



**CENTRE FOR CO-OPERATION WITH NON-MEMBERS
PUBLIC MANAGEMENT SERVICE**

**OECD Global Forum on Governance
Public Governance**

GOVERNING FOR RESULTS

Modernising Government: How Well Have Public Administration Policy and Practices Transferred From Developed To Transitional Countries?

**London School of Economics
2-3 December 2002**

This Round Table is the result of collaboration between OECD, IADB, IPMN and the IIM at LSE.

This event is within the frame-work of the Global Forum on Governance administered by the OECD's Coordinating Committee for Relations with Non-Members (CCNM).

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GOVERNING FOR RESULTS

Introduction

1. Since the early 1990s almost all OECD Member countries have been working to improve the quality of their public expenditure by implementing a focus on results to their management and budgeting systems. These reforms have encompassed all levels of central government including the whole-of-government level, different policy sectors, entities delivering on public policies (agencies), units within those organisations and individual employees.

2. The approaches to actual implementation have been diverse and adapted to national capacities, cultures and priorities. Notwithstanding these differences, the similarity of the conceptual framework and thinking behind reforms has proven sufficient to make international comparison and learning fruitful.

3. Examples of initiatives to improve the quality of public expenditure along these lines are:¹

- results contracts between entities delivering on public services and parent ministerial departments;
- inclusion of results information in the budgeting and annual accounting documents;
- results audit by supreme audit institutions;
- whole-of-government results reviews;
- inclusion of results targets in strategic plans for government entities (departments, ministries, agencies);
- competition between public (and sometimes private) sector providers of services on the basis of results costing;
- giving increased managerial control to managers in exchange for enhanced accountability for results;
- results appraisal of organisations and individuals, results related pay and other forms of results related staff management;
- issuing of government-wide results plans as policy statements of new governments coming to power;
- restructuring of budgeting documents, preparations and negotiations around outcome and output targets.

1. Please consult the Annex for definitions.

4. As the result focus makes its way into the budgeting processes and the programmes of new governments, and as approaches to results management aim to strengthen accountability through parliamentary and audit office scrutiny, the results approach becomes a matter not just of service delivery but of governance.

5. As these reforms are maturing, the need is arising to go beyond the rhetoric of reform to look at the practicalities of implementing a results focus. Are results focused management reforms making a difference in public sector organisations – what are the impacts and are they positive or negative? What are the conditions under which results focused management is working and not working? Are there sectoral differences? What are the weaknesses and criticisms? Do they differ between countries and are the criticisms warranted? Some reforms are based on reporting to parliaments on public sector results – are parliamentarians interested and is the information adapted to their needs?

6. The purpose of this paper is to map current governance and implementation issues connected to introducing a result focus to budgeting and management and to raise questions for discussion. A connected purpose is to draw attention to the fact that results focused management and budgeting today reaches beyond managerial concerns into the core realm of governance.

Cascades of targets

7. Most approaches to results focused management and budgeting build on the assumption that a hierarchy of results targets can be established making it possible to link high-level objectives of government and Parliament as formulated in legislation, government strategic plans or the budget to targets for policy sectors, ministries, entities delivering on public policies, divisions, managers and ultimately the individual staff on the floor. To do this often involves a plethora of documents and processes for setting targets, reporting on these and translating them into meaningful targets at the next level. Systems designers talk about a “clear read” from top to bottom.

8. Good governance includes the notion that those holding public power should report on their use of that power and subsequently be held accountable for their actions. The idea of cascading targets from the highest political level to the level of individual staff and subsequently reporting up through the chain of targets, aligns well with this dimension of good governance.

9. Experience, however, teaches us that establishing such a clear read is challenging to say the least. Furthermore, countries and organisations aiming at full coverage from policy to staff level often end up with complicated planning and reporting systems. The challenge is to balance the quest for coherence, coverage and accountability against complexity and costs of operating the management and budgeting systems.

Aligning results and financial information

10. The implicit and explicit formulation and voting on policies, the allocation of financial resources and the potential for comparing policies in the budget documents and connected procedure holds a huge potential for enhancing policy coherence, effectiveness, efficiency, transparency and accountability. Good budgeting is thus one of the cornerstones of good governance.

11. A number of countries, including in particular Australia, the Netherlands, the United States, the United Kingdom, New Zealand and, to a certain extent, Finland, have been working on introducing results targets and information in the core budgeting documents for some years. The idea has been that presenting

financial and results information in the same documents will make decisions on the level and distribution of appropriations better informed.

12. A recent, and to some extent logical, development in these countries has been not only to show financial and results information in the same documents but to more closely align results targets and reporting to appropriations and accounts. The thinking is that a more meticulous linking of results and money will increase transparency and therefore improve not only decision-making but also the accountability of elected government and the administration delivering on policies.

13. Experience to date shows that finding the right format for inclusion of results information in the budgeting and accounting documents is challenging but potentially rewarding. However the risk of information overload is pertinent and collecting timely, reliable and relevant information can be costly. Furthermore, given the fairly primitive cost recording in many countries, the linking of results and expenditure often presupposes substantial changes in accounting infrastructure.

Parliaments

14. Many results focused reforms in OECD countries implicitly or explicitly build on the assumption that result information is ultimately to be reported to parliamentarians who will take an active interest in the reports and use them for accountability purposes. This is explicitly the case in countries like Australia, France, the Netherlands, New Zealand and the United States. In the Scandinavian countries this is also the case, but primarily in regard to agency reporting – not in regard to the overall delivery on policies.

15. Parliamentarians, however do not seem to be interested in results information. Some countries have held the view that this was mainly because the information delivered has been on inputs, processes and outputs and that things would change with the introduction of information on outcomes (see below). Nevertheless, initial experience suggests that parliamentarians continue to ignore much of the abundant information actually available.

16. Adapting the format, content and timeliness of results information to Parliament's actual interests seems to be pertinent if this challenge is to be overcome. Public sector reformers introducing results focused budgeting and management regimes should consider whether their systems build on a sufficient understanding of the dynamics of parliamentary politics.

