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**Public Governance Committee**

Working Party of Senior Budget Officials

Draft OECD Best Practices for Performance Budgeting

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| This paper presents the draft OECD *Best Practices for Performance Budgeting.*The paper provides a narrative discussion of each Best Practice, including a brief explanation of the evidence supporting their adoption and practical examples from OECD countries. This paper is meant as a basis for discussion among Delegates for the further development of the Best Practices. |

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**Draft OECD Best Practices for Performance Budgeting**

**1.Setting clear and realistic objectives for performance budgeting**

**•** The rationale, objectives and approach to performance budgeting are set out in the organic budget law, in other regulations or in an official code of budgetary practice.

• The role and interests of important stakeholders in the policy cycle – including the centre of government, the legislature, the central budget authority, line ministries and the supreme audit institution – are reflected in the design of the performance budgeting system.

• The approach and scope of the performance budgeting system are adapted to national circumstances and practical constraints including staff skills, the availability of performance data and the stage of development of the performance culture in government.

**2. Linking the Performance Budget to the Strategic Goals of Government**

• Performance budgets are closely aligned to national performance frameworks, including strategic policy goals, developmental plans and sector strategies.

• Medium term expenditure frameworks provide realistic parameters within which strategic plans are prepared, resourced and implemented.

• Evidence based analysis of spending is used in conjunction with performance budgeting to improve the alignment of resources with policy priorities.

• The centre of government works closely with the central budget authority to monitor adherence to priority policy goals, to coordinate actions across government agencies and to address constraints.

**3. Adapting Performance Budgeting to the Complex, Varying Needs of Policy-making**

• The performance budgeting methodology includes in-built flexibility to handle the varied nature of government business, and to recognise the differing relationships between inputs and outcomes.

• Programme structures are aligned with the service delivery functions and responsibilities of ministries and agencies.

• Complex, persistent and multi-dimensional social problems (so-called “wicked” issues) are addressed through coordination mechanisms and high level government support.

• Control frameworks are revised and adapted to support effective budget execution.

**4. Managing Performance Information**

• The Central Budget Authority guides the production and use of performance information, promoting quality over quantity.

• Performance indicators, milestones and targets are consistent with those identified in national policy and strategy documents.

• Ministries use outcome and output indicators, together with other indicators that are useful in measuring progress towards achieving policy objectives.

• Performance indicators facilitate comparison between similar entities, within the same country or internationally, whenever practical and consistent with government policy objectives.

* The SAI has a role in reviewing and validating the achievement of performance targets, and in assessing the quality of performance frameworks more broadly, including programme-logic models and indicators.

**5. Creating the Infrastructure to Support Performance Budgeting**

• Performance budgeting is supported by a core team of specialists, within each ministry and in the central budget authority.

• The performance budgeting methodology is supported by detailed guidelines and training of budget analysts.

• Financial management information systems integrate non-financial performance data to generate reports that meet the varied needs of different users.

• The oversight role and capabilities of the legislature and the supreme audit institution are sufficiently developed in respect of performance budgeting.

**6. Ensuring Systematic Evaluation and Oversight of Performance**

• Senior management within line ministries, and programme managers, organize structured discussions to review financial and operational performance regularly throughout the year.

• Evaluations of the performance of all major spending programmes are carried out on a rolling basis and the findings are considered as part of the budget preparation process.

• Performance targets set out in the annual budget are the subject of corresponding annual reporting on performance.

• The supreme audit institution carries out performance audits of important or high risk programmes and tests the relevance, accuracy and reliability of performance data.

• The budget and accounts committees of the legislature regularly reviews performance based budget statements and annual performance reports.

• Committees overseeing the activities of sector ministries conduct public hearings based on performance reports provided by government and performance audit reports and hold ministers and senior public managers accountable in the event of poor performance or misrepresentation.

**7. Incentivizing Performance-oriented Behaviour and Learning**

• Identified individuals and teams are responsible and accountable for the achievement of performance goals.

• Responses to programme performance emphasise recognition of successes, learning and problem solving in respect of under-achievement, rather than automatic financial rewards or budget cuts.

• The centre of government promotes a broader performance management culture that supports performance budgeting.

# INTRODUCTION

**What is Performance Budgeting?**

Performance budgeting is a somewhat diffuse concept, with no single agreed definition. A performance budget can be defined broadly as “any budget that represents information on what agencies have done or expect to do with the money provided to them” (Schick). The OECD has a longer working definition, used in this paper, which states that performance budgeting is “the use of performance information to inform budget decisions whether as a direct input to budget allocation decisions or as contextual information and/or inputs to budget planning, as well as to instil greater transparency and accountability throughout the budget process, by providing information to the public on performance objectives and results”.

The Best Practices refer to the core budget processes of budget formulation, budget execution, monitoring and reporting. Although ex-ante policy impact assessment, spending reviews and programme evaluations are commonly included within the broadest definitions of performance budgeting they are not covered by these best practices.

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 and the legislature. Characteristic elements of a performance budgeting system are the following:

* In the preparation of the budget, spending decisions take account of priority 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;
* Reports to parliament on budget execution include performance information and a narrative explaining the reasons for under or over-performance;
* During budget execution, budget managers may be given increased autonomy to manage financial resources, balanced by increased 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.

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 and, while the first four features described above are common to most systems, fewer incorporate the managerial dimensions described in the last two bullets. The different approaches to performance budgeting can be classified as follows:

***Presentational Performance Budgeting***

This shows outputs, outcomes and performance indicators separately fromthe 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-prioritization 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***

A variant on performance informed budgeting. In this approach the focus is on managerial impacts and changesin 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***

This establishes a direct linkbetween 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. In practice it is hard to make direct links between resources and performance, due to the complexity of government goods and services.

Most OECD countries that have implemented performance budgeting describe their approaches as either presentational or performance informed budgeting. No OECD country claims to use a performance based approach and given the complex factors that determine wither policy goals are achieved or not, and the limited role played by finance, it seems unlikely that any country will attempt to make direct linkage a general principle.

