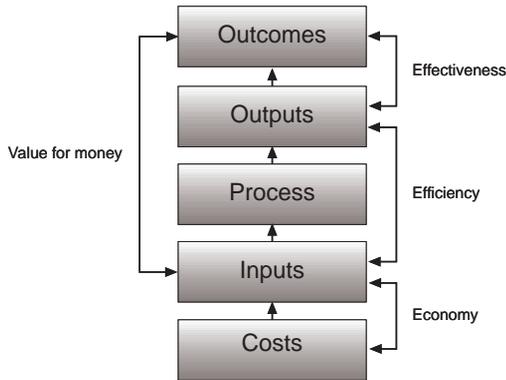
2.1. Public management regimes

A public management regime can be defined by a number of criteria – for example, by its view on what affects human behaviour, its main objectives and values, its distribution of duties and responsibilities, or its implementation structures. However, at the admitted risk of simplification, budgeting and management regimes can also be described according to the weight they give to costs, inputs, processes, outputs and outcomes and the corresponding measures of achievement, *i.e.* effectiveness, efficiency, economy and value for money, see Figure 1.

Figure 1 outlines the different elements ordered along a classical notion of rational policy implementation and the connected measures of achievement. A more elaborate discussion of the relations between costs, inputs, outputs and outcomes and the connected measures of achievement can be found in the Annex to this article.

Input-focused management and budgeting is oriented toward how much resources, staff, facilities, etc. are made available for a programme or ministry. The amount of money being spent on a programme or problem is often the main performance measure when managing to input. The internal management information of an input system does not reveal what the resources actually bought or achieved were

Figure 1. Focuses and measures of achievement



and often an input focus is accompanied by process regulation – *i.e.* standards and rules on how inputs should be aligned, how things should be done.

However, ministries and agencies are not only created to spend money and adhere to rules. To varying degrees, governments have sought to describe and measure what the money is buying. Mostly, these descriptions and measurements have been of outputs.

An *output-focus* to management and budgeting typically describes public functions in terms of goods or services and calculates how many services are being delivered, or products produced. An output focus is primarily oriented to indicators such as volume and timeliness, and to a varying degree, quality; for example how many beneficiary claims will be processed with minimal errors.

The extent of a manager's direct control over outputs is less than that for inputs but it is still usually substantial. Even for an organisation with an outcome-focused approach to management and budgeting, the day-to-day management and budgeting of the ministry is likely to rely on output data.

In *outcome-focused* management and budgeting, the government defines what a particular programme or function is to achieve in terms of the public good, welfare or security; for example, outcomes to reduce the incidence of disease or ensure, for most students, a certain level of educational attainment. Having *defined* the outcomes, an outcome system typically defines indicators, which helps assess how well it does in achieving these outcomes.

In principle, outcome-focused budgeting and management involves greater internalisation of the information needed for formulating, implementing and eval-

uating policies, taking into account the need to establish the linkages between the five elements mentioned in Figure 1 above (*ex ante*, during implementation and *ex post*). Thus, outcome-focused management and budgeting brings together organisations involved in policy formulation, policy execution and audit or evaluative institutions, as well as the connections between the three.

The move to an outcome-focus in budgeting and management is thus a widening of management and budgeting ambitions compared to the historical dominant focus on inputs and later outputs.

2.2. Vocabulary

Moving from an input-focus to an output- or outcome-focus means an increase in the amount of information and change in the type of information generated and used for budgeting and management purposes – using information about costs, inputs, outputs and outcomes. Characteristically, the use of the information involves setting targets for outputs and indicators and/or targets for outcomes to help hold people and/or organisations accountable for their delivery.

Box 1. Terms

Inputs are what an organisation or manager has available to achieve an output or outcome. Inputs can include employees, equipment or facilities, supplies on hand, goods or services received. *Costs* are the expenses incurred using the inputs. *Outputs* are the goods or services (usually the latter) which government agencies provide for citizens, business and/or other government agencies. *Processes* are the ways inputs are aligned to bring about outputs. *Outcomes* are the impacts on, or the consequences for, the community from the outputs or activities of the government. Outcomes reflect the intended and unintended results from government actions and provide the rationale for government interventions.

Examples of input could be secretaries, computers or office space. An example of an output from a Ministry of Finance could be a monthly delivery of reports of government financial performance and the annual financial statements. An example of an output target could be that 90% of economic reports are delivered within the timeframes agreed and are rated excellent or above average by principal users. An example of an outcome from such a ministry could be that government finances are sustainable. An example of an outcome target could be that government finances will produce a budgetary surplus of 2% in the next fiscal year.

Though there is convergence of the vocabulary in OECD Member countries, there are a number of observations to take into account when reading texts and comparing approaches in different countries:

- The distinction between “outcomes” and “outputs” does not translate well from English into other languages. Most other languages in OECD Member countries only operate with the generic term “results/résultats/resultate/resultados/resultater” and when introducing an outcomes focus, administrations in non-English speaking countries have to construct new terms to make the distinction clear. This problem of translation interestingly enough also applies to a number of other English public management reform terms as for example “effectiveness”, “performance”, “accountability” and “governance”, to name a few.
- There are generally two perceptions of what constitutes an “outcome”. For some, an outcome is seen as the *intended* consequences of government action on society. This is how the Office of Management and Budgeting in the United States use the term. For others, “outcomes” are perceived as the actual impact – whether intended or not. The Department of Finance and Administration in Australia use “outcomes” this way.
- Some countries, for example the United States and the United Kingdom, make a distinction between different levels of “outcomes” depending on the time horizon for measurement, the generality of the connected outcome targets or the degree of government influence on the outcome. This results in the usage of additional terms like “goals”, “objectives” and “impacts”.
- Similarly, a distinction can be made between “activities” and “outputs”, the latter being groupings and generalisations of the former. If, for example, “policy advice” is an output, activities would include the individual acts of giving advice (reports, discussions with the minister, analyses). This is a distinction implemented in, for example, New Zealand whereas it does not loom large in France or the United Kingdom.