Outcomes or outputs

17. Most OECD governments introducing a results focus do so by increasing the amount, quality and use of information on outputs, *i.e.* the goods or services which government bodies provide for citizens, business and/or other government bodies.

18. However, the pure output approach can be seen as having some limitations.

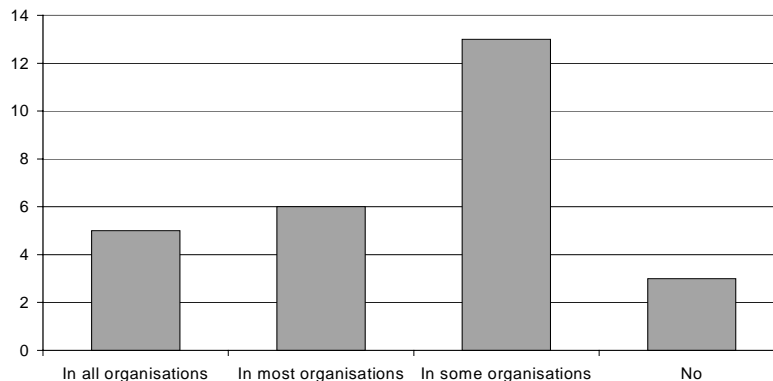
- Politicians and the public are assumed to be more interested in outcomes, *i.e.* the impact of government policies on society.
- An output focus can distort the attention of public entities delivering on public policies away from reaching policy goals to meeting production targets.
- Focusing solely on outputs can result in insufficient attention being given to how outputs contribute to outcomes.

19. To address these issues a number of countries are giving increasing attention to outcomes. By doing so, results approaches to budgeting and management more explicitly move from the realm of management to the intersection between management and politics.

- Outcome targets necessarily concern the success of policies and by making it explicit (ultimately measurable in quantitative terms) which results policies are to achieve, the potential for holding politicians accountable for the delivery and policy objectives greatly increases. Setting targets at the outcome level goes beyond management per se and enters into the domain of policy-making.
- By raising the issue of the linkage between outcomes and outputs the discussion of how best to reach policy objectives enters centre stage in regard to policy formulation. Setting targets is only meaningful if evaluation of the extent to which targets are achieved is undertaken. More systematic feed-back-loops on how well outputs are contributing to outcomes raise the attention on how successful not only policy implementation but also policy-making is.
- By linking outcomes and expenditure the question of allocation of financial resources is introduced. Such linking will potentially move allocation decisions from being tied up with institutions to focusing on policy objectives. Crudely speaking, instead of deciding on the distribution of appropriations between the Ministry of Health and the Ministry of Education, discussions will centre on the distribution between achieving a healthy population and an educated population.

20. Defining outcomes and measuring them is a daunting task. Most governments that have embarked on this development of the budgeting and management systems have year long experiences with output focused approaches and acknowledge that introducing an outcome approach, though following logically from having worked with outputs for a period, will take time to get right.

**Is the distinction between outputs and outcomes used in public sector organisations?
(Number of countries, 2001, N=27)**



Source: Overview of result focused management and budgeting in OECD Member Countries, available at www.oecd.org/puma.

Audit, evaluation and results

21. With the introduction of results information in the budgets, the issue of the role of audit enters the debate. All OECD countries make a distinction between material included in the budget for information and material included as part of the legally binding vote. Most countries treat results information and

targets in the budget documentation as material included for information only. However, the closer financial information is aligned with results information and targets the more the latter can be regarded as part of the appropriation. This strengthens the legal status of the targets and results information and this will increase the role of audit offices because these institutions' *raison d'être* traditionally has been to control that actual expenditure corresponds with the legal frameworks for their use.

22. In addition, supreme audit institutions in many countries are mandated to undertake operational/results/administrative/performance audits looking into, broadly speaking, how well public entities delivering on public policies are managing themselves. In most of these countries the setting of targets and reporting against them is included in these exercises

23. This move has important governance implications because Supreme Audit Institutions typically refer to the legislative rather than – or in addition to – the Executive, thus potentially shifting the check and balance of political power.

24. Furthermore, with the introduction of outcomes, the role of evaluation becomes pertinent. Outcomes – the impacts of public policies on society – are inherently very difficult to sort out. Questions of how to organise programme and policy evaluation thus re-emerges on the public management and budgeting agenda. No country seems to have found the answer at present.

25. As outcomes become part of budgeting and management documents and processes and as audit changes its role, the relationship between evaluation, audit and result management becomes important.. One challenge will be to avoid applying the principles of compliance and blame associated with traditional audit while finding a way to build better policies on the basis of for the evaluation of the past.

Personnel management

26. Many organisations delivering public policies are introducing a result focus to their management of personnel. Such initiatives build on the assumption that staff are motivated by being held accountable for their achievements and that their activities become better aligned with management objectives if it is clearly stated up front what is expected.

27. Critics of result focused management and budgeting often correctly state that humans rarely are motivated by targets alone. Personal fulfilment in its various guises, legal requirements and culture play a role. The challenges are to recognise the limits of formal management systems – including results focused approaches – but also to maintain the benefits of setting targets and holding staff to account.

Ensuring institutional take-up – establishing a results culture

28. A number of OECD governments have been continuously introducing a result focus to budgeting and management systems over the last 10-15 years. One of difficulties most frequently raised by practitioners engaged in introducing a results focus is to ensure institutional take-up or, as it is often phrased, facilitating public sector organisations in establishing a results focused organisational culture. By this is meant that the values, attitudes and norms for good conduct is oriented towards setting targets and achieving results – in other words that the result approach to budgeting and management has gone from being an external and formal system to becoming internalised in everyday behaviour.

29. Change management has always been challenging, and introducing a result focus to budgeting and management is no exception. Time, education, resources, involvement, leadership, consultation, using both rewards and sanctions and avoiding blaming is needed.