## 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 links between government policy priorities and decisions on budget allocation, thereby boosting the chances that the government will be successful in delivering on important pledges. For parliaments, performance budgeting offers greater clarity on what public goods and services will be delivered in return for the resources they have voted, as well as a means of holding officials to account for the achievement of results. For Ministries of Finance, performance budgeting offers new information that helps them analyse expenditure and support more rational and informed spending decisions, together with a means of making line ministries more accountable. For line ministries, performance budgeting provides tools to improve their internal decision making, and 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 organizations, 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.

 In practice, a multiplicity of objectives has tended to lead to the development of complex systems that have added a significant administrative burden, while producing relatively few quantifiable benefits, in the form of cost savings or reallocation of resources (see Figure 1).

**Figure 1 -- Have Performance Budgeting Systems and Processes Contributed to Improved Quality of Public Finances in Your Country?**



 Despite these disappointments, the appeal of performance budgeting remains strong enough that most OECD governments have shrugged off the initial difficulties and persevered in their efforts to make the system work. Through a combination of more realistic expectations and adaptation of approaches, OECD governments now see benefits emerging from these reforms. The process has provided more and better understanding of government goals and priorities and how different programmes contribute to them. It has also contributed to improving transparency and accountability, and helped to foster a performance culture in government.

## Performance budgeting and performance improvement

Performance budgeting should be thought of as one element of a wider set of reforms aimed at creating a performance oriented public sector. Experience suggests that performance budgeting is less effective when it is pursued as an isolated reform, and should be seen as a reform that supports rather than leads broader government efforts to improve performance.

The design, implementation and ultimate effectiveness of the performance budgeting system will depend on the extent to which the other elements of a performance management system are in place and functioning effectively. Therefore, in designing the approach to performance budgeting, close attention needs to be paid to the state of other related performance reforms including:

* strategic planning at both national and sector levels and, in particular, the quality of key performance indicators and the realism of targets
* medium term budget frameworks and, in particular, the extent to which these take account of performance goals and provide a reliable basis for annual budget planning;
* human resource management systems, and the extent to which this is effective in aligning individual incentives with higher level government performance targets;
* performance based contracting and payment systems, and the extent to which these create incentives for agencies and other suppliers to achieve performance targets;
* programme evaluation, and how effectively this integrates financial and performance perspectives;
* external audit, and the extent to which the supreme audit institution is able to carry out performance audits and validate performance data.

 Ideally the development of performance budgeting should be coordinated with these other performance oriented reforms. To the extent that these are lagging, the pace and depth of performance budgeting reforms may be adjusted. Given the far reaching and complex nature of such reforms it is hardly surprising that the introduction of performance budgeting often takes many years and requires continuous attention and updating.

## Political and institutional context

 When considering how to create a workable performance budgeting system, it is important to consider the political and institutional context within which it will operate, including the constraints that this may impose. First, it is important to recognize that the budget is a political instrument and so rational analysis, aimed at optimizing efficiency and performance, may often be subordinated to short term political interests. For example, a rational analysis of health spending might suggest concentration of services and closure of some local health facilities, while at the same time shifting resources to health, education and preventive care, whereas local political representatives will often defend existing institutions or press for new facilities to be built in their constituencies despite inconsistency with the government’s higher level goals.

 Second, the roles and concerns of different institutions and stakeholders have to be balanced out, with the results that the systems may look quite different while having similar objectives. In some countries political interest in performance reforms, at the highest levels of government, has led to the centre of government playing an important role in managing the performance systems. Examples include the role of the White House Office of Management and Budget in the USA and the Prime Minister’s Office and, more recently, the Cabinet Office in the UK. In other countries (e.g. France) the parliament has played a leading role in driving the adoption of performance budgeting (LOLF Reform), motivated by a desire for greater transparency and accountability for what was being delivered using the resources voted by the legislature. In other countries performance budgeting has been a Ministry of Finance inspired initiative, although as the example of Poland first attempt to introduce performance budgeting showed, narrowly based technocratic efforts to introduce performance budgeting may not be successful. A balance of political and bureaucratic support is likely to yield the best results.

 Third, the structure of government and the nature of politics will also be significant factors influencing the design of the performance budgeting system. In countries that have a federal system of government, most public services are delivered by sub-national governments, with the federal government providing funds in the form of block grants or targeted transfers. In such cases most of the action on performance budgeting, is at the level of sub-national government, with federal agencies establishing some high level goals, setting standards and playing a facilitating role in performance budgeting. In coalition government settings, such as the Netherlands or Austria, individual ministries may have a more powerful role in relation to budget decision making, as compared with a situation where one party has a parliamentary majority, where the Ministry of Finance typically plays a more dominant role in the budget process.

## Addressing different states of development of performance budgeting

 Performance budgeting may be best described as a journey rather than a destination. Performance budgeting reforms have been pursued by OECD countries over a long period of time and have often been improvisational in nature. The United States first introduced programme budgeting in the 1960s. In the 1980s and 90s a second wave of performance oriented budget reforms was led by countries including Australia, the Netherlands, New Zealand and the United Kingdom. In the past decade, many more OECD have adopted performance budgeting to the point where, in the last OECD Survey of Budgeting Practices, 26 out of 34 OECD countries reported using a standard framework for performance budgeting. Almost every OECD country that has adopted some form of performance budgeting has periodically revised its approach and, as no country is fully satisfied with the system it has developed, it can safely be assumed that these systems will continue to evolve. Since some countries are at the start of this journey the practices attempt to cover the whole process from design of performance budgeting system through to system implementation, operation and oversight.

 For those countries that have already been through the initial processes of design and implementation the best practices that relate to quality and operation of the system may be more relevant, e.g. capable people, infrastructure, information and incentives, although a fundamental re-think of the basic objectives and design of the system may also be advisable from time to time. Finally, governments considering their approach to performance budgeting would do well to pay attention to the balance between effort and reward. Introducing a parallel system of budgeting imposes an additional burden on the administration, and if this does not lead to different decisions being made, or decisions being made in a different way, the reform can easily become discredited. This suggests that an incremental approach may be better than a big bang approach, especially where there are significant constraints, for example in staff skills, performance culture or the quality of performance data. Incrementalism could mean starting with a presentational approach, or piloting performance budgeting in high capacity ministries. Sometimes line ministries are already using similar performance concepts, in areas such as management of schools and hospitals, or outsourced service delivery, before the concepts are more generally adopted by the central budget authority.