The definitions offered in Box 1 above thus simplifies the vocabulary but should suffice to giving a general overview.

3. Motives

There are several reasons for countries to embark on an outcome-focused approach to budgeting and management.

3.1. Orientation of public sector production – effectiveness and efficiency

The idea is that in the interest of increased effectiveness and efficiency of delivery, the perspective of managers can change from one that primarily is

inward-focused on how the organisation is being administered to one that looks outward, at public conditions, needs and problems. An aspect of this objective is a quest to increase public sector learning through feeding information about the performance of policies (outcomes) to the policy formulation process. Can outcome-focused information be used to ensure that government and its agents are delivering services, benefits and products properly aligned to the public interest and with efficient use of resources? Does government make a difference?

3.2. Public awareness – transparency and accountability

Another motive is to make governance more transparent and government managers more accountable for the performance of their programmes in regard to societal effects. Managerial emphasis is thus shifted from how many resources will be received to what will result from the resources being spent. Governments intend to demonstrate the effectiveness of their programmes in improving people's lives and national conditions (economic, social, environmental, safety). How can citizens be better informed about outcomes and the responsibility for achieving them?

3.3. Reallocation

Resource allocation may be enhanced on the basis of outcome information by matching programme costs with programme results, and by making comparative assessments of programme efficiencies, effectiveness and the relative worth of programmes in producing results. For this purpose, the budget can be structured around outcomes and an outcome focus can be integrated into the budget and reporting system and cycle. How can resources be allocated to the government's priorities and to the most effective programmes?

3.4. Co-operation and co-ordination

A fourth motive is cultural change by fostering cross-ministerial co-operation and co-ordination. Outcomes have the potential to provide cohesive and consistent direction to related programmes on an intra-ministry and inter-ministry basis where these programmes work toward common objectives; *i.e.* to minimise a silo or stovepipe approach to programme management. (Successful achievement of many outcome goals depends on several programmes working together in a co-ordinated and supportive way.)

In the countries reviewed, no single reason predominated to the exclusion of others.

4. Implementation challenges

Outcome-focused management and budgeting is relatively new in OECD Member countries. It is therefore too early to assess the overall usefulness and value of this approach to governance and agency management. And it is difficult to compare its strengths and weaknesses to earlier attempts in this direction such as the PPBS (Planning, Programming and Budgeting System) and more isolated initiatives in the public sectors of the OECD. It can be noted, however, that no government has (yet) turned away from this approach, although there are many challenges that must be overcome before it becomes institutionally and culturally accepted by managers and other government officials. Among the challenges are the following:

- Expectations must mirror reality. Performance measures, including outcome goals, are only one factor in policy and resource decision-making. Issues such as establishment of majorities in Parliament and attracting media attention might have a (bigger) say. Rarely will elected officials make programme decisions solely on the basis of performance information. Their decisions may even be contrary to what might be expected if performance data had dictated the choices made.
- For many, this will be a major shift in the way they manage and run their programmes. A widespread and fundamental change in management culture and philosophy will usually be resisted somewhere.
- Knowing whether an outcome is actually achieved can be difficult (and expensive) to measure and analyse.
- Public visibility invites public scrutiny, not only of ministry management skills but of the basis for government policy-making.
- Government budgeting and financial systems may presently be capable of generating only rudimentary matches of resources with outcomes.
- Constituencies and beneficiaries may prefer that programme results not be measured or evaluated, fearing that their programmes may be shown to be ineffective, of little value, or unimportant in achieving the desired effect or impact.
- Co-ordinating efforts to achieve outcomes that cross agencies or will be achieved by more than one level of government can be daunting.
- There are limits on how much information politicians and public servants can incorporate into their decision-making, and they can only devote attention in detail to a few areas at a time.
- Some incentives have much more influence on how officials direct their attention than others do (for example, the urgent driving out the important).

- The choice of management information architecture formed on an outcome basis might reduce the quality of input or output information, which might be more useful for certain purposes, *e.g.* for controlling corruption or for increasing efficiency.

Challenges vary between countries according to individual governance arrangements and the actual approaches to outcome-focused management and budgeting will vary accordingly.

5. Governance and implementation options

The introduction of an outcome-focused approach to budgeting and management involves a number of governance and management decisions, which will affect information flows and the distribution of power in a given political system. The following are some of the main questions and issues identified in OECD Member countries embarking on outcome-focused reforms.

5.1. Purpose

What is the purpose of adopting an outcome-focused approach to management? Is it the government's fiscal outlook? Is it pressure from the public to make the budget more informative? Is it following naturally from observations of the limits of an output approach? Or has the outcome focus just become a possible governance option with the enhanced availability and decreasing price of information?

5.2. Phasing

With the possible exception of Australia, which introduced outcomes as an integral part of its framework at the outset, no government seems to have started immediately with an outcome-focused approach to results-focused management. Rather, the outcome approach is typically preceded by extensive use of output measures. Are there general public management or capacity preconditions which must be met before an interest in introducing outcome information is warranted? Does the optimal mix of outcome/output/input information vary from one policy area to another?

5.3. Driving force

What is the initiating and driving force behind outcome-focused management? Is it the legislature (by enacting a law requiring this be done) or the Executive (utilising internal directives) and if so, which part of the Executive? If outcome-focused management is not established in law, will this affect the likelihood of institutionalising and running this approach, particularly if the ruling party or parties (which introduced the approach) changes?