30. This raises the issue of the governance of modernisation. Who is to be given responsibility for developing approaches? Who is to be given responsibility for implementation? Is legislation needed or is voluntary adaptation superior? How is compliance or adoption to be evaluated and which form of accountability is to be applied? The main challenge seems to be to balance central and decentral responsibility and accountability.

31. Practice varies greatly across the OECD countries. One challenge is to adapt approaches to national administrative and political realities and capacities and not to let international governance and management fads dictate policy.

Governance, management and results

32. An emphasis on governance implies:

- Moving from a more narrow to a comprehensive analysis – notably looking at the institutional setting of specific sectors.
- A (re)introduction of politics, policy formulation and political institutions in analyses outside the realm of political science.
- A shift from focusing on institutionalised and organised interests and powers to a broader range of stakeholders – organised as well as unorganised.
- Introducing the interplay of power centres and/or actors in the setting being analysed.
- Sometimes setting up and promoting normative standards or values for the interplay between these actors – leading to “good governance”.
- A belief that good governance – however defined and implemented – besides being a goal in itself is important in realising aims as for example economic growth, social cohesion and sustainable development.

33. One way of summarising these developments is to see governance as the distribution of responsibilities and rights among organisations and individuals, the way these rights and responsibilities are exercised and the formal institutions in which they are embedded. Thus outlined, the introduction of governance denotes an expansion from narrow analyses to a broader and normatively anchored agenda in the analysis of the economy, the public sector, civil society and the interplay between these areas of society.

34. Through the years, the results focus to budgeting and management has followed the broadening of the public sector modernisation agenda reflected by the introduction of governance. The move from outputs to outcomes, the discussions of the role of Parliaments and supreme audit offices, the whole-of-government perspective, the analysis of the interaction between different management and budgeting tools, the focus on transparency and accountability and the discussions of allocation all reflect this development.

35. This move is likely to continue in the years to come thus intermingling the management and governance agendas.

ANNEX WORKING DEFINITIONS

Outcomes: the effects on society of outputs from governmental entities

Outcomes – whether intended or unintended – are not usually completely controllable by governments. The degree of control depends on the influence of extraneous factors on the goal in question, the effectiveness of implementation and the quality of the policies for reaching the goal.

Intended outcomes/outcome goals: What effect government *intends* its outputs to have on society

In this definition government intentions are conceived as the explicitly and publicly stated purposes of government activities. Government intentions can for example be formulated in laws, policies or official directives.

As such, activities in entities delivering on public policies may be based on outcome goals, but often they will not.

Outcome evaluation: an evaluation of the outcome of a governmental activity compared to its intended outcome.

Often, outcomes cannot be measured directly because of complexity, time lags and influences not under governmental control. Outcome evaluation, therefore, must typically take account of a variety of indicators. Often outcome evaluation will not be possible.

Evaluation: a systematic analytical assessment addressing important aspects of a program or policy and its value, and seeking reliability and usability of findings.²

Evaluation is carried out to improve decision making by providing better information. The purpose is not to replace judgements or politics in decision making but to make them more informed taking into account past experiences.

Evaluation is therefore an important element in public sector learning, as defined below.

2. See OECD, PUMA/PAC(99)1, Improving Evaluation Practices, Paris 1999.

Outcome risk: the risk that the intended outcomes will not be achieved, and the risk that unintended and undesired outcomes will result.

Often outcomes are not only attributable to government action. Weather, war and economics slowdowns can influence outcomes and have unintended consequences. Outcome risks are the risks that such external influences will negatively or positively affect outcomes.

Outputs: the goods or services (usually the latter) which government agencies provide for citizens.

The concept of outputs is not confined to tangible goods and social services delivered directly to citizens. The concept also include more intangible flows of influences on the surroundings from agencies, institutions and other entities delivering on public policies.

Outputs are potentially largely controllable by government agencies and measurable either quantitatively or qualitatively. Thus outputs can be used for performance management more easily than outcomes.

Inputs: the resources used by government to produce outputs.

Inputs include the labour (the range of skills, expertise and knowledge of employees), capital assets (including land and buildings, motor vehicles and computer networks), financial assets, and intangible assets (such as intellectual property) which are used in delivering outputs.³

Costs: money spent or expenses incurred to finance the input.

Learning: the acts through which an entity uses its past experience or the experiences of others to adjust goals and processes.

In practice, learning in regard to outcome focused management will imply using the results of outcome evaluation in the decision-making – whether the decisions concern policies, processes or organisational design.

The main question is *if* and *how* outcome evaluation has any affect on decisions. Are organisations able to learn and adapt in the face of institutional rigidities.

Performance

The proficiency of an agency or authority in acquiring resources economically and using those resources efficiently (input-output) and effectively (output-outcome) in achieving performance targets.

Performance information

Evidence about performance that is collected and used systematically. Performance information may be quantitative (numerical) or qualitative (descriptive). The usefulness of performance information is enhanced by applying standards and other types of comparison (for example, with past performance, other

3. See OECD, PUMA/SBO(2000)7, The OECD Outputs Manual, Paris 2000.

lines of business, or level of need before the intervention) which allow judgements to be made about the extent to which interventions are achieving desired outcomes.

Performance information collected for monitoring purposes often generates questions that are investigated in more depth in an evaluation.

Performance management

A system, integrated with corporate management, of performance information, evaluation, performance monitoring, assessment and performance reporting.

Performance goal

A target level of performance expressed as a tangible, measurable objective, against which actual achievement can be compared, including a goal expressed as a quantitative standard, value, or rate. Performance goals can be either outcome or output goals.

Performance indicator

A particular value or characteristic used to measure output or outcome.

Performance measurement

Performance measurement is the activity related to measurement of inputs outputs and outcomes.

Accountability

Accountability is a function of a relationship between two parties whereby one party confers a power on the other subject to a condition that the party receiving the power must account as specified for its possession and use.