## Origins of the best practices

 The OECD has been extensively involved in reviewing performance budgeting reforms for more than 12 years. In 2004 OECD Senior Budget Officials set up a Performance and Results Network to increase understanding of these practices. Since then the OECD has conducted three major surveys of performance budgeting practices (2007, 2011 and 2016), prepared country case studies and held regular meetings where experience was shared amongst member countries. Through these processes a substantial amount of knowledge has been acquired about both the challenges of performance budgeting and good practices. In addition, the OECD through their reviews of budget practices in OECD countries, OECD staff have had the opportunity to closely study performance budgeting 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."

 These Best Practices take the OECD Recommendation as a starting point and elaborate on some further specific, operational aspects needed to put this important budget principle into practice.

 Moreover, the Best 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 set out in the OECD Journal on Budgeting.

 The best practices examples should be understood as the best examples available, based on the OECD’s knowledge of current practices, but do not necessarily represent ideal practices. They include a number of examples volunteered by OECD countries. [Some of these are still being evaluated prior to inclusion in the final version]. They do not necessarily represent ideal examples, since no country has an ideal system, and need to be understood in relation to the specific context within which they were developed.

**Best Practice 1**

**Setting clear and realistic objectives for performance budgeting**

**•** The rationale, objectives and approach to performance budgeting in are set out in the organic budget law, in other regulations or in an official code of budgetary practice.

• The role and interests of important stakeholders in the policy cycle – including the centre of government, the legislature, the central budget authority, line ministries and the supreme audit institution – are reflected in the design of the performance budgeting system.

• The approach and scope of the performance budgeting system are adapted to national circumstances and practical constraints including staff skills, the availability of performance data and the stage of development of the performance culture in government.

The chances of implementing an effective performance budgeting system are increased if the government is clear about the rationale for introducing the reform, establishes a clear set of objectives and takes account of implementation constraints. Because performance budgeting is a malleable concept, it is important that policymakers take the time to define their goals and expectations. The government’s intentions may be given force through expression of intent which, depending on the form of government and the policy instruments they typically use, may take the form of a separate law, an amendment to the organic budget law regulations or a strategic policy document. New Zealand’s 2013 changes to the Public Finance and State Sector Acts provide an example of a clear set of objectives for the performance budgeting system (Box 1).

Typically the introduction of performance budgeting creates many expectations as to what can be achieved including:

• improved resource allocation at the stage of budget formulation, whereby resources are aligned in accordance with high priority performance goals of the government.

• more efficient use of resources during budget execution, achieved through devolution of responsibility to programme managers, together with granting greater flexibility in how resources can be used.

• greater transparency regarding how resources are used and the results achieved.

• increased accountability to the public and parliament.

In setting (or revising) the objectives of performance budgeting governments should be mindful of the results of the OECD survey and country case studies, which show that performance budgeting has been more effective in fulfilling some of these objectives than others. The 2016 Survey of Performance Budgeting practices rated the numerous potential benefits of performance budgeting in terms the perceived strength of their rationale and their practical effectiveness. Figure 2 shows the relative importance of the listed factors for introducing performance budgeting, and also the relative effectiveness of the performance budgeting system in advancing the considerations listed. These results show that, in practice, performance budgeting has been most effective in promoting accountability and transparency, including instilling a culture of performance and improving parliamentary budget scrutiny.

**Figure 2: Ranking of Different Rationales for Introducing Performance Budgeting and Their Effectiveness in Practice**



Performance budgeting has proved less effective as a tool for resource allocation and prioritisation, strategic coordination, compliance and for setting service delivery targets.

The interests of different stakeholders are a critical factor determining relevant and realistic goals for the performance budgeting system. In a number of countries the national legislature has played an important role, demanding better information on what their vote was delivering in the terms of services to citizens. In other countries, the main impetus has come from the centre of government, which wanted some means to ensure that the budget was aligned with their electoral ledges to citizens. In some countries, performance budgeting has been conceived as more of a management tool to improve outcomes, focusing programme managers’ attention on service delivery and performance and, at the same time, permitting them greater flexibility to manage resources within their overall budget envelope. Balancing the needs and concerns of the various stakeholders will inevitably require compromises and trade-offs between different interests and objectives. There are inherent tensions, for example, between the public and parliament’s desire for accountability and the administration’s desire for freedom to improve performance through increased budget flexibility and re-prioritization of spending to achieve performance goals.

OECD countries with the longest experience of performance budgeting have tended to revise their expectations for performance budgeting downwards and focus on addressing identified concerns; they do not promise that it will revolutionize governance. For example, recent changes made by Australia (Box 2) have focused explicitly on encouraging management use of performance data, while in the Netherlands (Box 3) the focus has shifted to promoting accountability for results.

OECD countries’ experiences suggest (Figure 2) that increasing transparency and accountability are the most realistic and attainable objectives for a performance budgeting system, corresponding broadly a “presentational approach ’’ to performance budgeting.

**Box 1: New Zealand - 2013 changes for the Public Finance and State Sector Acts**

The overarching framework for performance budgeting in New Zealand is largely set out through 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 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 for 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 level 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.

**Box 2: Australia - Public Governance, Performance and Accountability Act**

Australia’s 2013 Public Governance, Performance and Accountability Act was the result of consultation by the Department of Finance on a wide range of financial management issues over more than a year. The new law not only merged and refined previous financial management laws covering government departments and other entities, it also introduced for

the first time the concept of “performance” into legislation affecting public agencies. Previously, agency performance was governed by policy decisions and regulations; general legislative provisions gave the Minister of Finance powers only to issue directions to organizations on finance-related matters. The new law:

• clarified and expanded the duties of accountable authorities and officials;

• empowered Commonwealth entities to remove red tape around using and managing money;

* required all Commonwealth entities to have 4 year corporate plans, linked to key priorities of the Government (where appropriate), and
* required all Commonwealth entities to prepare an annual performance statements.

**Box 3: 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 results accountability, 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.

