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**PUBLIC SECTOR MODERNISATION:
GOVERNING FOR PERFORMANCE**

**Performance Information in the Budget Process
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For further information, please contact Teresa CURRISTINE:
Tel: +33 1 45 24 18 52; E-mail: teresa.curristine@oecd.org

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PUBLIC SECTOR MODERNISATION: GOVERNING FOR PERFORMANCE

Introduction

1. Performance – improving it and measuring it – has been a central issue for governments for at least half a century. Over the past two decades, improving public sector performance has taken on a new urgency in OECD member countries as governments face economic recession, mounting demands on public expenditure, calls for higher quality services, and in some countries a public increasingly unwilling to pay higher taxes. These pressures have been accompanied by calls for more government accountability.

2. This paper looks at the development of performance- and results-based management in OECD member countries from the perspective of a wider view of government performance, and identifies the strengths and the limitations of current approaches.

What does performance mean for governments?

3. “Performance” is one of those words which sounds very precise, but covers many different things.

4. Performance means the yield or results of activities carried out in relation to the purposes being pursued. The objective of the approaches we describe under the general heading of “Governing for Performance” is to strengthen the degree to which governments achieve their purposes.

5. Is the desire to improve government performance something new? Of course not. Governments have always wanted results from their spending and regulation. What is new is that increasingly governments have come under overall spending constraints which mean that with no new money to spend; more attention must be given to getting better results from existing funds. Also new ideas have emerged about how to re-organise and better motivate public servants to achieve results.

6. In the traditional public sector bureaucracy, performance was driven first and foremost through the transcription of policy into law and regulation, secondly by systems for ensuring those regulations adhered to-internal supervision and external inspection, and finally – but importantly – through the internal and cultural motivation of the officials concerned. This approach could and did work very well in many instances. However, in the absence of good leadership and a result-oriented culture, such a management system can deteriorate through employees becoming more focused on rules than purposes, and by having weak incentives to use funds efficiently to achieve purposes.

7. The new ideas on how to motivate public servants to be more performance oriented, have come from many different sources:

- *Management* especially leadership, strategic planning, strategic management business planning, performance management, and performance pay.

- *Accounting and audit* – the formalisation of targets and result information into the information architecture of the internal budgeting, management and oversight processes of government. This includes performance budgeting, reporting, and auditing in terms of outputs and outcomes, activity-based costing, and performance auditing.
- *Social sciences* – the use of surveys and other tools to assess the impact of policies on individuals and communities in order to improve policies. This includes evaluation particularly, but also the use of social indicators in the governmental process.
- *Economics* – attention to improving performance by aligning the incentives of “principals and agents”, reducing information asymmetry, recognizing transaction costs and creating competition. This includes contracting (internal contracting as well as contracting out), some forms of structural change (e.g. splitting policy, delivery and regulating), out-sourcing, and the focus on the incentives of boards and senior managers.
- *Commerce* – mainly the idea of looking at the recipients of services as “customers” and at performance in terms of the quality of services provided to customers, measured by their level of satisfaction.
- And finally from evolving thinking about government – especially the idea that the performance of government will be improved if the public is provided with information to assess performance and if the public gets involved in defining what constitutes good performance.

8. This variety of ideas informing the movement towards improving public sector performance is a rich, but confusing resource. Not only has each of the approaches above different strengths and weaknesses, but the appropriateness of their use varies with the main purpose they serve.

9. Performance information can be important for governments. In assessing and improving policies (evaluation and indicators especially):

- in managerial analysis, direction and control of public services (leadership, strategic management, performance management, performance budgeting and management, contracting, and structural change);
- in Parliamentary oversight of the Executive (performance and value-for-money auditing, performance budgeting and reporting);
- for public “accountability” – the general duty on governments to publicly disclose and take responsibility for their decisions.

So why not do it all?

10. It is tempting to think that the more use one makes of all of the potential performance enhancing devices listed above, the better. This is not so.

11. *People are not machines*: Formal systems of management and control are of value only insofar as they assist in creating internal motivation in public officials. Good management seeks to maximize the internal motivation of staff, and to minimize the need for formal management controls. These controls are expensive to operate and at a certain point formal management systems reduce internal motivation.