Innovation

Innovation is the *application* of creative new ideas - the implementation of inventions. Creativity is the generating of new ideas of novel approaches and inventions.⁴

4. See Treasury Board of Canada Secretariat, Risk, Innovation and Values - Examining the Tensions, 1999.

OVERVIEW OF RESULTS-FOCUSED MANAGEMENT AND BUDGETING IN OECD MEMBER COUNTRIES

1. Introduction

36. The purpose of this paper is to give a background for and overview of how results-focused budgeting and management is implemented in OECD Member countries and selected non-member countries. Specifically the paper will address:

- the occurrence and use of performance information in the budget;
- the use of accrual accounting and budgeting;
- the flexibility in budgeting for government bodies.

37. The comparison builds on the surveys from 1999, 2000 and 2001 of budgeting practices in OECD Member countries. The surveys are undertaken under the auspices of the OECD Working Party of Senior Budget Officials. The responses to the questionnaires are given by members of that network and is thus not a result of investigations in the countries involved by the OECD Secretariat.¹

38. The surveys from 1999 and 2000 only include responses from OECD Member countries whereas the survey from 2001 also includes responses from Brazil and Chile, which are formal observers of the Working Party of Senior Budget Officials. Some countries have opted not to respond to all questions.

2. Performance information in the budget

39. In 1999 and 2000, three-quarters of the OECD Member countries participating in the surveys reported that they routinely include performance information in their budget documentation. Out of these three-quarters, around 70% include such information for most of the programmes in the budget whereas the remainder include the information for a limited set of programmes. In 1999, only 36% of the countries including performance information in the budget documentation reported that the inclusion of this information was a legal requirement for some or most programmes.

40. There is a longstanding debate in OECD Member governments as to the appropriate role of the national audit offices in regard to performance information. Ministries of Finance generally hold the view that audit should be limited to financial information whereas audit offices typically would like to have a stronger role.

41. In 2000, eight countries reported that performance information was audited for most programmes whereas five countries reported that it was only audited for some programmes. Thirteen countries, corresponding to almost half of the countries responding to this particular question, reported that

1. It should be noted that some of the questions involve an element of subjective judgement on behalf of the responder. Readers are encouraged to report to the OECD Secretariat if the country information is inaccurate.

performance information was not audited. Unfortunately, this distribution does not reveal whether the audit was undertaken by the audit offices, the Ministries of Finance or internal controllers.

2.1. Outcomes and outputs

42. The term “performance” is often used to denote a move in the focus of budgeting and management from inputs and work processes to a focus on outputs and outcomes. As a term, however, “performance” is imprecise because it does not make a distinction between “outputs” and “outcomes” and as it does not make a distinction between evidence of internal performance (*i.e.* operations) and external performance (*i.e.* outputs and outcomes inflicted on the surrounding environment of the entity in question).

Box 1. Definition of inputs, processes, outputs and outcomes

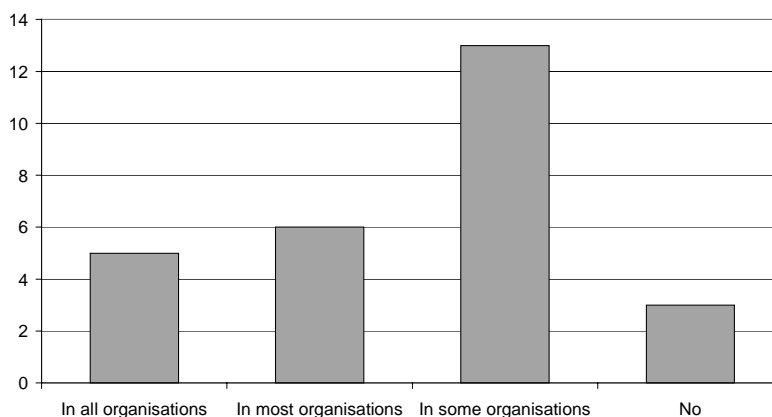
Inputs are what an organisation or manager has available to achieve an output or outcome. Inputs can include employees, equipment or facilities, supplies on hand, goods or services received. *Costs* are the expenses incurred using the inputs. *Outputs* are the goods or services (usually the latter) which government bodies provide for citizens, business and/or other government bodies. *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.

Source: “Outcome-focused Management and Budgeting”, *OECD Journal of Budgeting*, Volume 1, Number 4.

43. In the 1999 and 2000 surveys on budgeting developments, the Secretariat only asked whether “performance information” was included in the budget documentation. In the 2001 questionnaire, the Senior Budget Officials in the OECD Member countries, as well as in Brazil and Chile, were asked whether the distinction between outcomes and outputs were used in all, most or some organisations in their respective public sectors. The result is depicted in Figure 1.

Figure 1. Is the distinction between outputs and outcomes used in public sector organisations?
(Number of countries, 2001, N=27)



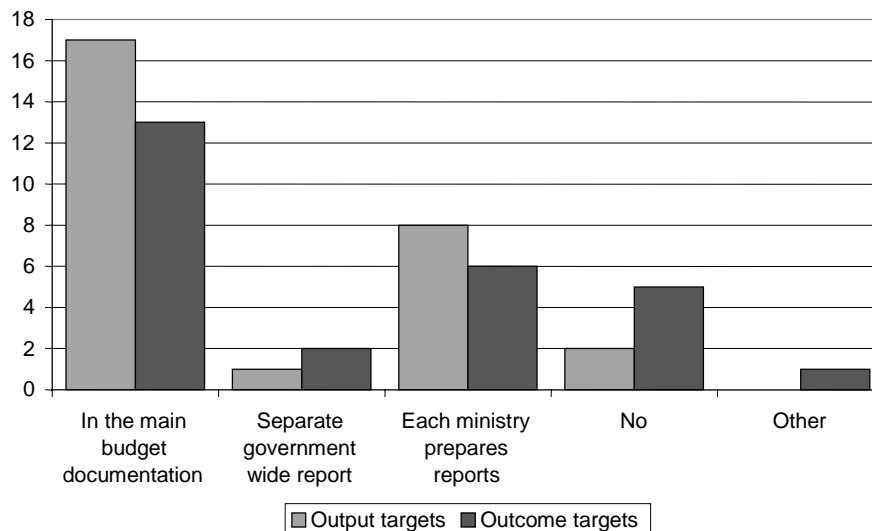
44. Eleven countries, equal to 40% of the countries answering this question, reported that the distinction was used in all organisations. Australia did not respond to the questionnaire but should be included in this group which would raise the total to 12 countries. Only Austria, Spain and Turkey reported that the distinction was unknown while the remaining group reported that the distinction between outputs and outcomes was used in some organisations.