5.4. *Who defines and approves outcomes?*

Within the government, who is or should be responsible for defining outcomes and identifying indicators and who gives assurance on quality in this area? Is it the legislature, the head of state, the Cabinet collectively, the minister responsible for the programme, the programme's executive or manager, career government officials; or should outcomes be defined jointly by several of these parties? Once an outcome is defined, is or should there be a schedule for subsequently reviewing outcomes and revising or re-affirming them?

5.5. *Transparency*

What participation or involvement in outcome definition should there be by the general public, stakeholders, recipients, users and beneficiaries of a programme? If non-governmental parties are to be involved, what means should be used to bring about this participation and when in the process should it occur?

Should outcome targets be publicised – and how? Should publicising also cover public reporting on the government's progress and success in achieving the outcomes?

5.6. *Evaluation*

Collecting and evaluating data on the achievement of outcomes is usually more difficult than data collection and analysis for outputs. The difficulties arise from time lags in reporting, ability to gauge effects of an outcome on society, the economy, the environment or similar sphere, and uncertainty about how much outcome-effect can be attributed to individual programmes in a multi-programme effort. To what extent does, or should, the potential difficulty and expense of collecting and evaluating data on outcomes influence the choice of outcomes or how they are defined?

5.7. *Accountability*

To what extent should government officials be held accountable for achieving outcomes? Should officials be given more flexibility in managing and administering programmes in exchange for their assuming greater responsibility and accountability for outcomes? To what extent should individual or organisational accountability be public?

5.8. *Outcome and performance management*

Having to report on and be accountable for outcomes can reinforce management's attention to them as a tool and framework for administering programmes and allocating resources. However, it is usually much easier to manage for outputs than

outcomes. How should governments use outcomes as a performance management tool? How can officials be given incentives to pay more attention to outcomes?

5.9. Outcomes and the budget

Perhaps the most ambitious aspect of outcome-focused management is in using outcomes (and the performance levels associated with outcomes) to influence and drive decisions on budget levels. This is often a challenge because calculating the cost of the effort to achieve outcomes can be more difficult than costing outputs. As outcomes may not be as precisely defined as outputs, uncertainty may arise over how changes in resource levels may affect performance levels. Before the budget is decided, should outcome performance levels be considered before determining resource levels for a programme? After the budget is decided, should outcomes be used to justify the resource levels in the budget? Should resource levels be identified for all outcomes, or only in the aggregate for outcomes of a certain type or scope, such as an outcome that covers a broad government function?

If outcomes are used to inform decisions on budget levels, which staff or government organisation should be mainly responsible for first estimating the cost of achieving an outcome? Which staff or organisation should analyse this estimate? Should budget estimates of outcomes be independently analysed by the legislature or by auditors prior to the legislature appropriating funds?

5.10. Outcomes and risk

External forces and circumstances may affect the achievement of outcomes. How should governments take account of such external factors?

5.11. Vertical coherence – levels of government

Should an outcome-focused approach include all levels of government or just one or two levels in addition to the national level? The logic of an outcome approach is that outputs or activities financed and organised by the public sector should be aligned to outcome targets independently of which organisations actually produce the output. On the other hand, accountability for outputs is a basic governance value in many countries. Should an outcome approach therefore include different levels of government and how is such an approach balanced against the quest for clear lines of responsibility?

Similarly, should sub-national levels of government introduce a counterpart outcome-focused approach to their management, and should this be done under the sponsorship and direction of the national government? The assessment might also examine whether sub-national efforts mainly focus on those programmes, which are funded and overseen by the national government.

5.12. Horizontal coherence – Crosscutting issues

Achieving some outcomes will require that different programmes or organisations work together. Such outcomes can often cross ministries. Defining and achieving outcomes that are inter-agency is a challenge and opportunity. The opportunity arises from getting related programmes across the government to communicate with each other, and agree to work in a mutually supportive way toward a common objective. This can increase the effectiveness and efficiency of the individual programmes. The challenge stems from the difficulty often experienced in forging these agreements, and co-ordinating the tasks, especially when no one ministry is given lead responsibility for the outcome. What has been the government's experience in defining and achieving outcomes that are cross-ministry in nature?

A number of countries have addressed some or most of these questions and issues, and approaches vary significantly.

6. Overview of country approaches

6.1. Overview

6.1.1. Introduction

Process-oriented management, management by political decree, legal commands and management by campaigning has never really gone out of fashion. Similarly, input controls continue to be popular with politicians and in central ministerial departments. Thus, the change of management regimes in OECD Member countries has generally been cumulative: When new approaches to management and budgeting are introduced, some elements of the old regime are preserved.

The efforts to introduce more outcome-focused management is no different in this respect. It does not replace input management, the process of output management, or other techniques from the public management tool kit. The aim in OECD Member countries is to complement these approaches by focusing on outcomes.

In Australia and the Netherlands, the main budget and accounting documents are now being restructured around outcomes. This restructuring is accompanied by plans to change the focus of budget negotiations. Accrual accounting systems are intended to underpin the allocation of costs to outputs and outcomes.

In countries such as Canada, the United Kingdom and the United States, agencies have to provide separate performance documents with outcome and output goals together with the main budget documents. Agency managers are held accountable on the basis of annual reports, which present whether planned

goals have been achieved and how much money has been spent for these purposes. In France, an annex is presented together with the main budget document mapping performance and illustrating how outputs relate to outcomes. The main focus, however, is on outputs. France is currently restructuring the core budget documents to take better account of outcome and output targets and information.

