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**PUBLIC GOVERNANCE AND TERRITORIAL DEVELOPMENT DIRECTORATE  
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**SUMMARY OF KEY FINDINGS FROM THE 2006 MEETING OF THE SENIOR BUDGET  
OFFICIALS (SBO) NETWORK ON PERFORMANCE AND RESULTS**

**DRAFT**

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*This document is submitted to the Public Governance Committee for written comments by November 21st. It also provides background information for the discussion on performance and results.*

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## **SUMMARY OF KEY FINDINGS FROM THE 2006 MEETING OF THE SENIOR BUDGET OFFICIALS (SBO) NETWORK ON PERFORMANCE AND RESULTS**

1. The recent meeting of the Senior Budget Officials Network on Performance and Results invited eight individual countries that have been working on developing and utilising performance information in budgeting processes for a number of years to present their experiences. These countries are Australia, Canada, Denmark, Korea, the Netherlands, Sweden, the United Kingdom, and the United States. The meeting examined how these countries use performance information (evaluations and performance measures) in their budgeting and management processes; the impact of performance information on budgetary decision making; the key challenges encountered; and the outstanding issues and lessons learned from applying this approach over many years. The key findings and recommendations below are based on country reports produced for this meeting, discussions by the network, and the results of the OECD 2005 questionnaire on performance information (PI).

### **KEY FINDINGS**

#### **The Trends**

2. OECD countries are continuing to move forward with initiatives to improve the use of PI in budgetary decision making. Despite the challenges they are encountering, countries are continuing in this direction and evolving their approaches, not discarding them.

3. The development and introduction of performance information into budgeting systems is a widespread and long-term trend. Nearly 75% of OECD countries include non-financial PI in their budget documents and over 40% introduced their first government-wide initiative on output measures over ten years ago.

4. There is no one model of performance budgeting. OECD countries have adopted a variety of methods and approaches, which can loosely be incorporated under the title of performance budgeting. Even within countries, the approaches adopted can vary by sector. Contextual variables – institutional, political and economic – not only explain the different approaches taken by countries but also influence the ability of these reforms to achieve their objectives.

#### **The Use of PI in Budget Processes**

5. Performance Informed Budgeting. There is a common misconception about how performance information is used by ministries of Finance and the extent to which programme funding is directly linked to performance. The current practice, on a government-wide scale, in OECD countries is not to automatically or mechanically link funding to results. It is questionable if such an approach is even desirable at this level given the technical issues and questions of incentive involved with adopting it.

6. When OECD ministries of Finance use PI, in the majority of cases, they engage in what we have termed performance informed budgeting. That is, they use PI in budget negotiations along with other information on fiscal factors and political priorities. It is one factor in the decision-making process and it is

generally used to inform- but not determine -budget allocations. The exception to this is direct formula performance budgeting, which is applied in limited sectors and countries.

7. PI as a signalling and monitoring tool: ministries of Finance rarely use PI in budget decision making to cut or eliminate programmes. Rather it serves as a means to monitor progress and to signal if a programme is performing poorly. In the case of poor performance it highlights the need to take further action in order to improve results or at least prevent future deterioration. Evaluations can provide explanations as to why a programme is experiencing difficulties and recommendations about what action could be taken to improve performance.

8. PI is more often used by spending ministries and agencies: Within government the most frequent users of PI are spending ministries and their agencies. They mainly use this information to manage programmes. The extent of use varies not only across countries but also within countries between ministries and agencies.

9. Across OECD countries, the extensive increase in the volume of PI has not been matched by a corresponding increase in use. There is an under-utilisation of PI in the budget process. Some countries that attended the meeting noted that, in practice, there was a limited use of PI by the ministries of Finance in budget decisions.

10. Countries' experiences have shown that having a procedure to integrate PI into the budget process is a necessary but not sufficient condition to ensure its use in budgetary decision making. Other factors that also influence use include:

- The institutional capacity of the ministries of Finance and spending ministries;
- The quality of the PI;
- The political and economic environment.

