OUTCOME FOCUSED MANAGEMENT AND BUDGETING

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# TABLE OF CONTENTS

- **INTRODUCTION** 3
- **ELEMENTS OF CONTROL** 5
- **OVERVIEW OF ISSUES** 6
  - Motives 6
  - Challenges 7
  - Governance Options 8
- **OVERVIEW OF COUNTRY APPROACHES** 12
  - Introduction 12
  - Australia 12
  - Canada 13
  - Japan 14
  - The Netherlands 15
  - New Zealand 16
  - Norway 17
  - United Kingdom 18
  - United States 19
OUTCOME FOCUSED MANAGEMENT AND BUDGETING

INTRODUCTION

1. During the last two decades, the focus of public sector budgeting and management has been moving from inputs to outputs in a significant number of OECD Member countries. Important elements of input management remain, but generally managers are now judged by how their programs perform rather than by how well they follow input control elements such as human resource and other central management rules. This development has enhanced the quality of management and increased effectiveness and efficiency. However, the output approach, now refined in some countries to include output based budgeting and accounting, has a number of limitations.

   • Output management can distort attention and activities in delivery agencies and make the agencies lose sight of the effect or impact their programs are intended to have on society.
   • Politicians and the general public tend to think in terms of outcomes and generally not of outputs. This can result in an accountability miss-match between politicians and agency managers.
   • The links between policy and its implementation are sometimes not as strong as might be desired.
   • Generally, the output management approach does not support public sector learning either in reaching policy outcomes or in formulating policies.

2. These limitations encouraged several OECD Member countries to give more emphasis to outcomes while continuing to be attentive to costs, inputs and outputs.

3. This development places on centre stage the need for better institutional links between policy formulation, political decision-making, resource-allocation, implementation, and evaluation.

4. While some OECD Member countries are currently implementing a more outcome-focused approach, others are considering if and how they should embark on this next step in budgeting reforms. In this process, practitioners in central policy formulating institutions, as well as program managers, are striving to define, evaluate and manage outcome measures. And they are labouring to establish links between policy formulation, political decision making, management, audit institutions and evaluators.
Box 1. -- Experts meeting on Outcome Focused Management and Budgeting

An experts meeting on Outcome Focused Management and Budgeting was held at OECD Headquarters, Paris, on January 19-20, 2001. Representatives of Australia, Canada, France, Japan, Mexico, New Zealand, Netherlands, Norway, the United Kingdom, and the United States participated. Chile also participated in the meeting as an observer. Professor Peter Smith, University of York, United Kingdom, participated as an invited expert.

The experts reviewed and discussed presentations on the establishment and use of outcome-focused management and budgeting in Australia, Canada, France, New Zealand, Netherlands, Norway, the United Kingdom, and the United States.

5. This report gives an overview by setting out the conceptual framework and by summarising the rationale and challenges of the different approaches. This introduction is followed by in-depth information on the approaches in Australia, Canada, Japan, the Netherlands, New Zealand, Norway, United Kingdom and the United States.

Box 2. -- Terms

<table>
<thead>
<tr>
<th>Input</th>
<th>A measure of what an organisation or manager has available to achieve an output or outcome. Inputs can include employees, equipment or facilities, supplies on hands, goods or services received.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outputs</td>
<td>Outputs are defined as the goods or services (usually the latter) which government agencies provide for citizens, business and other government agencies. An example from a Ministry of Finance could be a monthly delivery of reports of Government financial performance and the annual financial statements.</td>
</tr>
<tr>
<td>Output targets</td>
<td>Output targets are defined as explicitly stated expectations in regard to the level of outputs. An example from a Ministry of Finance could be that 90 per cent of economic reports are delivered within the timeframes agreed and are rated excellent or above average by prime stakeholders.</td>
</tr>
<tr>
<td>Outcomes</td>
<td>Outcomes are defined as 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. An example for a Ministry of Finance could be that government finances are sustainable.</td>
</tr>
<tr>
<td>Outcome targets</td>
<td>Outcome targets are defined as the effect government intends its outcomes to have on society. In this definition government intentions are conceived as the explicitly and publicly stated purposes of government activities. An example could be that road deaths should be reduced by 20 per cent within the following five years. One of the outputs contributing to this outcome could be an advertising campaign.</td>
</tr>
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</table>
ELEMENTS OF CONTROL

6. The point of departure for the outcome approach is the identification of five basic elements of control and four corresponding performance relations as outlined in Figure 1 below.

