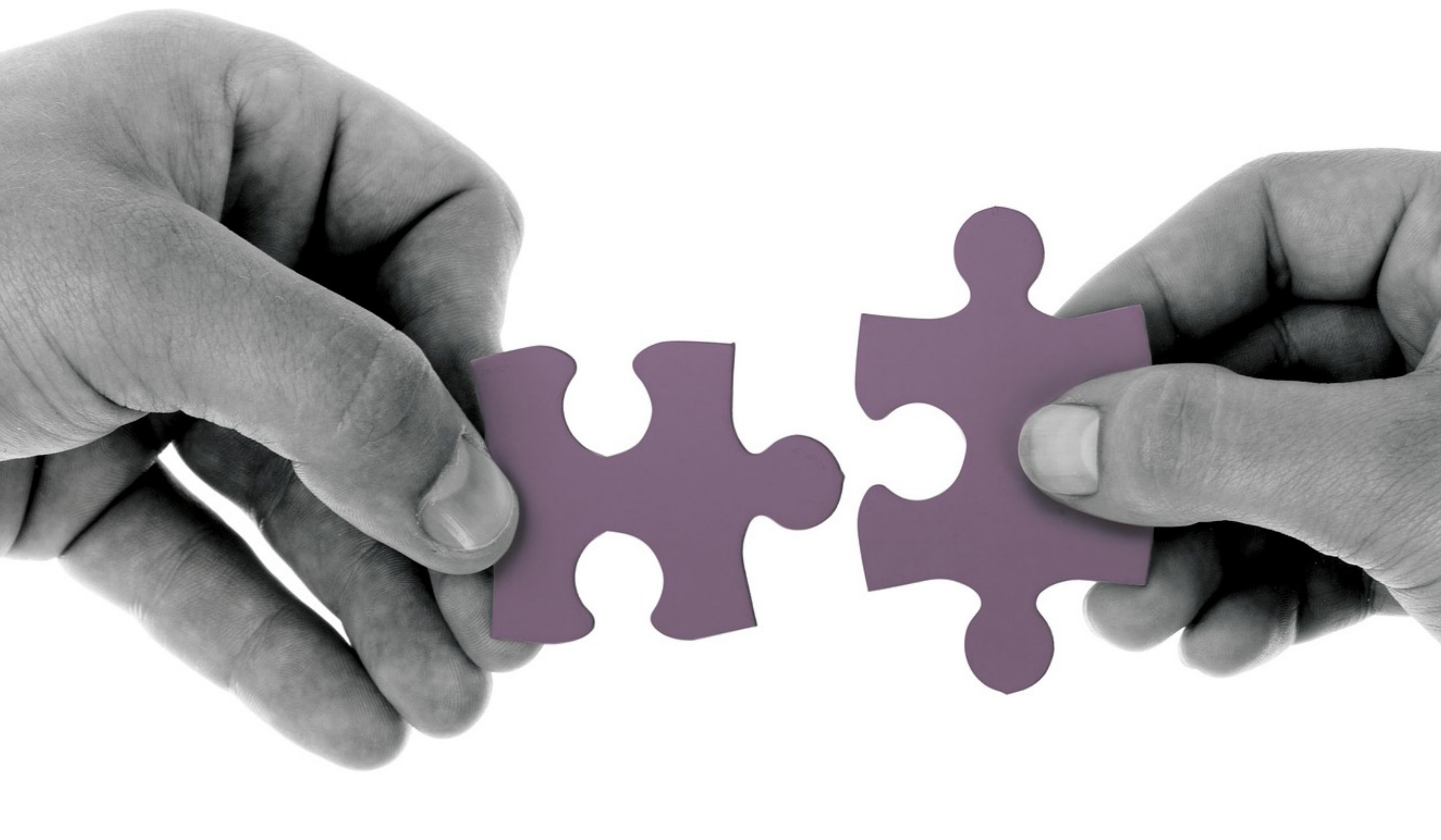
HIGHLIGHTS

2016 OECD PERFORMANCE BUDGETING SURVEY:

Integrating performance and results in budgeting



OECD

This booklet presents highlights from the 2016 OECD performance budgeting survey. The data is preliminary and still subject to additional verification. 33 countries have responded to the survey: Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovenia, Sweden, Switzerland, Turkey, United Kingdom and United States.

These observations drawn from the survey identify shared strengths and weaknesses in the use of performance and results information in budgeting and highlight emerging trends among OECD member countries' systems.