**Best Practice 2**

**Linking the Performance Budget to the Strategic Goals of Government**

• Performance budgets are closely aligned to national performance frameworks, including strategic policy goals, developmental plans and sector strategies.

• Medium term expenditure frameworks provide realistic parameters within which strategic plans are prepared, resourced and implemented.

• Evidence based analysis of spending is used in conjunction with performance budgeting to improve the alignment of resources with policy priorities.

• The centre of government works closely with the central budget authority to monitor adherence to priority policy goals, to coordinate actions across government agencies and to address constraints.

A commonly cited reason for introducing a performance budgeting system is to strengthen the alignment between the budget and the government’s policy priorities. The expression of policy priorities typically takes different forms in different countries and may be captured in multiple (not necessarily consistent) documents. For example, they may be expressed in government election pledges, set out in national development plans or developed in policies and strategies and laws relating to specific sectors.

It should not be assumed that national strategic planning processes exist or function well. Figure 3 shows that few OECD countries have a comprehensive national performance framework. In practice, strategic planning and budgeting often exist in parallel universes, in which national strategic plans are developed without reference to resource constraints and budgets are developed without reference to strategic policy objectives. The introduction of performance budgeting often exposes inadequacies in planning, including lack of clarity in respect of priorities, overlapping or inconsistent plans, and poorly formulated indicators and targets. Therefore, in order to make the performance budgeting system work effectively, the government may need to improve the quality of planning and develop processes that improve the links between planning and budgeting.

In contrast to national performance frameworks, medium term expenditure frameworks (MTEF) are more extensively used, with 88% of OECD countries reporting that they used MTEF.

**Figure 3 -- What Elements of the National Performance Framework are in Place?
(number of countries)**

Medium term expenditure frameworks (MTEF) and a top down budgeting approach are usually found in countries with good performance budgeting practices. A sound MTEF is based on prudent assumptions about revenues and expenditures and provides stable parameters for ministries to prepare their budget programmes. The MTEF process should relate expenditure allocations to policy priorities and form the basis for strategic re-allocation of resources. The MTEF may therefore be seen as the first stage of the performance budgeting process.

Evidence based analysis of spending programmes are increasingly relied on by OECD countries to help assess the effectiveness of spending and to reallocate expenditure to match government policy priorities. These may take various forms including ex-ante policy impact assessments, spending reviews, and ex-post programme evaluations.

Strong central guidance helps to ensure that ministries make the right links between national and sector strategies and the performance budget. Without a measure of top down, central strategic direction, performance budgets will tend to reflect the ongoing activities of government departments rather than government’s strategic policy priorities. Where there is a bottom-up approach to performance budgeting, there is a real danger that line ministries will use performance budgeting to justify additional spending, rather than to improve performance. This can be provided by the CBA in the form of clear guidelines and training, but best practice is for the centre of government to take the leading role in promoting performance management across government

Austria, France and Mexico (Boxes 4 to 6) provide examples 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 outcome objectives of the budget chapters should be aligned 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 describe links between the objective and overarching strategies. For example, in the budget chapter 20 “Labour market” there is one objective which aims to reduce unemployment. The objective 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 Chancellery 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.

**Box 5: Alignment of the Budget Structure with Strategic Goals in France**

France’s programme budget structure is based on major political objectives. France has broken with the tradition of expenditure-oriented budgets by drawing up a programme budget with a three-tier structure, in which missions correspond to the state’s public policy priorities. Some missions are “multi-ministry,” pulling together all the programmes, such as research, conducted by different ministries that relate to the same general policy. Each mission comprises programmes to which appropriations are allocated, broken down by subprogrammes, the actions that together constitute the operational resources with which a programme will be implemented. The previous structure based on “budget chapters” (line items) obscured the aims of budget appropriations and the cost of administrative policies and structures. By structuring the budget in terms of public policy objectives, the state’s missions and public service goals become fully transparent.

**Box 6: Linking the budget to Mexico's National Development Plan**

The public policy priorities of the Federal Government are stablished in a National Development Plan, which sets the National Goals and the objectives of each administration, with a planning horizon of six years. For the planning cycle 2013-2018, the results orientation of the Plan and its sectoral programmes was strengthened, so that budgetary programmes are linked, through the logical framework, to the achievement of the sectoral objectives and, consequently, of those of the Plan; this ensures that public spending identifies the expected contribution to the achievement of national priorities, as the axis for its monitoring and evaluation. The structure of the Plan and Results-based Budget policies have facilitated the identification of the strategies that drive the achievement of the Sustainable Development Goals of the 2030 Agenda, both at the level of sectoral and budgetary programmes.

# Best Practice 3

**Adapting Performance Budgeting to the Complex, Varying Needs of Policy-making**

• The performance budgeting methodology includes in-built flexibility to handle the varied nature of government business, and to recognise the differing relationships between inputs and outcomes.

• Programme structures are aligned with the service delivery functions and responsibilities of ministries and agencies.

• Complex, persistent and multi-dimensional social problems (so-called “wicked” issues) are addressed through coordination mechanisms and high level government support.

• Control frameworks are revised and adapted to support effective budget execution.

Performance budgeting methodology needs to incorporate flexibility to deal with the varied and complex relationships between financial resources and performance.Where government is directly responsible for delivering public services, e.g. issuing passports or constructing roads, it makes sense to link budget resources closely (if not directly) to the achievement of specific outcomes. Where government’s role is more indirect, for example as a regulator or policy maker, the relationship between budget funding and the outcomes of government policy is indirect and clear attribution problems arise if you try to link funding closely to success or failure to achieve policy outcomes. Figure 4 below shows OECD countries own assessments of the impact that performance information has had on budget decisions in each sector.

**Figure 4 -- How Would You Rate the Impact Performance Information Has Had on
 Influencing Budget Decisions in Each Sector?**

A “’one size fits all” template for the preparation of performance budgets can result in a “make work” scheme where, for example, ministries are required to identify outcome indicators for all programmes. A smart system recognizes that the relationships between budget resources and outcomes vary considerably across different activities of government and allows departments a limited degree of flexibility, while maintaining a coherent overall approach.

One approach to flexibility is characterized by the United States, in which departments and agencies are granted a wide degree to freedom to identify performance indicators within an overall performance framework (Government Performance and Results Modernization Act) that requires each agency to 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.