![Figure 1. Elements of control](image)

7. Input-focused management and budgeting is oriented toward how much resources, staff, facilities, etc. are made available for a program or ministry. Typically, managers exercise direct control over the use of inputs. The amount of money being spent on a program is often the main performance measure when managing to inputs. Little evaluation is done of what the resources actually bought or achieved.

8. Ministries and agencies are not created simply to spend money. To varying degrees, governments have sought to describe and measure what the money is buying. Mostly, these descriptions and measurements have been of outputs.

9. An output focus to management and budgeting typically calculates how many services are being delivered, or products produced. An output focus to management is primarily oriented on workload indicators, transaction counts; for example how many beneficiary claims will be processed. Measurement and use of performance attributes (or qualities), for example timeliness, error rates, are also usually found in an output focus to budgeting and management.

10. The extent of a managers’ direct control over outputs is less than that for inputs, but it is still usually substantial. Even for a ministry 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.

11. In outcome-focused management and budgeting, the government defines what a particular program 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, the government then periodically assesses how well it does in achieving these outcomes.

12. In principle, outcome-focused budgeting and management involves formulating, implementing and evaluating policies, taking into account the need to establish the linkages between the five elements mentioned above in figure 1 (ex ante, during implementation and ex post). Thus, outcome-focused management and budgeting brings together organisations involved in policy formulation, policy executing and audit or evaluative institutions, as well as the connections between the three institutions.
13. An outcome-focused approach aim at better aligning inputs, outputs and outcomes and then systematically have institutions reflect these policy goals as they carry out their activities or outputs.

14. While assessments of outcome achievement can be made regularly, the frequency of these assessments is typically in terms of years rather than months. Given this time horizon, managers often rely on outputs to make short-term assessments of how well a program is progressing in achieving its desired outcome. Use of outputs also permits timely intervention if the performance trend is unfavourable or problems arise.

15. Often, a lag of several years or more occurs between the spending of money on a program and the effects of that expenditure being seen in terms of program outcomes. This lag can cause program officials to see themselves as being accountable for the consequences of resource and management decisions made by their predecessors. Similarly, the results of their decisions may not occur until after other officials have succeeded them. (Outputs are usually measured over a shorter timeframe and there is a closer and immediate association between budgeting and management actions and program performance.)

OVERVIEW OF ISSUES

Motives

16. There are several reasons for countries to embark on an outcome-focused approach to budgeting and management. In the Member countries reviewed, no single reason predominated to the exclusion of all others. The main reasons can be grouped in four categories:

Performance delivery

17. Governments intend to demonstrate the effectiveness of their programs in improving people’s lives and national conditions (economic, social, environmental, safety). This is of particular importance in times of tight budgets, when governments’ policies are scrutinised to an extent that may not be typical. Related to this issue are questions like: 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?

Public awareness and accountability

18. Another motive could be to make governance more transparent and government managers more accountable for the performance of their programs. Managerial emphasis is thus shifted from how much resources will be received to what will result from the resources being spent. The perspective from managers can change from one that primarily looks inward to how the organisation is being administered to one that looks outward, at the public conditions, needs and problems. A related question in that regard is: How can citizens be better informed about outcomes and the responsibility for achieving them?

Outcome information as a steering tool

19. Resource allocation may be enhanced on the basis of outcome information by matching program costs with program results, and by making comparative assessments of program efficiencies, effectiveness, and the relative worth of programs in producing results. For this purpose, it is important that the budget be
restructured around outcomes and that an outcome focus be integrated into the entire budget and reporting system and cycle. This approach responds to the question: How can resources be allocated to the government’s priorities and to the most effective programs?

**Cultural change**

20. Other countries may predominantly focus not only on a change of the civil service culture toward the public good and accountability, but also on fostering cross-ministerial co-operation and co-ordination. Outcomes have the potential to provide cohesive and consistent direction to related programs on an intra-ministry and inter-ministry basis where these programs work toward common objectives; i.e. to minimise a silo or stovepipe approach to program management. (Successful achievement of many outcome goals will depend on several programs working together in a co-ordinated and supportive way.)

