OECD Good Practices for Performance Budgeting

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Foreword

Performance budgeting is an innovative budget practice that has been widely adopted by OECD countries. The OECD Network of Senior Budget Officials has maintained a strong interest in the relationship between budgetary governance and performance management initiatives. This resulted, in 2004, in the creation of a network dedicated to exploring and learning from countries experience in the closely related areas of performance budgeting, spending reviews and programme evaluation.

This report presents the OECD Secretariat's advice on good practice principles and practices in the area of performance budgeting. This is based on the results of several OECD surveys of member countries, OECD country budget reviews, and exchanges of information between OECD government officials in the Senior Budget Officials Network on Performance and Results. It also takes account of recent papers published by the OECD, the World Bank and the International Monetary Fund.

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Acronyms

ANAO	Australian National Audit Office
APG	Agency Priority Goal
API	Application Programming Interface
CAP	Cross-agency Priority
CBA	Central Budget Authority
COFOG	Classification of the Functions of Government
COO	Chief Operating Officer
EU	European Union
FDI	Foreign Direct Investment
FPMO	Federal Performance Management Office
GAO	Government Accountability Office
GPRA	Government Performance and Results Act
GPRAMA	Government Performance and Results Act Modernization Act
LOLF	*Loi Organique relative aux Lois de Finance*
MTEF	Medium-term expenditure framework
OBM	Office of Management and Budget
OECD	Organisation for Economic Co-operation and Development
PB	Performance Budgeting
PGPA	Public Governance, Performance and Accountability Act
PIC	Performance and Improvement Council
PTP	*Transparencia presupuestaria*
RMG	Resource Management Guide
SAI	Supreme Audit Institution
SMART	Specific, Measurable, Achievable, Relevant and Timed
TBS	Treasury Board Secretariat

Executive summary

Performance budgeting is defined by the OECD as the systematic use of performance information to inform budget decisions, either as a direct input to budget allocation decisions or as contextual information to inform budget planning, and to instil greater transparency and accountability throughout the budget process, by providing information to legislators and the public on the purposes of spending and the results achieved.

Performance budgeting has been around since the 1960s, but was adopted more widely by OECD countries from the 1990s. Over the past decade there has been a rapid increase in the adoption of performance budgeting by OECD countries so that all but 4 countries reported having some form of performance budgeting in 2018.

Performance budgeting takes a wide variety of forms. The OECD classifies these forms as presentational, performance informed, managerial and direct. In this order, each form represents a progressively stronger link between performance measurement and budgetary decision making. The 2018 survey results showed that countries were more or less equally divided between the first three approaches. None reported using "direct" performance budgeting, which directly links budget allocations to performance measures. This highlights the inherent limitations of such a technocratic approach, given the political nature of the budget, as well as the many conceptual and practical problems in relating resource allocations and outcomes in the public sector.

Performance budgeting reforms have often proved disappointing compared to initial expectations. Despite this nearly all countries that initially adopted performance budgeting have persisted in their efforts, progressively modifying their approaches based on experience. The purpose of this paper is to distil the lessons learned, identify good practice principles and provide specific examples of good practices from OECD countries. This is based mainly on the work of the OECD Senior Budget Officials Network on Performance and Results, which has been researching and sharing experience on performance budgeting since 2004.

Summary of Good Practices

1. The rationale and objectives of performance budgeting are clearly documented and reflect the interests of key stakeholders.

- The rationale, objectives and approach to performance budgeting are set out in a strategic document such as an organic budget law or public financial management reform programme.
- The interests and priorities of multiple stakeholders in the budget cycle are reflected in the objectives and design of the performance budgeting system.
- Performance budgeting is championed by political leaders, with support from senior officials.

- The introduction of performance budgeting is supported by regulations and guidelines.

2. Performance budgeting aligns expenditure with the strategic goals and priorities of the government.

- Budget proposals are systematically linked to relevant development plans, government programme commitments and other statements of strategic direction and priority.
- Multi-year budget frameworks provide realistic and reliable fiscal parameters for the preparation of performance budgets.
- The achievement of complex objectives, requiring inter-ministerial collaboration, is supported by the central government's co-ordination of activities and budgets.

3. The performance budgeting system incorporates flexibility to handle the varied nature of government activities and the complex relationships between spending and outcomes.

- The type and volume of performance information required varies based on the nature of the programme.
- Government uses a mix of performance measures, reflecting the multi-dimensional nature of performance in the public sector.
- Programme structures are aligned with the administrative responsibilities and service delivery functions of ministries and agencies.
- Expenditure classification and control frameworks are revised to facilitate programme management and promote accountability for results.

4. Government invests in human resources, data and other infrastructure needed to support performance budgeting.

- The Central Budget Authority builds capacity, internally and within line ministries, to manage and operate the performance budgeting system.
- The CBA regularly reviews and adjusts the operation of the performance budgeting system to improve its performance.
- Performance measurement systems are progressively improved to provide quality data on a reliable basis.
- Performance data is governed and managed as a strategic asset, with the objective of ensuring that the data is discoverable, interoperable, standardised and accessible in timely manner.

5. Performance budgeting facilitates systematic oversight by the legislature and civil society, reinforcing the government's performance orientation and accountability.

- The annual budget and expenditure reports presented to the legislature contain information about performance targets and the level of achievement.
- The supreme audit institution carries out performance audits, including tests of the accuracy and reliability of reported performance.
- Parliament, supported by the SAI, scrutinises performance-based budgets and financial reports, holding ministers and senior public managers accountable in the event of poor performance or misrepresentation.
- Budget and expenditure data is published in machine-readable and accessible formats

6. Performance budgeting complements other tools designed to improve performance orientation, including programme evaluation and spending reviews.

- *Ex ante* appraisal of new spending programmes is used to strengthen programme design including key performance indicators, and to facilitate processes of monitoring and ex post evaluation.
- *Ex post* evaluations of major spending programmes are carried out on a rolling basis and the findings are systematically fed back into the budget preparation process.
- Spending reviews are used in conjunction with performance budgeting to review the justification for spending and to identify budgetary savings that can be redirected to support priority goals.

7. Incentives around the performance budgeting system encourage performance-oriented behaviour and learning.

- The centre of government promotes a management culture that focuses on performance.
- Performance measurement encourages comparison and competition between similar entities as a means of improving effectiveness and efficiency in service provision.
- Identified individuals and teams are responsible and accountable for the achievement of performance goals.
- Managers organise structured internal discussions to review financial and operational performance regularly through the year.
- Responses to programme under-performance emphasise learning and problem solving, rather than individual financial rewards and penalties.

Introduction

Origins of the good practices

The OECD Senior Budget Officials (SBO) network has taken a strong interest in performance budgeting reforms for more than 14 years. In 2004 the SBOs set up a Performance and Results Network to increase understanding of these practices. Since then the OECD has conducted four surveys of performance budgeting practices (in 2007, 2011, 2016, and 2018), prepared country case studies and held regular meetings where experience was shared amongst member countries. Through these processes a substantial body of knowledge and experience has been accumulated. In addition, through in-depth reviews of budget practices, the OECD has had the opportunity to closely study performance budgeting practices and identify good practices.

Key aspects of the OECD's understanding of performance budgeting are set out in the 2015 *Recommendation on Budgetary Governance* which includes, among its ten principles of modern budgeting, the principle that "performance, evaluation and value-for-money are integral to the budget process". In particular, the recommendation calls on governments to "routinely present performance information in a way which informs, and provides useful context for, the financial allocations in the budget report; noting that such information should clarify, and not obscure or impede, accountability and oversight" and goes on to recommend "using performance information, therefore, which is (i) limited to a small number of relevant indicators for each policy programme or area; (ii) clear and easily understood; (iii) allows for tracking of results against targets and for comparison with international and other benchmarks; (iv) makes clear the link with government-wide strategic objectives." Moreover, the Good Practices take into account other recent studies of performance budgeting including the 2016 World Bank publication, *Toward Next Generation Performance Budgeting*, and the growing academic literature on the subject including the corpus of material published in the OECD Journal on Budgeting. The findings are also consistent with the latest summary of World Bank work on public sector performance (2018)

The Good Practices take the OECD Recommendation as a starting point and elaborate on how to apply these principles. The good practices examples should be understood as the best examples available, based on the OECD's knowledge of current practices, including a number of examples volunteered by OECD countries. They do not necessarily represent ideal examples, since no country has an ideal system, and they need to be understood in relation to the specific context within which they were developed.

What is Performance Budgeting?

Performance budgeting is "the systematic use of performance information to inform budget decisions, either as a direct input to budget allocation decisions or as contextual information to inform budget planning, and to instil greater transparency and accountability throughout the budget process, by providing information to legislators and the public on the purposes

of spending and the results achieved". A shorter definition is "any budget that represents information on what agencies have done, or expect to do, with the money provided to them'' (Schick).

The broader definition of performance budgeting includes spending reviews and programme evaluation as well as preparation of the annual budget using performance information. However, these Good Practices refer mainly to the core processes of budget formulation, budget execution, monitoring and reporting. *Ex ante* policy impacts assessment, spending reviews and *ex post* programme evaluations are discussed from the perspective of their relationship to performance budgeting. They do not include statements of good practices for spending reviews, *ex ante* or *ex post* programme evaluation. They are also mainly focused on performance approaches within the executive, which do not prejudge the role of supreme audit institutions in reviewing performance ex post.

The adoption of performance budgeting implies a shift in the focus of budgeting, away from management of inputs and towards a focus on the results of spending and the achievement of policy objectives. This represents a profound change in the character of the budget process, from a traditionally closed domain of budget specialists, focused on the numbers, to a more accessible, transparent and multi-disciplinary exercise, with greater involvement by the centre of government, line ministries, the legislature and citizens. One key consideration in many countries in this process is the link with the government "political programme", the implementation of which is often coordinated through the centre of government. Aligning political priorities and financial means is essential for government to effectively fulfil its missions. Characteristic elements of a performance budgeting system are the following:

- In the preparation of the budget, spending decisions take account of priority policy objectives as well as past programme performance;
- The budget is presented to the legislature as a set of programmes. This may be in addition to, or replace, presentation based on administrative and economic classification;
- Non-financial performance indicators and targets, representing the planned objectives of spending, are presented in the budget and linked to spending programmes;
- During budget execution, budget managers have the autonomy to manage financial resources, balanced by the accountability for achieving results;
- Performance information is provided to managers together with budget execution data to help them monitor performance and improve the quality of spending;
- Reports to parliament on budget execution include performance information and a narrative explaining the reasons for under or over-performance.

In practice, the emphasis that countries have placed on performance, and the extent to which it has replaced more traditional forms of budgeting varies widely across OECD countries. While the first three features described above are common to most systems, fewer incorporate the managerial dimensions described in the fourth and fifth bullets. The OECD classifies the different approaches to performance budgeting seen in its member countries as follows:

Presentational Performance Budgeting

This shows outputs, outcomes and performance indicators separately from the main budget document. This is relatively easy to achieve and is appropriate where the objective is limited to demonstrating that budget allocations and actual expenditures are responsive to government's strategic objectives and policy priorities. On the other hand by separating performance and budget data it is harder to relate the two.