An alternative approach to flexibility is to create alternative tracks/ requirements for different types of programmes that fall into pre-defined categories. The Netherlands has sought to add nuance to strategic prioritization by 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**



When government has limited control over the policy outcome, such as domestic security or environmental outcomes, it might seek to stimulate or regulate outcomes. It may also fund services, or directly provide services. In the latter cases, it becomes more reasonable to expect a closer link between resources provided and outputs and outcomes than in cases where government has much less direct involvement in an outcome. Such an approach requires politicians to take a realistic approach to performance data, acknowledging that government does not control outcomes for many services it may have an interest in. This change has discouraged ministries from padding budget proposals with performance data that was unnecessary, or seeking to claim credit for tasks they did not really control.

Programmes that cover the basic functioning of ministries, such as administrative costs, maintenance etc. do not directly contribute to policy outcomes and so it does not make sense to relate such expenditure to higher level policy objectives of the Ministry. The relevant measures of the performance of such programmes are more likely to be cross government targets to improve the efficiency and quality of such functions. Standard templates and performance measures may therefore be applied reducing the burden on ministries to define programmes and develop performance measures and will also aid comparison of performance across government departments.

A common challenge in performance budgeting is how to deal with complex or “wicked” issues that defy an easy solution and require concerted action by different government departments and agencies. Should reducing infant mortality for example be a separate program, with its own resources, or simply a goal supported by activities within multiple other programmes (e.g. health education, nutrition and primary care). There is no right answer, only different trade-offs to be made. In general, however, programmes in OECD countries are aligned with existing administrative structures as this aids accountability. To deal with complex or wicked issues governments tend to rely on inter-ministerial co-ordination mechanisms, led by the centre of government. At the same time the organisational structure should not dictate the programmes and a performance focus may help to identify that reorganization is justified and will lead to better outcomes. The United States offers an example of institutionalized mechanisms to promote co-ordination around cross-agency goals (see Box 7).

Performance based budgeting typically leads governments to reorganize the budget, introducing a new programmatic classification. This does not mean that governments need to abandon the traditional economic, administrative and functional classifications. However, in order to avoid over complicating budget execution the economic classification may need to be simplified by consolidating economic and administrative classification systems, thereby retaining or increasing flexibility. Several countries, such as the Netherlands, initially abandoned economic classification but re-introduced it on a simplified basis after concluding that this has led to too much loss of control.

**Box 7: United States - Coordination of cross–agency priority goals**

The GPRA Modernization Act of 2010 (GPRAMA) requires the Office of Management and Budget (OMB) to coordinate 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.

# Best Practice 4Managing Performance Information

• The Central Budget Authority guides the production and use of performance information, promoting quality over quantity.

• Performance indicators, milestones and targets are consistent with those identified in national policy and strategy documents.

• Ministries use outcome and output indicators, together with other indicators that are useful in measuring progress towards achieving policy objectives.

• Performance indicators facilitate comparison between similar entities, within the same country or internationally, whenever practical and consistent with government policy objectives.

* The SAI has a role in reviewing and validating the achievement of performance targets, and in assessing the quality of performance frameworks more broadly, including programme-logic models and indicators.

The choice of performance indicators and targets is a critical factor determining whether performance budgeting is effective and credible. However, the selection of indicators is a difficult task involving a balance between the ideal and the practical. Most OECD countries still struggle to come up with consistently valid and reliable indicators across all sectors and programmes, and only 17 OECD countries report setting targets for all or most programmes (see Figure 6). The central budget authority has an important role to play in guiding the selection and use of performance indicators, encouraging selectivity and quality, rather than allowing for the proliferation of indicators.

**Figure 6 -- Does the Government Set Performance Targets**

Measures of public policy outcomes are the ideal performance indicators. However, because it can take years or even decades to achieve the outcomes intermediate outcomes or outputs, which respond more rapidly and predictably, may be of more practical use. There is also a risk that a requirement to define outcome indicators for all programmes becomes an artificial exercise with little practical relevance. Intermediate outcomes offer a compromise between outcome measures and output measures. For programme management purposes lower level indicators of outputs, activities and efficiency may also be useful, although these should be excluded from higher level reporting.

A common tendency when countries introduce performance budgeting is to create a complex architecture of programmes, sub-programmes, and activities, each with its own performance indicators. This commonly leads to information overload, followed by efforts to reduce the number of indicators, sometimes to a fraction of the earlier number. OECD countries seem to be overcoming these problems and making better use of performance data (Figure 7). 36% of countries reported greater use of the available performance data over a four year period, while 0% reported less use. Similarly, 44% countries reported that performance against targets was being tracked more regularly, with 0% reporting that tracking had reduced.

**Figure 7 -- Trends Regarding Performance Targets**



The CBA should provide guidelines and training, backed up by periodic vetting, to help line ensure ministries select high quality indicators and avoid proliferation. The Australian Department of Finance’s Guidance on Developing Good Performance Information (Box 8) offers a good practice example of practical support and guidance to government bodies on this topic.

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. By way of example, between 2007 and 2015 France reduced the number of performance indicators in the budget from 1,173 to 677, giving priority to those that most closely reflect strategic objectives, represent major budget areas, and (to facilitate cross-country benchmarking) are used internationally (Figure 8).

**Figure 8 -- France: Progressive Reduction in the Complexity of the Performance Budget**



In 2011–13 the Netherlands removed about 1,000 performance measures in the budget (about half of the total) but in doing so ran into resistance from line ministries and the Court of Audit.

The quality of performance information depends on its relevance for policy and decision making purposes. Therefore, an important quality dimension of performance information, is the ability to track the priorities of government, as set out in legislation, policies or strategic plans. France’s performance budgeting system incorporates key national indicators of wealth and well-being into the structure of the budget using internationally comparable indicators (Box 9). Canada adopted a policy on results that put in place institutional frameworks that are intended to improve the quality of indicators, linking these to high level objectives and ensuring their relevance and reliability (Box 10).

