Performance Budgeting: How it Relates to Medium-Term Budgeting and Strategic Planning

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Performance Budgeting

- Aims of performance budgeting (PB)
  - Better expenditure prioritization
    - » Pressure on ministries to perform
  - Increased expenditure efficiency
    - » Information on what is working
    - » Identifying programs to cut → fiscal space
- What is relation to:
  - Planning?
  - Medium-term budgeting?

Prioritization and Planning

- Key aim of planning is prioritization
- PB needs right planning processes
- Definition of goals & strategies basic
- What planning processes work?
- Old-fashioned central planning?
  - Plan formulated first/ budget guided by it
  - Plan often centralized and comprehensive
- Plan/budget separation doesn't work
- Centralization and information problem

Prioritization which works

- British Spending Review process
  - Budgeting & planning process combined
  - Because decides budgets for next 3 years
- Effort on reviewing existing spending
- Australian Expenditure Review process
  - Annual version
  - Selective reviews
  - Now reinforced by evaluation process
- Excessive centralization avoided
  - Australian incentives to spending ministries

PB to integrate plans and budgets?

- Disconnect resolved by
  - Production of an improved plan
  - Through better use of PI
- Real problem is plan/budget separation
- In most OECD countries:
  - Separate plans either don't exist
  - Or are very general
  - And don't provide very specific guidance for the budget

Medium-Term Budgeting

- Multi-year expenditure *ceilings*
  - Ministry or program ...UK, France
  - Commitment on future funding
  - Aggregate ...Sweden, Netherlands, Finland
  - Puts a binding ceiling on total expenditure
- Multi-year expenditure *projections*
  - Projection for next 3 or 4 years
  - Based on current spending policies
  - Macro-fiscal application
  - Basis for ceiling setting, if relevant

MT Projections without ceilings

- No commitment to spending ministries
  - Policies can be changed in annual budget
  - *Annual* budget informed by MT perspective
  - Australian forward estimates
- Projections support better prioritization
  - Performance Budgeting work much better
  - MT spending implications of each program
  - Priority-setting in a MT perspective

MT ceilings & PB

- Sectoral ceilings and planning certainty
- Sectoral ceilings demand good priority setting
  - And PI supports good prioritization
- UK:
  - PI support Spending Reviews
  - Performance targets and measures
  - The Public Service Agreements
- France:
  - LOLF Performance Budgeting Reforms
  - Révision Générale des Politiques Publiques

But don't rush into MT Sectoral Ceilings

- Precondition 1: good prioritization
  - Otherwise, more spending inflexibility
- Precondition 2: good MT projections
  - Otherwise, great pressure on ceilings from spending commitments

Conclusions

- PB, Planning & MT budgeting closely linked
- Priority-setting best in MT perspective
- PB requires right type of planning process
  - Not old-fashioned central planning
  - Planning built into budget process
  - Right balance of centralization and decentralization