**Challenges**

21. Outcome-focused budgeting and management is a relatively new initiative in the Member countries participating in the experts meeting. As such, it is too early to assess the overall usefulness and value of this approach to governance and agency management. 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. Rarely will elected officials make program 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 programs. A widespread and fundamental change in management culture and philosophy will usually be resisted somewhere. A difficulty in gaining acceptance of a new approach is overcoming uncertainty over whether an untested or unproven approach will be productive or beneficial, or even work. Further, government officials may believe there is nothing wrong with the present approach, so they apple the old adage of ‘If its not broken, why fix it?’, and after many years of experience with government initiatives, some government officials tend to view most new initiatives as fads, that will soon disappear.

- Knowing whether an outcome was actually achieved can be difficult (and expensive) to measure and analyse. Reporting on outcomes often relies on data collected from different sources, particularly sources outside the government. This reporting can be complicated by lack of uniform standards for the data. In addition, some outcomes may require the government to do program evaluations, such as long-term longitudinal studies, to determine program effects and results.

- Public visibility invites public scrutiny, not only of ministry management skills but of the basis for government policy-making. Detailed information on performance may reveal the true value and extent of political promises, which might be statements of general intent rather than specific commitments.

- Government budgeting and financial systems may presently be capable of generating only rudimentary matches of resources with outcomes. Questions may thus be raised that the costs of improving financial systems will not produce a commensurate enhancement in the quality and scope of the data that will be newly generated.
Constituencies and beneficiaries may prefer that program results not be measured or evaluated, fearing that their programs may be shown to be ineffective, of little value, or unimportant in achieving the desired effect or impact. The idea that something is being done about a problem or issue can be seen as being more important than whether the actions being taken have any substantial effect, and the possibility that some programs or service delivery mechanisms might be found to be more effective or efficient than others can threaten the future of those groups and entities directly associated with the programs or services, as either recipients or providers.

Co-ordinating the efforts to achieve outcomes that cross agencies or will be achieved by more than one level of government can be a daunting task.

There are limits on how much information politicians and public servants can incorporate into their decision-making, and they can only devote attention to a few areas in detail at a time.

Some situations will have more influence on how officials direct their attention than others (for example, the urgent driving out the important).

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

Governance Options

The introduction of an outcome-focussed approach to budgeting and management involves a number of decisions on governance arrangements and management regime, which can affect information flows and relative roles in a given political system. The following paragraphs, which are based on the approaches described in part two of this report and the discussions at the expert meeting mentioned above, outline some of the main questions and issues that may arise in an outcome-focussed approach.

These issues can be seen from at least three perspectives:

From the observer trying to understand and describe an outcome approach to budgeting and management

From the practitioner making choices on whether and how to introduce or sustain an outcome focus to budgeting and management systems.

From the researcher analysing why a specific system looks like it does.

Purpose

What is the purpose of adopting an outcome-focussed approach to management? Is it the government’s fiscal outlook? Is it a pressure from the public to make the budget more informative? Is it the result of experiences with the limits of an output approach? Or is the outcome focus emerging as a possible governance option with the enhanced availability and decreasing price of information?

Phasing

No government seems to have started immediately with an outcome-focussed approach to management. Rather, the outcome approach is typically preceded by extensive use of output measures. Is experience with output measures a necessary first step before moving to an outcome-focussed approach?
27. Phasing and the scope of this approach can pose choices for government officials. Some governments have taken a phased approach to introducing outcome-focussed management, proceeding over time to expand its use to an increasing number of ministries and agencies. The scope of coverage can vary as well, with outcome-focussed management being applied to all of government, or the majority of ministries and agencies, or is limited to a few, selected public sector entities.

**Driving force**

28. Within the government, what is (or was) the initiating and driving force behind outcome-focussed 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-focussed 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?

**Who defines and approves outcomes?**

29. Within the government, who is or should be responsible for defining outcomes? Is it the legislature, the head of state, the Cabinet collectively, the minister responsible for the program, the program’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?

30. After an outcome is defined, is it subsequently approved or ratified by the legislature or the head of state?

**Transparency**

31. Should outcomes mainly be defined within the government ministries with little or no participation or involvement by the general public, stakeholders, recipients, users, and beneficiaries of a program? 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?

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

**Evaluation**

33. Collecting and evaluating data on the achievement of outcomes is usually a more difficult task than data collection and analysis for outputs. For outcomes, the difficulties can arise from time lags in reporting, abilities 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 programs in a multi-program 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?
Accountability

34. Should government officials be held accountable for achieving outcomes? What level of officials is or should be accountable; is it the head of state (President), the prime minister, the line ministers, the program managers? Should officials be given more flexibility in managing and administering programs in exchange for their assuming greater responsibility and accountability for outcomes? To what extent is the public informed of individual or organisational accountability?

