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Performance Based Budgeting

– an approach to good governance!?

International Conference – Cracow, Poland

2 and 3rd of October 2008

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Conference Agenda (Subjects)

- The roles of key institutional factors
- Opportunities and Challenges in introducing PBB
- Performance auditing to improve efficiency and effectiveness
- Indicators and evaluations – Good and bad examples

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What is PBB all about ?

- **Management of public ressources:**
  - Based on reliable and relevant information
  - Connecting results with dedicated ressources
  - Heading for effectiveness as to political goals
- **A Management on all levels:**
  - That pays respect to the dificulty of this approach
  - That nevertheless encourages dynamic innovation:
  - Evidence is needed (measurements and evaluations)
  - Measurements can’t replace accountable leadership!

The roles of key institutional factors

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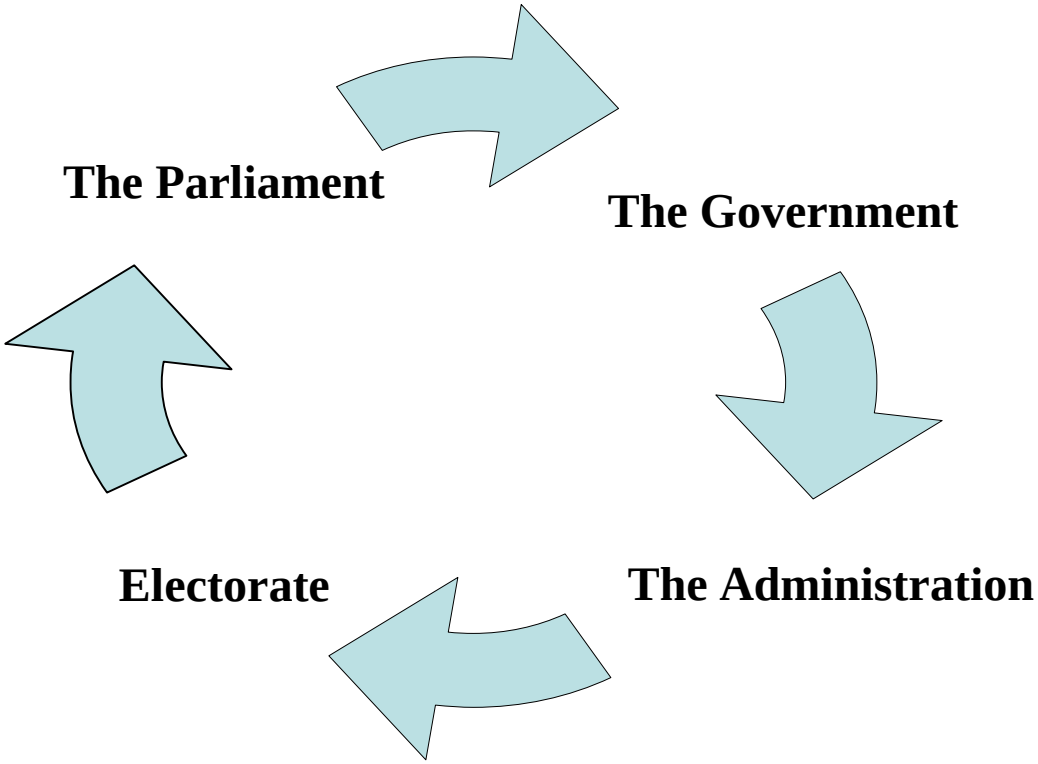
The Parliamentary Chain of Control



- **MoF's role in budget negotiations; Top-Down:**
  - Determines financial a.o. framework conditions for budgetting
  - Key role: Veto or accept of line ministries' budget proposals
- **Line ministries; Bottom-Up:**
  - Negotiates follow up of MoF-framework conditions for budgetting
  - Reporting on "framework-aligment" 3 times/year + Annual Report
- **National Auditors Office (Subordinate to Parliament):**
  - General audit of all state accounts – Annual Reports
  - Selective financial and/or administrative audits and reporting to Parliament (State Auditors)
- **Parliament (The Folketing):**
  - Board of MPs constitutes "State Auditors"; reports from Nat. Aud.
  - Launches critical statements to Government and to the Public

