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**PUBLIC GOVERNANCE DIRECTORATE
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OECD Performance Budgeting Framework

Draft for discussion

The OECD Performance Budgeting Framework provides building blocks to guide countries in developing or strengthening their approach to performance budgeting.

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OECD Performance Budgeting Framework

1.1. What is performance budgeting?

1. Performance budgeting is defined as the systematic use of performance information to inform budget decisions, either as a direct input to budget allocation decisions or as contextual information to inform budget planning. Its purpose is to instil greater transparency and accountability throughout the budget process by providing information to government officials, legislators, and the public on the purposes of spending and the results achieved.

2. Performance budgeting is part of a wider set of reforms that aim to change the behaviour of key players in the budget process, shifting the focus away from inputs (“how much funding will I receive ?”) towards measurable results (“what can be achieved with the funding I received?”). Countries have reported a number of benefits of using performance budgeting, including more efficient allocation of funds and a better understanding of government priorities, as well as greater transparency and accountability throughout the budget process.

3. There is no one-size-fits-all design to performance budgeting, but based on OECD analysis and country experiences, several factors can facilitate the process of introducing performance budgeting, such as clear, transparent objectives and incentives for major stakeholders, and a practical design of the process.

4. The OECD classifies different approaches to performance budgeting as follows:

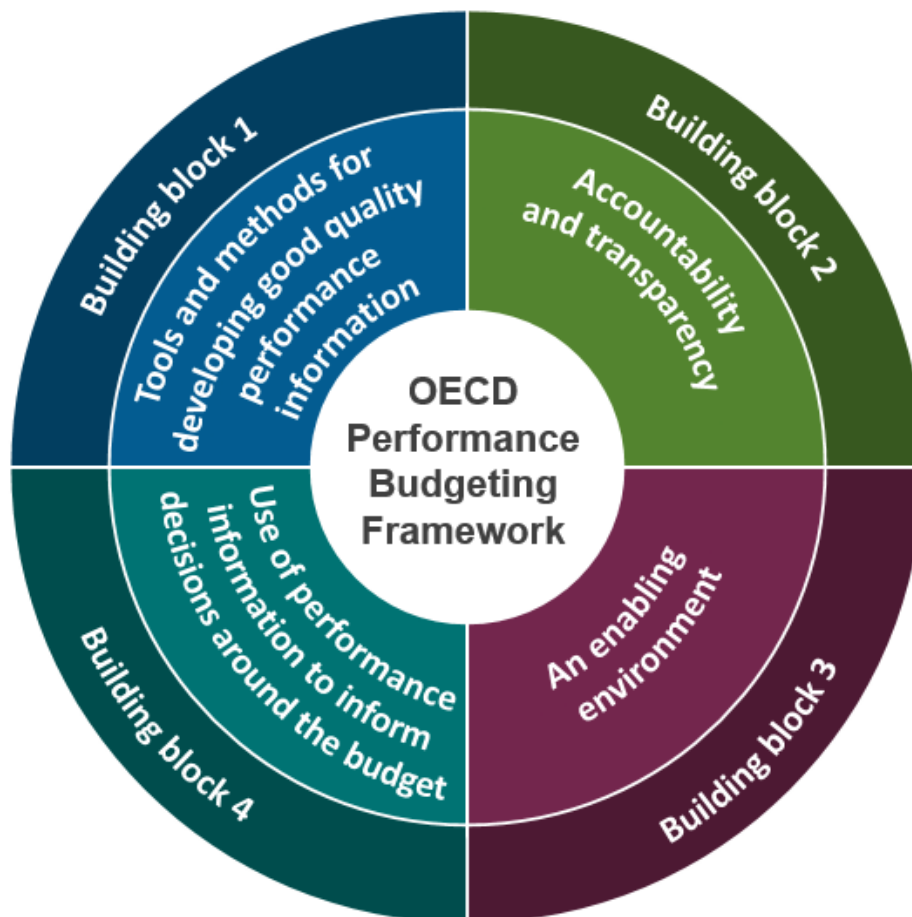
- **Presentational Performance Budgeting** is where performance information (goals, outputs, outcomes, and performance indicators) is shown separately from the main budget document. In this approach, the budget may or may not be structured into programmes. It is commonly the first step in introducing performance budgeting.
- **Performance-Informed Budgeting** is where performance information is included within the budget document alongside financial information structured, typically, into programmes. In this approach, performance information is used to inform budgetary decisions. This is the form of performance budgeting that is commonly used by OECD countries.
- **Managerial Performance Budgeting** is a variant of performance-informed budgeting. With this approach, the focus is on managerial impacts and changes in organisational behaviour, achieved through the combined use of budget and related performance information.
- **Direct Performance Budgeting** is where a direct link between results and resources is established, usually implying contractual-type mechanisms that directly link budget allocations to the achievement of results, with budgetary responses to over or under-achievement of performance objectives. No OECD country identifies itself as using this direct approach.