Other OECD Member countries focus mainly on inputs and outputs in their budgeting and management systems, though reforms are under way. In New Zealand, the budget is structured around outputs. Work is under way to better integrate outcome information into budget and management processes. Some agency managers, however, are held accountable for outcomes if these are deemed to be controllable and information on performance can be made available. In Japan, efforts are under way in some ministries to adopt a more systematic approach to outcome evaluation. In Norway, outcome information appears on an *ad hoc* basis in performance documentation.

6.2. Australia

In April 1997, the Australian Government agreed to implement accrual-based budgeting, under an outcomes and outputs framework, for the 1999-2000 Commonwealth Budget. By November 1998, all ministers had approved the outcomes their portfolios would work towards and the mix of outputs that would be used to contribute to those outcomes. The 1999-2000 Budget, tabled in May 1999, was the first to implement the full accrual-based outcomes and outputs framework, incorporating accrual budgeting and reporting. Annual Reports for the first accrual budget period have now been published and tabled in the Australian Parliament.

Outcomes are the results, impacts or consequences of actions by the Commonwealth on the Australian community. Agencies are directly responsible and accountable for the delivery of outcomes identified in the Appropriation Bills and receive appropriation based on their outcomes.

Defining the outcome statement is a complex process. Agencies develop an outcome statement in conjunction with the portfolio minister. Legal advice is sought to ensure that the outcome can be appropriated against. The outcome statement then requires the endorsement of the Minister for Finance.

Agencies are responsible for developing a series of outputs which, in conjunction with administered items, work directly towards the delivery of the relevant outcome. Outputs are the actual deliverables (*i.e.* goods and services) agencies produce which, together with administered items, generate the desired outcomes specified by government. All departmental outputs must contribute to the realisation of a specified outcome. This also applies to purchaser/provider arrangements where the provider is delivering services to contribute to the purchaser's outcomes.

Annual Portfolio Budget Statements identify each agency's planned performance for the coming budget year. Annual Reports detail the degree to which those plans have been realised and the efficiency of agency outputs and administered items used to achieve this. In preparing the two documents, agencies are required to enable a clear read between planned and actual performance.

Performance indicators specified by agencies fall into two categories – indicators of effectiveness and indicators of efficiency. Effectiveness indicators should be designed to identify as clearly as possible the causal relationship between the outcome and the outputs and administered items in place to achieve it. Efficiency indicators provide information on the productivity of a given output in terms of the combined and interdependent effects of its quality, quantity and price.

The full implementation of the framework is not yet completed. Rather, it is expected to be an iterative process, which may take several years.

6.3. Canada

With the Programme Review of 1994, Canada increased its efforts to implement outcome-focused management. The Programme Review aimed at ensuring that the federal government's resources were directed to the highest priority requirements and to those areas where the federal government was best placed to serve citizens. Following this review, departments and agencies began to plan and report on medium- and longer-term results, called "Key Results Commitments". All government departments now plan and report against their Key Results Commitments and present this information to Parliament and the public.

Every department presents a "Report on Plans and Priorities" to Parliament each spring shortly after the Minister of Finance tables the budget. This report is supposed to be a department's primary planning document; in it, the department outlines how it will work towards achieving its Key Results Commitments (over the next three-year period).

In the fall, *Departmental Performance Reports* are tabled in Parliament along with the President of the Treasury Board's annual overview of government performance (*Managing for Results*). It is in these reports that departments chart progress made towards the achievement of their Key Results Commitments. The reports describe to what degree the intended outcomes and outputs of a department have been achieved, the resources used, and how departmental activities contributed to the department's strategic direction and to government-wide commitments. *Managing for Results* gives an overview across departments and tracks the development of outcome-focused management practices. As these reports are published five months prior to the next fiscal year, they provide context for the following performance plans and the budget.

Departments and agencies are required to link inputs and outputs to Key Results Commitments for each of their principal areas of business. However, practice shows that it is difficult to cost outcomes clearly. The federal government is therefore preparing an initiative to improve measuring costs in relation to outcomes. This initiative is part of a wider strategy, which also includes a shift to accrual accounting.

Planning and performance reports are referred to appropriate committees in Parliament, thus giving parliamentarians the opportunity to review them and to offer comments and recommendations. In addition, departments and agencies are encouraged to consult with other stakeholders such as their clients, industry officials and interested Canadians in defining outcome goals.

Planning and performance reports are published on the Treasury Board's website.

6.4. France

Since the end of the 1990s, elements of performance information have been gradually introduced in the French Budget. Until recently, however, the main focus had only been on outputs.

Since 1997, a new budget layout has been developed based on so-called budget aggregates. The aggregates are essentially groupings of existing budget sections according to outcomes. (Budget sections are appropriations against institutions and programmes). Until recently, Parliament voted on budget sections whereas aggregates were provided to Parliament for information.

At the request of the National Assembly, steps have been taken to improve the information provided in the budgeting and accounting documents. For the 2000 Budget each ministry was asked to include an outline of the relevant objectives for each aggregate and, wherever possible, quantitative indicators of the results produced. This procedure was taken further with the 2001 Finance Bill, which introduced a consistent structure and layout for aggregates in the budget. Furthermore, this bill established a follow-up process for the information in the aggregates between the budget directorate and the ministries similar to the procedure for financial information.

Following these initial changes a major reform took place in June 2001 with the modification of the 1959 Order on Finance Acts. The reform has two main objectives:

- to modernise public management through increased budgetary transparency and a thorough reorientation of the budget according to outcomes and performance;

- to alter the balance of powers with regard to public finance by improving parliamentary information and control of the budget.

The most important element of the reform is the creation of “programmes” which are formalising the prior trial with aggregates. Instead of voting on budget sections, which are essentially input-based, Parliament will vote on programmes, which are broken down into so-called “missions” related to the government’s outcome objectives. Each mission is accompanied by performance indicators.