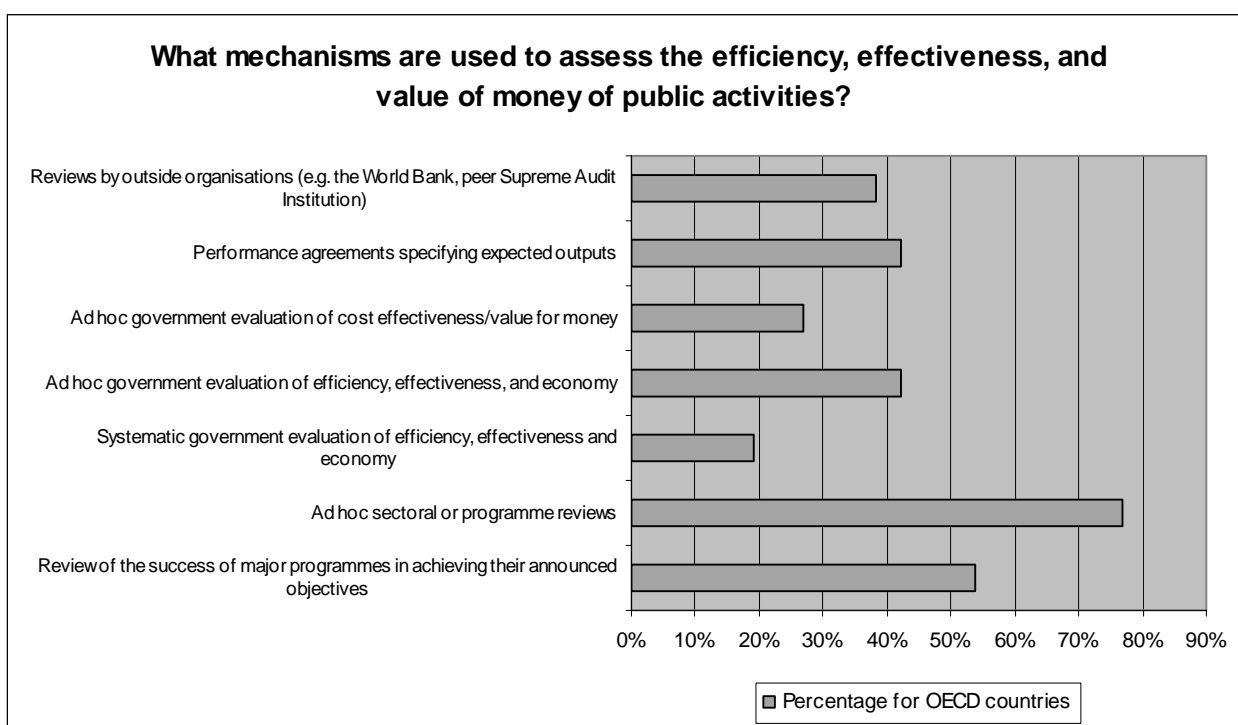
12. *There are limits to how much information decision-makers can make good use of:* People have “bounded rationality” and so do organisations. Decisions are taken by busy, often distracted ministers and senior managers who operate under complex political and managerial incentives. Providing them with more information, does not necessarily help their decision-making.

13. *Public sector performance information is complex and expensive.* The potential information that could be collected on public sector performance is limitless and prohibitively expensive. Any formal system of gathering such information must of necessity be highly selective. Complex areas of government are primarily managed by the creation of a professional culture. Performance targets and information are of value only insofar as they strengthen the performance orientation of that culture.

14. *Finally, performance is not a government’s only interest.* In carrying out their functions governments must act in ways which are designed to protect certain underlying governance values (for example fairness, equity and public interest orientation). The process of government is of key importance in maintaining public confidence that these values are being protected. Performance is important only up to the point that it is not the expense of undermining public confidence in the governmental process. (Public intolerance of high performance bonuses for public servants is a case in point).

What are the different formal approaches to performance?

15. The following graph shows the degree to which OECD member countries currently use different formal approaches to improving performance:



Source: OECD/World Bank Budget Practices and Procedures Database, 2003.

Planning and management approaches

16. The move to formalizing targets and measures in government got off to a bad start. In the 1950s and 1960s, there was a strong trend towards centrally planned and measured approaches to government. In some countries this took the form of very detailed multi-year national planning systems. In the United States, less ambitious, about the role of government, it took the form of the Planning Programming Budgeting (PPB) Systems. Both systems ultimately failed because they were too rigid to take account of uncertainty and unpredictability, and too formal in that they did not recognize the limitations of formal systems in influencing peoples' behaviour.

17. Public sector performance oriented reform has had a revival over the past two decades. This time, learning from the failure of central planning, the approaches adopted within government ministries in a number of OECD member countries were: strategic planning (focuses on goals but does not try to be precise on how to get there); strategic management (how to adapt to new circumstances while still remaining focused on the main goals); mission and vision articulation – a process aimed at aligning the hearts and minds of staff with organizational goals; performance management (which seeks to align the individuals' direction and incentives with the organizational goals) and more recently leadership; (enhancement of the capacity of certain individuals to touch the internal motivation of staff in support of organizational purposes.