INTEGRATING PERFORMANCE AND RESULTS IN BUDGETING

EXECUTIVE SUMMARY

The evolutionary arc of performance budgeting has spanned decades. As noted by Schick (2014) “performance budgeting has become an elastic label that is stretched to encompass a wide range of processes that purport to expand fiscal space, improve public services and administrative efficiency, review government programmes, and spur reallocation of budgeted funds”. The 2016 OECD Performance Budgeting Survey provides an opportunity to take stock of current practices and new developments.

Despite evolutions, performance budgeting frameworks remain the norm across the OECD as reported by 26 member countries. Two-thirds of these are compulsory for line ministries and agencies. By their use, governments report having been most successful in advancing accountability and transparency and promoting a culture of performance.

Performance budgeting has traditionally been structured as a shared initiative between line ministries, agencies and the central budget authority (CBA) but countries report a broad range of government institutions as increasingly engaged in performance budgeting and an expanded role for CBAs. Compared to 2011, CBAs are more likely to be involved in target setting and to possess a specialised unit dedicated to performance budgeting.

CBAs also play a key role in spending review (SR). Half of the countries that report using SR indicated that the CBA leads the exercise. Use of SR has increased (24 countries in 2016 compared to 16 countries in 2011), with a spike in the number of reviews being carried out in 2015 and more countries having carried out multiple spending review exercises. It remains to be seen whether countries will make SR a regular practice along the lines of Denmark, the Netherlands and the UK if fiscal pressures abate. Moreover, SR results are not always clear and there may be limited data on whether fiscal and output and outcome objectives embedded in SR have been met. Respondents reported lack of, or poor quality, performance information and data and lack of time as the most significant challenges when carrying out spending review.

Evaluation is more decentralised than performance budgeting and spending review. Although a wider range of institutions are reported as carrying out evaluations in 2016 as compared to the 2011 survey, line ministries and agencies are still by far the most likely to be responsible for conducting evaluations. In part due to the often considerable delays between policy implementation and evaluation publication, countries report that evaluations continue to have a limited budgetary impact.

* Schick, A. (2014), "The metamorphoses of performance budgeting", OECD Journal on Budgeting, Vol13/2.

PERFORMANCE BUDGETING

Performance frameworks are the norm in OECD

26 countries report having a standard performance budgeting framework which is applied across central government organisations, similar to the 2011 survey. Two thirds of these are compulsory for line ministries and agencies.

Among countries that do not have such a framework, Belgium and Israel reported that line ministries develop their own frameworks and the US reported that the Office for Management and Budget provides guidance to departments and agencies on the general structure and contents of strategic plans and performance reports.

Key elements of these standard frameworks are:

- General guidelines and definitions (24 countries)
- Standard templates for reporting performance information (19 countries)
- A standard ICT tool for reporting performance information (12 countries)
- A standard set of performance indicators/ targets (8 countries)

Most countries set performance targets but number and coverage varies

27 OECD countries also report setting performance targets as part of their performance frameworks. Almost a third of these countries systematically set targets for all programmes (Australia, Austria, Estonia, France, Germany, Italy, Korea, Mexico, New Zealand and Slovenia), while the rest set targets for a segment of programmes – most or priority programmes.

13 OECD countries report using high level targets such as Key National Indicators (KNIs). Two thirds of these KNIs are internationally comparable and almost half are aligned with the Sustainable Development Goals. 45% are aligned with Europe 2020 objectives and 38% are aligned with another international framework.

Seven OECD countries (Canada, Denmark, France, Mexico, Netherlands, New Zealand, Norway and Turkey) report a multi-year trend toward fewer targets, but roughly an equal number indicate a trend toward more targets (Australia, Austria, Estonia, Greece, Israel, Italy and Switzerland). While line ministries traditionally have greater responsibility for target setting, a larger percentage of CBAs reported playing an important role in target setting in 2016 (62% of respondent countries) relative to 2011 (41%).

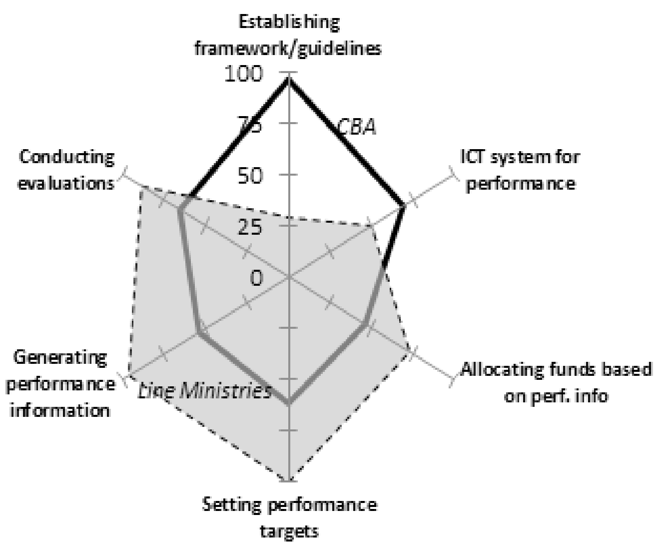
Institutions across government report being more engaged in performance budgeting

