

**Unclassified**

**GOV/PGC/SBO/A(2004)4**

Organisation de Coopération et de Développement Economiques  
Organisation for Economic Co-operation and Development

**29-Mar-2004**

**English - Or. English**

**PUBLIC GOVERNANCE AND TERRITORIAL DEVELOPMENT DIRECTORATE  
PUBLIC GOVERNANCE COMMITTEE**

**Cancels & replaces the same document of 12 March 2004**

**Working Party of Senior Budget Officials**

**PERFORMANCE BASED BUDGETING: DIRECTLY LINKING FUNDS APPROPRIATED TO  
PERFORMANCE**

**AGENDA**

**31 March 2004**

For further information or questions about the meeting please contact Teresa CURRISTINE:  
E-mail: [teresa.curristine@oecd.org](mailto:teresa.curristine@oecd.org); Tel: +33 145 24 18 52.

**JT00161062**

Document complet disponible sur OLIS dans son format d'origine  
Complete document available on OLIS in its original format

**GOV/PGC/SBO/A(2004)4  
Unclassified**

**English - Or. English**

**PERFORMANCE BASED BUDGETING: DIRECTLY LINKING FUNDS APPROPRIATED TO PERFORMANCE**

**Wednesday 31 March 2004**

9:30 – 9:40      **Opening remarks**

9:40 – 10:00    **Session 1: Introductory Session**

This session will provide an overview of the different applications of budgeting and directly linking performance to appropriations. It will address the question what is performance based budgeting? What are the different methods used to directly link funding of a particular programme/institution to performance results? In what areas/sectors is it applied?

10:00-11:15    **Session 2: Country Presentations and Discussion**

This session will examine individual country cases of implementing this form of budgeting in the different sectors. This will address issues about criteria for choosing programmes/activities for this form of funding; the design of the funding schemes; the short- and long-term implementation challenges and what have been the consequences of this to approach to funding in terms of performance and cost effectiveness.

**By Norway and Denmark**

11:15-11:45    *Coffee Break*

11:45- 13:00    **Session 2 (continued)**

**By Chile and Sweden**

13:00 – 14:30    *Lunch*

14:30 – 16:00    **Session 3: Country Presentations and Discussions**

**By Finland and Netherlands**

16:00 – 16:30    *Coffee break*

16:30 – 17:45    **Session 4: Discussions on General Lessons Learned from Country Presentations and on Taking this Project Forward**

This session will discuss general lessons learned from country presentations and will gather proposals as to how detailed field-work can be done both directly by the Secretariat and by participating countries.

17:45            **Concluding remarks by the Secretariat**

*The Secretariat will organise a no-host dinner at a local restaurant*

## BACKGROUND NOTE

At the request of some member countries, and with financial support from Norway and Denmark, the OECD Secretariat is establishing a sub-project to the wider project on performance-based budgeting and management, which will examine forms of performance-based budgeting in which the amount of appropriated funds is directly linked to anticipated output production.

This is rarely, if ever, a whole-of-government approach to budgeting. Rather it is a form of budgeting that is used in some countries to fund certain sectors or programmes, for example in education and health. This form of performance budgeting can be implemented through different methods. The two main approaches are contracts and formulas; however, within these approaches there are variations.

For some programmes, appropriations are based on contractual arrangements between the agency carrying out the task and the parent minister or department. This can be referred to as a system of “contract” budgeting (though within governments these contractual arrangements tend not to be legally binding). The contractual arrangements would specify the degree to which a task is to be delivered and thus how much should be paid out to the agency in question. To be considered a direct performance contract, an agency’s appropriations need to be directly linked to agreed performance standards or outputs.

In the “formula” approach, performance indicators or mathematical algorithms determine the amount of appropriation in the budget and/or the real execution of the expenditure in the budget year. There are different ways of using formulas, for example funds can be appropriated based on predictions of future performance or based on the previous year’s performance. In the latter case the degree of accomplishment of pre-defined output/intermediate results or outcomes targets in the previous year determines, through a formula, the amount of appropriation for the next budget year. An example in higher education would be the number of students that graduated with a master’s degree releasing funding for the university that ran the masters programme.

Another option is that the achievement of a pre-defined quality standard, measured by formula determines the amount of appropriation. For example, in the health sector data on the number of cases or health problems (diagnostics) that will be resolved during the budget year and pertinent data on unitary cost can determine through a formula the amount of appropriation (known as DRG, Diagnostic Related Group). In this case forecasts of performance in the upcoming budget year are used in the preparation of the budget process and performance measurements determine the real execution.

From the standpoint of this method of funding government organisations earn rather than receive appropriations so that incentives and accountability mechanisms can be built directly into the budgeting system. The theoretical advantages of such a rational and transparent approach to appropriation – compared with the messiness of the normal contestation for and allocation of resources – are evident. However, in practice there appear to be a limited range of public activities to which the techniques can be applied, and even in those areas, a number of challenges to overcome for formula-based budgeting and contract budgeting to work properly. The problems with measuring performance in a precise and adequate manner have been well documented. However, these problems are particularly acute when performance is used as the basis for funding decisions. Furthermore, dealing with the consequences of a low performance and controlling expenditures are other challenges facing OECD member countries wishing to experiment with this kind of performance budgeting.

### ***Objectives of project***

This project aims to analyse the challenges and opportunities of direct performance-based budgeting concentrating on formula based budgeting and contract budgeting. To this end, the project will seek to:

- gain information on how widespread this form of budgeting is within OECD member countries;
- develop a clear typology/classification of performance budgeting;
- analyse the challenges and opportunities of formula-based budgeting and contract budgeting both in terms of design and implementation.(This will involve some field work for an in-depth examination of the operation of such techniques in at least two member countries);
- produce recommendations on when it is appropriate to adopt this approach to budgeting, and to implement it;
- produce a “practitioner friendly” report on the findings of the project.

### **Expert meeting**

This meeting will discuss countries’ different approaches and experiences of this form to budgeting.

The expert meeting has three main objectives:

- to introduce this project, to establish working definitions; and to gather preliminary data on how widespread this form of budgeting is within OECD member countries;
- to discuss some case study experiences to gain an understanding how this form of budgeting is applied in OECD member countries and in what sectors;
- to gather proposals as to how detailed field-work can be done both directly by the Secretariat and by participating countries.

### ***Format of discussions***

Each session at the meeting will consist of two country presentations (about 15 minutes each), followed by comments by a lead discussant and by an open discussion among all participants.

### ***Participants***

The participants at the meeting will be high-level government experts from OECD member countries.

### ***Chair***

The meeting will be chaired by Alex Matheson, Head of the Budget and Management Division, of the Directorate for Public Governance and Territorial Development, OECD.

### ***Organisation***

The meeting will take place at OECD Headquarters in Paris (2, rue André Pascal, 75016. Metro: La Muette/Boulaivilliers). Please note that security formalities at the entrance to the OECD may take 10-15 minutes.