18. Within public service agencies, these approaches to strengthening performance are now of well proven validity, and they remain the most important and fundamental steps to be taken in moving organizations to become more performance oriented.

Evaluation and performance auditing

19. A feature of public management in the latter part of the 20th century has been the growing ambition of governments in what they want to achieve and the growing complexity of their societies. In these circumstances it became increasingly difficult to know whether policies were achieving their objectives.

20. It was in response to this problem that evaluation came into use in many governments. Particularly in its initial stages, evaluation was the independent application of social science tools to assess the impact of public policies on groups in society, with a view to changing public policies accordingly.

21. It was in response to the same circumstances that parliaments began to be more interested in whether programmes were working or not, and more particularly, in whether funds were being well spent. Thus increasingly, supreme audit institutions undertook value-for-money (VFM) and other performance oriented audit activities.

22. The evaluation based performance assessments and the audit-based performance assessment processes began to converge with the establishment in some countries, (notably in Canada) of "comprehensive" auditing – both internal and external. There was also from the mid-1980s to the late 1990s, a move in a few countries, (Australia was the most ambitious) to take evaluation from being a periodic external input to the policy process to institutionalise it in the policy, budgeting, and management cycle. Thus in Australia, it was mandated that all government programmes be internally evaluated on a regular basis, and that the evaluations be made widely available.

23. Evaluation remains important especially at the sectoral level, but this approach at integrating evaluation into the whole of government performance management cycle did not endure. In a number of countries it came to be regarded as an expensive exercise which did not yield the hoped for improvements in policy and managerial decision-making. The fundamental reasons for the failure of this approach lay in the constraints on the use of formal performance information in decision-making listed above.

24. The OECD, which during the 1990s did considerable work on evaluation, produced “Best Practices” in 1999 which were aimed at addressing the fact that institutionalized evaluation across government as a whole, had not lived up to expectations. Important issues raised in this work were: the desirability of engaging the Ministry of Finance, the need for evaluation to become “an integral part” of the budget process and the performance management system, the need for evaluation to be demand rather than supply driven, and the need for monitoring and follow-up.

25. The external audit of performance, pioneered in Canada in the 1970s has also not lived up to its early promise as a whole of government performance assurance system. Such auditing has been and is an important part of the supreme auditors role, but the complexity of government activity, and the difficulty and expense of this kind of review has meant that such audits could never hope to provide systematic coverage of government activity. Performance and VFM audits continue to be highly selective and to cover only a very small portion of total government activity.

Performance Budgeting Management and Reporting

26. The strongest current performance oriented trend across OECD member countries is performance-oriented management, budgeting, and reporting. The key ideas currently in use originated in the work of an academic accountant in the mid-1980s. This writer, Ramanathan, who studied the management of non-profit organizations, observed that all of the formal management information and control processes of such bodies were internally focused. They dealt mainly with accounting for funds and compliance with process. For such organizations the only way to find out if they are achieving their purposes, was to engage in an external process – evaluation. Which with very little use of the organizations own management information, would provide an opinion on programme effectiveness.

27. He argued, why not bring information about the services delivered to the outside world, and information about the impact of those services, into the internal management systems of the organization? He proposed the information be classified as costs, inputs, outputs, outcome indicators, leading to an overall cost benefit judgement. This way information on efficiency and effectiveness could be taken into account as an integral part of the normal management process and not as a periodic *ad hoc* external intervention.

28. The application was to provide a richer source of management information that would allow analysis of, for example, the relationship of inputs (*e.g.* professional staff) to outputs; or the cost of inputs, or it could also facilitate an overall judgement on whether the total effort expended was worth it in the light of the evidence that outcomes have been influenced.

29. This model did not suggest that organizations could be *managed* by outputs and outcomes – only that internalizing information on this would be helpful to analysis and decision-making. However the model was operationalised by some governments more ambitiously. It was a very attractive idea to governments because if it could be successfully implemented, this approach to managing performance could solve the problems encountered in the attempt to institutionalize evaluation across government. It also offered the prospect to legislatures, not only to get more complete information on government performance, but, insofar as performance formed part of the budget estimates, to have a role in defining what the desired governmental performance might be. For auditors the new architecture offered the possibility that they could audit performance information, in the same systematic way as they audit financial information. High hopes indeed...

Box 1. Performance Management and Performance Budgeting

Broadly, performance management covers corporate management, performance information, evaluation, performance monitoring, assessment and performance reporting. In the context of the new performance trend however, a stricter definition is a management cycle under which programme performance objectives and targets are determined, managers have flexibility to achieve them, actual performance is measured and reported, and this information feeds into decisions about programme funding, design, operations and rewards or penalties. (OECD, *Governance in Transition*, 1995).

