



# THE METAMORPHOSES OF PERFORMANCE BUDGETING

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# IN TIME OF CRISIS, PERFORMANCE BUDGETING DID NOT PERFORM

- The latest (2011/2012) OECD survey of budget practices found that no country directly links expenditures to performance
- PB is used to inform the budget, not decide it
- Compared to the previous (2007) survey, there is less reliance on performance information in budget negotiations between central agencies and line ministries
- Since the onset of the crisis, line ministries have replaced central agencies as the main institutions responsible for performance objectives and targets
- Performance information is used more in internal agency management than in budgeting

# PERFORMANCE IS THE HOLY GRAIL OF BUDGETING

- The case for PB rests on the appealing argument that governments should allocate resources on the basis of actual or expected results
- It is difficult for governments to actualize PB: Many factors outweigh results in deciding how to spend public money
- Political influence is legitimate in democratic regimes, even when they deter governments from linking resources to results
- Inertia and incrementalism's grip on budgeting deter application of PB
- Because results should matter, but don't, governments try different versions of PB, confident that this time will be different
- Thus, the metamorphoses of PB discussed in the paper
- The different versions defy standardizations: their only common element is the pursuit of performance

# PERFORMANCE BUDGETING: A SIMPLE CONCEPT WITH MANY VARIANTS

- **CORE PB**: Links resources to results through injections of information on performance into the stream of budget work
  - Many variants, ranging from performance-informed budget to performance-driven budgets
- **EXTENDERS**: PB becomes an elastic concept including program evaluation, spending reviews, and performance management
  - These support core PB either by generating information or facilitating performance-based decisions
- **OUTLIERS**: PB becomes part of a process that facilitates monitoring of social trends and progress, and promotes managerial accountability and citizen participation in budget decisions
  - Outliers promote political and managerial change that stretch beyond the boundaries of budgeting

# PB: THE INFORMATION-DECISION CONTINUUM

- OECD has classified PB systems into three main types
  1. PRESENTATIONAL: Performance information is published in the budget, but is not inputted into spending decisions
  2. PERFORMANCE-INFORMED BUDGETS (PIB): No prescribed or automatic link of performance and decisions, but performance information is considered in formulating the budget
  3. DIRECT PB: Budget allocations are based on actual or expected performance
- Because of variations within each of these categories, it may be useful to define PB types along a continuum, with presentation of information at one end and performance-determined decisions on the other

## PERFORMANCE-INFORMED BUDGETING (PIB) IS EASY TO IMPLEMENT AND EASY TO IGNORE

- PIB does not require major changes in budget practices: it can be grafted onto existing systems
- Policymakers can easily ignore or disarm information that gets in the way of budget (or other) decisions they prefer
- Information overload in deadline-driven budgeting spurs policymakers to pay attention to essential information, but to ignore information that only is good to have
- Budget offices generally are dependent on others to produce performance data. The more performance data are used in allocation, the greater the incentive to withhold or distort information
- PIB increases the cost of processing budget information. This cost is much higher for outcomes than for outputs, which is why governments that aim for outcomes often end up with outputs
- PIB may do more to enrich the quality of public information than the quality of public budgets

# PERFORMANCE-DRIVEN BUDGETING (PDB): HARD TO DO , BUT NOT IMPOSSIBLE

- PDB is grounded on the notion that each increment of resources should purchase an increment of results
- Implementing this concept requires information on the marginal cost of each unit of output
- Governments require cost accounting or other systems to apportion costs and to distinguish between fixed and variable costs
- It is difficult to force a close link of marginal changes in resources and in outcomes
- PDB can be operationalized by constructing a baseline of outputs or outcomes that parallels the expenditure baselines used by many OECD countries
- The output/outcome and expenditure baseline would project future results and spending if current policies were continued without change
- The task of budgeting becomes allocating resources to change both the expenditure and output/outcome baselines

# EXTENDING PB: THE RATIONAL FOR GOING OUTSIDE THE BUDGET FRAMEWORK

- Extending PB recognizes the chronic weakness of budgeting in reallocating resources
- Budgeting is not the only – and sometimes not the main – process for government to drive for results
- The conflict-suppressing routines of budgeting and its deadline-congested timetable make it ill suited to generate fundamental change
- Budgeting is dependent on other processes for generating data and analyses for informed expenditure decisions
- PB can be an effective instrument for translating policies and established elsewhere into budget allocations