45. These numbers are likely to be inflated as there is much confusion in countries as to the meaning of terms involved. Nevertheless, Figure 1 supports the impression that the distinction between outcomes and outputs is being used.

2.2. Outcomes, outputs and the budget

46. Figure 2 depicts whether output and outcome targets are routinely included in the main budget documentation and if so, in what format.

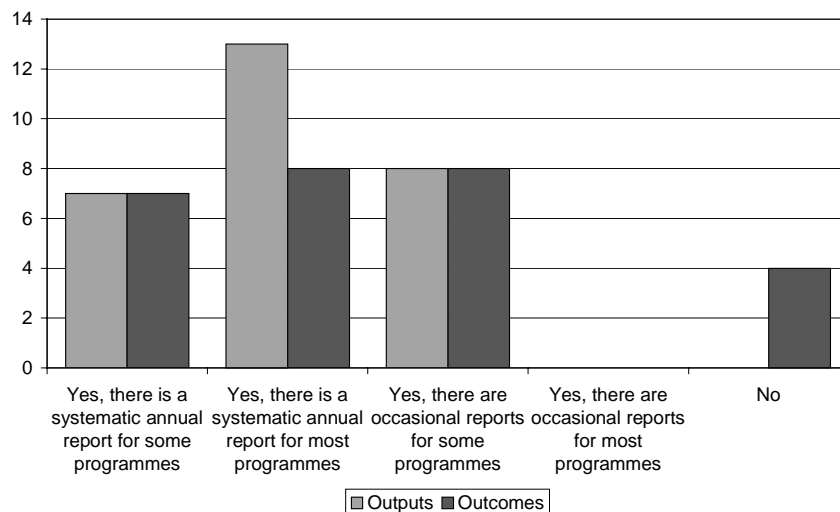
Figure 2. **Are targets routinely shown in the budget documentation delivered to Parliament?**
(Number of countries, 2001, N=25 for outcomes, N=26 for outputs)



Notes: Two countries, United States and Denmark, reported that they include output and outcome targets in the main budget documentation as well as in reports for each ministry.
Two countries, Denmark and Greece, reported that only “some” targets are included.

47. Generally, more countries reported that they are including output targets than countries including outcome targets. Predominantly, the targets are included in the main budget documentation. Only Iceland responded that a separate government-wide report with output targets is being issued and only Brazil and the United Kingdom reported that they issue separate government-wide reports on outcome targets.

Figure 3. **Is actual performance against outcome targets reported?**
 (Number of countries, 2001, N=25 for outcomes, N= 26 for outputs)

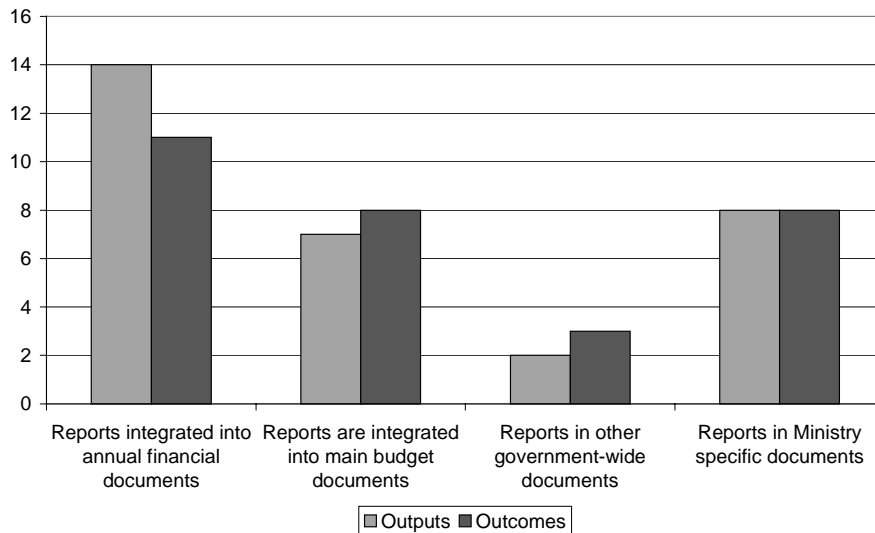


48. Twenty countries reported that “there is systematic annual reporting on how public organisations have performed against output targets” for some or most of their programmes. The similar number for outcome targets is 15. Belgium, Norway, Turkey and Chile responded that outcomes are not reported against even though at least the first three of these countries reported that they include outcome targets in the main budget documentation presented to Parliament.

49. Interestingly, Austria, Hungary, Iceland and Korea inform that they issue occasional reports on how public organisations have performed against outcome targets even though these are not included in the any budget documentation. No country is reported not to account for the delivery on output targets at all.

50. Performance against targets can be reported in different formats and documents relating to the budgeting and accounting procedures. As illustrated in Figure 4 below, countries most commonly integrate the reporting in the annual financial documents. Fourteen countries do this for output targets, whereas 11 countries do this for outcome targets. Less common is integration in the main budget documentation. Reporting in government-wide documents is rare. Eight countries reported that they include information on performance against targets in reports for each individual ministry.

Figure 4. **Format for reporting on output and outcome targets for some or most programmes**
(Number of countries, 2001, N=20 for outcomes, N=23 for outputs)



51. Characteristically, however, a number of countries reported on performance in more than one format (this is why the columns in Figure 4 add up to more than the number of countries answering the question).