Results/performance based budgeting too is subject to diverse interpretation. It can be broadly defined as any budget that presents information on what agencies have done or expect to do with the money provided. (Allen Schick, *The Performing State*, GOV/PUMA/SBO(2003)17). In this case it can simply refer to performance information presented as part of the budget documentation or to a budget classification in which appropriations are divided by groups of outputs or outcomes. A strict definition of performance based budgeting, however, is a form of budgeting that relates funds allocated to measurable results. These results are measured in the form of outputs and/or outcomes. Resources can be related to results either in a direct or indirect manner.

Indirect linkage means targets being actively used to inform budget decisions, along with other information. Performance information is very important in the decision-making process but it does not necessary determine the amount resources allocate

Direct linkage involves the allocation of resources directly and explicitly linked to units of performance. Appropriations can thus be based on a formula/contract with specific performance or activity indicators. This form of performance budgeting is used only rarely and in specific areas in OECD member countries.

What are the diverse country approaches to implementing performance budgeting and management?

Different Phases

30. New Zealand and Australia were the first to begin the present round of performance management and/or budgeting in the late 1980s, followed in the early to mid-1990s by Sweden, United States, Finland, United Kingdom, Denmark, Netherlands, Canada and France. A further phase began in the late 1990s to early 2000s Austria, Switzerland, and Germany introduced versions of these reforms. Ireland has recently begun a pilot phase of performance management.

31. Countries approaches to performance management are constantly evolving. For example Australia, Netherlands, and New Zealand began by concentrating on outputs and are now moving to an outcomes approach. Australia and the Netherlands are changing their accounting and budgeting systems to focus on outcomes. France recently passed a law, which requires the production of outputs and outcomes in budget documentation for the majority of programmes.

Various objectives

32. It is possible to discern four broad objectives for which counties have adopted the formalisation of targets and measures in the government management process:

1. Managing the efficiency and effectiveness of agencies and ministries and/or the internal control and accountability within individual ministries.
2. Improving decision-making in the budget process, and/or in the allocation of resources and accountability of ministries to the Ministry of Finance.
3. Improving external transparency and accountability to Parliament and the public and to enhance the clarity of the roles and responsibilities of politicians and civil servants.

4. Achieving savings.

33. Some countries have give attention to one or two of these objectives only. Other countries (New Zealand, Netherlands, United States, Australia, Denmark, and United Kingdom.) have embraced all four objectives seeking to introduce performance-based management and budgeting across central government and to improve both performance and internal and external accountability to the legislature and the public.

Various Approaches

34. In some countries (the United States is a good example) ministries have developed strategic and performance plans, which include performance targets. Other countries have adopted performance agreements either between a minister/ministry and a subordinate agency, or between a minister and a department. Such agreements can also be between the Ministry of Finance and a ministry or agency.

35. For example in New Zealand there are purchase agreements between the minister and the relevant department which set out the agencies' agreed outputs. There are also formal performance agreements between ministers and chief executives of the departments. In the United Kingdom, ministries approve agencies' annual business plan, which establishes performance goals and targets for the coming year. There are also performance agreements between departments and the Treasury stating agreed objectives and targets. In Australia there are resources agreements between the Department of Finance and the relevant departments and agencies. In Denmark, there are performance contracts between ministries and agencies and between chief executives and ministries. These include links to performance-related pay.

Implementation – to test the water – or to dive in?

36. Some countries have adopted a slow incremental approach. For example, the United States had a four-year pilot phase before the government-wide implementation of the Government Performance and Results Act. Other countries have chosen an incremental approach with allow agencies to voluntarily participate in these reform and without moving towards total implementation across government. Germany and Ireland both use pilot schemes.

37. Australia, New Zealand United Kingdom and the Netherlands have taken a top-down and total system approach to implementation. Others, Finland in particular, have taken a more bottom-up and *ad hoc* approach where agencies have been given freedom to develop their own method with less enforcement from the top.

What is the current state of play?

38. Despite the differences in approach, a common trend in OECD member countries is introducing a focus on measurable results in management and budget processes. This section examines the current trend in performance management and budgeting in OECD member countries using data obtained from the *OECD/World Bank Budget Practices and Procedures Database 2003*. Twenty-seven out of 30 OECD member countries responded to this questionnaire, all answers are self-reported.

Performance Information and targets in budget documentation and the budget process

39. Among OECD member countries there is a strong trend of routinely including non-financial performance information in budget documentation.

- 72% of countries include performance data in their budget documentation.