## **Results to Date**

11. The implementation of these reforms has provided benefits. In many OECD countries these include:

- A greater focus on achieving results in budgeting and management. Within government there is more communication based on the language of results.
- A mechanism which enables politicians and managers, if they choose to use it, to set and clarify objectives and to monitor progress towards achieving these goals.
- A larger emphasis on planning and a move towards an outcomes focus in policy design and delivery.
- Improved transparency by increasing the amount of information provided to the legislature and the public on the performance and results of the public sector.

12. PI has much potential if it is of good quality, relevant and timely, and if it is actually used to improve programmes. It can highlight what programmes are contributing towards achieving their objectives and help identify policies and processes that work and why. It can also highlight policies that do not work. These factors can help to improve operational efficiency. There are many examples of spending ministries and agencies using performance information to manage and improve programmes. While individual country examples can be found, across countries it is more difficult to pinpoint systematic use of PI on a government-wide scale by ministries and agencies to improve operational efficiency.

13. Many of the benefits of PI stem from the fact that PI is used for management and accountability purposes. Partially perhaps because the information has been under-utilised for a variety of reasons, direct benefits stemming from the use of this information in budgeting decisions are more nebulous. There are some examples of improvements in operational efficiency. In terms of allocative efficiency some countries have at various stages – generally during times of fiscal stress or abundance – used PI (mostly evaluations), as part of reallocation exercises.

14. In theory, performance budgeting can contribute to aggregate financial discipline, through improvements in operational efficiency. In practice, it has been difficult to find empirical data to support this thesis. Certainly, no country that attended the meeting perceived the improvement of aggregate financial discipline as the main aim of a performance budgeting system nor did any country provide evidence in support of its contribution to this objective. This is not to rule out the possibility that -perhaps combined with other reforms such as top-down budgeting and/or a medium term expenditure framework, PI can help ministers and agencies to control or reduce expenditures.

15. Despite these benefits for the majority of OECD countries, aspirations have not matched reality. As the theory of performance budgeting is intuitively appealing, it is easy to oversell and exaggerate its potential. In some OECD countries reformers have failed to learn from earlier incarnations of performance budgeting and have initially been over-ambitious and oversold the reform potential to administrative and political leaders. This has resulted in unrealistic expectations about the capacity of this reform to transform budgeting.

16. Countries' reactions have varied from those that have claimed that the reforms have gone too far and have called for a complete review of the system (for example, Sweden) or have already conducted such a review (the Netherlands), to those that have claimed that the reforms have not gone far enough. To date, however, no country has abandoned this initiative.

## **The Challenges**

17. Most OECD countries continue to struggle with these reforms. Some common challenges include finding appropriate ways to integrate PI into the budget process; gaining the attention of key decision makers; and improving the quality of the information. Although there are exceptions, most governments are finding it difficult to provide good quality, credible and relevant information to decision makers in a timely manner. They also continue to face the problem of providing incentives for key actors, especially politicians, to use this information in budgetary decision making.

18. Implementation challenges vary from perverse incentives to inertia. Some specific challenges relate to the approach that individual countries have taken to performance budgeting or to their particular institutional and political context. Countries at the forefront of using performance budgeting such as the UK and New Zealand, have sought to apply a target-driven system and/or to more closely link funding to outputs. They have encountered problems of perverse incentives and gaming, as have other countries in certain sectors where they have sought to tightly link programme funding to results.

19. For other countries the major issue is not too much change but too little. In these cases, over many years lip service has been paid to the reforms. Although performance budgeting has been enacted into law, in some countries the practice and behaviour have not been altered. Inertia has dominated as the reforms have never been fully implemented and/or incentives have not been provided to change behaviour.

## Moving Forward

20. The road from incremental budgeting towards results-based budgeting is proving to be long and difficult. In the governments of OECD countries, a great deal of the annual budget process remains incremental, and inputs still play a key role. Results information will never completely replace inputs. These reforms are, however, slowly shifting the thinking of decision makers at all levels – politicians, MOF, spending ministries and agencies, and the general public– towards a greater focus on results. The questions being asked are shifting from “how much money can I get to what can I achieve with this money.” There is a clearer understanding of the need to see public policy and government actions in terms of achieving results. As long as citizens demand results from their governments for their tax dollars, there will be a continuing need for performance information. A long-term approach and patience are necessary as countries continue down this road.