Performance-Informed Budgeting

This includes performance metrics within the budget document and involves re-structuring of budget document on the basis of programmes. This approach requires considerable effort to achieve and is appropriate for governments that want to achieve more ambitious goals such as re-prioritisation of expenditure linked to performance and increased devolution of budget control to programme managers. This is the form of performance budgeting that many OECD countries have adopted.

Managerial Performance Budgeting

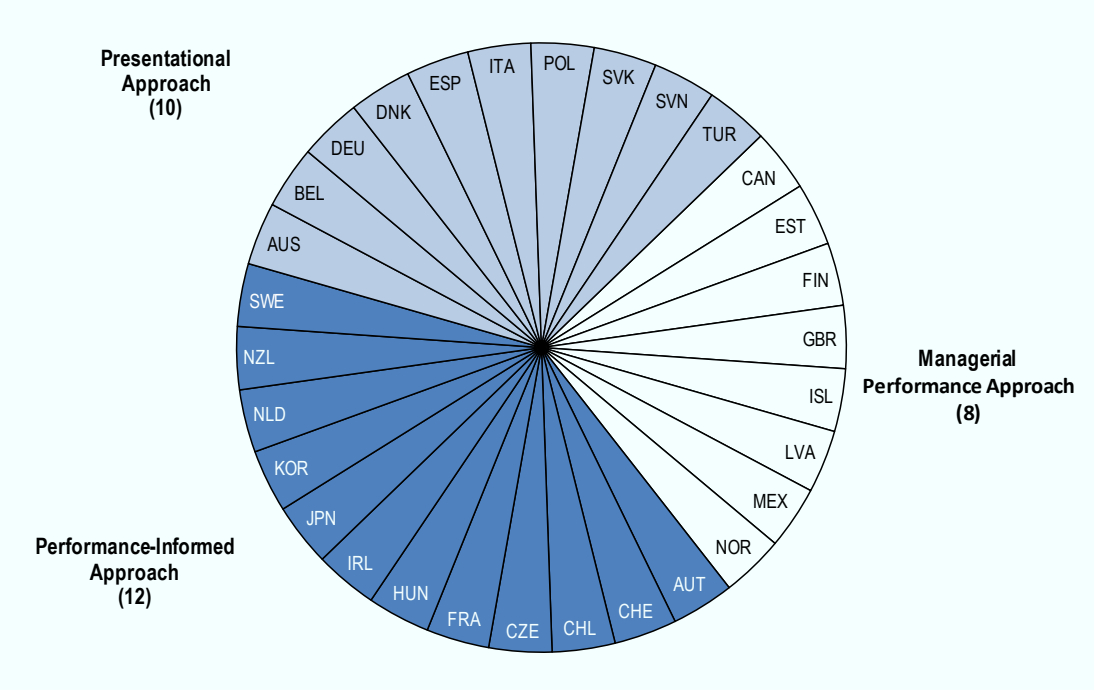
Managerial performance budgeting is a variant on performance informed budgeting. In this approach the focus is on managerial impacts and changes in organisational behaviour, achieved through combined use of budget and related performance information. This depends on a performance culture existing within government that will take time to establish if it does not already exist.

Direct Performance Budgeting

Direct performance budgeting establishes a direct link between results and resources, usually implying contractual type mechanisms that directly link budget allocations to the achievement of results, implying a budgetary response to over or under-achievement of performance objectives.

OECD countries that have implemented performance budgeting are divided approximately into equally proportions between the first three approaches (see Figure 1).

Figure 1. Performance budgeting approaches



Notes: Greece, Luxembourg and Portugal indicated not having a Performance Budgeting Framework in place. Data for Israel and the United States are not available.
Source: OECD (2018), OECD Performance Budgeting Survey.

No OECD country identifies itself as using direct performance budgeting as a general approach. However, funding for some types of services e.g. some payments to health providers are directly linked to performance.

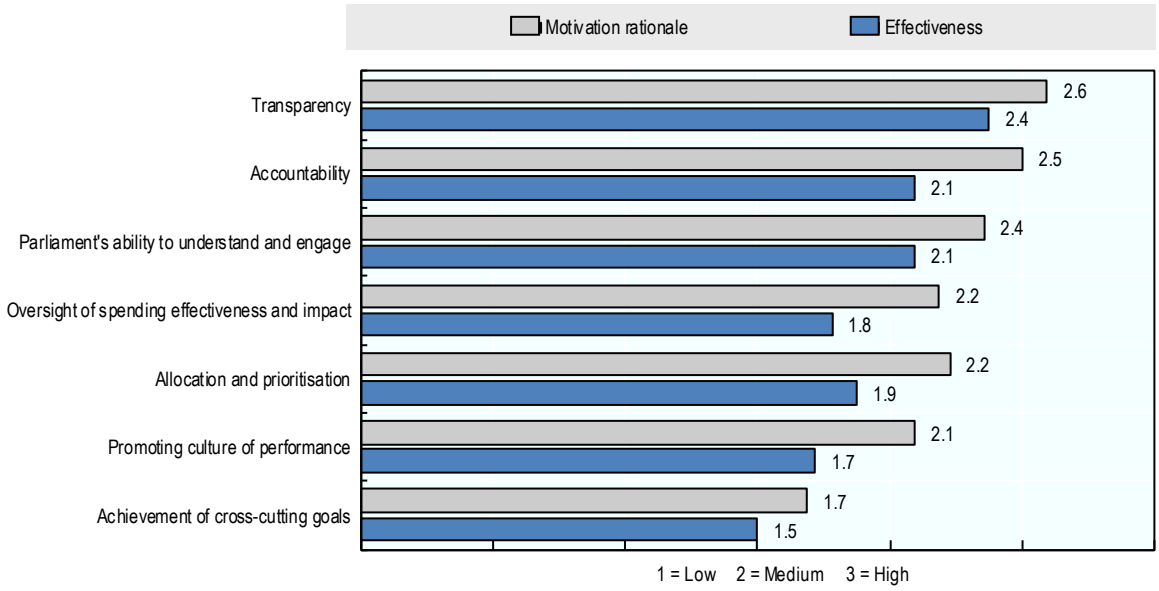
Why is performance budgeting important?

Performance budgeting offers a wide range of potential benefits that are attractive to different stakeholders. For the centre of government, performance budgeting offers the chance to strengthen the alignment between decisions on budget allocation and government policy priorities, thereby boosting the chances that the government can deliver on important pledges. For parliaments, performance budgeting offers greater clarity on the purposes of spending and what goods and services will be delivered in return for the resources they have voted on, as well as a means of holding officials to account for the achievement of results. For Ministries of Finance, performance budgeting provides new types of information that help them make resource allocation decisions based on evidence of what works, plus tools to make line ministries more accountable for the effectiveness and efficiency of spending. For line ministries, performance budgeting provides tools to improve their internal decision making, and to make a stronger case to government in support of their budget proposals. It also helps programme managers to do their job, enabling them to track performance as well as spending. For citizens and civil society organisations, performance budgeting offers the prospect of greater transparency and accountability in respect of the purposes and results of public spending and, by opening up the 'black box' of the budget, it strengthens the basis for direct citizen engagement in the budget process.

Performance budgeting has been subject to continuous innovation. While many countries now report significant benefits, these benefits have often been realised only after a long period of experimentation and adaptation. For others the results still fall short of expectations. The logic has remained sufficiently compelling that, instead of abandoning the pursuit of performance, many of the early adopters have reoriented it from performance-based to performance-informed budgeting, or shifted the emphasis from central budget decision making to performance management in line ministries. Many countries have repeatedly modified the definition and classification of key concepts, such as outcomes and results, and their use in the submission and review of budget requests. Others have shifted from PB's original focus as an instrument for deciding the budget to a means of classifying or displaying decisions taken during budget formulation. For many countries, performance budgeting offers a useful tool to connecting the budget with broader notions of citizen wellbeing and the efficiency and effectiveness of government, in order to deliver better results for citizens.

Through a combination of moderated expectations and adaptation of approaches, OECD governments now see benefits emerging from these reforms. Looking at the various dimensions of effectiveness, OECD countries report the strongest results in the areas of improving the transparency and accountability of the budget, with weaker impact in the areas of resource allocation and moving towards a culture of performance (See Figure 2).

Figure 2. Ranking of different rationales for introducing performance budgeting and their effectiveness in practice



Note: Data for Israel and the United States are not available.
Source: OECD (2018), OECD Performance Budgeting Survey.

These modest averages hide a wide range of variation across countries in the perceived level of effectiveness of performance budgeting in meeting these goals. Some OECD countries have had considerable success with PB-type arrangements by recognising that performance has to be embedded in the culture and systems of public management, especially the strategic processes and goals of government, and that PB has a robust

infrastructure across government to support the production and use of performance information.

Performance budgeting within a performance management system

Performance budgeting should be thought of as one component of a wider set of mutually supportive reforms aimed at creating a performance-oriented and accountable public sector. This could be described as the performance ecosystem. OECD experience suggests that performance budgeting is more likely to flourish and be effective when it forms part of such a broad-based performance management system. In order to fully fulfil its mission, such a performance management systems needs to be underpinned by proper management of evidence and systematic attempts to collect and interpret data. As an isolated initiative, performance budgeting is unlikely to lead to the changes in behaviour that are often anticipated. Therefore, in designing the approach to performance budgeting, close attention needs to be paid to the status of other performance related processes and reform initiatives, in particular:

- strategic planning at both national and sector levels
- Management of data and evidence, including data mining, mobilisation of administrative data and open data.
- medium-term budget frameworks
- spending reviews
- individual performance appraisal, as part of human resource management,
- performance-based contracting and payment systems,
- *ex ante* and *ex post* programme evaluation,
- performance audit.

Ideally the development of performance budgeting should be co-ordinated with, or at least informed by, these other performance oriented reforms.

Addressing different states of development of performance budgeting

Performance budgeting reforms have often been improvisational and evolutionary in nature. Almost every OECD country that has adopted performance budgeting has periodically revised its approach and, since few countries are fully satisfied with their systems, it can safely be assumed that they will continue to evolve. Performance budgeting may therefore be described as a journey rather than a destination. For countries that are at the start of this journey, the good practices cover the whole process from the design of a performance budgeting system through to system implementation, operation and oversight. For those countries that have already implemented performance budgeting, benchmarking against the good practices may offer some ideas for improvement.

Governments considering their approach to performance budgeting should pay careful attention to the balance between effort and reward. Introducing a new system of budgeting, often running in parallel with the existing system, imposes a substantial additional burden to the budget and staff. If this does not result in decisions being made in a different way the reform can become discredited. An incremental approach may be better than a "big bang" approach, especially where there are significant constraints, for example in staff skills or the quality of performance data. Incrementalism could mean initially piloting performance budgeting in a smaller group of ministries, before a phased expansion to cover the whole of central government, followed by agencies and local government gradually expanding or

presenting the performance budget initially as supplementary information. It could also mean starting with a goal of implementing a presentational form of performance budgeting, before moving towards performance-informed budgeting and including programme performance in the budget approved by the legislature. In a further phase of development ministries would make routine use of performance information for programme design, budgeting and management.

Good Practice 1: The rationale and objectives of performance budgeting are clearly documented and reflect the interests of key stakeholders.