52. As regards reporting on output targets, Luxembourg includes reporting in the budget as well as in reports specific to each ministry. Norway and Spain reported in the budget as well as in the accounts. Sweden and the United States include reporting on output targets in budgets, accounts and reports specific to each ministry. And Switzerland includes the information in the accounts as well as in reports for each ministry.

53. As regards reporting on outcome targets, France includes information in the accounts as well as in the budget and Luxembourg includes the information in the budget as well as in reports specific to each ministry. As regards outputs, Spain and Norway reported on outcomes in the budget as well as in the accounts whereas Sweden spreads its reporting over the accounts, the budget and ministry specific reports. Switzerland includes reporting on output and outcome targets in the accounts but supplements with performance information in reports for each ministry. The United States integrates reporting on outcomes in the budget and in ministry-specific reports whereas Brazil reports in the accounts, the budget and in government-wide reports.

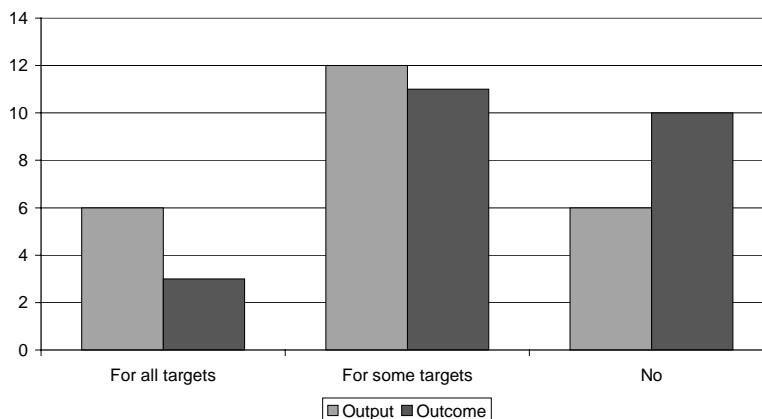
54. In some countries, the Senior Budget Officials have reported that the performance information against outcome and output targets are given for *most* government programmes whereas others have indicated that the information only applies to *some* government programmes. Around half of the countries responded that the reporting on outcome and output targets only regards some programmes.

55. The partial reporting and the many different and potentially overlapping formats raise the questions of whether countries have yet found the optimal way of reporting on performance targets.

2.3. *Expenditure and targets*

56. Figure 5 depicts whether “expenditures are specifically linked” to each output and outcome target.

Figure 5. **Are expenditures linked to each target?**
(Number of countries, 2001, N=24 for outcomes, N=24 for outputs)



57. Italy, Luxembourg, New Zealand, Turkey, Brazil and Chile reported that expenditures are linked to all output targets whereas only Italy, Turkey and Brazil reported that the same is the case in regard to outcome targets. Half of the 24 countries answering this question link expenditures to *some* output targets whereas 25% (Italy, Luxembourg, New Zealand, Turkey, Brazil and Chile) reported that all output targets are linked to expenditure.

58. Ten countries reported that outcome targets are not linked to expenditure. Half of these countries reported that they are not presenting any outcome information in the budgeting documentation – there are thus no outcome targets to link expenditures to. The other half include outcome targets in the main budget documentation but do not link any of them to expenditure.

59. One country (Hungary) reported that expenditures are linked to outcome targets even though this country also reported that outcome targets are not included in the budget documentation presented to Parliament.

60. Five of the six countries reporting that they do not link expenditure to output targets also reported that they are not linking expenditure to outcomes either. Austria, Denmark, Japan, Korea and Spain belong to this group. The United Kingdom reported that they link expenditure to “some outcome targets” but not to output targets.

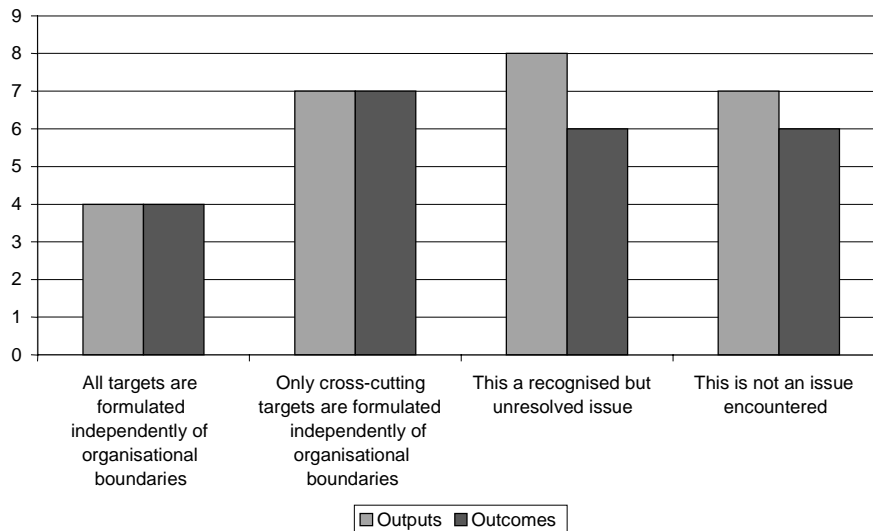
61. In general, the findings in Figures 1 to 5 support the impression that countries are more at ease in dealing with output than with outcome targets.

2.4. *Coherence*

62. An issue often encountered in regard to results-focused management and budgeting is the dilemma between setting targets for individual managers and organisations on one hand and providing for coherence in policy and delivery from a whole-of-government perspective on the other.

63. Figure 6 illustrates how this is dealt with in countries as reported by Senior Budget Officials in 2001.

Figure 6. **Targets and coherence**
(Number of countries, 2001, N=23 for outcomes, N=26 for outputs)



64. France, Greece and Sweden reported that output and outcome targets are set independently of organisational boundaries as regards both outcome and output targets. The Netherlands reported that outcome targets are set independently of organisational boundaries whereas the issue of cross-cutting outputs is not encountered. Turkey, on the other hand, reported that all output targets are formulated independently of organisational boundaries whereas the issue of cross-cutting outcome targets is not encountered.