Public disclosure of performance information can have a powerful motivating effect. When it enables comparisons to be made between regions, countries, ministries etc. this creates peer pressure, and competition to improve performance. Established global indicators such as the World Bank’s “Doing Business” indicators, OECD performance measurement standards education (PISA) and tax administration, Europe 2020, and the UN Sustainable Development Goals (SDGs), are all widely recognized benchmarks. Mexico’s performance evaluation system gives preference to indicators that can be tracked independently and aid international benchmarking (Box 11). The characteristics of good or SMART[[1]](#footnote-1) performance indicators are generally well known and need not be repeated in this paper. However, it is worth emphasizing that targets should be “relevant” in the sense that they will resonate with political leaders and the public, “achievable” in the sense that government spending should lead to perceptible change, and "measurable" in the sense that the systems exist to collect and report the data. Many OECD countries fall short of these standards. OECD survey results indicate that the poor quality of performance indicators and their lack of relevance in relation to national and sectoral policy objectives remain significant obstacles (see next section, Figure 9).

External review and validation of performance indicators, including by third parties, will help to ensure their quality and relevance. A number of institutions may be involved in this task. The Central Budget Authority should establish clear guidelines on the selection and use of performance indicators as part of the methodological guidance on performance budgeting. If there is a Performance Unit at the centre of government they should play a role in ensuring that the choice of performance indicators reflects government’s key strategic priorities. Experts should also be consulted as part of the process of establishing the performance framework for a program. As part of ex-post evaluation of programmes, evaluators should consider whether or not the performance indicators are the right ones to measure performance External audit should validate the reported results as measured by performance indicators and test the underlying information gathering systems to ensure the data is accurate and reliable. Finally other parties, including academia and civil society organizations should be given access to the data and encouraged to analyse and comment on it.

**Box 8:** **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.

**Box 9: France - Key National Performance Indicators and the Budget**

France offers an example of strong links between key performance indicators established at 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).

**Box 10: Canada - Linking Performance Measurement and Evaluation**

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. This policy created a distinction between departmental-level results – as summarized in a Departmental Results Framework – and the results of programmes in identified in a separate Programme Inventory. The Policy on Results also introduced a new role, the "head of performance measurement", as a counterpart to the existing ‘heads of evaluation’. Both the heads of performance measurement and heads of evaluation are tasked with providing advice on the selection of valid reliable indicators at the departmental and/or programme levels. Further, the Policy puts into place Performance Measurement and Evaluation Committees, chaired by the deputy head of each department, to oversee the performance measurement and evaluation functions. This focusing of expertise and effort at the indicator selection stage may help to ensure that the data being collected is, ultimately, useful for assessing performance and informing decision making.

**Box 11: Mexico - Performance Evaluation System (Sistema de Evaluación del Desempeño (SED))**

The Performance Evaluation System in Mexico is based on the Federal Law on Budget and Fiscal Responsibility (Ley Federal de Presupuesto y Responsabilidad Hacendaria 2006); SED requires a results indicator matrix for all budgetary programmes (Matriz de Indicadores para Resultados -MIR-), which defines the objectives and indicators based on the logical framework. This is a fundamental pillar of monitoring and evaluation. The MIR of a budgetary programme describes the programme goal according to the objectives and indicators of the sectoral programme to which it contributes, and deploys objectives and both strategic and management indicators.

In the selection of indicators, preference is given to indicators whose measurement can be carried out independently of the agency that operates the program. If available, internationally accepted indicators are also preferred. The composition of the MIR is analyzed and evaluated periodically, both in internal review processes and through external evaluations and citizen consultations, to ensure the relevance of its design, and of the goals associated with its indicators.

The number of budgetary programmes that are evaluated through performance indicators increased gradually over time to cover all programmable expenditure in 2016.

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# Best Practice 5

# Creating the Infrastructure to Support Performance Budgeting

• The performance budgeting methodology is supported by detailed guidelines and training of budget analysts.

* Performance budgeting is supported by a core team of specialists, within each ministry and in the central budget authority.

• Financial management information systems integrate non-financial performance data to generate reports that meet the varied needs of different users.

• The oversight role and capabilities of the legislature and the supreme audit institution are sufficiently developed in respect of performance budgeting.

The basic budget law or, in countries that do not have a basic budget law, budget regulations or standing instructions define the basis for budget appropriations and also the form in which the budget is presented for adoption by the legislature. Changes to such laws and regulations, requiring that the budget is appropriated on the basis of programmes rather than budget line items, provide a strong foundation for performance based budgeting. The Central Budget Authority needs to supplement this with detailed methodological guidance on how to develop budget programmes, sub-programmes and activities, define results, select indicators and set targets.

The 2016 OECD Survey of Performance Budgeting Practices, identified general resource constraints, capacity/training constraints and data availability as three of the top challenges (after lack of a performance culture) facing governments that want to implement performance budgeting (see Figure 9).

**Figure 9 -- Challenges to Effectively Implementing Performance Budgeting**

It is a challenging task to introduce and maintain a performance budgeting system and so, rather than including it in the regular business of the CBA, it is helpful to set up a central support unit, to serve as a centre of advice and expertise on performance budgeting, developing the methodology and providing training. Typically this unit would be set up within the main coordinating body responsible for programme budgeting, typically the Central Budget Authority, but sometimes within the president or prime minister’s office. To avoid the risk of isolating the reform effort it is important that the team maintains strong engagement with the other main stakeholders, and the unit should avoid carrying routine tasks such as scrutiny of budget submissions or performance reports that are the responsibility of the line ministry and the CBA.

Governments frequently underestimate the level of investment required to bring about the change. All the institutions involved in performance budgeting need training, including staff in the CBA, line ministries, officers in the parliament and auditors need training. A narrow focus on new procedures and formats to prepare budgets is insufficient, as developing good quality programmes and performance indicators and targets requires inputs from policy experts, programme managers and ministry leadership. A long term effort may be required to bring about a change in mind-set from a focus on compliance and spending, to a focus on performance. France’s performance budgeting reforms, centred around the Loi Organique Relative aux Lois des Finances, provides an example of a well-planned and resourced implementation process (Box 12). Australia’s PGPA Act of 2013 resulted in substantial effort to improve the government’s capabilities in respect of performance reporting through guidance and systematic lesson learning (Box 13).