- The rationale, objectives and approach to performance budgeting are set out in a strategic document such as an organic budget law or public financial management reform programme.
- The interests and priorities of multiple stakeholders in the budget cycle are reflected in the objectives and design of the performance budgeting system.
- Performance budgeting is championed by political leaders, with support from senior officials.
- The introduction of performance budgeting is supported by regulations and guidelines.

Rationale, objectives and approach

Performance budgeting is a malleable concept, with a wide range of potential benefits, but also substantial financial and opportunity costs. Figure 2 (above) illustrates the range of potential benefits and the extent to which countries feel that they have been met.

OECD countries' experiences suggest that increasing transparency and parliament's ability to engage are the most readily attainable objectives for a performance budgeting system, corresponding broadly to a "presentational approach", while countries with longer experience have achieved improvements in accountability and allocation of resources corresponding to a managerial approach. Although in general performance budgeting has proved somewhat less effective as a tool for oversight and evaluation, or for creating a performance culture, these may be highly relevant objectives for some countries. For this reason, it is important that policymakers define their expectations and balance expected benefits against the costs of introducing a new budgeting system.

New Zealand's 2013 changes to the Public Finance and State Sector Acts provide an example of a clear statement of objectives for the performance budgeting system (Box 1).

Box 1. New Zealand - 2013 changes to the Public Finance and State Sector Acts

The overarching framework for performance budgeting in New Zealand is set out in two main pieces of legislation; the Public Finance Act, which sets out how funding is authorised and the associated performance reporting requirements; and the State Sector Act, which sets out (amongst other things) the responsibilities of Chief Executives (the heads of government ministries).

Changes were made to these Acts in 2013 to:

- Get the system as a whole to be better at delivering results by breaking down "silo" behaviours; by making "responsiveness to the collective interests of government" an explicit responsibility of departmental chief executives; and creating new multi-category appropriations to provide an overarching umbrella for different funding streams.
- encourage better services/value for money through the greater ability of chief executives to delegate functions and powers in order to support closer partnering with others to improve services
- strengthen leadership at the system, sector and agency levels by establishing a clear role for State Services Commissioner in oversight of state services and development of senior leaders, and expanding departmental chief executives' responsibilities to include stewardship and financial sustainability
- support more meaningful information so that Parliament and the public can more easily see what taxpayers' money has achieved, and how agencies are progressing against priorities; through greater emphasis on reporting what is intended to be and has been achieved; lifting the strategic focus of statements of intent; and greater emphasis on flexible reporting arrangements.

Source: New Zealand Treasury (2018)

Interests and priorities of key stakeholders

The interests of different stakeholders will give the performance budgeting system its character and focus. In a number of countries, e.g. France and Australia, the national legislature played an important role in instigating reforms, demanding better information on what their vote was delivering in the terms of services to citizens. In other countries, e.g. the United Kingdom the initial impetus came from the centre of government, which sought a means to ensure that the budget aligned with their electoral pledges to citizens. In some countries e.g. the United States, performance budgeting was conceived as more of a managerial tool, to improve outcomes, focusing programme managers' attention on service delivery and performance. Over time, countries may revise their priorities and expectations. For example, recent changes made by Australia (Box 2) have focused on encouraging management use of performance data, while in the Netherlands (Box 3) the focus of recent legislation has been on accountability for results.

Box 2. Netherlands - Accountable Budgeting reform

The "Accountable Budgeting" reform was introduced in the 2013 budget documents and targeted some of the more persistent problems encountered with regard to performance budgeting in the Netherlands. These problems included the limited usefulness of budgets and annual reports for financial analysis and unclear accountability for results, especially with regard to policy outcomes. The changes introduced were designed to enable more detailed parliamentary oversight of spending as well as to enhance internal control by the Ministry of Finance and line ministries. To achieve this, more detailed financial information was presented following a uniform classification of financial policy instruments and categories of organisational expenses. In addition, the use of policy information (performance indicators and policy texts explaining policy objectives) had to meet stricter conditions concerning the precise role and responsibility of government. The reason for this shift was that performance information in the old budgets had become more aimed at legitimising funding and compliance than in providing useful insights for oversight or to learn and improve. The use of performance information for the latter purposes does not necessarily happen in a cyclical, annual way and is more likely to occur following multi-year *ex post* evaluation. For this reason, the lessons from evaluation gained a more prominent place in budget documents.

Source: de Jong, M., I. van Beek and R. Posthumus (2013)

Key stakeholders include the Ministry of Finance (which is normally the lead agency in implementing the reforms), the President's or Prime Minister's office, the legislature, line ministries and the supreme audit institution. A good design process should involve consultation with all these stakeholders. Balancing the needs and concerns of the various stakeholders may involve and trade-offs between different interests and objectives. There are inherent tensions, for example, between parliament's desire to hold the executive accountable and the executive's wish to give increased budget flexibility to achieve performance goals.

Political and bureaucratic support

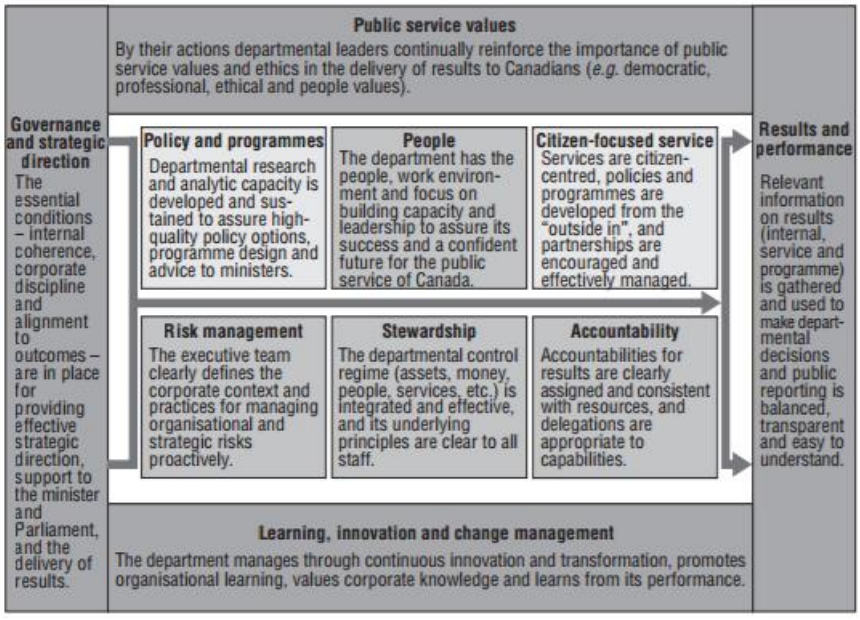
Introducing performance budgeting is a multi-faceted reform that involves a culture change as well as process changes. Success requires both political leadership and committed technocratic support from civil servants. Experience from OECD countries indicates that purely technocratic efforts will have limited impact, especially in respect of more difficult decisions, for example changes in cross-ministerial and cross-policy allocations, and on changes in delivery modalities for public services to enhance efficiency and service quality.

For officials, performance budgeting often represents a radical change of mind-set, moving the focus of attention away from compliance with rules and fulfilment of the budget, and towards outcomes, efficiency and flexible use of funds to achieve results. Establishing a performance culture requires a political commitment to hold senior officials and ministers accountable for results. This requires clear signals from political leaders that performance is important and political backing for tough decisions on changes in resource allocation, reforms of service delivery systems and empowerment of programme managers.

The Canadian government provides a good practice example of an accountability framework. The Management Accountability Framework (MAF) establishes common

expectations for management performance and is the basis for accountability between departments/agencies and the Treasury Board (see Figure 3). The MAF can be viewed through three lenses: as a vision for good management, establishing a framework for accountability; as a process (assessment, engagement, dialogue and reporting); and as an analytical tool to identify strengths and weaknesses within departments and across government. Through the MAF, departments are evaluated against a set of indicators and measures that assess, among other things, the quality of management, resources and results structures; the capacity to undertake and use programme evaluations; and the overall quality of reports to Parliament. Discussions between senior officials identify management priorities, a process that draws attention to issues in a structured way that can lead to improvement.

Figure 3. Canada Management Accountability Framework



Source: OECD Public Governance Reviews: Estonia and Finland, Fostering Strategic Capacity across Governments and Digital Services across Borders, 2015

It is also very important to reward performance with both specific goals for departments as well as providing incentives towards improving performance for the government as a whole. Performance reforms that are strongly associated with a political agenda may be disrupted by a change of government, for example in the United Kingdom when the New Labour government's system of public service agreements was abandoned.

Regulatory basis for performance budgeting

The basic budget law or regulations define the basis for budget appropriations and the form in which the budget is presented for adoption by the legislature and changes to such laws and regulations provide a strong foundation for performance-based budgeting. A strong form of legal commitment is that budget appropriations are based on programmes and that the budget approved by parliament includes performance indicators and targets. A weaker form of regulation would require that information on programmes and performance is provided to the legislature as supplementary budget information.

Performance budgeting may be incorporated either within legislation on performance, or in legislation limited to the budget process. An example of performance oriented budget legislation is France's LOLF (*Loi Organique relative aux Lois de Finance*) of 2001. A good practice example of general performance legislation incorporating changes in the budget process is Australia's Public Governance, Performance and Accountability Act (PGPA) of 2013.

Box 3. Australia's Public Governance, Performance and Accountability Act (PGPA)

Australia's PGPA Act merged and refined previous financial management laws and introduced the concept of performance into legislation governing public agencies. The Act has the following objectives:

- To establish a coherent framework of governance and accountability across all commonwealth entities
- To establish a performance framework across commonwealth entities
- To require the Commonwealth and Commonwealth entities to:
  - Meet high standards of governance, performance and accountability
  - Provide meaningful information to parliament and the public
  - Use and manage public resources properly
  - Work co-operatively with others to meet common objectives
- To require Commonwealth companies to meet high standards of governance, performance and accountability

The law clarified the duties of accountable authorities and officials, empowered entities to eliminate red tape around using and managing money; required all commonwealth entities to have 4-year corporate plans linked, where appropriate, to key priorities of the government; and required all commonwealth entities to prepare an annual performance statement.

Source: Australian Government, Federal Register of Legislation (2013)

Good Practice 2: Performance budgeting aligns expenditure with the strategic goals and priorities of the government.

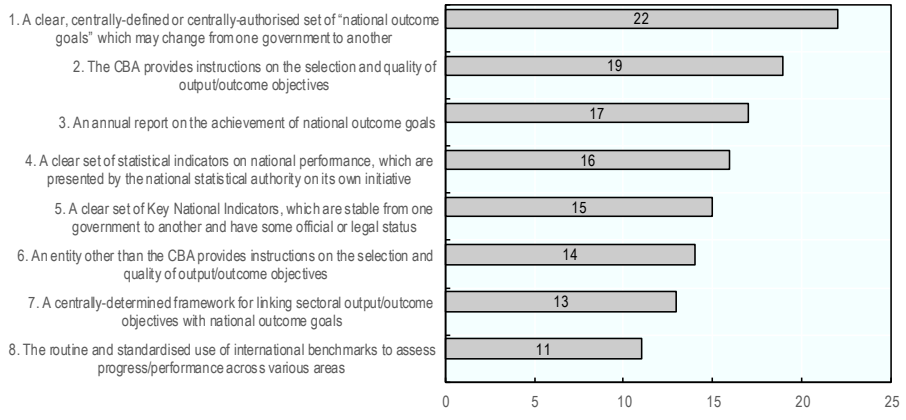
- Budget proposals are systematically linked to relevant development plans, government programme commitments and other statements of strategic direction and priority.
- Multi-year budget frameworks provide realistic and reliable fiscal parameters for the preparation of performance budgets.
- The achievement of complex objectives, requiring inter-ministerial collaboration, is supported by central government co-ordination of activities and budgets.