1.2. The OECD Performance Budgeting Framework

5. The OECD Working Party on Performance and Results meets regularly to discuss developments and share good practices in relation to performance budgeting and other performance-related reforms. The experiences of OECD countries have helped design the OECD Performance Budgeting Framework, which provides building blocks to guide countries in developing and strengthening their approach to performance budgeting.

6. The OECD Performance Budgeting Framework consists of four building blocks (Figure 1). These are (i) tools and methods for developing meaningful performance information, (ii) accountability and transparency, (iii) a strong enabling environment, and (iv) the use of performance information to inform decisions around the budget.

Figure 1. OECD Performance Budgeting Framework



1.3. Building block 1: Tools and methods for developing good quality performance information

7. High quality information on performance and results is the foundation of performance budgeting. The way performance information is developed has an impact on its relevance and quality; it should be based on the priorities of the government and structured logically, specific criteria for developing the information should be used, and the quality and relevance of the information should be ensured.

1.3.1. Sequencing performance information

8. Performance information (goals, outcomes, targets, indicators, benchmarks) should be structured in a logical and clear manner, where performance indicators clearly measure the progress towards achieving certain goals and outcomes. Performance information should be benchmarked towards high-level objectives that reflect the priorities of the government. Setting a limit on the number of objectives and indicators is necessary as it helps to avoid the overflow of data, which can hinder the usefulness of performance budgeting.

1.3.2. Criteria for developing performance information

9. Performance information developed as part of the budget process should clearly demonstrate the outcomes each programme aims to achieve, and not only describe the activities of a given programme. This output/outcome orientation is fundamental for the success of performance budgeting as it focuses discussions around the budget on the broader benefits for citizens and taxpayers and away from input measures. Having clear and specific criteria (e.g. SMART¹) for performance information helps promote outcome orientation and ensure the usefulness of performance information. Although it is natural that a significant proportion of targets and indicators are revised in the early years of implementing performance budgeting, it is important to ensure consistency of performance information over time.

1.3.3. Quality assurance of performance information

10. Ensuring good quality of performance information is important for the integrity of the performance budgeting framework. In order to promote autonomy and accountability of spending entities, it is important that they are responsible for the information they produce and present. It is, however, important to have some quality assurance of the performance data that spending entities produce, where the ministry of finance provides guidance and quality checks to ensure that the information in the budget is of high quality and consistent across entities.

¹ SMART stands for Specific, Measurable, Achievable, Relevant and Time-bound.

1.4. Building block 2: Accountability and transparency

11. When implementing performance budgeting, countries often cite increased accountability and transparency as the main objective for the reforms. However, ensuring accountability and transparency, defining clear roles and responsibilities, and improving scrutiny and public access to performance information require significant effort and time.

1.4.1. Accountability mechanisms

12. Accountability for the results achieved by spending entities is a key element of a strong performance budgeting framework. In a well-functioning performance budgeting framework, spending entities set ambitious performance targets and are ready to discuss and explain if these targets are not achieved. This should allow spending entities to have higher discretion to allocate funds within their spending ceilings. However, finding an optimal arrangement incorporating managerial flexibility and control can be challenging and take some time to settle.