The reform introduces an extensive fungibility of appropriations within the approximately 150 programmes. When fully-developed, budgeting based on “programmes” will make possible a shift from an input budget to budgeting based on objectives and outcomes.

Spending authorisations will remain annual but a multi-year dimension will be introduced in the form of non-binding projections

The central government budget will continue to be drawn up on a cash-basis. Accruals will be introduced gradually as an accounting basis.

The full implementation of the framework is not completed, rather it is seen as an iterative process which will take several years. Its application is not expected to be fully effective until about 2004.

6.5. *Japan*

Japan introduced a government-wide policy evaluation system in early 2001. According to this system, each ministry is required to run evaluations of policies, programmes and projects they are in charge of. Furthermore, the Ministry of Public Management, Home Affairs, Post and Telecommunications is entitled to initiate evaluations of the line ministries’ policies.

Ministries are obliged to undertake policy evaluations but can develop their own evaluation approach according to their specific demands. To help ministries in this regard, the Ministry of Public Management, Home Affairs, Post and Telecommunications has designed three different models for evaluation. Ministries can combine the models, adjust them or use them as they are. One of these models refers to “performance evaluation”.

The performance evaluation system distinguishes between intended goals (“basic objectives”) and measurable targets (“achievement objectives”). The latter contribute to the achievement of the intended goals. Ministries are required to use outcomes to define their goals, where possible. Targets should be quantitatively measurable.

Outcomes and outputs specified for policies have to be published. In addition, it is encouraged that the approach used in setting out the targets and expected costs of the activities that contribute to the achievement of the goals be

explained. Actual performance has to be measured against the goals and targets, and the documents are also to be published.

In order to be able to manage the risks associated with intended outcomes and outputs properly, external factors, that are not controllable by the ministry, should be identified before the actual policy implementation.

Within this framework, ministries have a large degree of freedom and flexibility in regard to how to embrace performance evaluation. Some ministries have started their own attempts to integrate policy evaluation in the policy process.

The Ministry of Economy, Trade and Industry (METI (former MITI)), for example, has established a system consisting of evaluations at three stages of a policy. At the policy planning stage, the objective of the policy has to be described and translated into outcomes and outputs. Comparison of different policy alternatives on the basis of the performance indicators should help identify the most efficient and effective option. Performance indicators and descriptions are included in the Appraisal Statement.

The ministry regularly monitors the progress and measures actual performance against the goals and targets. Where performance indicators don't show expected progress, the central (evaluation and/or resource) divisions of the METI can undertake a detailed evaluation.

Major policies are evaluated when they are finished or after a specific period by independent evaluation divisions within METI. With such an evaluation, the success of the policy is assessed on the basis of the actual outcomes and outputs, which are compared with planned results. A report on the evaluation is published. The division, who was running the programme in question, is required to take actions according to the recommendations given in the evaluation report.

METI is currently focusing on strengthening the performance dimension of the evaluation system. The aim is to make divisions and the managers more performance-oriented in policy management by making them familiar with outcome and output measures through "on-the-job training".

6.6. The Netherlands

Since the 1970s, Dutch ministries have provided elements of annual performance data in their budgets. Until recently, however, the focus has been on outputs, and not all organisations have been legally obliged to generate performance information. Public agencies and contract partners, however, were obliged to do that since the early 1990s. In 1997/1998, the first steps were taken by the central ministries to develop key figures on the outcome of policy measures and thus to include targets on the effectiveness of policy programmes in their budgets.

In 1999, it was decided to introduce a full-scale outcome-focused budget system. The first outcome-based budget was presented to Parliament in September 2001. This fundamental reform will be followed by the introduction of accruals as the accounting basis of budgeting to replace the present mixed cash-accrual basis. The likely time horizon for this part of the reform is 2006.

The Dutch reforms of the budget are led by a quest for answering three questions: *What do we want to achieve? What are we doing to achieve these goals? What will be the costs of our efforts?* And the reform of the annual report is led by the corresponding accountability questions: *Have we achieved our goals? Have we done what we should have done in achieving it? Did that cost what we had expected?*

The structure of the budget and accountability documents will be fundamentally re-arranged according to outcome targets and performance. The number of budget articles will be reduced from about 600 to about 200.

For each ministry, the budget will have the following elements:

- The Legislative Proposal, which will integrate the expenditure and the revenue under each department, though separate votes on expenditure and revenues will be upheld.
- The Policy Paragraphs where government's policies will be stated as well as the means that will be applied to achieve them and the financial resources allocated. Administrative and programme expenditure will be grouped under the policy targets to which they contribute.
- The Management Paragraph, which will give an overview of major expected organisational changes in the ministry, such as the creation of an agency or change of accounting standards.
- The Agency Paragraph which will contain basic financial information on agencies connected to the department in question. Besides financial information, the inputs, outputs and outcomes of agencies will be integrated in the budget and accounting documents as if it were any other expenditure, *i.e.* they will be included in the Policy Paragraphs. This approach is justified with reference to the ministerial responsibility for agencies' activities. Every agency will still be treated as a section of the ministry to which it is part.
- The In-depth Appendix, which will include as little technical information as possible.

Budget documents are still organised around the line ministries.

This issue is addressed with "cross-cutting policy overviews" which are created in cases where several ministries contribute to an outcome or set of outcomes. The 2002 Budget will have four "cross-cutting policy overviews". The constructions are not part of the budget bill proper but are presented to Parliament for information.

As it may prove to be too expensive or impossible to cover all aspects of outcomes every year, the frequency of providing outcome information will differ between policy areas. Especially when it comes to policy effectiveness (the degree to which policy measures “made a change”), policy evaluation research has an important role. Output indicators are included on an annual basis.