Outcome and performance management

35. Having to report on and be accountable for outcomes can reinforce management’s attention to them as a tool and framework for administering programs and allocating resources. However, it is usually much easier to manage for outputs than outcomes, as outputs (e.g., production, delivery) are more often controlled by the manager. How should governments use outcomes as a performance management tool? How important to gaining acceptance of the use of outcomes as a management tool are individual or group incentives, rewards, and penalties (with respect to outcome achievement or non-achievement)?

Outcomes and the budget

36. 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, as calculating the cost of 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 program? 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?

37. If outcomes are used to inform decisions on budget levels, which staff or government organisation should mainly be 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?

Outcomes and risk

38. External forces and circumstances may affect the achievement of outcomes. Some governments will assess the potential for such forces to actually happen, characterising these as risks. Governments may also describe beforehand the steps and actions that would be taken if these forces or circumstances occurred. These actions are intended to minimise the effects on outcome achievement. Should the government routinely identify risks? Should the government also pre-plan the actions that should be taken if the risks occur? Should this be undertaken systematically or on an ad hoc basis?

Vertical coherence -- levels of government

39. The logic of an outcome approach flows from the output approach. Outputs or activities financed and organised by the public sector should be aligned to outcome targets regardless of which organisation 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 an interest in having clear lines of responsibility?

40. Similarly, should sub-national levels of government introduce a counterpart outcome-focussed 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 programs, which are funded and overseen by the national government.

*Horizontal coherence -- Crosscutting issues*

41. Achieving some outcomes will require that different programs or organisations work together. Such outcomes can often cross ministries. Defining and achieving outcomes that are inter-agency is a particular challenge and opportunity. The opportunity arises from getting related programs 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 programs. The challenge stems from the difficulty often experienced in forging these agreements, and co-ordinating the tasks, especially when no one ministry has been given lead responsibility for the outcome. What has been the government’s experience in defining and achieving outcomes that are cross-ministerial in nature?

42. A number of countries have addressed some or most of these questions and issues and approaches vary significantly.
OVERVIEW OF COUNTRY APPROACHES

Introduction

43. Process oriented management, management by political decree, legal commands and management by campaigning has never really gone out of fashion. Similarly, input controls have never ceased to receive attention from politicians and such controls continue to have a firm hold of some civil servants 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.

44. The efforts to introduce outcome-focussed management and budgeting is no different in this respect. It does not replace the remains of input management, the process of output management, or other techniques from the public management tool kit. The aim in member countries is to complement these approaches by focussing on outcomes.

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

46. 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. Public organisation 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 considering whether the core budget document should be restructured on the basis of outcome and output targets and information.

47. 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. Outcome targets and information is only gradually being introduced. Some public organisation 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, performance information is integrated in the budget documents and the management processes. However, the main emphasis is still put on inputs and outputs, but the number and quality of outcome information is increasing.

Australia

48. 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, presented to parliament 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.
49. 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.

50. 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.

51. 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.

52. 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.

53. 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.

54. The full implementation of the framework is not yet completed. Rather, it is expected to be an iterative process, which may take several years. However, first experiences show that the outcomes and outputs framework is already making contributions to improving transparency and accountability, and enhancing the efficient delivery of products and services which meet the need of government.

Canada

55. With the Program Review of 1994, Canada redoubled its efforts to implement outcome-focused management. The Program 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.

56. 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 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).

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1 Agencies are public organisations, which primarily implement policies. They are typically organisationally connected to parent departments primarily involved in policy formulation.
57. 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.

58. 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.

59. 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.

60. Not only parliament, but also the wider public has access to the planning and performance reports, as they are published on the Treasury Board's Web site.

61. The cornerstone of Canada’s results foundation was put in place in March 2000, when *Results for Canadians: A Management Framework for the Government of Canada* was tabled in Parliament. *Results for Canadians* integrates the performance management elements discussed above, as well as other new and emerging ideas about public service management, into a coherent framework.

**Japan**

62. 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 in complementary.

63. 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”.

64. 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.

65. 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.
66. In order to be able to properly manage the risks associated with intended outcomes and outputs, external factors, that are not controllable by the Ministry, should be identified before the actual policy implementation.

67. 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.

68. The Ministry of Economy, Trade and Industry (METI (formerly 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 identifying the most efficient and effective option. Performance indicators and descriptions are included in the Appraisal Statement.