- In 44% of countries this data is available for more than three-quarters of programmes.
- In 71% of countries, performance data includes performance targets although there is a wide variation in terms of programme coverage.
- In 65% of countries these results are included in the main budget documents and/or the annual financial documents.

40. While the introduction of performance information into budget documentation is becoming common, it has not been embraced by all OECD member countries. Over a quarter of countries that responded to the survey do not include any non-finance performance data in their budget documentation. Iceland includes performance data but not performance targets.

What are the current trends in performance budgeting?

41. The inclusion of performance information in budget documentation could be described as performance budgeting in the broad sense; however, it is not performance budgeting in the strict sense. We surveyed the degree to which countries apply performance budgeting in the strict sense. This requires not only that performance against these targets be reported, that programme expenditure be linked to outcome/output targets, but also that performance results are used in decision making on resource allocation in either an indirect or direct manner

42. Seventy-two percent in OECD member countries routinely display targets in budget documentation given to the Ministry of Finance. Of these, 52% (12 countries) have targets agreed as part of the budget process. In Norway, Finland, Netherlands, New Zealand, and the United States, targets are formally set by the minister but also agreed with the Ministry of Finance as part of the budget process. In only nine countries are the results against set targets presented to the Ministry of Finance annually.

43. The linking of expenditure to output and outcome targets is not common among OECD member countries.

- 46% of countries either do not link expenditure to targets or only do so for a few programmes.
- 35% of countries reported that they link expenditure to some targets.
- Only 19% of countries reported that they specifically link expenditure to all or most of their output or outcome targets, this includes the Netherlands and New Zealand

44. A mixed picture emerges with regard to the use of performance results in determining budget allocations, with over 31% of countries stating that performance results are not used for this purpose. Forty-two percent claimed that performance results are used by the Ministry of Finance to decide funding between programmes. However, it is not clear in what manner such information is used or the weight given to it in decision-making. In many cases it could only play a minor role. This makes it difficult to evaluate if in some countries this information is used in an indirect manner although given the weak trend in terms of linking targets to expenditure it is likely to be case in only a few countries.

45. Nor is it common for politicians to use performance results in allocating resources between programmes or in any sort of decision making. Forty-two percent of OECD member countries reported that it was not common for politicians in the executive or the legislature to use performance measures in any decision making. This includes countries that have long experience of this area such as Canada and the United States.

46. It is apparent that very few countries engage in any form of direct performance budgeting, since many countries do not even link expenditure to output and outcomes targets let alone make the appropriation of funds an explicit function of performance. This form of budgeting is only applied to a limited number of functional areas in and a few countries.

47. Very few countries appear to have formal mechanisms in place that relate the success or failure in achieving a target to the reward or punishment of individuals or agencies.

- In 46% of OECD member countries there are no rewards or sanctions applied if a target is met or not met.
- 65% of countries do not link performance against targets to anyone's pay.
- In only 11% of countries is it claimed that performance against targets is always linked to anyone's pay.

48. In 23% of countries pay is sometimes linked to performance (including Australia, Norway, and Belgium). In all these cases performance is linked to the pay of a civil servant or a number of civil servants. For example in the United Kingdom, performance against organization targets is link to the pay of agency's chief executive.

49. Some OECD member countries have actively attempted to integrate performance targets into the overall budget process, but very few can be said to be carrying out real performance budgeting.

What are the current trends in performance management?

50. Countries have made greater progress in implementing performance management reforms than performance budgeting. This section examines if OECD member countries have a system of performance management which incorporates the setting and reporting of targets and their subsequent use in the internal decision-making process of ministries and agencies.

- In 67% of member countries the relevant minister or the head of department is formally responsible for setting performance targets.
- In a 56% of the countries performance against targets is continuously monitored internally in the relevant ministry.
- In 72% of countries performance against targets is reported in a systematic annual reports for some or most programmes

51. Performance results do appear in a number of countries to feed into decision-making processes. In nearly 50% of countries performance results are used internally within agency/ministry to set programme priorities, to allocate resources within programmes, and to change work processes. It is used by the parent ministry in around half of countries to set programme priorities and in over a third in adopting new programme approaches. The purpose for which this information is used the least is in setting individual staff performance plans.

52. While this information is used in decision making process it is not clear in conjunction with other types of information and how much weight performance results has compared to these other types of information.

53. This data highlights that around 50% of countries reported having a system of performance management. However, within a country, the number of programmes and agencies to which performance management is applied varies. The Netherlands, Australia, Norway, the United States, and New Zealand have taken a comprehensive approach and it is applied to nearly all ministries and agencies. In Canada, Belgium and Germany it is only applied in around a quarter of programmes.