The President/Prime Minister's Office, the central budget authority (CBA), line ministries, agencies, the legislature and the supreme audit institution all report higher engagement in performance budgeting than in 2011. Only internal audit units are reported as having a less important role than in 2011.

CBAs report the largest increase in their role. They tend to focus most on tasks such as establishing the framework and guidelines and developing the ICT system, although their role appears to be evolving.

CBAs are more likely to possess a specialised unit dedicated to performance budgeting (13 in 2011 compared to 18 in 2016 with new units reported in Australia, Austria, Canada, Czech Republic and Switzerland). The majority of these units are responsible for developing and overseeing performance budgeting procedures and compiling submissions from line ministries and agencies. Eight also analyse central government information which may then be compared to information provided by line ministries and agencies.

The roles of the CBA and Line Ministries in performance budgeting (Q.20)



Accountability and Transparency: key priorities and benefits

Accountability and transparency are the central considerations for introducing performance budgeting measures. Countries also report that performance budgeting systems have been most effective in advancing accountability and transparency.

In addition to accountability and transparency, respondents indicated that PB has also been important in promoting a culture of performance, parliamentary budget scrutiny, and legal compliance.

23 OECD countries stated that the need for a tool to inform the allocation and prioritisation of resources in the annual budget was a medium to high priority factor behind the introduction of performance budgeting. Of these, 15 report the relative effectiveness of PB in advancing this goal as medium to high.

Management responses to poor performance still more likely than budgetary consequences

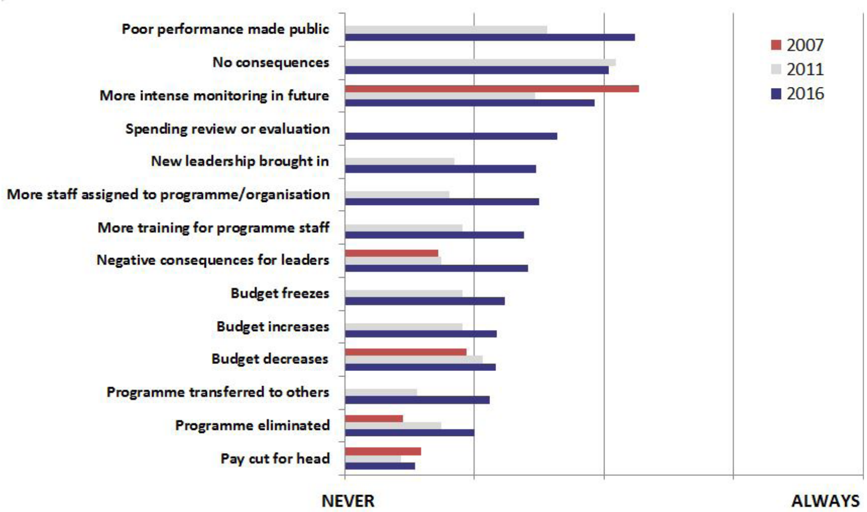
Compared to the 2007 and 2011 surveys, countries reported that various consequences for poor performance are more likely to be triggered.

Nevertheless "no consequences" remains the second most likely response, although there has been a slight decrease in this response since 2011.

Management responses are most common, with publicising poor performance reported as most likely and undertaking more intense monitoring in the future as third most likely.

A minority of countries report budgetary consequences are at least occasionally triggered if performance targets are not met: either in the form of a budget freeze (9 countries), decrease (8 countries) or increase (8 countries).

If performance targets are not met by Line Ministries/Agencies, how likely is it that any of the following consequences are triggered? (Q.28)



Mixed signals on whether countries believe performance budgeting has improved the quality of public finances

24 countries report that they, at least occasionally, use line ministries or agencies operational data, performance reports and performance evaluations in budget negotiations.

Certain sectors stand out where performance information is used more frequently and with higher impact on budgetary decisions. Environment, social affairs, health and education are the top four.