Links to strategic plans

A common motivation for introducing a performance budgeting system is to strengthen the alignment between the budget and the government's policy priorities. Policy priorities may be captured in multiple, though not always consistent, documents, including national development plans or policies and strategies relating to specific sectors and in election pledges.

Figure 3 shows that although a majority of OECD countries have a clear set of national outcome goals, many do not. Links to key national indicators and statistical reporting systems are also not systematic in most OECD countries. In practice, strategic planning and budgeting often exist in separate silos, in which national strategic plans are developed without reference to resource constraints and budgets are developed with little reference to strategic policy objectives. Priorities are frequently unclear, plans overlap or are inconsistent, and performance indicators and targets are poorly formulated or non-existent.

Figure 4. Elements of national performance frameworks in place?



Note: Data for Israel and the United States are not available.
Source: OECD (2018), OECD Performance Budgeting Survey.

The introduction of performance budgeting provides an occasion to improve the quality of planning, and develop budget plans that link strategic planning goals to resources processes in the medium term. Austria (Box 4) provides a good practice example of how performance indicators in the budget process can be systematically linked to strategic policy goals.

Box 4. Austria's Linkages between Strategy and Budget

The performance budgeting system in Austria requires that the outcome objectives of the budget chapters align with international strategies (e.g. EU 2020), the Federal Government's Programme and sectoral strategies (e.g. Strategy for Research, Technology and Innovation). In the annual budget, each outcome objective is described in detail. Line ministries must give reasons why they have chosen a certain objective and, where possible describe links between the objective and overarching strategies. For example, in the budget chapter 20 "Labour market" there are several objectives that aim to reduce specific forms of unemployment. The objectives and the indicators to measure performance are, linked to the national targets of the EU 2020 strategy.

During budget preparation, the Federal Performance Management Office (FPMO) in the Federal Ministry for Civil Service and Sport provides quality assurance of the proposed objectives and indicators, including checking the alignment of objectives with national and sectoral strategies. If the objectives and indicators do not fulfil the quality criteria, FPMO will make recommendations to the line ministries to amend the draft during the drafting phase. In addition evaluation results are published by the FPMO after the *ex post* evaluation phase of the performance information.

Source: Austrian Federal Chancellery (2012)

The CBA normally takes the lead role in ensuring that ministries link their budget proposals to national and sector strategies. Without a measure of top down, central strategic direction, performance budgeting is more likely to be used to justify the status quo or to promote new spending, rather than resulting in reallocation of resources to meet government's strategic policy priorities.

Medium-term Expenditure Frameworks (MTEFs)

A medium-term expenditure framework (MTEF) is a structured approach to integrating fiscal policy and budgeting over a multi-year horizon that links fiscal forecasting, fiscal objectives or rules and planning of multi-year budget estimates. In contrast to national performance frameworks, MTEFs are used extensively, with 88% of OECD countries reporting that they used MTEFs.

MTEFs can improve the effectiveness of public spending by aligning public expenditure with national priorities and giving government agencies greater certainty of resource availability over a multi-year period, promoting more effective forward planning and resourcing of policies that require an extended time horizon for implementation, such as large capital projects, new programmes, and organisational restructuring. Programme-based expenditure ceilings and organisational ceilings are used in about half of OECD countries that have MTEFs.

The strength of these frameworks varies greatly across OECD member countries. They are reflected by the degree to which they are stipulated in legislation, decided by the executive

or the legislative, and subsequently monitored by the legislative or independent bodies. Most often, expenditure ceilings are set for total aggregate expenditures. However, some countries (Austria, Germany, Italy, Korea, the Netherlands, and New Zealand) have additional ceilings in place by programme, sector, and/or organisation. In order for MTEFs to be effective, monitoring and enforcement mechanisms should be in place whereby the executive reports to the legislature or an independent fiscal institution on compliance. The development of an effective MTEF process, incorporating ceilings at programme level, may therefore be seen as the first stage of the performance budgeting process

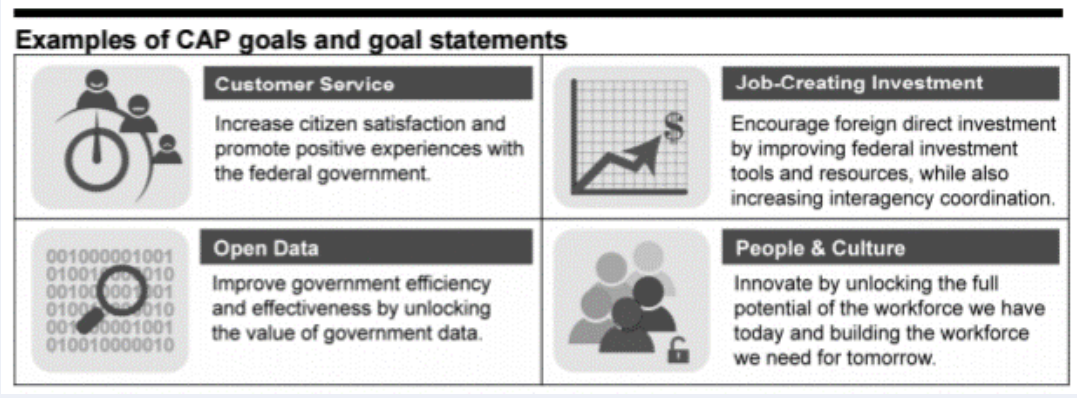
Co-ordination of complex and cross cutting programmes

A common issue in performance budgeting is that some of the government's most important strategic policy objectives relate to complex or "wicked" issues. These are by nature hard to address and may often require coordinated interventions by several agencies. For example, reducing the rate of death from road accidents might require actions in areas ranging from road design and construction, policing, vehicle standards and inspection, to public education and awareness etc. Rather than transferring all relevant responsibilities to one agency, which is generally impractical, the normal solution is to set up multiple programmes in different agencies, each of which contributes towards the achievement of high-level outcomes. At the same time the organisational structure should not dictate the structure of programmes, and a performance focus may help to identify where some reorganisation is justified. To ensure that activities are effectively co-ordinated to deliver high-level outcomes requires inter-agency co-ordination and monitoring. The United States offers an example of institutionalised mechanisms to promote co-ordination around cross-agency goals (see Box 5).

Box 5. United States – Co-ordination of cross–agency priority goals

The GPRA (Government Performance and Results Act) Modernization Act of 2010 (GPRAMA) requires the Office of Management and Budget (OMB) to co-ordinate with agencies to develop cross-agency priority (CAP) goals, which are 4-year outcome-oriented goals covering a number of complex or high-risk management and mission issues.

Examples of CAP goals and goal statements



OMB and the Performance Improvement Council (PIC) have introduced a goal governance structure that includes agency leaders, and holds regular senior-level reviews on CAP goal progress. They also provide ongoing assistance to CAP goal teams, such as by helping

teams develop milestones and performance measures. OMB and the PIC offer guidance to assist CAP goal teams in managing the goals and in meeting GPRAMA reporting requirements. CAP goal teams reported to the US Government Accountability Office (GAO) that the CAP goal designation increased leadership attention and improved interagency collaboration on these issues.

Source: US Government Accountability Office GAO-15-509

Good Practice 3: The performance budgeting system incorporates flexibility to handle the varied nature of government activities and the complex relationships between spending and outcomes.

- The type and volume of performance information required, varies based on the nature of the programme.
- Government uses a mix of performance measures, reflecting the multi-dimensional nature of performance in the public sector.
- Programme structures are aligned with the administrative responsibilities and service delivery functions of ministries and agencies.
- Expenditure classification and control frameworks are revised to facilitate programme management and promote accountability for results.

Choosing the right mix of performance indicators

The OECD Recommendations of Budgetary Governance define good indicators as:

- limited to a small number for each policy programme or area;
- clear and easily understood;
- allow for tracking of results against targets and for comparison with international and other benchmarks;
- make clear the link with government-wide strategic objectives.

A common challenge facing many OECD countries is to identify a balanced set of indicators that reflect the multi-dimensional character of performance in the public sector. Key dimensions of performance that need to be considered are; achievement of key government policy goals, delivery of high quality public services, value for money and compliance with internal business rules.

France's approach uses indicators of efficiency, effectiveness and quality, equating these to the perspectives of individuals as both taxpayers, citizens' and users of public services. The following example from the justice programme illustrates the application of these different perspectives:

1. Efficiency, or the *taxpayer's view*: e.g., number of court cases dealt with by a judge in a year
2. Social-Economic Effectiveness or the *citizen's view*: e.g., rate of repeat offenses for the justice/correctional services
3. Service Quality or the *user's view*: e.g., waiting time to receive a judgement or to receive treatment in the public health system

The Australian department of finance's guidance on developing good performance information (see Box 6) similarly emphasises the need for a mix of indicators that tell a cohesive story on performance. This is backed up with practical support and guidance to government bodies on this topic.

Box 6. Australia - Department of Finance Guidance on Developing Good Performance Information (RMG 131)

In April 2015, the Department of Finance (Finance) issued guidance to government entities emphasising that good performance information tells a cohesive performance story that demonstrates the extent to which an entity is meeting its purposes through the activities it undertakes. The key focus of the guidance, and subsequent Quick Reference Guide (July 2016) is to support development of good performance reporting, including:

- creating a common understanding of an entity's purposes and the activities through which those purposes are achieved,
- identifying a mix of quantitative and qualitative measures that demonstrates the effectiveness with which purposes are achieved,
- selecting appropriate methods to collect and analyse performance information, and
- presenting performance information to tell a clear and accurate performance story.

A system of advice and assurance also supports entities in setting their performance information. For example, Finance supports entities in drafting performance documentation, each entity's audit committee reviews the appropriateness of its performance measures, and the ANAO conducts periodic audits of the system.

Source: Australian Government, Department of Finance (2015)

Other good examples of guidance on selection of good performance indicators are provided by the Treasury Board Secretariat of Canada (www.canada.ca/en/treasury-board-secretariat/services/audit-evaluation/centre-excellence-evaluation/guide-developing-performance-measurement-strategies.html) and the Performance Improvement Council, which supports the United States administration in implementing the Government Performance and Results Modernization Act (https://pic.gov/)

Programme structure

An important issue to be addressed in the design of a performance budgeting system is to define parameters for programmes. Governments face the following common questions:

- How broad should programmes be, and to what extent should programmes be broken down into smaller units, (e.g. sub-programmes and activities)?
- At what level to define performance indicators and targets, e.g. programme, sub-programme and activity?
- To what extent programmes should be aligned with existing administrative structures?
- Should all expenditures be incorporated within a programme structure?

A programme can be defined as a set of activities that are combined to deliver a specific policy objective or outcome. Good programme architecture should match public policy objectives, and link those objectives with the financial resources dedicated to their achievement. Programmes also enable the government to assign responsibility for achieving results to identified individual programme managers thus strengthening accountability for results.