13. One way to increase accountability within the performance budgeting framework is to have high-level sign-off of performance information by a minister and/or permanent secretary, as this may limit the risk of performance setting being merely a tick-box exercise that has no real political relevance. In addition, creating monitoring mechanisms, such as reporting on performance in annual end-year reports where the same performance targets are presented in the budget and in the end-year reports, may help promote accountability for the results achieved.

1.4.2. Clear roles and responsibilities

14. In order to promote a result-oriented performance culture across government, clear roles and responsibilities should be established. As shown in Table 1, the ministry of finance plays a key role in coordinating performance budgeting across government and is primarily responsible for providing guidance to spending entities on how to develop, collect and report on performance. Spending entities are accountable for the performance information they develop and coordinate with the ministry of finance when setting performance objectives and associated targets to ensure quality and consistency. There must be a relationship of mutual trust between the two bodies for performance budgeting to be effective.

Table 1. Roles of key stakeholders in performance budgeting

Ministry of Finance	Spending entities	Parliament	Audit offices
<ul style="list-style-type: none"> • Develops the performance budgeting framework • Develops guidelines for the implementation of performance budgeting • Develops templates for collecting performance information • Ensures the consistency 	<ul style="list-style-type: none"> • Coordinates with the finance ministry in setting up programmes and their objectives, developing performance indicators and targets • Ensures the operational execution of performance budgeting (i.e. monitoring, reporting) 	<ul style="list-style-type: none"> • Oversight and accountability • Analysing and confirming the budget • Use performance information for deciding and discussing resource allocation • Use performance information to hold ministries accountable • Have discussions with stakeholders to improve the 	<ul style="list-style-type: none"> • Assesses the structure and soundness of the overall performance framework • Assesses whether reported information, regarding performance and results, is accurate and substantiated • Compliance with legal requirements in regard to performance information and budgeting

<ul style="list-style-type: none"> • Analyses what spending entities produce • Organises capacity-building activities • Initiates relevant updates to the IT systems 	<ul style="list-style-type: none"> • Sets meaningful and relevant indicators that reflect the priorities of the Government. • Ensures high-level sign-off (by a minister, and/or permanent secretary) of performance information to ensure political relevance. 	<p>information provided in the budget</p> <ul style="list-style-type: none"> • Sectoral committees should play a particular role in reviewing performance budgeting for their portfolios. 	
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1.4.3. Ensuring transparency

15. Performance budgeting increases transparency around what is achieved with public resources and provides contextual information for parliamentarians and the public. The way performance information is presented and developed has strong implications for the transparency of the framework. To ensure usefulness of performance information, it is important to have clear guidelines and templates for the presentation of the information. It should also be clearly indicated when and why performance information has changed. Any changes to the overall framework, templates and other elements should be communicated to relevant stakeholders.

1.4.4. Public access to performance information

16. Publishing performance information in an accessible and understandable manner allows the wider public to better understand the achievements of the government. Modern information technology can support this effort, including the use of web-based dashboards where performance and outcomes achieved can be compared across entities and different policy areas.

1.5. Building block 3: An enabling environment

17. Performance budgeting is most effective in settings where there is an enabling environment which supports the implementation of the framework. Elements that enable performance budgeting include programme budgeting, the use of centrally issued guidelines and templates, capacity-building efforts, IT systems and incentive mechanisms.

1.5.1. Budget structured around programmes

18. A budget structured around programmes facilitates the implementation of performance budgeting where performance objectives, outcomes and outputs are set at the programme level under the responsibility of a single programme manager. A budget structured around programmes can pave the way to delegate more responsibility to spending entities for managing programmes and budget execution, which is a pivotal part of performance budgeting.

19. A programme classification of the budget closely follows the organisational structure of a ministry, where a programme manager is responsible for a single programme and there are no overlapping responsibilities. Countries that have introduced programme budgeting usually stay close to the existing organisational structure in the initial stages of the reforms, but once the programme classification is in place, certain changes in the organisational structure and division of tasks between ministries can take place.