Yet just over half of respondent countries somewhat (15 countries) or strongly (Chile, Estonia, Mexico, and the Netherlands) agree that performance budgeting systems have brought about either quantifiable or non-quantifiable improvements to the public finances.

Five countries chose "neither agree nor disagree" on the benefits of performance budgeting (France, Ireland, Portugal Sweden, the US) and four countries reported that performance budgeting systems have resulted in no perceptible improvements in public finances to date (Czech, Israel, Italy and Poland).

GREATEST CHALLENGES TO EFFECTIVELY IMPLEMENTING PERFORMANCE BUDGETING

1. Lack of performance culture
2. Lack of resources
3. Lack of capacity/training
4. Lack of accurate/timely data
5. Lack of info on efficiency

SPENDING REVIEW

More countries than ever conduct spending reviews

Spending review is becoming more commonplace as a budget management tool, with it now having been used in 23 OECD countries, compared to 16 in 2011. An additional 6 countries are considering this tool for future use (Austria, Estonia, Israel, Korea, Norway and Turkey).

Over 70% of countries that report using SR have now had multiple reviews indicating that spending review may be becoming embedded in budgeting processes in some newer user countries rather than being used as an ad hoc response to fiscal pressures.

Two models of spending review have been used historically: (i) targeted annual reviews, most common to the Netherlands and Denmark and (ii) cyclical comprehensive reviews, common to the UK. So far, comprehensive rather than narrow spending reviews appear to be favoured among 'new adopters'.

The CBA tends to lead spending review exercises

The SR governance model determines how and when each institution is involved in a spending review. The most common approach is for spending reviews to be primarily led by the CBA (Belgium, Canada, France, Finland, Greece, Ireland, Mexico, New Zealand, Portugal, United Kingdom). A line ministry-centric model is the next most common approach (Denmark, Germany, Netherlands, Poland, Slovenia, Sweden, United States). Relatively few countries have opted for an approach led by the President/ PMs office (Switzerland, Italy, Luxembourg).

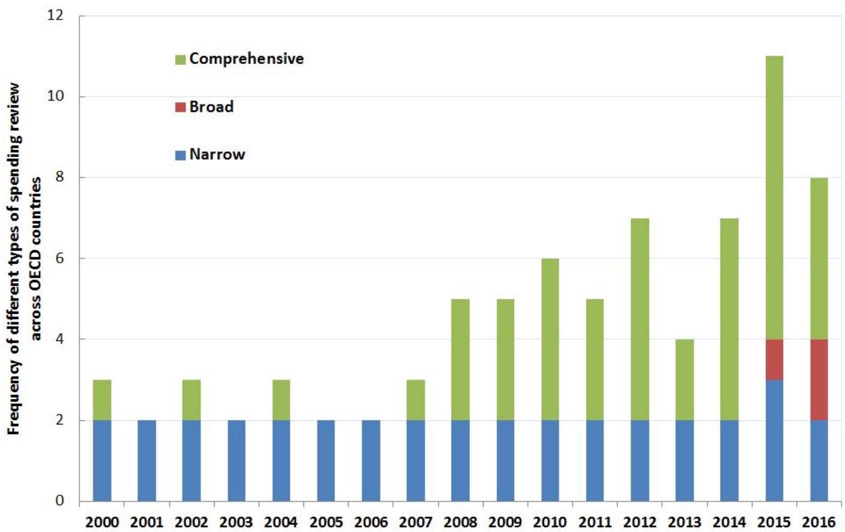
Spending review outcomes are not always clear

Ten OECD countries concluded that 90% or more of their fiscal objectives from past spending reviews have been met (Canada, Greece, Ireland, Italy, Latvia, Luxembourg, Sweden, Switzerland, Mexico, United Kingdom). However, nine countries do not have any information on the fiscal outcomes of spending review (Australia, Denmark, Finland, France, Germany, Japan, Poland, Portugal, United States). More challenging still, 13 OECD countries have no information on the realisation of performance objectives of past spending reviews. Better tracking of spending review implementation and effectiveness represents a potential area for improvement.

GREATEST CHALLENGES TO ENSURING SPENDING REVIEWS ARE SUCCESSFUL

1. Lack of performance information/data
2. Poor quality of performance information/data
3. Lack of time
4. Lack of attention to implementation
5. Lack of political support

Frequency and scope of OECD Spending reviews (Q.56)



Evaluation is more decentralised

A wider variety of institutions tend to be involved in evaluation. Half of OECD countries report four or more institutions involved in conducting evaluations. These may include the supreme audit institution, external evaluation authorities and the legislature – all institutions that generally play a much more limited role in other aspects of performance systems.