54. The introduction of outputs and/or outcome targets as a system of management control requires relaxed input controls in order to give managers the freedom to use resources to achieve results and improve performance. To what extent has this trade-off between performance and controls been achieved in practice? In terms of the whole-of-government control processes the information gathered on this from the OECD Budget Survey, does not provide much evidence that this trade-off has occurred.

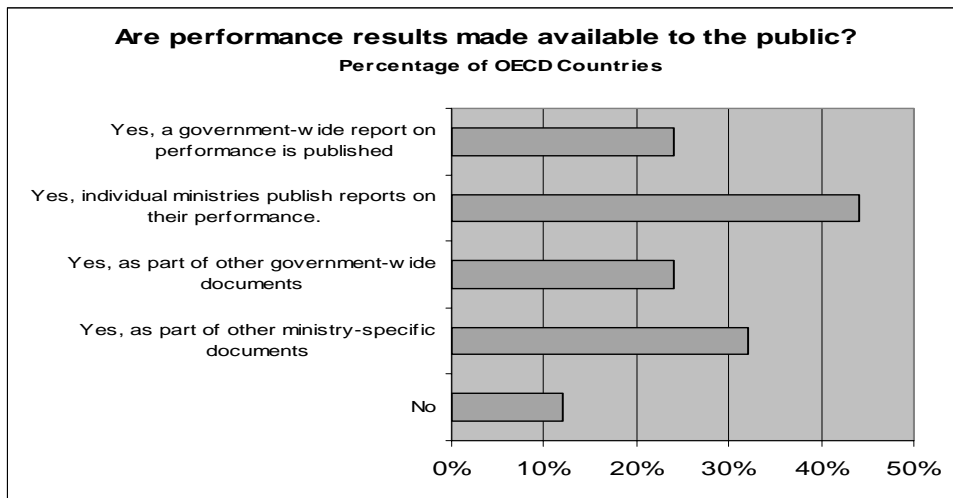
55. Among countries with long experience of introducing performance indicators into budget and management systems, there is a large variation in terms of the degree of relaxation of input controls. Australia and the Netherlands appear to have extensively relaxed central controls. Others such as New Zealand, Denmark, and Norway have also made substantial moves in that direction. However, in some countries, for example the United States, the introduction of performance indicators in management and budgeting does not appear to have been accompanied by a relaxation of central input controls.

56. Countries like Sweden and Finland register a high degree of management autonomy. This is to be expected given their long tradition of agencies. Equally, given that performance budgeting is a centrally driven device they have only a moderate level of formalisation of performance indicators in their budget system. It is of interest that Australia, the country which shows strongest trend of substituting input controls for performance controls, is, according to recent advice from the Department for Finance and Administration, finding the current reporting from departments insufficient for whole-of-government purposes.

57. There is an assumption that formalized performance information could provide a basis for control which would allow a relaxation of input controls, thus giving managers greater freedom to use resources to achieve targets. This is certainly the case at the individual or unit level – managing a person or a division mainly on the basis of what gets done, works best with a relaxation of other controls. However, our work does not show the same result for control at the whole-of-government level. Why is this so? One supposition is that at the individual or unit level, performance based management works well when accompanied by more interaction between manager and staff member, *i.e.* any reduction of formal controls is substituted for by informal control. Whole-of-government control however, does not lend itself to greater use of social control. Perhaps the current enthusiasm to improve “leadership” across government is an attempt to rectify this.

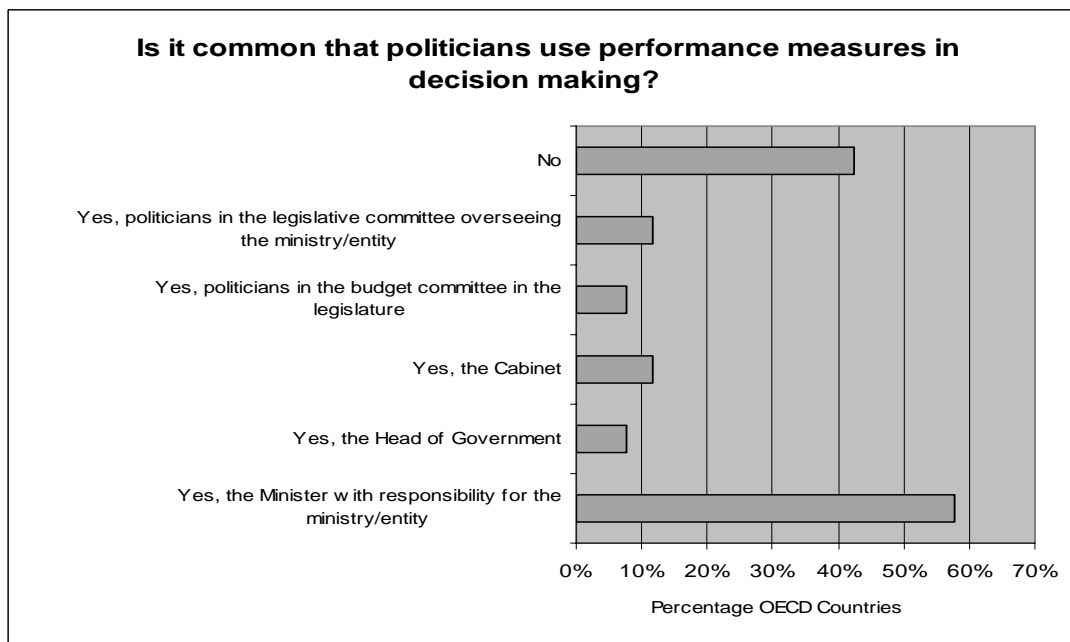
Performance - changing accountability to the public and legislatures?