21. Countries are evolving their approaches to performance budgeting rather than abandoning it. The question is how far countries can go and how far they should go. As the budget in all OECD countries is developed and executed a political environment, rational decision-making with perfect PI is not an option. Countries that have attempted to apply this approach are increasingly adopting more realistic expectations.

22. Some countries are taking a more modest approach within the current system. They are aiming to get to a stage where information that already exists is improved and used more by relevant decision makers and in a more select manner. Others are seeking to adjust their budget systems in order to make planning and performance more central focus and to integrate them more closely in the budget process.

## GENERAL RECOMMENDATIONS AND GUIDELINES

23. The experiences of OECD countries that have been working on using performance information in budget processes for a number of years have provided some general insights that could be helpful to consider when designing, implementing or changing systems of performance budgeting.

### Designing Budget Systems that Use PI

24. **Importance of context:** There is no one approach to performance budgeting that can succeed in all countries; rather each model needs to be adopted to the relevant political and institutional context and be seen as part of a learning process.

25. **Importance of clarity of design and structure:** From the outset the main objective and the implementation strategy for achieving it need to be clear. There should be clarity of purpose and expectations. There also needs to be clarity in terms of who will use PI and how they will use it. PI needs to be developed with the end users in mind. Appropriate information should be provided to the different users at different stages of the budget process.

26. **Importance of having appropriate procedures for integrating PI into the budget process:** A vital factor in ensuring the use of PI is a method to integrate it into the budget process in an appropriate manner that helps achieve objectives. Countries have taken different approaches to integrating PI into the budget process. It can be part of the annual budget cycle and feed into decision making at different levels and stages of the process, or it can be part of a more long-term targeted approach involving expenditure prioritisation exercises.

27. **Importance of measurement:** It is important to measure what programmes and agencies are seeking to achieve. If it is not possible to measure how a program is performing, it is not possible to improve delivery.

28. **Importance of having a strategy to improve the quality of PI:** Regardless of the type of PI, most OECD countries have stressed that it takes time to develop good quality information. One factor that can help to improve the quality is having an independent element in the process. This independence can come from having independent agencies/individuals conduct or participate in evaluations or the collection of performance data. In addition, it is important to have an independent check or system to audit performance results data or processes.

29. **Importance of developing and using different types of performance information:** It is necessary not only to develop different types of performance information – evaluations and performance measures – but to understand the potential and limitations of each one. Performance measures provide a snapshot of performance in time – this does not provide an explanation for results. Whereas evaluations can provide more detailed understanding of the factors underlying results, it can be problematic to have a system that concentrates solely on one type of PI. Often there are separate systems and processes for collecting different types of performance information without a clear link between them. The different types of PI should feed into each other, and if possible be seen and used in conjunction with each other. For example failure to achieve a target could serve as a sign to conduct a more detailed review.

30. **Importance of having a strategy for getting politicians to use PI:** In terms of the provision of PI to politicians, there is not a supply problem - since large amounts of performance information is available – but rather a demand problem. The key issue is use. It is important to provide incentives to motivate politicians to use PI in decision making. To accomplish this goal, it is frequently a question of presenting the right information at the right time in a format that is clear and understandable for politicians.

### **Implementing Budget Systems that Use PI**

31. **Importance of finding an implementation approach that balances centralised and decentralised aspects** in a manner that is appropriate to the wider governance institutional structures: What role central agencies play and how centralised the implementation approach is can vary, according to, among other things, the wider institutional context, the approach to performance budgeting, the degree of centralisation of the administrative structure, and the relative power of the Ministry of Finance.

32. Whatever the implementation approach adopted, it needs to allow enough flexibility to take account of the differences in the functions performed by government agencies while ensuring enough uniformity in approach and presentation of performance data to enable some comparability. In addition, if the reforms are seeking to apply a management –by –results approach, it is vital that the agencies have enough flexibility to achieve their goals.