As a general principle, programmes should be designed around outcomes, reflecting the delivery of key public goods and services. At the same time, as a matter of practicality, budget resources are allocated to organisational units that have both the authority to spend and the mandate to deliver specific services. While there is normally a high degree of consistency between organisational structures and programme structures there is not always a simple one-to-one relationship. For example, one programme may cover several organisational units. Cross-cutting programmes may also be developed to meet complex objectives that require coordinated action by a number of agencies such as improved mental health. Such ambitious programmes require strong inter-governmental coordination to manage risks related to effective coordination of budgets and operations and collective accountability.

Above the programme level, policy areas or missions can be defined, grouping several 'programmes' possibly belonging to different ministries. Sub-programmes may be used to disaggregate 'programmes', following the same logic and features as programmes. There may be interest in defining activities or interventions below sub-programme level. However, below programme level it is important to avoid excessive detail.

The budgets of all entities under the direct control of a ministry should be included in the programmes of the ministry. Thus, in setting objectives, the role and contribution of different entities should be reviewed and aligned. Programmes should group all resources contributing to the achievement of its goals, including wages, goods and services, subsidies and transfers, and investments as well as expenditures funded from own resources of entities included in the programme (gross budgeting);

While desirable, splitting payroll across different programmes may be difficult. Similarly, common services and support functions like legal, communications, HR management, IT, utilities etc. cannot easily or meaningfully be allocated to specific programmes. In such cases it makes sense to create a general "support" programme rather than to build elaborate, and possibly inaccurate, mechanisms to allocate shared costs.

Differentiated approaches

The performance budgeting methodology needs have the flexibility to deal with the very varied nature of government funded activities, and the different relationships that exist between financial resources and performance. Rather than a "one size fits all" approach, governments should differentiate between programme types, reflecting the relationship between budgetary inputs and outcomes. For example, where government is directly responsible for delivering public services, e.g. issuing visas, constructing roads, or preventing crime, it makes sense to have a tight link between the provision of budget and outcomes. In contrast, budgets for entitlement programmes are driven by fixed legislative commitments and the relevant performance measures would be concerned with efficient management and citizen satisfaction with service standards. Clear differentiation can be made between the following types of expenditure programmes:

1. Direct service delivery, for example police and education services
2. Entitlement programmes, for example pensions and social insurance
3. Transfers, grants and subventions, for example financing of local government services
4. Investments, for example construction of roads and bridges
5. Policy programmes, for example foreign affairs, trade and
6. Running costs

An additional reason for having a differentiated approach is that a "one size fits all" approach, for example where requiring outcome indicators for all programmes, results in a "make work" scheme. A smart system recognises that the relationships between budget resources and outcomes vary considerably across different activities of government and allows departments a degree of flexibility, while maintaining a consistent overall approach.

One such approach to flexibility is characterised by the United States, where departments and agencies are granted a wide degree to freedom to identify performance indicators within an overall performance framework. The Government Performance and Results Modernization Act (2010) requires that each agency develop a strategic plan and identify agency priority goals, linked to federal priority goals. The Office of Management and Budget provides an oversight role, supports and advises departments and agencies on methodology, follows up on priority goals of the administration and intervenes in cases of poor performance. The challenge with this type of approach is to prepare a single coherent budget report to the legislature.

The Netherlands has provided an analytical framework to differentiate programmes, asking ministries to identify the degree to which they control a policy outcome; four distinct levels of involvement are distinguished (see Figure 5).

Figure 5. Netherlands: Differentiated approaches based on relationships between budget and outcomes

Source: D. Moynihan and I Beazley (2016).

Budget classification and control frameworks

The adoption of performance based budgeting requires governments to revise the budget classification system, and financial reporting framework. The programme structure of the budget should be formalised in a 'programme' classification, which is one distinct segment in the Chart of Accounts. In combination with other types of classifications – economic,

administrative, fund and functional (COFOG) classifications – the programme structure characterises all financial transactions.

An important principle that underpins performance budgeting is that programme managers are empowered to manage budgetary resources in a more flexible way than in traditional budgeting. This implies a substantial relaxation of traditional budgetary controls, reducing the number of line items.

However, abandoning line item controls fully carries risks of loss of control. Most countries have retained some line item control based on a simplified classification. Key controls that governments may want to retain are to protect capital spending and to control increases in payroll. Australia, France, the Netherlands, Sweden and the United Kingdom offer good examples of reclassified budgets based on mainly programmatic criteria.

Good Practice 4: Government invests in human resources, data and other infrastructure needed to support performance budgeting.

- The Central Budget Authority builds capacity, internally and within line ministries, to manage and operate the performance budgeting system.
- The CBA regularly reviews and adjusts the operation of the performance budgeting system to improve its performance.
- Performance measurement systems are progressively improved to provide quality data on a reliable basis.
- Performance data is governed and managed as a strategic asset with the objective of ensuring that the data is discoverable, interoperable, standardised and accessible in timely manner.

CBA capacity building

The CBA typically takes the lead role in the design of the performance budgeting system. Responsibility starts with defining the concept of performance budgeting and planning implementation of the reform, modernising the budget classification, budget reporting formats and controls, then supporting line ministries through the processes of developing programmes, selecting performance indicators and setting performance targets.

These complex tasks require analytical and process skills that go beyond the typical financial and economic skills found in a traditional budget department. To engage effectively with line ministries budget analysts need to develop better understanding of sectoral policies, programme intervention logic and the science of performance measurement. This adds up to a substantial investment in training. Good practice is to create a dedicated team in the CBA, with counterparts in line ministries to develop and roll out the new system over a number of years. France's performance budgeting reforms, centred around the *Loi Organique Relative aux Lois des Finances* (LOLF), provides an example of a well-planned and resourced implementation process (Box 7).

Box 7. France - LOLF

Performance budgeting was the centrepiece of an overhaul of the public financial management system, the LOLF (*Loi Organique relative aux Lois de Finances*), the law that initiated the reforms.

Starting in 2001, the reforms were implemented over a five-year period. They included development of a programmatic structure to the budget, relaxation of line item budget controls, introduction of a new financial management information system (CHORUS), extensive training of personnel and an active programme to communicate the changes.

The new system was implemented only in 2006 after five years of intensive preparation and piloting and has remained broadly stable since that date.

Source: D. Moynihan and I Beazley (2016).

Training needs to cover a large number of officials, including budget analysts in the CBA and line ministries, programme managers and auditors. Other stakeholders, including the budget and accounts committees of parliament, ministers and senior civil servants and wider civil society, also need to be sensitised to the new system. The transition to performance based budgeting often requires a change in culture and mind-set that requires long-term effort. Australia's PGPA Act of 2013 led to such an effort to improve the government's capabilities in respect of performance reporting, supported by outreach, guidance and encouragement of systematic lesson learning (see Box 8).

Box 8. Australia - Building a culture of better performance measurement capability

Previously, in the Australian Government there was wide variation in the quality of performance reporting.

Because of this situation with regard to the quality of performance reporting, a key aspect of the implementation of the enhanced Commonwealth performance framework under the PGPA Act 2013 was the introduction of a significant outreach programme. The outreach programme consists of the following;

- a series of resource management guides covering the different aspects of the framework include corporate planning, annual performance statements and what constitutes good performance information,
- a Performance Community of Practice events bringing together officials from entities involved in measuring performance to learn from each other as well as from the Department of Finance, and
- Annual Lessons Learned papers, highlighting the better practice examples from entities' Corporate Plans and Annual Performance Statements, based on Finance's analysis.

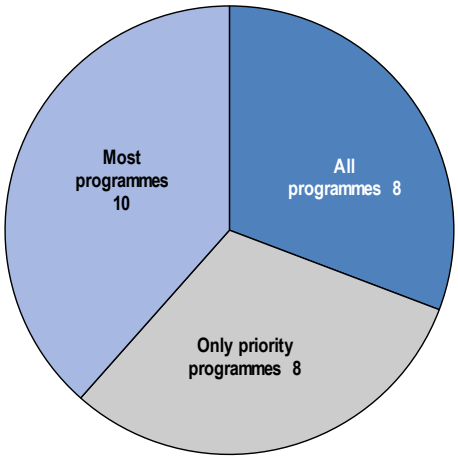
In support of Finance's activities, the ANAO audits the performance measurement systems and practices of entities on a rolling basis, as well as auditing the performance of the framework itself. This provides the government and the parliament with assurance that the performance measurement system provides meaningful information.

Source: Australian Government, Department of Finance (2015)

Continuing system review

Performance budgeting systems in many OECD countries have evolved and matured over a long period of time. Once the system is operational the CBA needs to regularly review system operations, to improve the quality of budget programmes and maintain the focus on performance. In practice OECD countries still struggle to produce good quality indicators and set target values consistently across all sectors and programmes. Figure 6 reinforces this point showing, for example, that only 18 OECD countries consistently set targets for all or most programmes.

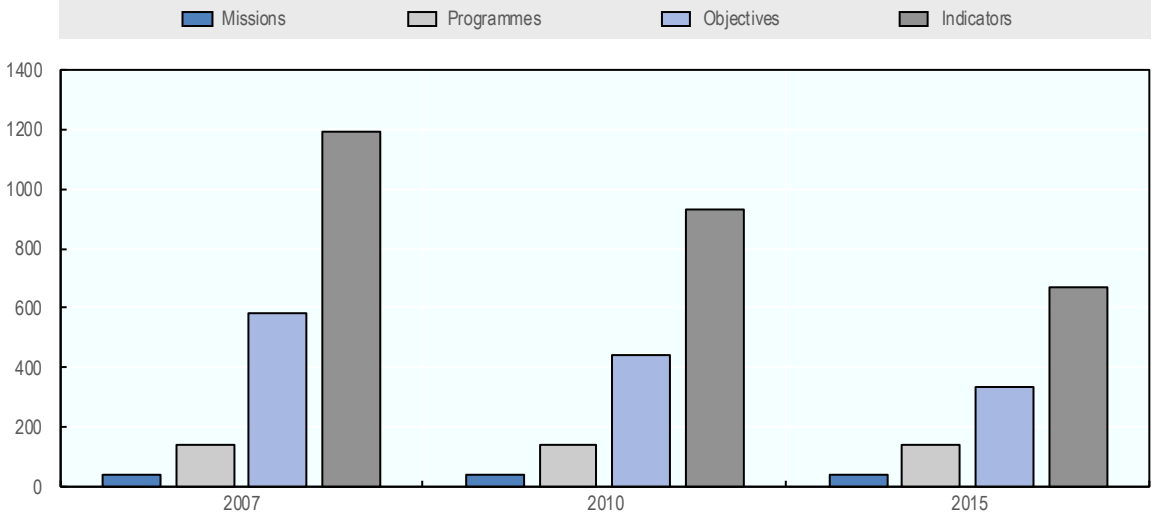
Figure 6. Does the Government Set Performance Targets?



Note: Data for Israel and the United States are not available.
Source: OECD (2018), OECD Performance Budgeting Survey.

A common problem is information overload, resulting from proliferation of programmes and performance indicators, often broken down into sub-programmes and activities. Countries with the most experience with performance budgeting have steadily reduced the number of programmes and indicators over time. This has been a response to both the administrative burden of reporting and the limited time senior managers have available to monitor performance. France, for example, reduced the number of performance indicators in the budget from 1 173 to 677, giving priority to those that reflect strategic objectives, represent major budget areas, and are internationally recognised performance indicators (see Figure 7).