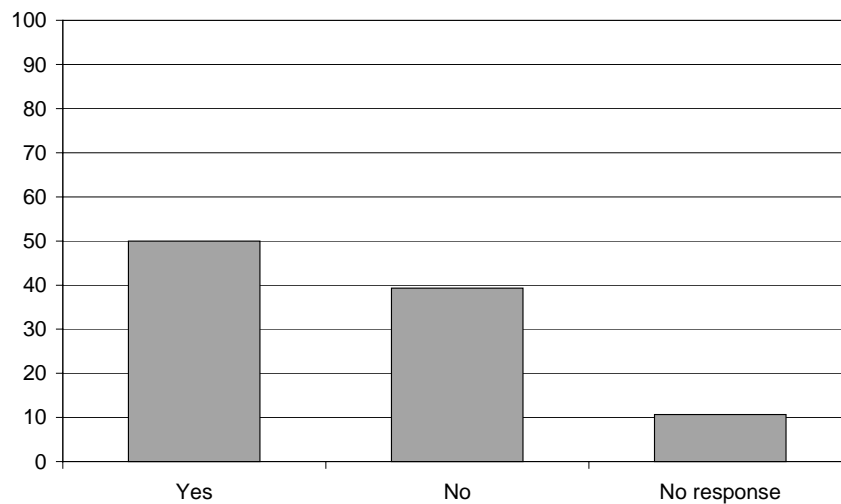
65. Seven countries reported that cross-cutting outcome and output targets are formulated independently of organisational boundaries whereas other outcome targets are linked to the organisations delivering on these targets. A little more than one-third of the countries responding to this question reported that the issue of cross-cutting output targets is a recognised but as yet unresolved issue whereas more than one-fourth reported the same observation as regards outcome targets. A similar number of countries responded that this is not an issue encountered at all.

2.5. *Performance information and allocation*

66. A frequently voiced concern is that performance information is not used in decision-making. This proposition has fairly important implications as it would indicate that systems are not designed to successfully address one of their main purposes and because the sometimes substantial efforts going into designing and running the systems would then not result in the expected benefits.

67. One aspect of decision-making sometimes expected to be supported by performance information is allocation of financial resources. Figure 7 depicts the use of performance information in budget (re)allocation as reported in 1999.

Figure 7. **Is there evidence that performance data is regularly used in determining budgetary allocations?**
(Percent, 1999, N=28)



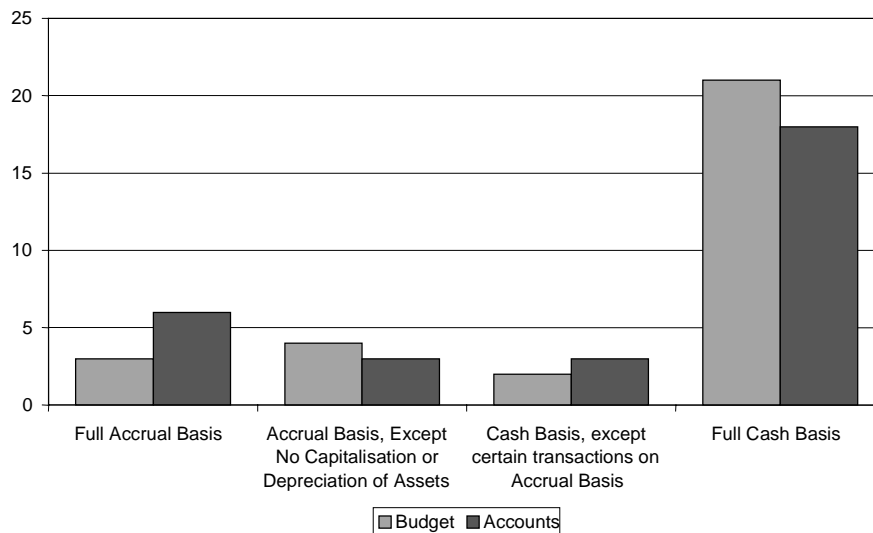
68. Fifty percent of the Senior Budget Officials were of the view that there was evidence that performance data determines budget allocations whereas 40% did not see such evidence. Almost all of those officials who held the view that the performance information was used for allocation decisions reported that the information is used for allocation within programmes and agencies and within ministries, whereas only one in three was of the view that performance information is used for allocation between ministries and programmes.

3. Accrual accounting

69. Accrual accounting and budgeting is at the top of the public management and budgeting agenda in OECD Member countries as well as in the international public management and budgeting community. Accruals are of interest in connection to results-focused management and budgeting because some see accrual accounting and budgeting as a prerequisite for accurate costing of outputs and outcomes. Costing or even pricing, again, is seen as necessary in order to be able to compare the costs of different providers of the same type of outputs and thus to make them compete on efficiency. Furthermore, costing of outcomes is seen by some as necessary if an outcome approach is to be used for reallocation purposes.

70. As accrual accounting and budgeting can be seen as a more accurate way of including costs and benefits, the use of accruals is of interest in regard to a results approach to budgeting and management.

Figure 8. **Accrual accounting**
(Number of countries, 2000, N=27)



71. The majority of OECD Member countries are budgeting and accounting on a cash basis. Only Australia, New Zealand and the United Kingdom reported to be budgeting on a full accrual basis and only the first two of these countries also use accruals as an accounting basis for the consolidated financial statements. A significant number of Member countries, however, use full accruals for their accounting.

72. Canada, Korea, Sweden and Switzerland are considering moving to a full accrual based budget whereas Denmark, Germany and Portugal are considering introducing additional accrual information in the budget.

4. Flexibility in budgeting for government organisations (agencies)

73. A significant trend in budgeting and management in OECD Member countries in the last 10-20 years has been to give government organisations (institutions, agencies) increased managerial freedom. An important aspect of this has involved increased managerial discretion over how to allocate expenditures between capital, land and labour. The philosophy has been that managers should be given increased managerial freedom in exchange for increased accountability for results. The information about results or performance in the sections above thus only addresses one side of the equation whereas the other side, the increased degrees of freedom, is dealt with in the following.