33. The experiences of OECD countries highlight that implementation approaches are not static and that countries have in practice altered their approach, either moving from a more centralised to a decentralised approach or vice versa. It has been a learning exercise and countries have evolved their method based on experiences of previous reforms or in reaction to changes in the wider political or administrative structures.

34. **Importance of leadership:** The support of political and administrative leaders is important to push the implementation of these reforms. In many countries politicians have an important role to play in terms of setting objectives and priorities for programmes and agencies, in promoting the development of PI, and in using this **information** in budgetary decision making. Strong leadership at the agency or ministerial level is vital to push the development and use of PI throughout the organisation.

35. **Importance of limiting the number of targets but using many measures:** Many OECD countries have experienced that it is better to have a few targets for which there are many measures than a leaguer number of targets only a few of which in practice end up being measured.

36. **Importance of consultation and ownership:** Country experiences have highlighted that centrally imposed goals and targets can generate problems among those responsible for frontline delivery. Depending on the nature of the incentive structure it can create issues of gaming, goal displacement or inertia. These experiences have stressed the need for consultation between the ministry or agency and those on the frontline responsible for delivering the target. This not only helps to possibly alleviate these problems but also helps to create ownership, which can motivate agencies and employees to achieve the target.

37. **Importance of considering how changes to budget rules and procedures can influence behaviour in both positive and negative ways:** Gaming is the norm in budgeting, and it pre-dates the system of performance targets. However, the introduction of a system that tightly links funding to performance results creates new rules and a new dynamic which can give rise to a different type of gaming. It is necessary to have a strategy which as much as possible expects and anticipates this behaviour and can use it to the advantage of the system. Given that it is not possible to predict all unintended behaviour, there is a need for capacity to adjust the systems and rules as they evolve.

### **Changing and Continuing with Budget Systems that Use PI**

38. **Importance of recognising the limits of PI:** There is no such thing as perfect government or perfect PI. In terms of systems for collecting and reporting on PI, there needs to be a consideration of the costs of developing and maintaining PI systems. There are costs both in terms of operational expenses and the time of civil servants. No OECD country has provided information on the total costs of developing and maintaining performance systems

39. **Importance of remembering that the journey is as important as the destination:** Many countries emphasised that this is a learning process. Part of the benefits of this approach come from reviewing existing systems, asking a different set of questions, and seeking to shift thinking and focus from inputs towards results. It is also a continuously evolving process – there is no end point and one will never get it “right” – because countries are adapting and learning from existing reforms and also because the issues that governments deal with and the operational environment within which they work are continuously changing.

40. **Importance of managing expectations:** Previous incarnations of performance budgeting in many countries began with expectations that were too high and unrealistic, ensuring disillusionment when the predicted results failed to materialise. It is important from the outset to manage expectations in terms of the length of time it takes for the reforms to produce results. There are no quick fixes. Some countries estimated that it took 3–5 years to establish a government-wide performance measurement framework.

41. Also there need to be realistic expectations of how PI will be used and what it will achieve. There are expectations that performance budgeting should enable governments to financially reward good performance and punish bad. While this is a simple and appealing idea, it does not take account of the fact that, the issues and context surrounding budget decisions are more complex. In most cases it is not clear that such an approach is even desirable. The more realistic expectation is that at best countries will engage in performance informed budgeting.

42. In addition, to succeed this reform needs politicians and civil servants to change their behaviour. Politicians are slower at changing approaches and methods, and are faced with different

incentives than civil servants. There should be a realisation that changing behaviour is more complex and requires a long-term approach.

### **Next Steps for OECD Work**

43. There will be a more detailed report including case studies of individual countries' experiences of developing and using performance information in the budget process and the lessons they have learned from adopting this approach over many years. The report will examine the design and implementation approaches taken by OECD countries, the different country approaches to integrating PI into the budget process, the impact and benefits, the ongoing challenges and the potential solutions.