Regular reporting and monitoring of performance is an essential part of the performance budgeting system, supporting accountability and enabling decision making. However, producing performance data and relating it clearly to budget expenditure is a challenging task. Government financial management information systems typically do not capture or report non-financial performance information, and the systems that do capture performance data are typically fragmented, slow to report and not linked to the budget classification system. Hence financial and performance data can only be related at a high level Canada’s Infobase System (Box 14), illustrates how expenditure and performance data can be linked systematically to improve the quality of reporting. Mexico’s Budget Transparency Portal (Box 15) and Ireland’s Portal for Public Performance (Box 16) also provide examples of systematic performance reporting. An important preparatory step is to develop common data standards that enable data to be consolidated across government.

A fundamental challenge for performance budgeting systems is to satisfy the varied data demands of different stakeholders, including the public, politicians, senior officials and programme managers. A single report that aims to be of equal use all these users will disappoint some, if not all, of them. It will generate too much information, much of which will be viewed as of little value. Ideally the performance budgeting system would provide separate reports tailored to the needs to different types of users:

• citizens seeking information about public service performance

• elected officials approving the budget decisions

• senior officials in central government responsible for delivering on priority government objectives

• programme managers trying to deliver services.

Australia’s Triangle of Better Use of Performance Indicators (Box 17) provides a conceptual framework to analyse the different levels at which performance information is useful in making decisions concerning management of resources.

Substantial investments are often required to upgrade information systems to support a performance budgeting system. Without timely reporting of performance data, integrated with financial data, performance budgeting will not be fully effective. Typically performance budgeting requires changes to the budget and accounting classification systems to accommodate budget programmes, new modules to capture and integrate non-financial data, and new financial reports to meet the varied needs of different users, including programme managers, senior management in line ministries, the CBA, legislators and the general public.

**Box 12: France - LOLF**

Franceprovidesan example of a comprehensive, well planned and well-resourced implementation of a performance budgeting reform. Performance budgeting was the centrepiece of an overhaul of the public financial management system, the LOLF (*Loi organique relative aux lois des finance*), 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 for the past ten years.

**Box 13: 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 program. 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.

**Box 14: Canada - TBS InfoBase**

Interactive infographics and data are helping Canadians to understand the federal government. The TBS InfoBase (<http://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 was 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.

**Box 15: Mexico - Budget Transparency Portal**

Since 2011, the Federal Government has a Budget Transparency Portal (Portal de Transparencia Presupuestaria -PTP-), which 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 can also be used by analysts and researchers. Mexico has been the first country to formally adopt the international open data standard promoted by the Global Initiative for Fiscal Transparency, Open Knowledge International, and the World Bank.

This strategy includes information accessible through the Internet site http://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 Organizations to promote the use of this information.

Thus, Mexico has made significant progress in the Open Budget Index of the International Budget Partnership; between 2006 and 2015, Mexico improved its score from 50% to 66%, ranking in the 16th out of 102 countries.

**Box 16: Ireland – IrelandStat, an Authoritative Portal for Public Performance**

The IrelandStat website (*www.irelandstat.gov.ie*) provides a useful “dashboard” of performance indicators for the Irish public service. Since it draws primarily from the estimates material, the dashboard has the advantage of showing resource information alongside performance information, thereby making technical budget data accessible to the wider public. Moreover, the site performs an additional useful function of collecting performance metrics from a wide range of public sources (annual reports, strategy statements etc.) which might otherwise prove burdensome to find.

**Box 17: Australia - Triangle of Better Use of Performance Information**

The Australian Department of Finance (Finance) summarises the hierarchy of the different level at which performance information might be useful in informing government decisions about how to allocate public resources. The four broad categories include information for accountability to the parliament and public, information for strategic decision-making to ministers, the Cabinet and governing boards, information for tactical or entity-based decision-making, and information for management/operational decision-making. This is summarised in the following figure:



This figure is in Finance’s Resource Management Guide 131 on Developing Good Performance Information. The level of detail required for performance information varies depending on the purpose for which it is used. For example, a finer level of detail should be available for tactical and management decision‑making, compared with a broader level of detail for accountability or strategic decision-making.

# Best Practice 6 Ensuring Systematic Evaluation and Oversight of Performance

• Senior management within line ministries, and programme managers, organize structured discussions to review financial and operational performance regularly throughout the year.

• Evaluations of the performance of all major spending programmes are carried out on a rolling basis and the findings are considered as part of the budget preparation process

• Performance targets set out in the annual budget are the subject of corresponding annual reporting on performance.

• The supreme audit institution carries out performance audits of important or high risk programmes and tests the relevance, accuracy and reliability of performance data.

• The budget and accounts committees of the legislature regularly reviews performance based budget statements and annual performance reports.

• Committees overseeing the activities of sector ministries conduct public hearings based on performance reports provided by government and performance audit reports and hold ministers and senior public managers accountable in the event of poor performance or misrepresentation.

 The time required for programmes to produce outcomes is generally much longer than the annual budget cycle. For this reason the process of ex-post evaluation is normally on a multi-year track, independent of the budget process. This aspect makes it challenging to ensure that the results of evaluation have an impact on future spending decisions. By the time the evaluation is carried out the civil servants responsible for the design of the original programme will likely have moved on and attention and energy may be focused on new policies and initiatives.

The policies, regulations or guidelines for performance budgeting should specify a requirement that all spending programmes should be evaluated on a rolling basis. Beyond that, direction of the evaluation process should ensure that high value, high risk and politically important programmes are prioritized. Canada’s approach to evaluation incorporates these elements and further requires that the rationale for the planned programme of evaluations is fully transparent (Box 19). 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 (see Figure 10).

**Figure 10 -- Governance of Performance Evaluations**

In OECD countries evaluations are mainly carried out by the line ministries (see Figure 11), 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. The extent to which ministries involve independent experts such as universities seems to depend on the culture of the individual ministry and even individual preferences. In place of a laisser-faire approach the Korean Government has institutionalized the in-depth evaluation process into the PB system (Box 18).