Figure 7. France: Progressive reduction in the volume of performance information.



Source: Author

Improving the quality of performance data

The quality of performance data is an area of concern for many OECD countries that have a performance budgeting system. OECD survey results (OECD Performance Budgeting Survey, 2018) indicate that the poor quality of performance indicators and their lack of relevance in relation to national and sectoral policy objectives remain significant obstacles.

The selection of good quality indicators involves an iterative process, balancing input from line ministries that have detailed sector knowledge, while the CBA needs to ensure that performance indicators are SMART and target values represent stretch goals.

An important dimension of data quality is consistency with national and international data standards. To the maximum extent possible performance data should be sourced from the national statistical agency. Use of such indicators is preferred both because measurement standards are defined by international institutions, such as the OECD and the United Nations, and because it facilitates benchmarking and learning. France, for example, has integrated internationally comparable indicators of wealth and well-being into the structure of the budget (see Box 9).

Box 9. France - Key national performance indicators and the budget

France offers an example of strong links between key performance indicators established at the national level and budgets. France's organic budget law (*Loi organique relative aux lois de finances* (LOLF)) groups expenditures by "missions" that bring together related programmes that are associated with high-level policy objectives and performance indicators. Recent reforms have additionally focused on streamlining the indicators to make them clearer to parliamentarians and the public and France enacted a law in 2015 requiring the Government to present wealth and well-being indicators other than GDP to promote debate on policy impacts. Based on the LOLF system the French government is developing a strategic dashboard using a limited set of internationally comparable indicators, including:

- Economic development indicators such as FDI (OECD) and Doing Business (World Bank).
- Social progress indicators, such as healthy life expectancy at 65 by gender (OECD), percentage of 18-24 year olds with no qualification who are not in training (France Stratégie/Eurostat) and poverty gaps (World Bank).
- Sustainable development indicators such as greenhouse gas emissions per unit of GDP (European Energy Agency/Eurostat).

Source: D. Moynihan and I Beazley (2016).

Managing performance data as a strategic resource

Sharing data is fundamental to good performance management. Ready access to good quality performance data is a key enabler all the major components of performance budgeting; objective setting; performance monitoring; evaluation; accountability and oversight. Ensuring reliable data sources for performance management requires that:

- *Performance data is governed and managed as an asset.* If performance data is to be used as a strategic asset to support and enhance performance budgeting, government needs to set up robust governance arrangements to collect, process, share, control, publish and reuse performance data.
- *Data is discoverable and accessible* by public sector organisations with the right to access it
- *Data ownership and stewardship roles are clearly defined* so that public sector organisations and stakeholders are clear who is accountable for the collection, management, quality and trustworthiness of performance data
- *Data is interoperable* in line with standards and guidelines for data standardisation (e.g. semantics, unique identifiers) across the whole data value chain
- *Data controls and audits* are defined to ensure the integrity of performance data across the whole value chain
- *Real-time data access is possible* (e.g. thorough APIs) therefore allowing the continuous sharing of data between different actors. The model for the sharing and management of performance data can evolve for instance from the centralisation of data assets to the federation of multiple data sources that can inform policy decisions in the public sector.

In light of the above, the success of performance management would not only depend on the ability of public sector organisations to identify and share those data sources that are mission critical in terms of measuring performance in the public sector, but on the capacity of governments to enable a context that places data at the core of the performance management cycle and manages and governs it accordingly.

Examples from Denmark demonstrate how government data is being better managed and governed to facilitate shared use of data amongst public sector organisations (See Box 10). These practices could be escalated to performance management domain in order to lever the value of data assets in the public sector through further data integration and sharing.

Box 10. Data governance and management practices in Denmark

A whole of government approach: Denmark

In 2010, the Danish government launched the "Government data and information management policy" to ensure collective commitment across the administration to promote greater openness and reuse of government data. The policy was based on the principle that establishing high-quality data registers would lead to their reuse by all actors in the public sector, and support improved efficiency of the public sector as a whole.

Early efforts to develop the data registers focused on legal compliance instead of considering the needs of data users. As a result, the Danish government launched the "Basic data registries implementation programme" (2013-16) in order to "revisit the governance system of data management within the public sector – including changing laws to clarify responsibilities and improve data quality and use". The programme strongly emphasized data interoperability, data modelling and semantics. It helped the Danish government create a whole-of-government culture and common agenda putting data governance, data

quality, use and sharing of data at the core of reforms in key policy areas such as employment, taxation, and environment.

Source: OECD (2016), *Open Government Data Review of Mexico.*

Good Practice 5: Performance Budgeting facilitates systematic oversight by the legislature and civil society, reinforcing government performance orientation and accountability.

- Annual budget and expenditure reports presented to the legislature contain information about performance targets and levels of achievement.
- The supreme audit institution carries out performance audits, including tests of the accuracy and reliability of reported performance.
- Parliament, supported by the SAI, scrutinises performance-based budgets and financial reports, holding ministers and senior public managers accountable in the event of poor performance or misrepresentation.
- Accessible formats such as on-line performance portals and citizen budgets help citizens, civil society and the media to monitor performance.

Annual performance reports

Regular reporting of performance is an essential part of the performance budgeting system, supporting accountability and decision-making. Performance information should be presented alongside financial information as part of the annual budget presented to parliament. The best practice is to integrate performance information into the main budget document that forms the basis of appropriations. Alternatively, performance information may be presented as supplementary information accompanying the budget.

At year-end, the final report on budget execution should include both financial outturn and a performance report. The consolidated annual report and accounts produced by the United Kingdom government departments represent a good practice, providing performance and financial statements as well as an accountability report and detailed information on departmental performance in meeting sustainability targets (see Box 11).

Box 11. Content of United Kingdom Consolidated Annual Report and Accounts (Dept. for Education 2017-18)

PERFORMANCE REPORT
Permanent Secretary's overview 8
Lead non-executive's overview 11
Performance overview 13
Financial review of the year 45

ACCOUNTABILITY REPORT
Corporate governance report 55
Governance statement 64
Remuneration and staff report 80
Parliamentary accountability and audit report 97

FINANCIAL STATEMENTS
Consolidated Statement of Comprehensive Net Expenditure 119
Consolidated Statement of Financial Position 120
Consolidated Statement of Cash Flows 121
Consolidated Statement of Changes in Taxpayers' Equity 123
Department & Agencies Statement of Changes in Taxpayers' Equity 124
Notes to the Accounts 125

Source: United Kingdom, Department for Education (2018)

Performance audit

As the official reviewer of how public money has been used, acting on behalf of the legislature, the supreme audit institution has an important role to play in respect of the performance budgeting system. At a minimum level, external audit should review programme performance as reported in the public accounts and validate the reported results.

Many SAIs take a much more expansive view of performance auditing. In the view of the United States Government Accountability Office for example performance audit provides objective analysis that management and those charged with governance and oversight can use to improve programme performance and operations, reduce costs, facilitate decision making and contribute to public accountability. Increasingly, national audit offices are using performance audit to provide insights into complex problems and risks, such as modernising outdated financial regulatory systems and protecting public safety. Such issues cut across government programmes, levels of government and sectors.

Parliamentary oversight of performance

Parliaments in several OECD countries have played an important role in supporting performance budgeting. As mentioned in Good Practice 1, parliaments in several countries have also been advocates for performance budgeting, as a tool for promoting transparency regarding the purposes and results of spending.

Parliaments can play an equally important role in holding government to account for the results of spending by reviewing and discussing performance-based budget and financial reports. This is typically the work of specialised committees dealing with budgets and accounts, but should also be extended to committees dealing with the various sectors. The UK House of Commons Scrutiny Unit is a specialised unit that helps parliamentary committees carry out scrutiny of expenditure and performance, offer a good practice

example of how parliaments can strengthen their role in holding the executive branch accountable (Box 12).

Box 12. United Kingdom - House of Commons Scrutiny Unit

The House of Commons' Scrutiny Unit supports Select committees in examining the expenditure and performance of government, and the relationships between spending and delivery of outcomes. It does this by promoting the value of linking examination of spending with examination of outcomes, by helping committees analyse spending patterns alongside performance and by pressing the government to improve the information available and promoting Parliament's interests of holding the executive to account. For instance, the Scrutiny Unit has:

- produced a guide to committees on Better Financial Scrutiny which encourages examination of spending and outcomes throughout a programme's lifespan, and sets out good practice;
- contributed financial and performance material to committee inquiries, including briefings, questions, reports, and analysis of impact assessments;
- analysed and briefed committees both on spending and trends in performance, using published indicators, when committees hold their hearings with Ministers on Government departments' annual reports and accounts;
- followed up a committee recommendation for government departments to produce annual mid-year reports, and
- engaged with government in developing proposals to improve and simplify Government accounts for the benefit of Parliamentary users.

Source: OECD (2016)

Public access to performance budgets

On-line performance portals or central open government data portals can help citizens, civil society and the media to hold government accountable for performance. This requires access to machine readable and re-usable data, through formal Open Government Data policies. The publication of citizen budgets can also help to make these data accessible and understandable to these actors. Within government presentation of comparative data, for example performance league tables, can as also create competitive pressures to improve performance. Canada's InfoBase System (Box 13) illustrates how expenditure and performance data can be related systematically to improve public access to performance information and data.

Box 13. Canada - TBS InfoBase

Interactive infographics and data are helping Canadians to understand the federal government. The TBS InfoBase (www.tbs-sct.gc.ca/ems-sgd/edb-bdd/index-eng.html#start) provides authoritative data to Parliamentarians and Canadians on how the government spends its funds, manages its people and plans to achieve its results. The InfoBase brings together data and information on resources and performance that were previously scattered across close to 100 annual reports (Departmental Plans) in a single data-driven tool. By including this data in the InfoBase, Canadians and parliamentarians now have the ability to understand what departments are seeking to achieve and how resources are used to achieve those results.

Moreover, the TBS InfoBase transforms the way financial and performance information is delivered to Canadians. By combining data and information sourced from various 'siloed' departmental reports, the InfoBase allows users to explore horizontally the information on various facets of government operations.

Source: Government of Canada (2018a), InfoBase website, http://www.tbs-sct.gc.ca/ems-sgd/edb-bdd/index-eng.html#about

Similarly Mexico's Budget Transparency Portal (Box 14) is designed to allow public access to budget information including performance data and presentational and visualisation tools to make the information more easily understood and facilitate access to these data for the general population.

Box 14. Mexico - Budget Transparency Portal

Since 2011, the Federal Government has had a Budget Transparency Portal (*Portal de Transparencia Presupuestaria* -PTP-) that presents performance information in a way that can be interpreted by users without deep knowledge in budgetary processes or information, using infographics and the deployment of georeferenced information. It also provides several open datasets that can be used by analysts and researchers.

Mexico was the first country to formally adopt the international open fiscal data package's specification promoted by the Global Initiative for Fiscal Transparency, Open Knowledge International, and the World Bank. Mexico's Federal Government also formally implements the Open Contracting Data Standard and has formally released an open contracting portal as part of its membership of the Extractive Industries Transparency Initiative.