1.5.2. Centrally issued guidelines and templates

20. It is important that finance ministries provide guidance to spending entities when implementing performance budgeting. This can be included in budget circulars, or through specific manuals and templates. The use of standardised templates ensures that all ministries follow the same principles when putting forth performance information, as well as ensuring consistency and readability of the documents. Leaflets and other educational materials can also be provided to the parliament and other relevant stakeholders to keep them informed of the progress of the reform and ensure that the key terms and concepts are well understood across the administration.

1.5.3. Capacity-building efforts

21. Performance budgeting entails new responsibilities for all involved stakeholders and thus requires new skills and competencies. Capacity-building efforts in the form of training sessions, peer workshops, and performance budgeting schools help build strong analytical skills within administrations. These efforts should not be a one-off exercise but organised regularly; creating a new mind-set and a performance culture within public administration requires persistent efforts.

1.5.4. Supporting IT environment

22. A well-designed IT system can be a central support tool for public financial management reforms. IT systems that integrate both financial and performance information allows for seamless tracking of information over time, and for extracting relevant reports. These reports can be provided upon request to the government, parliamentarians, and other key stakeholders in an organised manner.

1.5.5. Incentive mechanisms

23. The right incentives are key to encouraging ministries to embrace performance budgeting initiatives, set ambitious and relevant goals and be accountable for the results achieved. Having incentives in place is especially important in the early years of implementing performance budgeting, when spending

entities are gaining understanding of the reforms and may be reluctant to change the traditional ways of budgeting.

24. One way to incentivise spending entities is to identify champions within the administration to set a good example for other ministries. These champions may be granted greater flexibility and increased control over programmes providing additional incentives for other ministries to adhere to reforms. In addition, creating publicly available portals that include benchmarks against peers' performance can create competition between similar entities and help improve effectiveness and efficiency in service provision. It is important to keep in mind that having a strong link between performance information and financial consequences might undermine the purpose of performance budgeting.

1.6. Building Block 4: Use of performance information to inform decisions around budget

25. One of the major challenges when implementing performance budgeting is the actual use of performance information to inform decisions around the budget. As performance budgeting entails new ways of budgeting, it is important to engage with important stakeholders, such as parliamentarians, and improve the presentation of performance information to maximise the relevance and use of such information in the budget decision-making process.

1.6.1. Engaging with parliament

26. The successful implementation of performance budgeting largely depends on the involvement of key stakeholders. Given the pivotal role of the parliament in the budgetary process and budgetary oversight, their ability to understand and use performance information in budget decision-making is especially important. Legislature's engagement with performance budgeting is crucial to avoid dual budgeting (i.e. when the budget is prepared both on the programme level and on the line item level but voted on the latter).

27. Effectively communicating with parliament, parliamentary budget offices and sectoral committees can improve the impact of performance budgeting. Sectoral committees play a key role in discussing performance information of different spending entities, and may engage directly with relevant entities to scrutinise performance information put forth in the budget documentation and reporting documents.

28. Some parliamentarians might be particularly supportive of performance budgeting, and whenever possible, a discussion should be established with those members of parliament. Having supportive ministries and parliamentarians can be extremely important in improving the use and understanding of performance information.

1.6.2. Presenting relevant performance information in budget documentation

29. Performance information included in the budget should be presented in a clear and understandable manner alongside financial information. Linking performance information and financial information improves the ability of decision-makers to properly assess the performance of a programme or action and make informed decision. However, it is important to be selective in how and what performance information is presented in budget documentation, as information overflow is an inherent feature of many national performance budgeting frameworks. To enable effective scrutiny of performance information, different levels of detail should be presented to different stakeholders, as shown in [Figure 2](#). For example, programme managers need sufficiently detailed information to inform operational decision-making, while parliamentarians, on the other hand, should be provided with performance information relevant to decisions around the budget. Finding the right balance and relevant information to be included in the budget might take time and requires extensive discussions with the stakeholders.

Figure 2. Performance information provided to different stakeholders