Nevertheless, line ministries remain the most likely to be responsible for conducting evaluations. They are also most likely to be responsible for deciding what is evaluated (28 countries). The CBA (20 countries) and the Supreme Audit (17 countries) Institution also play an important role in deciding what will be evaluated.

Evaluations continue to have a limited budgetary impact

Despite budget relevant information being generated in evaluations, they are not generally influential in affecting budget allocations. In aggregate, evaluations are only occasionally referenced in the budget negotiations between the CBA, line ministries and agencies, with a select few countries reporting 'usual' consultation of evaluation reports.

Internally conducted evaluations have a higher impact on budget decisions than those conducted by the Supreme Audit Institution or another external organisation.

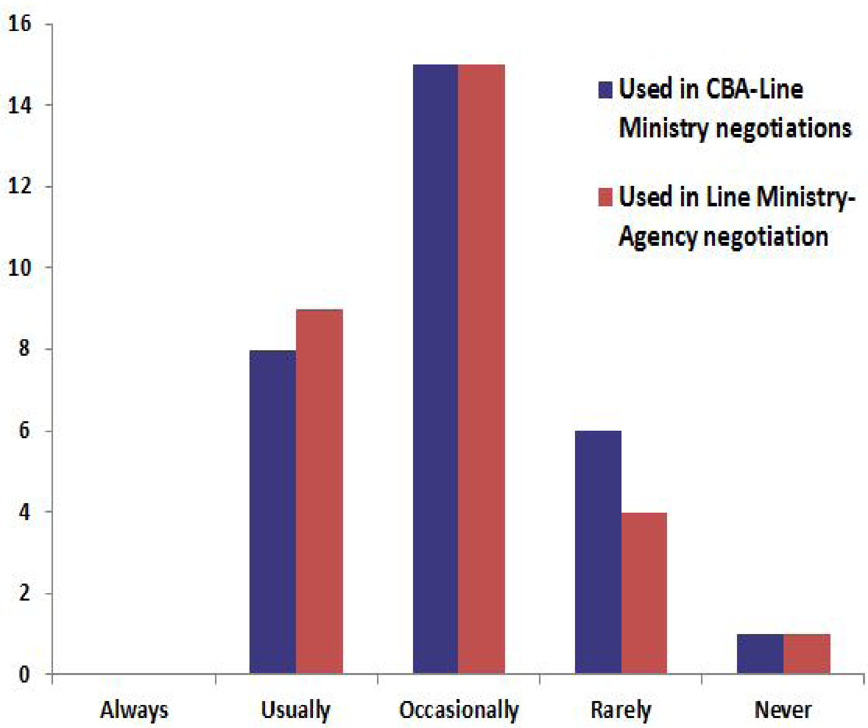
Performance information included in evaluation tends toward traditional performance metrics – efficiency, economy, effectiveness and alignment with government objectives.

Supreme Audit Institutions are more involved in performance assessment

Traditionally Supreme Audit Institutions (SAIs) audit the accuracy and probity of financial information of public bodies. More and more however, SAIs look at aspects of performance or value-for-money.

Along the continuum of practices the most common is for the SAI to assess whether the government's performance information is fair/accurate (54% of respondent countries). In almost half of respondent countries the SAI also plays a role in the assessment of the quality of targets/indicators and the assessment of whether targets were achieved.

How often is performance evaluation information used in budget negotiations? (Q.30)



GREATEST CHALLENGES TO ENSURING EVALUATIONS ARE USED IN BUDGETING

1. Poor quality of performance information/data
2. Lack of political support
3. Lack of performance information/data
4. Lack of time
5. Lack of capacity

ABOUT "2016 OECD PERFORMANCE BUDGETING SURVEY: INTEGRATING PERFORMANCE AND RESULTS IN BUDGETING"

The document has been prepared by the OECD Budgeting and Public Expenditures Division for circulation at the 12th Annual Meeting of the OECD Senior Budget Officials (SBO) Network on Performance and Results.

ABOUT THE OECD AND ITS SBO NETWORK ON PERFORMANCE AND RESULTS

The SBO Network on Performance and Results supports the mandate of the OECD Working Party of Senior Budget Officials "to improve the effectiveness and efficiency of resource allocation and management in the public sector" by assisting member countries to design and implement performance and results-based budgeting and management reforms.

FOR MORE INFORMATION, PLEASE CONTACT:

Lisa von Trapp

OECD Secretariat

Lisa.vonTrapp@oecd.org

http://www.oecd.org/gov/budgeting