6.7. New Zealand

New Zealand made a distinction between outputs and outcomes at the outset of the major management and budgeting reforms in the late 1980s and this distinction has guided reforms ever since. It was decided to restructure the budgeting and management systems on outputs rather than outcomes on the view that outputs are controllable and measurable whereas outcomes are generally not.

Nevertheless, outcome targets and information can be found in several places in the New Zealand budgeting and management processes.

Government sets outcome targets in its “*Key Government Goals*” which are statements of broad policy direction. This document is used to a varying degree in budget prioritisation exercises and in the strategic plans of public organisations. It does not contain specific, measurable outcome targets.

The Key Government Goals are translated into departments’ *strategic planning* through “Key Priorities”. Key Priorities usually form part of the Chief Executive’s Performance Agreement. Key Priorities are supposed to be measurable, achievable, results-focused and time-bound. Since chief executives are held accountable for delivering on these Key Priorities, they tend to be output-focused rather than outcome-focused.

The *budget* is based around outputs and information on inputs is very limited. Ministers are required to identify the link between outputs and outcomes in the budget. However, in most instances this has been done in a cursory fashion merely by asserting that output *a*) contributes to outcome goal; *b*) Parliament appropriates explicitly for outputs.

New spending proposals, which reflect the greater part of ministerial scrutiny of expenditure in the budget process, are guided by the “Key Government Goals”. The “Fiscal Provisions Framework” sets the level of discretionary government expenditure. Ministers are not required to provide outcome measures in support of the new proposals but they are required to indicate how the intervention would be evaluated. Thus, outcome information is expected to be generated over time. As there are only limited requirements to evaluate existing programmes, outcomes for older policies tend to be evaluated on an *ad hoc* basis (with some exceptions). In many departments there is not a strong culture of evaluation.

Some departments produce statements on “*States of the World*” which are snapshots on the state of New Zealand in regard to the policy area for which the departments are responsible. It is currently being considered how the quality of information available about the state of the World can be improved.

In summary, New Zealand’s public management system is output-based. The design of the system had outcomes at the centre of decision-making processes, but that vision has not yet been fully realised. Work is continuing to integrate outcome targets and outcome performance measurement better into budgeting and public management.

6.8. Norway

A new framework for performance management and budgeting was enacted in 1997. The framework invokes six documents which each ministry and government institution has to provide: a Strategic Plan, an Annual Plan, a Letter of Allocation, an Annual Performance Report, an Annual Financial Report and Evaluations and Assessments.

Strategic plans set out the long-term objectives for the organisation in question and are normally prepared at an agency level. It is not compulsory to draft these plans. Some Strategic Plans are presented to Parliament.

The *Annual Plans* and the internal annual budget are, to a large extent, integrated processes. At agency level, the budget and accounts structures are partly organisational and partly programme- or activity-based. This implies that some agencies link the budget to the performance targets, while others mainly focus on inputs.

Once Parliament has approved the budget, ministries discuss with their agencies the outputs with which the latter should contribute to the ministries’ goals. The discussions result in a “*Letter of Allocation*”, which defines performance targets, allocated resources and reporting requirements on actual performance. This letter also formally authorises the agency to spend the allocated money. Agencies’ top managers are held accountable for the achievement of the performance targets stated in the Letter of Allocation.

At the end of a fiscal year, annual *Performance and Financial Reports* are prepared. They show to what extent the performance goals in the Annual Plans have been achieved and are used in both decision-making processes within agencies and in the dialogues between ministries and their subordinated agencies.

Evaluations and Assessments are carried out on a periodical basis as an important supplement to the performance information provided on a regular basis.

In addition to these explicit performance documents, performance goals are included in the budget documents. Depending on the policy area, the levels of the

goals vary; some ministries define outputs, others outcomes. However, Parliament still focuses more on inputs than on performance goals during budget negotiations.

Each minister is constitutionally and politically responsible for achieving the planned outputs and outcomes and for establishing monitoring systems which ensure that actual performance meets expectations.

In 2000, the Ministry of Finance launched a review of performance and financial management in the central administration in Norway. One goal of the review was to analyse the effects of the framework reform.

The overall picture is that the new framework for performance management and budgeting has had several positive effects. For example, roles and responsibilities are being clarified, and a greater emphasis is being put on integrated planning and resource allocation. On the other hand, in many instances performance targets are not really performance-oriented, but are descriptions of activities and processes to be carried out by different organisational entities within agencies.

6.9. United Kingdom

Since 1998, management and budgeting decisions in the United Kingdom are taken on the basis of outcome and output information. The framework has two main elements: Public Service Agreements (PSA) and Service Delivery Agreements (SDA). These can be considered agreements on effective and efficient service delivery between the government and the public.

Larger government departments make a Public Service Agreement, which usually covers a period of about three years. A PSA sets out the overall aim and aspirations of a department and translates them into a number of targets, that mainly concern outcomes against which performance and progress can be measured. Additionally, PSAs include value for money targets that provide a measure relating inputs to outcomes (see Figure 1 above).

Besides the departmental PSAs, there exist some cross-departmental PSAs, in which all the departmental targets relevant to the delivery of the government's objectives in a specific cross-cutting policy area are drawn together.

For each PSA, a Technical Note has now been published on the website of the appropriate department setting out in detail how each target will be measured including the source of data, the baseline, definitions of any ambiguous terms and the details of validation arrangements for the data.

Output and process targets, which are intended to contribute to the outcomes described in the Public Service Agreements, are defined by departments in Service Delivery Agreements. In some cases, SDAs also include details of factors outside the control of the department that could affect the delivery of the outcomes.