# EXTENDING PB: PERFORMANCE MANAGEMENT AND PROGRAM EVALUATION

- Managing for results is an enabling or necessary condition to budget for results
- Spending units may view PB as a weapon used against them, but Performance Management as an internal matter that protects their interests and priorities
- They frequently change the use of financial resources to enhance performance outside the budget framework
- Evaluation is extensively used by OECD governments to shift resources within – not between – programs
- Countries have taken different approaches in connecting evaluations to budgets: tight linkage risks making evaluations a rote exercise, loose linkage risks ignoring evaluations when budgets are allocated

# PB IS EFFECTIVE ONLY IN WELL-MANAGED COUNTRIES

- Enabling conditions for PB include low corruption, little variance between actual and authorized expenditures, strong internal controls, and highly-skilled and well-motivated public employees
- Other facilitating conditions include efficient and accessible public services, attentive media and groups, and capacity of citizens to communicate their interests and concerns to government
- These conditions are more important than the form of the budget in determining the fate of PB-type innovations
- PB cannot compensate for government failure or characteristics that promote disregard of results
- The importance of enabling conditions explains why high-performing governments that have the least to gain from performance-oriented reforms are most likely to have successful PB implementation

# EXTENDING PB: SPENDING REVIEWS

- Effective evaluations reallocate within programs, effective spending reviews cut expenditures
- The 2007 OECD survey identified half a dozen countries that used spending reviews, the latest survey reports that more than half of the countries claim to conduct reviews
- Spending reviews seek to expand fiscal space by countering incremental tendencies
- A strategic review asks basic questions about an entity's or program's purposes, why it is deemed a public responsibility, whether it can or should be privatized, and alternative funding arrangements
- Every country that undertakes strategic reviews has its own questions, but they all pertain to whether government should continue to finance the program

# EXTENDING PB: SPENDING REVIEWS,

## CONTINUED

- Strategic reviews are driven from the center, with political commitment, without which it would not be feasible to implement spending cuts or other big policy changes
- Strategic reviews feed into budget decisions, but they usually are separated from regular budget work
- With few exceptions, strategic reviews have been *ad hoc* or one-off exercises
- It cannot yet be discerned whether reviews will remain prominent when crisis and pressure for larger spending cuts abates

# PB OUTLIERS: SOCIOECONOMIC STEERING, ACCOUNTABILITY FOR RESULTS, AND PARTICIPATORY BUDGETING

- Interest in performance pervades a broad swath of policy and political activities
- In socioeconomic steering, the key questions pertain to how society and the economy are performing
- Policy responses to these questions often have major budget implications, but the linkage is more political than managerial
- Performance information has the potential to strengthen democratic accountability
- As auditing moves beyond fiduciary matters to questions of results and effectiveness, it can make government more transparent and more accountable for what has been accomplished with public money
- Participatory budgeting gives citizens – usually in local governments – a direct voice in making or recommending certain spending decisions
- Performance information would enhance the capacity of citizens to base preferences on results

# DOES PERFORMANCE BUDGETING MAKE A DIFFERENCE?

- PB is tough to apply when budget conditions are favorable, and harder when they are not
- PB had a minor influence in fiscal consolidation during the crisis
- By itself, PB cannot compensate for a shortage of fiscal space
- Purging input data is not a precondition for effective implementation of PB
- PB does not reverse the decline in public trust, but low regard for political leaders and institutions may impede implementation of PB
- Valuing performance yields better results than grafting procedural elements of PB onto existing budget practices
- With few exceptions, PB has not become the government's budget process. It is an accessory to the budget: it adorns spending decisions, but does not fundamentally change the way they are made

# PB: THE JOURNEY CONTINUES BUT THE FRUSTRATION REMAINS

- Budgeting has stable procedures that continue year after year with little or no change
- Ongoing routines dictate how the budget is compiled and implemented
- PB has rarely been embedded into the basic routines of budgeting
- PB tends to be provisional, as if it was on trial and uncertain how long the iteration will survive before it is discarded or modified
- One year's PB success does not assure the next year's; one year's failure does not deter reformers from trying again
- The metamorphoses of PB builds on past disappointments, expanding it beyond core budget practices