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

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This document provides an overview of country experiences with results-focused management. Individual country studies are available as PUMA/SBO(2002)1/ANN1

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1. Introduction

1. 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.

2. 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

3. 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

4. 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.

5. 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.

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.
6. 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 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

7. 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).

<table>
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<th>Box 1. Definition of inputs, processes, outputs and outcomes</th>
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*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.


8. 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.
9. 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.

10. 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

11. 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.

12. 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)
13. 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.

14. 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.

15. 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.

16. 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).

17. 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.

18. 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.

19. 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.

20. 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

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

![Figure 5. Are expenditures linked to each target?](image)

22. 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.

23. 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.

24. 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.
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.

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

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.

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

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.

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**

31. 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.

32. 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](image)

**Figure 7. Is there evidence that performance data is regularly used in determining budgetary allocations?**

(Percent, 1999, N=28)

33. 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**

34. 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.

35. 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.
36. 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.

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

4. Flexibility in budgeting for government organisations (agencies)

38. 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.

39. 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).
40. 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.

41. 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.

42. 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.

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

44. 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.

45. 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

46. 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).

47. 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.

48. 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.

49. 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.

50. 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.

51. 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.

52. 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.

53. 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.

54. 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.