Small departments, who do not publish a PSA, have to provide an SDA. They use this document to set out their performance targets; where possible, these are outcomes.

PSAs and SDAs only apply to ministry departments. As PSAs should be cascaded throughout the organisation and be linked to the targets of agencies, they are also involved in the performance management process. Agencies are required to align their priorities and targets with those of government departments.

In order to strengthen the link between national targets and local delivery, an initiative is currently underway piloting Local Public Service Agreements (LPSAs) between central government and individual local authorities.

Budget negotiations are principally based on outcomes. PSAs are discussed and budgets allocated at the same time by the same Cabinet committee. The White Papers that present the budgets and the PSAs are published as part of the same announcement.

Treasury monitors the outcomes quarterly, which were defined by the departments in the PSAs, and measures actual performance against the goals. This review is presented to the relevant Cabinet committee. In addition, departments provide a public progress report against intended outcomes and outputs annually in their annual departmental reports.

Since the establishment of the new framework, progress has been achieved in defining outcome goals. The share of outcome targets in PSAs has increased from 11% in 1998 to 67% in 2000. Notwithstanding these improvements, the project is still in its beginning and further experiences have to be made. Currently, steps are being taken to improve policy evaluation and the integration of outcomes in the policy-making process. Another initiative aims at defining clear contributions of agencies to the outcome targets set out in the Public Service Agreements and defining outcomes for the agencies themselves.

6.10. United States

With the Government Performance and Results Act, the United States Government established a performance management framework for federal departments and agencies in 1993. The framework consists of Strategic Plans, Annual Performance Plans and Annual Performance Reports.

In *Strategic Plans*, which cover a period of at least six years, agencies present their mission statements and define a set of long-term goals. These long-term goals are mainly outcome goals and describe how an agency will carry out its mission.

Long-term goals need not be directly measurable. If achievement of a goal cannot be directly measured, an agency describes the measures (including output goals) that will be used to determine whether the outcome goal was achieved.

Agencies have to consult with Congress and different stakeholders, such as other federal agencies, states, local governments, interest groups and associations, when preparing their Strategic Plans. However, Congress has no authority to approve a Strategic Plan. If Congress or other stakeholders disagree with particular goals or an agency approach, the agency publicly records and reports these contrary views in its final version of the plan. The completed Strategic Plan is available to the public, and in most instances, published on the Internet.

In Strategic Plans, agencies also describe risks that might impede achievement of the long-term goals. These risks can result from external factors, which are beyond the control of the agency. However, agencies do not calculate risk probabilities, nor are agencies encouraged to describe mitigating actions to be taken if an external factor actually affects goal achievement.

The *Annual Performance Plan* translates the goals of the Strategic Plan into Annual Performance Goals that will be achieved during a particular fiscal year. These performance goals are usually a combination of outcome and output goals.

The Annual Performance Plan also includes information on how much money will be spent to achieve a set of performance goals. After the President sends the budget to Congress, agencies send their Performance Plans to Congress to help show the linkage between budget and performance goals. Congress, however, does not appropriate money by performance goals but by agency and budget account.

Both the Executive and Congress are seeking a better linkage between programme performance and budget resources. Most agencies are having difficulty aligning the budget with performance goals, in particular due to the differences between accounts and performance goal structures. Currently, many accounts are structured by organisational unit, whereas most performance goals are structured by programme. Another current difficulty is that different organisational units within an agency often contribute to the achievement of one performance goal. With their separate budget accounts, this can complicate the calculation of how money is being spent to achieve the goal. Initiatives to improve the linkage are underway but will take time.

Agency officials use the Annual Performance Plan in managing programmes and administering operations. They are held accountable for achieving the goals set out in the Strategic Plans and Annual Performance Plans on the basis of Annual Performance Reports.

Annual Performance Reports compare actual performance with planned outcomes and outputs in the Annual Performance Plan. If some goals haven't been achieved,

there will be an explanation of the reasons, and a schedule and steps for meeting the goal in the future. The Annual Performance Reports also include a summary of the findings and recommendations of any programme evaluation completed during the fiscal year.

The Annual Performance Reports are transmitted to the President, Congress and the Director of the Office for Management and Budgeting (OMB) and are publicly available; most agencies post their reports on the Internet.

Until recently, only the Executive branch was defining performance goals. A new congressional rule now requires that the House of Representatives identifies performance goals before considering and voting on laws to authorise or re-authorise programmes.

7. Conclusion

The purpose of this article was to present the framework, the motives, the implementation challenges, the systems design options and the actual approaches to outcome-focused management and budgeting in selected OECD Member countries.

It was illustrated how introducing an outcome approach to budgeting and management enlarges the scope of management and budgeting by increasing the range of information and type of information generated and used. It is recognised that outcomes are what really matter for politicians and society and that budgeting and management systems should try to address this.

The approach thus supplements and builds on input and output-focused management and budgeting approaches and increases the possibility of better integrating measures of achievement, for example effectiveness and value for money, in budgeting and management. It was also argued that the vocabulary to the approach has a common core across OECD Member countries, though some qualifications are needed.

A number of reasons for introducing an outcome approach were identified, including increased public sector efficiency and effectiveness, improved learning, better policy formulation, increasing transparency and accountability and enhanced policy coherence. These motives reflect a move from a more narrow managerial focus to a wider agenda of governance perspective.