74. One indication of the degree of freedom is the number of appropriations given to government bodies for their operating expenses. In principle, bodies with only one appropriation will have larger degrees of freedom than bodies with more appropriations because transfers between appropriations is typically more complicated than transfers within an appropriation. If a body thus receives one appropriation for operating expenses, the manager of the organisation in question is in a position to decide on the mix of inputs him or herself as opposed to a situation where Parliament has decided on the mix of input through different appropriations (for example, one for salaries, one for office space and one for office supplies).

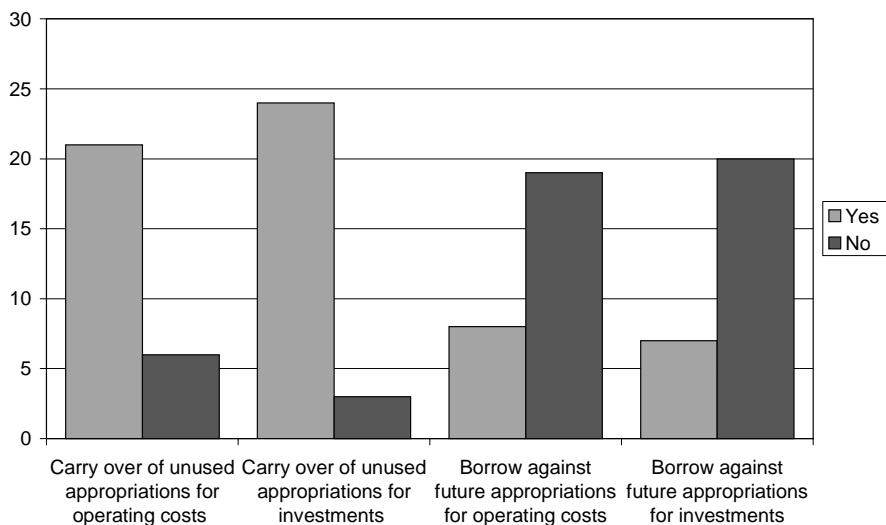
75. More than one-third of the 27 countries participating in the survey in 2000 reported that government bodies receive *one* appropriation for all their operating expenditures. An equal number reported that government bodies receive *more than two* appropriations, *i.e.* detailed appropriations for a number of inputs. Seven countries reported that government bodies receive two appropriations – *i.e.* one for salaries and one for other operating expenditures.

76. Nevertheless, just as having only one appropriation does not in itself necessarily free government bodies from input controls, so does having more than one appropriation not necessarily imply a total lack of flexibility provided budget rules allow for transfers between the different appropriations.

77. Out of the 17 countries that operate with more than one appropriation for operating expenditure, only Switzerland and Turkey forbid transfers between the appropriations. The remaining countries allow for transfers with certain restrictions, typically approval by the Ministry of Finance.

78. Another element of managerial freedom regards flexibility in spending over time; *i.e.* carry-over and borrowing facilities as depicted in Figure 9 below.

Figure 9. **Borrowing and carry-over facilities**
(Number of countries, 2000, N=27)



79. Countries generally allow government bodies to carry over unused appropriations for operating costs although six out of the 21 countries that allow such carry-overs, conditions this on the approval of the Ministry of Finance. As regards investments, even more countries allow for carry-overs and almost none of them conditions this on approval from the Ministry of Finance.

80. The other side of carry-overs concerns borrowing against future appropriations. Only eight countries allow for this when it comes to operating costs and then usually only within tight limits, *i.e.* 1-5% of appropriations. Seven countries allow for borrowing as regards investments.

5. Conclusion

81. The purpose of this paper was to give a background for and overview of how results-focused budgeting and management is implemented in OECD Member countries and selected non-member countries in regard to:

- the occurrence and use of performance information in the budget;
- the use of accrual accounting and budgeting;
- the flexibility in budgeting for government bodies (agencies).

82. It was documented that most governments today include performance information in their budget documentation and that information is subject to some form of audit in half of the countries. Though the current debate in the international public management and budgeting community on the distinction between outcomes and outputs is relatively new, the distinction between the two categories of results is used in most or all organisations in 11 out of 27 countries participating in the survey.

83. A fairly large number of countries reported that the most common format for presenting output and outcome targets to the legislature is in the main budgeting documentation.

84. The overall picture is not entirely clear when it comes to the format of reporting on performance against outcome and output targets. Accounts are the most popular format but there are substantial variations. Six countries use more than one format in regard to outcomes and seven countries use more than one format as regards reporting on outcome targets. Furthermore, it appears that the reporting in up to half of the countries setting targets does not cover the whole range of government activities.

85. Only a limited number of countries link performance targets to expenditures for all government programmes though around half of them have established links for some of their programmes. A limited number of countries use performance targets without any linking to expenditure at all.

86. Countries have different approaches to dealing with cross-cutting issues in regard to performance targets. More than half the countries reported that this is either a recognised but unresolved problem or an issue not encountered. Of the remaining half, most have opted for a mix between targets bound to the organisations delivering on public services and targets to which different organisations can contribute.

87. Half of the countries reported that performance information is used for allocation purposes during the budget procedure but also that the use is confined to allocation within ministries and programmes.

88. As regards accounting and budgeting basis, 60% of the countries participating in the survey still operate on a full cash basis whereas 10 and 20% use accruals for their budgeting and accounting respectively. The remaining countries operate mixed systems.

89. Most countries have given substantial degrees of freedom to managers of public bodies as regards the use of funds for operational expenditures. Almost half of the countries, however, still require that the Ministry of Finance approve transfers between different kinds of input. Almost all countries allow for carry-overs of unused funds for operating expenses and investments whereas borrowing against future appropriations is only permitted in under one-third of the countries.