69. METI 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.

70. Major policies are evaluated by independent evaluation divisions within METI when they are finished or after a specified period. 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 is or was running the programme in question is required to take actions according to the recommendations given in the evaluation report.

71. METI is currently focussing 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 a kind of “on-the-job-training”.

The Netherlands

72. 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 public sector organizations were legally obliged to generate performance information. Public agencies and contract partners, however, were obliged to do so 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 programs in their budgets.

73. In 1999, it was decided to introduce a full scale outcome-focused budget system. The first outcome-based budget will be 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. 2006 is cited as a likely time horizon for this part of the reform.

74. The Dutch reforms of the budget are lead 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 lead 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?

75. 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 element:

- 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 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 was 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 Indep附 Appendix, which will include as little technical information as possible.

Budget documents are still organised around the line ministries.

Outcome targets, however, can cut across ministerial boundaries, the so-called “overview constructions”, 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 aspect 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.

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 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. Targets are formulated in broad terms and are not quantifiable. This document is used to a varying degree in budget prioritization exercises and in the strategic plans of public organizations.

The Key Government Goals are translated into department’s 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 focussed rather than outcome focussed.
84. The budget is based around outputs (information on inputs is very limited). Law requires ministers 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.

85. New spending proposals, which reflect the greater part of ministerial scrutiny of expenditure in the budget process, are guided by the “Key Government Goals” and “Fiscal Provisions Framework” that 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 programs, 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.

86. Many departments produce statements on “States of the World” which snapshot the state of New Zealand in regard to the policy area for which the departments are responsible. The papers include social, environmental and economic indicators and is intended to guide prioritisation (ex ante) and evaluations of effectiveness (ex post). A limited number of departments have developed the “States of the World” into papers documenting the success of policies – i.e. outcomes proper. It is currently being considered how the quality of information available about State of the World can be improved.

87. In summary, New Zealand has a system anchored on outputs; and outcome targets and outcome performance is only gradually being introduced.

**Norway**

88. 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.

89. **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.

90. 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 program or activity based. This implies that some agencies link the budget to the performance targets, while others mainly focus on inputs.

91. 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.

92. 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.

93. **Evaluations and assessments** are carried out on a periodical basis as a supplement to the performance information provided on a regular basis.
94. 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 are varying; some ministries define outputs, others outcomes. However, parliament still focuses more on inputs than on performance goals during budget negotiations.

95. 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.

96. In 2000, the ministry of Finance launched an empirical review on performance and financial management in the central administration in Norway. One goal of the review was to analyse the effects of the framework reform.

97. The overall picture is that the new framework for performance management and budgeting has had several positive effects. For example, roles and responsibilities is being clarified, and a greater emphasis is being put on integrated planning and resource allocation.

98. In spite of the achievements in improving performance management, there is still a long way to go in improving the performance measurement and the performance information government-wide in Norway. Some of the current challenges are assessed to be related to methodology and to development of IT based management systems. Some officials in Norway further assess that the one-year perspective of the budgetary process does not support an outcome focus.

99. As one consequence of the review, a revision of the legal and regulatory framework has been initiated. The ministry of Finance will aim at fostering institutional learning, and focus on establishing networks among institutions, since feedback and institutional learning may prove to be one of the main challenges to enhance performance orientation in Norway in the future.

United Kingdom

100. Since 1998, management and budgeting decision 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 two agreements can be considered agreements on effective and efficient service delivery between the government and the public.

101. 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 translate them into a number of targets, that are mainly concerning 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 also Figure 1 on page 5 above.

102. 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.

103. 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.

104. Outputs 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, which refer to the
period covered by the appropriate PSAs. In some cases, SDAs also include details of factors outside the control of the department that could affect the delivery of the outcomes.

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

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

107. 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.

108. Budget negotiations are principally based on outcomes. PSAs are discussed at the same time as budget allocations by the Cabinet Committee. The White Papers that presents the budgets and the PSAs are published as part of the same announcement.

109. Treasury monitors quarterly the outcomes, 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.

110. 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 15 per cent in 1998 to 68 per cent 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.

**United States**

111. With the Government Performance and Results Act (GPRA), the US 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.

112. 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.

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

114. 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 their final version of the plan. The completed strategic plan is available to the public, in most instances 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.

Congress is seeking a better linkage between program performance and budget resources. Most agencies are having difficulty in 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 program. 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 programs 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 program 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 requires that Congress now identify performance goals before considering and voting on laws to authorise or re-authorise programs.