Implementation challenges abound. Among the challenges, special emphasis was given to measurement of outcome realisation, costing of outcomes, the competing interests in evaluation, problems of dealing with outcomes to which different organisations contribute, and capacity problems in regard to the processing of information in decision-making and implementation. The management of expectations in regard to what can be achieved and at what speed is a major challenge in

itself. In some ways, challenges in regard to an outcome focus in budgeting and management have similarities to problems encountered when “evaluation” had its heyday.²

A large number of systems design options have been identified. Prominent issues include applicability and phasing, purpose and the distribution of responsibilities, rights and accountability in regard to setting of targets, measurement of results and use of information. Connected to this is the relationship of an outcome focus to (other) performance management, audit and evaluation initiatives.

Approaches differ across the OECD, ranging from a reorganisation of the central budgeting documents and processes in Australia, New Zealand and France to adding strategic plans and annual reporting to the existing processes in the United States and Canada.

At a certain level of abstraction, OECD Member governments recognise that there is an increased need to enhance *transparency* about what governments do and achieve, strengthen *accountability* for actions and results, increase *effectiveness* and *efficiency* in policy implementation and facilitate policy *coherence*.³ To the extent that these broad objectives are influencing reform of public management and budgeting, it is likely that implementation of the outcomes approach will continue to develop in countries already working in this direction and spread to other countries in the years to come.

Notes

1. An experts meeting on Outcome-focused Management and Budgeting was held at OECD Headquarters, Paris, on 19-20 January 2001. Representatives from Australia, Canada, Chile (observer), France, Japan, Mexico, New Zealand, Netherlands, Norway, the United Kingdom, and the United States participated. The deliberations in this paper build on discussions and presentations at the meeting. The articles in this issue of the *OECD Journal on Budgeting* on outcome-focused management and budgeting in Australia, Japan, New Zealand, the United Kingdom and the United States are adapted from the presentations at the meeting.
2. Though there are differences around the world, it could be said that “evaluation” was *the* public management tool in a number of OECD Member countries in the decade surrounding 1980 – notably in the United States and Australia. The interest among public management reformers waned due to problems of information overload, problems of getting access to the policy making process and problems of excessive costs of measurements compared to the perceived value.
3. See for example “Resolution of the Council Concerning the Mandate of the Public Management Committee”, OECD, 2000.

Annex

Measures of Achievement

Outcome-focused management and budgeting is about generating and using information for management and budgeting purposes. Specifically, the information generated facilitates using different measures of achievement – *i.e.* the ratios of costs, inputs, outputs and outcomes to each other.¹ Typically, efficiency, effectiveness, economy and value for money have been used to denote these measures. The problem of using this vocabulary, however, is firstly that it does not capture all possible ratios and secondly that there is a slight ambiguity as to the meaning of the terms.²

In Figures A1-A3 below, possible ratios between costs, inputs, outputs and outcomes are illustrated taking into account that countries embarking on an outcome-focused approach typically are interested in three kinds of analyses: *a)* they want to improve policy-making and public sector learning and therefore want to use both *ex ante* and *ex post* analyses; *b)* they want to improve learning by analysing ratios of actual costs, inputs, outputs and outcomes to each other; *c)* they want to improve learning and accountability by comparing ratios of actual costs, etc. to planned costs, etc.

Building on these aspirations, the picture of ratios of control becomes slightly more complicated than suggested by the notions of three (or four) E's.

Figure A1 illustrates the relationship between actual costs, inputs, outputs and outcomes.

Figure A1. **Ex post I**

		Actual			
		Costs	Inputs	Outputs	Outcomes
Actual	Costs		1	2	4
	Inputs			3	5
	Outputs				6
	Outcomes				

The notions of economy (Ratio 1), efficiency (Ratio 3), effectiveness (Ratio 6) and value for money (Ratio 4) are embodied in this juxtaposition, but Figure A1 also points to relations as outputs to costs (Ratio 2), which are essential in systems based on output pricing and com-

petition between providers. Furthermore, it includes outcomes to costs (Ratio 5), which are the implication of using an outcomes approach for reallocation purposes.

Ratios of actual costs, etc. depicted in Figure A1 are often seen as important for enhancing learning and accountability. Especially in regard to accountability, however, the ratios of intended costs to actual costs, etc. as depicted in Figure A2 below is seen as equally important in countries embarking on output and outcome-focused management and budgeting.

Figure A2. *Ex post II*

		Intended			
		Costs	Inputs	Outputs	Outcomes
Actual	Costs	7			
	Inputs		8		
	Outputs			9	
	Outcomes				10

The notion of target setting, performance assessment and *ex post* evaluation rests heavily on these ratios.

Finally, Figure A3 below depicts the six ratios relevant to *ex ante* policy analysis or evaluation, though the idea of an output- or outcome-focused approach will typically imply planning of policies on costs to outputs (Ratio 12) and/or costs to outcomes (Ratio 14), leaving the other issues to managers responsible for delivering on targets and aims.

Figure A3. *Ex ante*

		Intended			
		Costs	Inputs	Outputs	Outcomes
Intended	Costs		11	12	14
	Inputs			13	15
	Outputs				16
	Outcomes				

Counting the possible ratios in Figures A1-A3, the potential number totals 16 in a fully rolled-out outcome-focused budgeting and managing system. The inclusion of outputs and outcomes in budgeting and management thus potentially increases the information and control complexity of the systems. Furthermore, this complexity inherently increases the risk of information overload. Depending on the motives and implementation challenges in the country in question, a number of strategic design decisions thus have to be made to counter these inherent risks.

Notes

1. The notion of ratios is inspired by Kavasseri V. Ramanathan, "A proposed Framework for Designing Management Control Systems in Not-For-Profit Organizations", *Financial Accountability and Management*, Summer 1985.
2. In a public management and budgeting context, "effectiveness" denotes the ratio of outcomes to outputs in some countries (for example, in the United Kingdom), whereas in others (for example, in Denmark) it will denote the relationship of actual outcomes to intended outcomes.