This strategy includes information and data accessible through the Internet site https://transparenciapresupuestaria.gob.mx, dissemination through social networks, training of public officials and other stakeholders in performance budgeting, as well as the use and interpretation of performance information, and exercises involving civil society organisations to promote the use of this information.

Source: Government of Mexico www.transparenciapresupuestaria.gob.mx/, GIFT www.fiscaltransparency.net/use/mexico-became-the-first-country-to-formally-adopt-the-open-fiscal-data-package/

Good Practice 6: Performance budgeting complements other tools designed to improve a performance orientation, including programme evaluation and spending reviews.

- *Ex ante* appraisal of new spending programmes is used to strengthen programme design including key performance indicators, and to facilitate processes of monitoring and *ex post* evaluation.
- *Ex post* evaluations of major spending programmes are carried out on a rolling basis and the findings are systematically fed back into the budget preparation process.
- Spending reviews are used in conjunction with performance budgeting to review the justification for spending and to identify budgetary savings that can be redirected to support priority goals.

Ex ante programme evaluation

The quality of performance budgeting can be improved through the systematic use of *ex ante* appraisal of new spending programmes. This should include definition of programme objectives and alignment with strategic goals, an explanation of the programme logic, and identification of costs and indicators of programme impact, including baseline and target values. Such analysis serves to improve the quality of programme design, weed out less effective programmes and provide a basis for subsequent performance monitoring and impact evaluation. Chile provides a good practice example of a systematic approach to *ex ante* programme appraisal (see Box 15).

Box 15. Chile – *ex ante* evaluation system

The process of *ex ante* evaluation of programmes began in 2008. This process provides relevant information on the design of new and reformulated programmes, and provides inputs to the budget formulation process.

Its specific objectives are to:

- Explain for each programme:
  - the public issue to be addressed,
  - the populations to be considered,
  - the strategy to be followed,
  - the goods and/or public services to be provided and the expected results.
- Facilitate the subsequent monitoring and evaluation of the results of the funded programmes.
- Contribute to improve the coherence of the Programme Offer of Public Services.
- Contribute to transparency in the allocation and management of public resources.

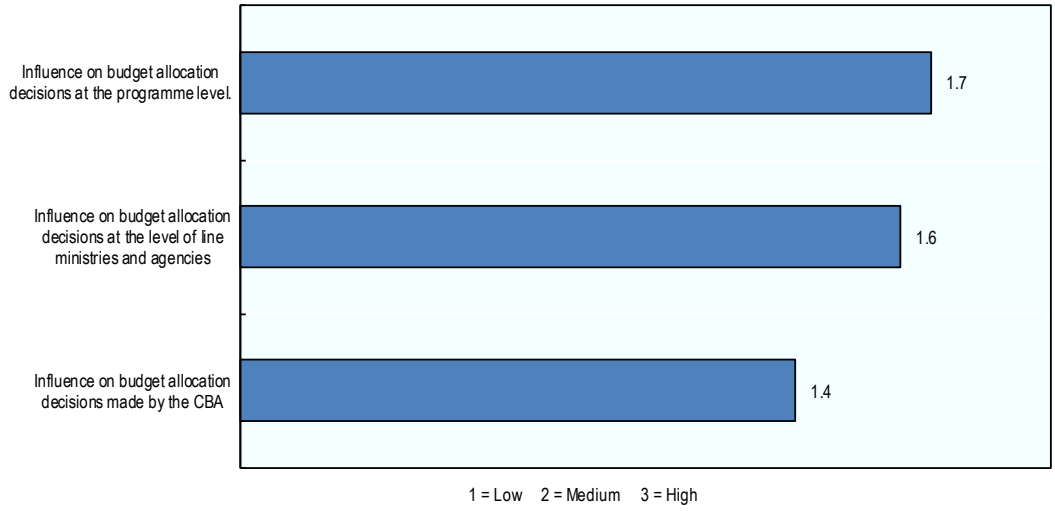
Source: Government of Chile (2016)

Ex post evaluation

The effectiveness of public spending, and the extent to which taxpayers receive value for money, are matters of continuing concern to governments and the public. Programme evaluation should ideally take place at an advanced stage of implementation or completion. The results of *ex post* evaluations should feed back into the strategic budget decision-making process and, at the same time, boost transparency and accountability for the management of stewardship of public funds.

Despite quite widespread use of both *ex ante* and *ex post* evaluations, evidence from OECD surveys suggests that evaluations of all types have limited impact on budget decisions, with the greatest impact being at the programme level, with less influence on decisions by the CBA, suggesting less impact on strategic resource allocation across government (see Figure 8).

Figure 8. Assessed Impact of Evaluation on budgetary decision making

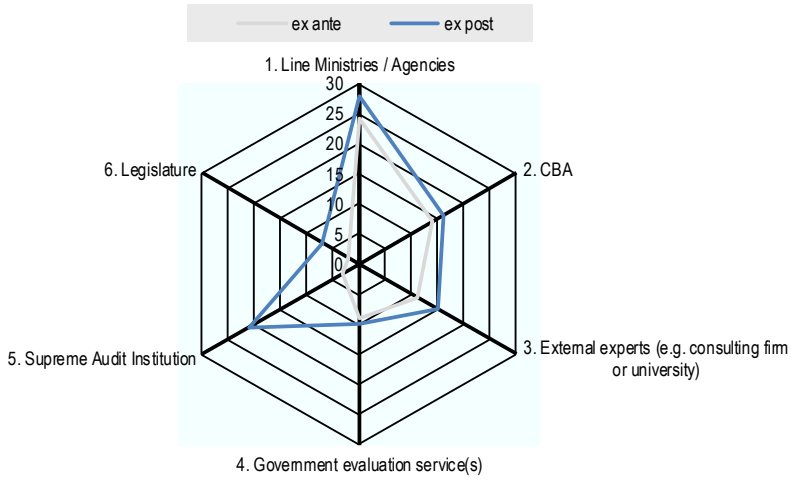


Notes: Data for Australia, Denmark, Greece, Italy, Turkey, Portugal and Turkey are not available for the impact of evaluation processes on budget decision making.
Data for Israel and the United States are not available; Information on data for Israel: http://dx.doi.org/10.1787/888932315602.
Source: OECD (2018), OECD Performance Budgeting Survey, Question 34, OECD, Paris.

The fact that the process of *ex post* evaluation is normally on a multi-year track, delinked from the annual budget process, makes it challenging to ensure that the results of evaluations influence future spending decisions. There is also the issue that, by the time the evaluation is completed, government's attention and energy are already focused on future policies and spending initiatives. The issue is how to ensure that evaluations findings are relevant and inform budget decision making.

In OECD countries evaluations are mainly carried out by the line ministries (see Figure 9), although a wide range of other institutions are active in this space, including the CBA, SAIs and external bodies such as universities and consulting firms. In practice, while a majority of OECD countries have some form of central guidance for performance evaluation less than half have a legal requirement and a significant number of countries have neither.

Figure 9. Governance of *ex ante* and *ex post* evaluation



Note: Data for Israel and the United States are not available.
Source: OECD (2018), OECD Performance Budgeting Survey.

Due to the complex relationship between budget resources and results the job of evaluation should involve both technical and budget experts. The reasons for under or over performance may be due to policy choices, programme design, programme management, external factors beyond management control or inappropriate selection of indicators that do not accurately reflect performance. All these factors need to be examined in order to identify the appropriate actions needed.

Good practice is that budget regulations require that all spending programmes should be evaluated on a rolling basis. High value, high risk and politically important programmes should be prioritised. The CBA should provide central guidance on evaluation policy and standards. Good practice also dictates that there should be a requirement that evaluation findings are factored into the budget decision-making process. In Chile the budget law requires that the results of evaluations are considered as part of the budget process. In Canada, ministries are encouraged to present evidence from evaluations as part of their budget submissions to the Treasury Board (see Box 16). The submissions include a section for 'evidence' where the findings of evaluations, studies, audit reports etc. can be presented.

Box 16. Canada - Linking performance measurement and evaluation

Canada has had policies governing programme evaluation in government since 1977. In 2016, Canada released a new Policy on Results intended to improve how departments and agencies (i.e. ministries) plan for, measure, evaluate and report on results.

The new policy created a distinction between departmental-level results – as summarised in a Departmental Results Framework – and the results of programmes, identified in a separate Programme Inventory. The new policy relaxed the requirement in earlier legislation that all direct programmes should be evaluated every 5 years. Rather, continuing the principle that all spending programmes should be evaluated periodically, government departments build an evaluation schedule based on risk and other considerations. In addition the Treasury Board also has the right to initiate evaluations independently of line ministries.

Departments are required to make public not only their evaluations, but also their rationales for not evaluating other programmes.

Source: Government of Canada (2018b)

Spending Reviews

Spending reviews are now commonly used in OECD countries and have established their value as a component of a performance-based approach to budgeting. Their twin aims are to scrutinise the purposes and value of existing programme expenditures and to improve their efficiency or to create fiscal space for new priority spending initiatives. To be effective, spending reviews must be backed by sufficient authority to overcome forces of inertia and entrenched interests and bring about significant reallocations of resources and/or efficiency improvements, where justified.

The structure and conduct of spending reviews differs among countries and from year to year, reflecting the political sensitivity of the exercise and cuts to established budgets. For this reason it is generally difficult to establish systematic links between spending reviews and performance budgeting. However, the general principle is clear that the results of any spending reviews carried out will be a key input to the budget. Equally the budget information generated by performance budgeting, including programme definition, and identification of performance indicators and targets is very helpful to those conducting spending reviews, looking for less effective programmes and poor value for money.

Good Practice 7: Incentives around the performance budgeting system encourage performance-oriented behaviour and learning.

- The centre of government promotes a management culture that focuses on performance.
- Performance measurement encourages comparison and competition between similar entities as a means of improving effectiveness and efficiency in service provision.
- Identified individuals and teams are responsible and accountable for the achievement of performance goals.
- Managers organise structured internal discussions to review financial and operational performance regularly through the year.
- Responses to programme under-performance emphasise learning and problem solving, rather than individual financial rewards and penalties.

Performance management culture

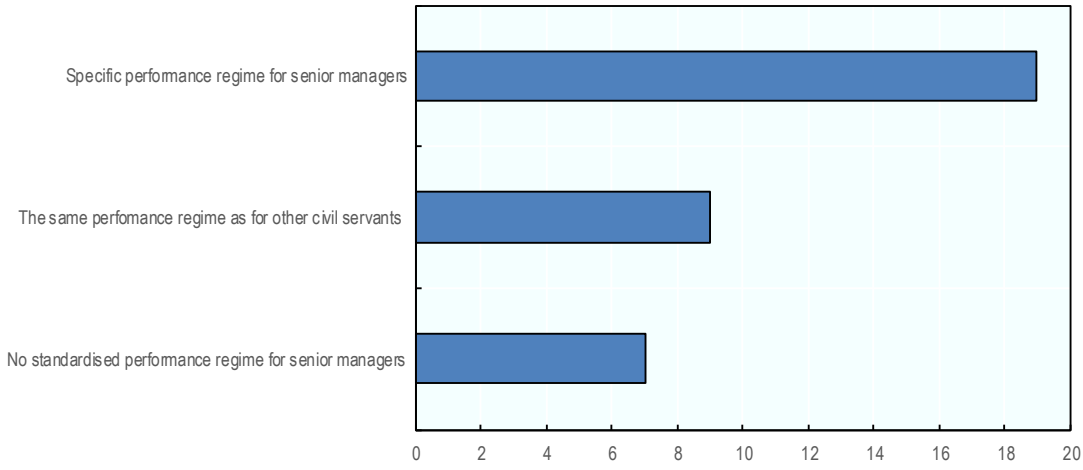
The main goal of performance budgeting efforts in OECD countries has been to support a shift to a performance-based ethos, whereby public officials instinctively respond to policy priorities, continuously improve the quality of public services, and seek value for money for the public.