58. As the graph below indicates, in OECD member countries the provision of information to the public on government performance is widespread.



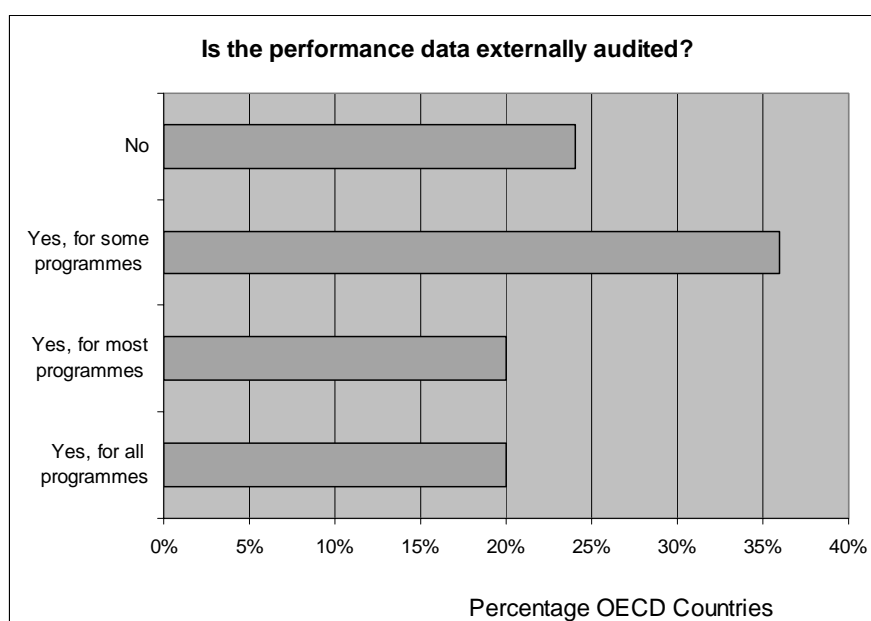
59. In total, 21 OECD member countries claimed to report on performance results to the public. However, do the politicians use this information? The answer, it appears, is “not much”, with the possible exception minister with responsibility for the department, delivering a target.

60. In 72% of OECD member countries targets are routinely displayed in budget documentation presented to the legislature, however, in only 19% of countries do politicians in the legislature use performance measures in decision-making. The percentage is even lower for the politicians in the legislative budget committee with only 8% using this information.



External Performance Auditing

61. One might have expected that the great increase in the number of countries with performance information in their formal reporting systems, that there would be a commensurate rise in the routine auditing of performance reports by supreme audit bodies. There is indeed some trend in this direction – but it lags behind the performance reporting trend.



Evaluation/Expenditure Reviews by Ministries of Finance

62. In the course of research, the OECD is currently undertaking on Budget Institutions and Reallocation (*Reallocation: The Role of Budget Institutions*, GOV/PUMA/SBO(2003)15) it found that amongst the sample covered in this work, there are a number of countries that have established fundamental expenditure review processes and evaluations in the Ministry of Finance. This is a matter of considerable interest. On the face of it appears that Finance Ministries are well positioned to guarantee the objectivity and comparability of evaluations. This is an important condition for using the information in the budget process.

Summary of Trends

63. There is a strong trend of introducing performance indicators into management and budgeting. There is also a strong common trend to introduce a systematic approach to performance management. While many countries have reached the stage of introducing performance targets into their budget document, however, fewer countries have integrated this information into their budgetary decision-making process and even less used it in allocation of resources. There is also a strong trend of reporting this information to the public and the legislature, although the tendency is for legislatures not to make much use of this information.