**Figure 11: Organizations Responsible for Conducting Evaluations**



Despite quite widespread use of both ex- ante and ex post evaluations evidence from OECD surveys suggests that that evaluations of all types have limited impact on budget decisions, with those led by line ministries and the CBA having slightly more impact than external evaluations (see Figure 12). However, it is possible that evaluation has an implicit impact, informing programme re-design, without specific reference to the budget. In Canada, ministries are encouraged to present evidence from evaluations as part of their budget submissions to the Treasury Board. The submissions include a section for ‘’evidence” where the findings of evaluations, studies, audit reports etc. can be presented.

**Figure 12: Assessed Usefulness of Different Types of Evaluation**

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.

As the official reviewer of how public money has been used, acting on behalf of the legislature, the supreme audit institution has a potentially important role to play in reviewing the performance budget and performance reports. However, this is an additional responsibility that also requires additional skills sets and it may take time for the SAI to create the capacity to undertake performance audits.

Parliaments play an important role in supporting performance budgeting, both as an advocate for transparency regarding the purposes and results of spending and also as a check on the executive branch of government, holding government to account for the results of spending through the work of those parliamentary committees that review accounts and the activities of line Ministries. The select committees in the House of Commons, supported by a specialized unit focused on scrutiny of expenditure and performance offer a good practice example of how the executive can be made accountable (Box 20).

#### **Box 18: Korea - In-Depth Programme Evaluations**

The programme evaluation process seeks to measure the relevance, efficiency, and effectiveness of a programme. Although ad hoc evaluation activities had previously existed in the central budget office to cope with major policy questions, there was no systematic or rigorous evaluation system prior to PB. Thus, the In-depth Evaluation of Budgetary Programme institutionalized the in-depth evaluation process into the PB system. Every year, an evaluation panel is created for each of the group of cross-cutting programme selected for evaluation. Panel members, selected for their expertise, mostly come from public research institutes and universities. With the support of the Ministry of Strategy and Finance and line ministries, the evaluation panel collects data, conducts surveys, analyses the data, and writes a report. Since many stakeholders are involved in any given programme, the evaluation panel holds frequent meetings to collect feedback. The panel submits their completed evaluation reports to the central budget office, who decides whether to reflect these results in resource allocation changes or programme consolidation. The in-depth evaluation results are reported to the meeting chaired by the minister of the CBA and line ministries are required to report back with their follow-ups. Between 2008 and 2012, 329 recommendations were produced from the in-depth evaluation. As of 2013, 166 recommendations have been finished with follow-up actions and 144 are in progress.

**Box 19: Canada - Transparency in the Evaluation Function**

The Government of Canada has had policies governing programme evaluation in its departments and agencies since 1977. The most recent, the Policy on Results, no longer requires comprehensive evaluation coverage of all direct programme spending every five years (as required by the Previous Policy on Evaluation). Rather, building from the premise that all spending and programmes should be evaluated periodically, departments build an evaluation schedule based on risk and other needs. Departments are required to make public not only their planned evaluations, but rationales for programmes and spending that will not be evaluated.

The Policy on Results has introduced other new elements into the federal evaluation function including the ability for the Secretary of the Treasury Board of Canada to initiate centrally-led evaluations and to set competencies for evaluation experts.

**Box 20: UK - 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.

# Best Practice 7Incentivizing Performance-oriented Behaviour and Learning

• Identified individuals and teams are responsible and accountable for the achievement of performance goals.

• Responses to programme performance emphasise recognition of successes, learning and problem solving in respect of under-achievement, rather than automatic financial rewards or budget cuts.

• The centre of government promotes a broader performance management culture that supports performance budgeting.

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 introducing performance budgeting may create the façade of such an ethos, the challenge has been to change deeply rooted attitudes and behaviours.

In practice performance budgeting is often characterized by formal routines to measure performance and disseminate the resulting data. Typically, this involves a large effort to develop the performance budget at the beginning of the year and then to produce the performance at the year end. In most cases, the only formal discussion of performance occurs in reviews of departments by central agencies, perhaps just once a year and these are usually only a small part of a general discussion of budget allocations. Such routines do not generate serious in-depth exchanges of ideas about how to actually improve performance, or bring together employees and stakeholders involved in different processes.

It is difficult to construct a culture that directs attention to performance if that culture does not already exist to some extent in the society. However, in practice performance reforms have rarely taken into account nuanced theories of human behaviour (Robinson and Brumby 2005); relying instead on ideas that are more intuitive: measurement of performance is a good thing, and performance data will foster its use (Van Dooren, Bouckaert, and Halligan 2008). The formality of performance reporting often creates a sense of performance as a make-work exercise that is separate from management and policy decisions.

Governments engaged in performance budgeting should think of themselves as investing in a process of long-term cultural change and professionalization. To bring about 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 governments in the UK and the USA. 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 organizations suggests that the data influences decisions most clearly in organizational cultures that value innovation and a willingness to take risks (Kroll 2015)—traits not inherently prized in budget processes. OECD survey data (Figure 13) lends support to the view that softer management type responses are more implementable than harder budgetary responses, such as reducing funding or axing a program. However, the survey also demonstrates that the overall level of responsiveness is low and the most common response is still no response, suggesting that there is plenty of scope for countries to do a better job in this respect.

**Figure 13 -- Responses to Poor Performance**

Evidence from country case studies shows that countries with the longest experience of performance budgeting, such as Australia, the Netherlands and the US have, to varying degrees, backed away from attempts to directly link increases or cuts in the budget to performance and have looked for other ways to use data generated by the performance budgeting system. Instead, the focus is on encouraging routine management use of performance and budget information.

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 to 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 21).

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 in Ireland. Also in Ireland, an annual agreement will be 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 its cross-cutting “Better Public Service Results Programme” (Box 22).

In the UK permanent secretaries have long served as departmental “Accounting Officers”, responsible as individuals for the efficiency, economy and effectiveness of money spent by their organization. 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 program, 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 organize 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.

**Box 21: USA - 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 COO 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 organize 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 analyzing 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 organization 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 organizations and programs 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 organization’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.

**Box 22: 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 program, with ten 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 receiving vaccinations 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. 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.

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1. SMART stands for Specific, Measurable, Achievable, Relevant and Timely. [↑](#footnote-ref-1)