While performance budgeting can create the appearance of such an ethos, the challenge is to change deeply rooted attitudes and behaviours and to encourage serious in-depth exchanges of ideas about how to actually improve performance. Governments engaged in performance budgeting should think of themselves as investing in a process of long-term cultural change and professionalisation.

Performance management regime for senior civil servants

Most OECD countries declare having some form of the specific performance regime for senior managers in civil service. A number of countries claim to have a performance regime in place, which is the same for managers and the rest of civil servants. Only seven countries declared non-existence of any performance regime for senior managers in civil service.[1] The results of the survey clearly show that senior managers are treated as important actors in the performance management system and many countries find it worthwhile to design special HRM tools for them to improve performance.

Figure 10. Existence of performance regime for senior managers in civil service



Source: OECD (2016), *Survey on Strategic Human Resources Management in Central/Federal Governments of OECD Countries*, not published

The survey shows that the most commonly used HRM tools related to performance are performance agreements, with either ministers or top civil servants, performance appraisals and performance related pay. Each of those solutions is applied in more than half OECD countries. Slightly less popular are fixed-term contracts. The survey showed that senior managers in civil service are much more likely to be dismissed if they underperform, then to get promoted in the case of good performance. This result is however not astonishing, as it may result from the fact that, especially in position-based systems, any kind of vertical promotion requires organising open examination.

The existence of specific HRM tools, which aim at boosting performance, does not necessarily mean that they work in practice. OECD research revealed considerable risks related to this approach and it showed that the motivational value of PRP schemes was usually less important than expected. However, the processes accompanying PRP have produced positive results, as an impetus to improved goal setting, organisational cultural change and management innovation, and thereby to improved performance[2].

Responses to under-performance

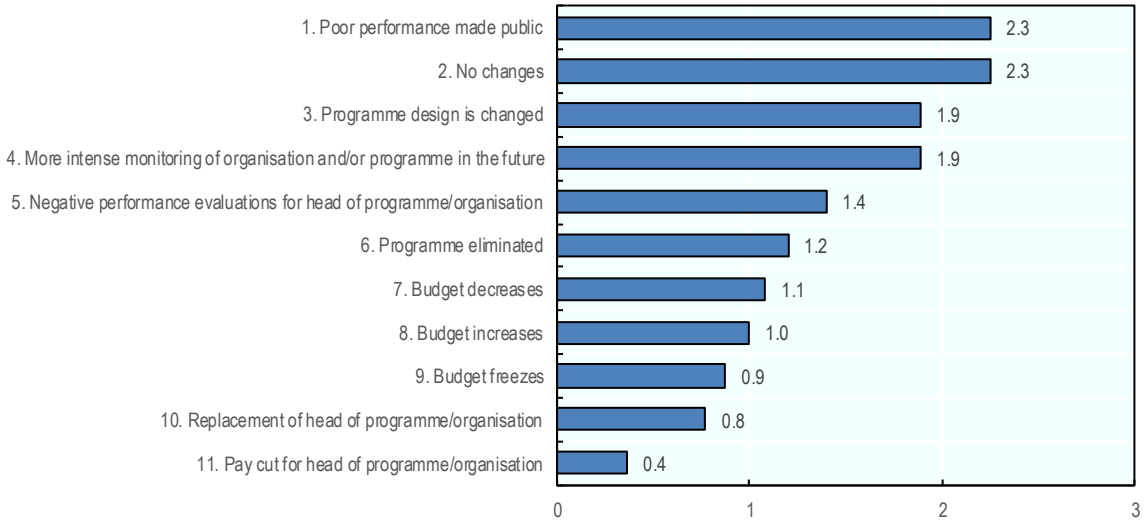
To bring about such a change in behaviour, governments need to demonstrate that under or over-performance will have tangible consequences. However, there is a risk that too strong a link between performance data and the budget may actually limit cultural change, with performance data being viewed as a threat rather than an opportunity to learn and improve.

At the extremes, if the system creates strong individual or collective incentives to achieve performance targets this can lead to damaging changes in behaviour in the form of gaming. Perversity carries the risk of serious political damage that may be out of proportion to the real problem: though rare and difficult to identify beforehand, data manipulation has resulted in intense political and media attention and fed public frustration. Manipulation of waiting lists for health services, for example, resulted in significant embarrassments for the United Kingdom government in the early 2000s and in the United States during the second

Obama administration resulting in the resignation of the Secretary for Veteran's Affairs. Most citizens care more about this single example of performance perversity than about the administration's positive performance in other policy areas. A less headline-grabbing but still serious problem occurs when line ministries use data selectively to justify spending proposals.

Studies of how information about performance is used in public organisations suggests that the data influences decisions most clearly in organisational cultures that value innovation and a willingness to take risks (Kroll 2015) - traits not inherently prized in budget processes. OECD survey data (Figure 11) lends support to the view that softer management type responses are more implementable than harder budgetary responses, such as reducing funding or axing a programme. However, the survey also demonstrates that the overall level of responsiveness is low and the most common response is still "no changes", suggesting that there is plenty of scope for countries to do a better job in this respect.

Figure 11. Consequences of poor performance by line Ministries/Agencies (average frequency)



Note: Data for Israel and the United States are not available.
Source: OECD (2018), OECD Performance Budgeting Survey.

Structured performance discussions

Evidence from country case studies shows that countries with long performance budgeting experience, such as Australia, the Netherlands and the United States have, to varying degrees, retreated from attempts to directly link performance to increases or cuts in the budget. They focus instead on encouraging more routine use of performance and budget information by line ministries and agencies to improve programme management.

In the United States Agency GPRAMA requires leaders and managers to use regular meetings, at least quarterly, to review data and drive progress toward key performance goals and other management-improvement priorities. For each APG, agency leaders conduct reviews at least quarterly to assess progress toward the goal, determine the risk of the goal not being met, and develop strategies to improve performance. There is research evidence that data-driven reviews, in which performance data are routinely discussed for management purposes are effective (Box 17).

Box 17. United States - Quarterly performance review

Another significant aspect of the US Government Performance and Results Modernization Act (2010) is that it requires formal routines for agency staff to discuss data. Agencies must hold quarterly reviews (sometimes called, data-driven reviews) of progress on agency priorities and other significant goals. The Chief Operating Officer is required to lead these reviews, and there is detailed discussion of progress on each goal by senior managers and the designated goal leader. The goal leader must track performance outcomes, understand why they rise and fall, and organise efforts for improvement.

- Review with the appropriate goal leader the progress achieved during the most recent quarter, overall trend data, and the likelihood of meeting the planned level of performance.
- Hold goal leaders accountable for knowing whether or not their performance indicators are trending in the right direction at a reasonable speed, and if they are not, for understanding why they are not and for having a plan to accelerate progress to the goal.
- Hold goal leaders accountable for knowing the quality of their data, for having a plan to improve it if necessary, and for filling critical evidence or other information gaps.
- Hold goal leaders accountable for identifying effective practices by searching the literature, looking for benchmarks, and analysing disaggregated data to find positive outliers among performance units.
- Hold goal leaders accountable for validating promising practices with replication demonstrations or other evidence-based methods.
- Review variations in performance trends across the organisation and delivery partners, identify possible reasons for each variance, and understand whether the variance points to promising practices or problems needing more attention.
- Include evaluation staff to share and review performance information and evaluation findings; better understand performance issues that evaluation and research studies can help to address; and refine performance measures and indicators.
- Include, as appropriate, relevant personnel within and outside the agency who contribute to the accomplishment of each Agency Priority Goal (or other priority).
- Support the goal leaders in assuring other organisations and programmes are contributing as expected to Agency Priority Goals (or other priorities).
- Identify Agency Priority Goals (or other priorities) at risk of not achieving the planned level of performance and work with goal leaders to identify strategies that support performance improvement.
- Encourage a meaningful dialogue around what works, what does not, and the best way to move forward on the organisation's top priorities, using a variety of appropriate analytical and evaluation methods.
- Establish an environment that promotes learning and sharing openly about successes and challenges.
- Agree on follow-up actions at each meeting and track timely follow-through.

Source: The White House, Office of Management and Budget (2018).

In Canada, accounting officers have a personal legal obligation to appear before parliamentary committees and answer questions on the management responsibilities of their department. A similar arrangement for accounting officers exists in Ireland. Also in

Ireland, an annual agreement is signed between a department head and their relevant Minister outlining performance objectives. In New Zealand recent studies suggest that promoting collective rather than individual responsibility for performance was effective in delivering results in the cross-cutting "Better Public Service Results Programme" (Box 18) of the fifth National Government (2008-17).

Box 18. New Zealand - Creating Incentives to Achieve Cross-cutting Goals

Recent research from New Zealand shows that when it comes to tackling issues that cut across agency responsibilities holding public service executives collectively responsible for improvements is more effective than focusing on individual performance. From 2012 to 2017 New Zealand implemented a Better Public Service Results programme, with 10 key goals related to reducing welfare dependence, protecting vulnerable children, boosting skills and employment, reducing crime and improving interaction with government. NZ's experience shows that appointing a lead individual to each of five groups set up to pursue clearly articulated social outcome improvements put too much emphasis on the person in charge, resulting in weaker feelings of commitment by other team members. A shift to collective responsibility - including the awarding of bonuses based on collective effort - in theory made freeloading easier, but produced better outcomes, pushing staff to ensure the group achieved something of value. On recent completion of the first five-year period there were dramatic improvements for all 10 results, despite some targets not being reached. The number of infants not vaccinated fell by two-thirds, for example. Other problems were cut in half, such as the number of children not enrolled in early childhood education and the number suffering from rheumatic fever. A total of 40 000 fewer working-age people received welfare payments over a three year period, thanks to more intensive and individualised case management and bureaucrats actively developing partnerships with local businesses.

Source: R. Scott and R. Boyd (2016)

In the United Kingdom permanent secretaries have long served as departmental "Accounting Officers", responsible as individuals for the efficiency, economy and effectiveness of money spent by their organisation. Recently, new individual roles have been added for performance: a whole-of-government Chief Executive Officer, as well as enhanced performance-oriented responsibilities for Chief Financial Officers within each spending ministry.

In France for each programme, the minister appoints a manager. Programme managers are the linchpin of the new public management system, operating at the nexus between political and management accountability. Reporting to the minister, they help define the strategic objectives for their programmes. They are the guarantors that operational plans will go into effect and commit to the achievement of the associated goals. Annual Performance Plans express the commitments of the programme managers, presenting the strategies and objectives of each programme and justifying to Parliament programme appropriations and job requests. Programme managers organise management control and are allocated an overall amount to control. This gives them a great deal of freedom to choose where and how to allocate the financial and human resources they have available to meet their objectives. Their choices and the effects are reported in the APRs.

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