64. In general we would have to conclude that so far the performance budgeting movement is stronger on process than results.

Why context matters?

65. One conclusion from our work on the implementation of performance oriented budgeting and management is that it is contextually dependent. The successful use of the formalisation of performance in the budgeting and management processes depends on others factors in the political and administrative environment of the country concerned. Reformers do not begin with a blank sheet; performance indicators and targets are introduced into existing and established systems of control. The table below shows the strengths and weakness of inputs, outputs, and outcome control regimes.

Strength and Weakness of Control Regimes

	Strengths	Weaknesses	Good for situations with...
Input	Easy and affordable Strengthens compliance	Does not support efficiency Can be inflexible Short term	low confidence and variable competence
Output	Facilitates efficiency Facilitates control of aggregate expenditure Accountability	Can distort focus Measurement problems Costs Information overload	confidence, sound accounting and professionalism
Outcome	Facilitates re-allocation Support policy formulation and co-ordination Long term	Measurement problems Accountability problems Costs Information overload	the above and dedicated politicians

66. Implicit in the above analysis, is that there are limits to how much formalization any system can usefully absorb so therefore the adoption of one way of framing information, inevitable reduces the capacity to collect information in another way. If management information is structured around outputs, this inevitably reduces the quality of information on inputs. This is not just about the capacity to process different sorts of information – because of course modern information processors have great capacity in this area. It is rather unless information collection is actively managed, used, and quality controlled, its reliability deteriorates. In the end regardless of systems, public servants will pay attention to the information that they think matters the most.

67. Directly related is that different kinds of performance regime, set up different incentives for managers. The original New Zealand performance design, for instance, in theory gave equal emphasis to outputs and outcomes. But in practice the incentives of public servants were around outputs not outcomes – and so it was outputs that got attention until a recent re-design of the system.

68. Another contextual matter is the relative attractiveness of different approaches to performance of position-based versus career- based systems of public administration. There seems to be a pattern that strong position-based systems (see *Modernising Public Employment*, GOV/PUMA(2003)18) are the most enthusiastic about performance-based budgeting and management, while the strong career-based systems (France, Korea, Japan) tend to give more attention to evaluation. A possible reason for this is firstly that effective performance budgeting and management need a well-developed system of individual accountability. And this is more characteristic of position-based systems. Secondly the incentives of career-based systems are more collective in respect of the policy as a whole – and evaluation, as an overview of policy effectiveness, serves that interest better.

Conclusions

- a) The performance of government can be improved through a focus on results in *policy advice, central and departmental management processes, or parliamentary and public accountability*. It is important to first identify the relative priority of these areas in a particular country. What a government should do is different in each case.
- b) Performance enhancing policies work only if they result in public servants better achieving government desired purposes. There is a danger of governments becoming fixated by a particular formal solution. The design of cross-government performance interventions needs careful diagnosis and consideration of options. Broadly these are leadership, strategic planning,

performance management, the inclusion of targets and measures in the formal budgeting, management and oversight process, and policy evaluation. Each has different strengths and limitations.

- c) Many OECD member countries are implementing performance management, budgeting and reporting. This appears to be an important and enduring innovation in public management. However, some initial hopes have been too ambitious. It is clearly a strong device for horizontal priority setting, policy alignment and cost analysis. There is little evidence, however, that outputs and outcomes are effective as a central strategic control mechanism. There is no clear pattern of input controls being lightened as performance indicators are strengthened. A number of Finance Ministries are attempting to supplement formal current reporting- including performance reporting – with active evaluation/public expenditure review.
- d) The common assumption that the performance information useful for the Executive, would also serve the legislature, remains unproven. With a few exceptions, performance reporting has been neither welcomed nor used by OECD member country legislatures in their oversight and decision-making. Also supreme audit institutions appear ambivalent to this development – there is little evidence that they have reduced their reliance on more traditional forms of performance auditing such as VFM studies, and the majority of performance reporting to parliaments is un-audited.
- e) With the advent of performance targets and indicators many governments seem unclear about what weight to place on cross governmental evaluations of policies. On the other hand, performance indicators are no substitute for the independent, in-depth qualitative examination of the impact of policies which evaluations can provide. Cross-governmental evaluation policies should be re-examined in this light.
- f) Finally, performance though important, is not government's only concern. Governments have a limited attention span and too strong an emphasis on performance distracts necessary attention from organizational capacity, and underlying governance values such as equity. This danger is recognized in "balanced scorecard" approaches to organisational assessment and senior manager accountability. It is also a reason for caution with the use of formal performance incentives for senior managers. A strong collective culture remains essential for sustained public service performance.