Performance Budgeting – an International Perspective

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Introduction

- Performance budgeting now widespread internationally
  - Program budgeting is dominant system
  - But major design differences between countries

- Mixed experience
  - Some countries have seen real benefits
  - Many countries have been disappointed

- What are the objectives of PB?
  - Just encouraging better spending ministry performance?
  - What about better allocation of resources in the budget?

- Major design and implementation lessons to be learnt
PBB in France

- PBB Law passed in 2001
  - System came into full operation in 2006
- Program classification
- Program objectives and indicators
- Budget appropriations based on programs
  - Parliament determines spending on programs
  - Limited transfers without parliamentary approval
- Strategic planning and reporting program-based
  - Annual Performance Plans and Annual Performance Reports
Successes of French approach

- Promoted better performance
  - Spending ministries more focused on efficiency & effectiveness
  - Emphasis on performance management structures

- Links well with Managing-for-Results system
  - Strategic human resources management
Weaknesses/Failures of French approach

- Failure to sufficiently use programs in budgeting
  - PBB a tool for better planning & prioritization
  - Shift money away from low priority, ineffective areas
  - Difficult in France

- Failure to develop *evaluation* role
  - Assessing programs can’t be done just with indicators

- PBB documents too detailed & burdensome
  - E.g. far too many indicators
  - Paperwork criticism
PBB in Australia

- Programs in budget since late 1980s
- Revised system since 2009
- Programs not used for appropriations
  - “Global appropriations” system
  - Indicative program budget presented with budget
- Accounting & financial reporting on program basis
Successes

- Programs effectively linked to prioritization
  - Good system for reviewing expenditure
  - Identifying low priority, ineffective spending
  - Considerable flexibility to shift spending

- Performance-oriented management culture
  - Based on strong performance indicator system
  - Civil service reform & accountability
Failures/Weaknesses

- Failure to make evaluation work
  - Mechanical approach in 1990s, then abandoned
  - Until recently
- Failure to link strategic planning adequately to programs
  - Now being addressed
Program Performance Indicators & Evaluation

Getting program performance information right
Internationally, often the wrong type of indicators
- Few outcome indicators
- Too many activity and input indicators
- Output quantity indicators, but no output quality indicators

Failure to distinguish program vs management indicators
- Program indicators should be small sub-set
- Key outcome and output indicators
- Relevant to budget decision-makers and the community

Using indicators which are available, not those needed

Often far too many performance indicators in budget
- Far more than decision-makers can use
What types of program PIs?

- Ideal policy: four types of indicators
  - Outcomes
  - Output quantity
  - Output Quality
  - Output Efficiency
Often far too many program performance indicators
  ◦ Indicators intended to inform top decision-makers
  ◦ They can’t review thousands of indicators
  ◦ Program indicators ≠ internal management indicators

France:
  ◦ At peak, approx 1300 main program indicators
    • Almost twice as many including “sub-indicators”
  ◦ Present effort to greatly reduce
  ◦ Below 1000 in 2013 …. Will fall more

Australia
  ◦ Much smaller number reported in program reports
Evaluation

- Indicators often not enough
  - E.g. really distinguish outcomes from "external factors"
- Evaluation often essential to judging effectiveness
- Efficiency analysis to assess scope for efficiency savings
- However, evaluation often hasn't helped budgeting
  - Mainly management improvement focused
  - Even in countries like Chile and Canada
- Need to make evaluation serve budgeting
  - Choice of evaluation topics
  - Focus on the identification of savings
  - Information source for spending review
  - Major international trend
Impact on the Budget

Ensuring That Performance Changes the Allocation of Resources
PB too often a purely technical exercise:
- In generating performance information
- Budget classification by programs
- Performance indicators etc

And nothing changes
- No impact on budget allocations
- No impact on efficiency and effectiveness
- Performance information not really used

Contrast with successful countries

Why? What can be done about this?
Budget Process Reforms

- Systematic consideration of priorities as part of the budget process
  - In context of clear aggregate ceiling
- Uses performance information
  - Not just performance indicators
  - Taking into account past performance
- Process to identify cuts – "Spending Review"
  - Not only “priorities” – i.e. new spending
- Strong central processes/institutions
  - Political leadership closely involved
  - Strong technical/bureaucratic support
Spending Review (SR)

- Systematic review of baseline spending
  - Identification of savings options
  - Efficiency savings and/or strategic savings
  - Increases fiscal space
  - Tool for reallocation of resources

- Many OECD countries using SR after global crisis

- Principles for good spending review
  - Ongoing routine process, not just one-off
  - Selective, not comprehensive (no “zero base” review)
Existence of performance indicators doesn't guarantee they will be used
  ◦ Danger they'll be ignored during budget preparation

Need to introduce "performance dialogue" during budget preparation
  ◦ MOF discusses program performance with each spending ministry
  ◦ Draws conclusions about future funding
Implementation

Selected issues concerning sequencing and the assignment of roles and responsibilities
Overall timing of implementation

- Time taken depends on starting point
- Big bang – i.e. within a couple of years?
  - Requires very strong starting point
  - Generally unrealistic
- Gradualism has its dangers
  - Risk of loosing momentum
- An intermediate approach
  - France’s five year reform process
- Map out a clear timetable
Sequencing

- Financial Management Information System
  - Essential to be able to monitor budget execution by program
  - Absolute prerequisite before program-based appropriation
  - Doesn't necessarily require a new IFMIS
  - Can be achieved by modifying existing systems
  - Doesn't require large number of modules

- Gradualism in line-item decontrol
  - Essential that detailed line-item controls reduced substantially
  - PB won't work if old detailed controls retained
  - However, can't instantly remove 95% of controls
  - E.g. controls over items susceptible to corruption usually need to be maintained in the medium-term
Managing implementation

- Top political support for change
- Reform team/reform champions:
  - Within MoF
  - Initially separate from budget group?
- Involving other key players:
  - Other key central agencies
  - Parliament
- Involving the spending ministries:
  - Can’t just be top-down reform process
  - Success requires bottom-up commitment
Perils of Decentralized Implementation

- Inconsistent approach to definition of programs
  - Don't capture "big picture" of government priorities
- Program indicators are not the right ones
  - Spending ministries focused on internal activities and inputs
  - Typical African experience
- Evaluations serve only spending ministry requirements
  - Canadian experience
Costs of Excessive Centralisation

- Program structure imposed upon spending ministries
  - No "ownership"
  - Not used internally
- Evaluations not used
  - Only done because MOF requires
  - Australian experience in 1980s
- Performance budget largely a “form filling” exercise
- Over-prescription of management structures
  - The French approach
  - The approach of the Anglo-Saxon countries
  - Need for balance
Conclusions

- Get system design right
  - Keep it simple and sensible
- Get performance information right
  - The right indicators
  - Evaluation which is useful for the budget
- Redesign budget preparation process
  - To ensure that performance information is used
- Realistic implementation timetable
- Balanced assignment of central and spending ministry roles and responsibilities