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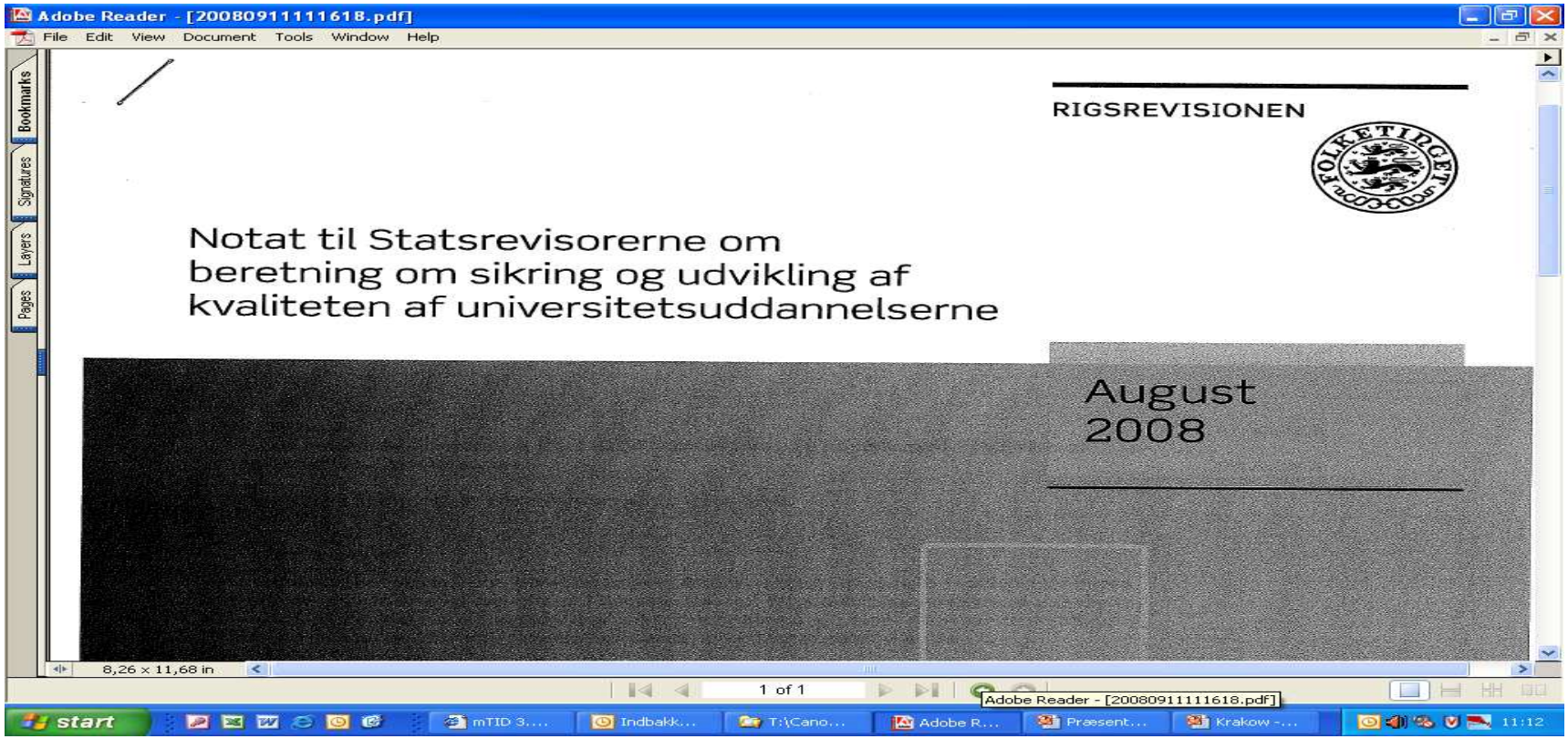
National Auditors Office in action (Example):

Report to Parliamentary State Auditors on development and quality assurance of University Educations



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The Danish Press initiates public discussion of the effect of Acitivity Based Budgeting (”Taximeter-System”): An example concerning higher education

4 Studiestart | Mandag 1. september 2008 Dagbladet Information | sektion 2

Studieguide

Politikere vil ændre på taxametersystem

Årets lave optag får flere politikere til at efterlyse justeringer på taxametersystemet, så uddannelserne får tildelt penge ud fra andre kriterier end antallet af studerende og hvor hurtige, de er

TAXAMETER
af Lise Richter

Den plejer at være sikker hvert år: Flere unge søger ind på en uddannelse, men sådan gik det ikke i år.

4500 færre har søgt ind, og 2600 færre er blevet optaget på en universitetsuddannelse. Også lærer-, pædagog- og sygeplejeuddannelserne er i stor stil blevet valgt fra. Og det kan få alvorlige økonomiske konsekvenser næste år.

Jonas Dahl, der er videnskabsordfører for SF, mener, det er på tide at revidere taxa-

ført i 1994:

»Det skriger jo til himlen, at der er noget galt i vores uddannelsessystem, når vi ser på årets lave optag. Det her vil jo alt andet lige betyde færre ressourcer til uddannelsesinstitutionerne, afskedigelser og dårligere studieforhold, derfor bliver vi nødt til at se på økonomien.«

Jonas Dahl vil gerne have gjort universiteterne mere uafhængige af taxameterbevillingerne.

»Det system styrer universiteterne i retning mod at uddanne så mange som mu-

uddanne dem så godt som muligt. Det vigtigste er, at de studerende får tilegnet sig nok viden, og det tilskynder taxameteret ikke nødvendigvis til. Det kommer til at handle om kvantitet snarere end kvalitet,« mener Jonas Dahl.

'Skal ikke afskaffes'

Også Socialdemokraternes Christine Antorini er åben over for at diskutere omlægning af taxameteret:

»Vi skal ikke afskaffe taxametersystemet, men jeg mener, vi må se på, om der er ting

modarbejder andre hensyn, vi må tage i uddannelsessystemet.«

De Konservatives Charlotte Dyremose er også åben over for at diskutere taxametersystemet, men hun tror ikke på de store ændringer. Til gengæld vil årets lave optag på de videregående uddannelser få stor indflydelse på efterårets politiske forhandlinger omkring, hvad universiteterne skal have tildelt af midler fra Globaliseringspuljen og over basisbevillingen, som er de penge, uddannelserne frit kan råde over.

stilling til, hvordan vi fortsat kan sikre en høj kvalitet på uddannelserne, og det kan godt være, at det ender med, at vi må drøfte taxameteret. Årets lave optag gør det relevant at se på, hvad der sker, når optaget svinger meget, for det skal ikke forringe ud-

ønsker jo, at uddannelserne, der ikke er så populære lige nu, forfalder. Vi er nødt til at sikre, at de unge også kan vælge de fag, når de om fem år kommer i tanke om, at de gerne vil have en uddannelse,« siger Charlotte Dyremose.

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A new effort to improve coherence and effectiveness:

- Focus on **Corporate Governance** in Ministries: In a dynamic non-uniform process of reconsideration
- Focus on balancing of different tools & measures as to the **specific need** for steering/ control
- Effort to test **validity and relevans** of deeply rooted habits and practices -> Administrative innovation
- Limited resources calls for **new ways** : From attitude change to best practice , scale of economy etc.

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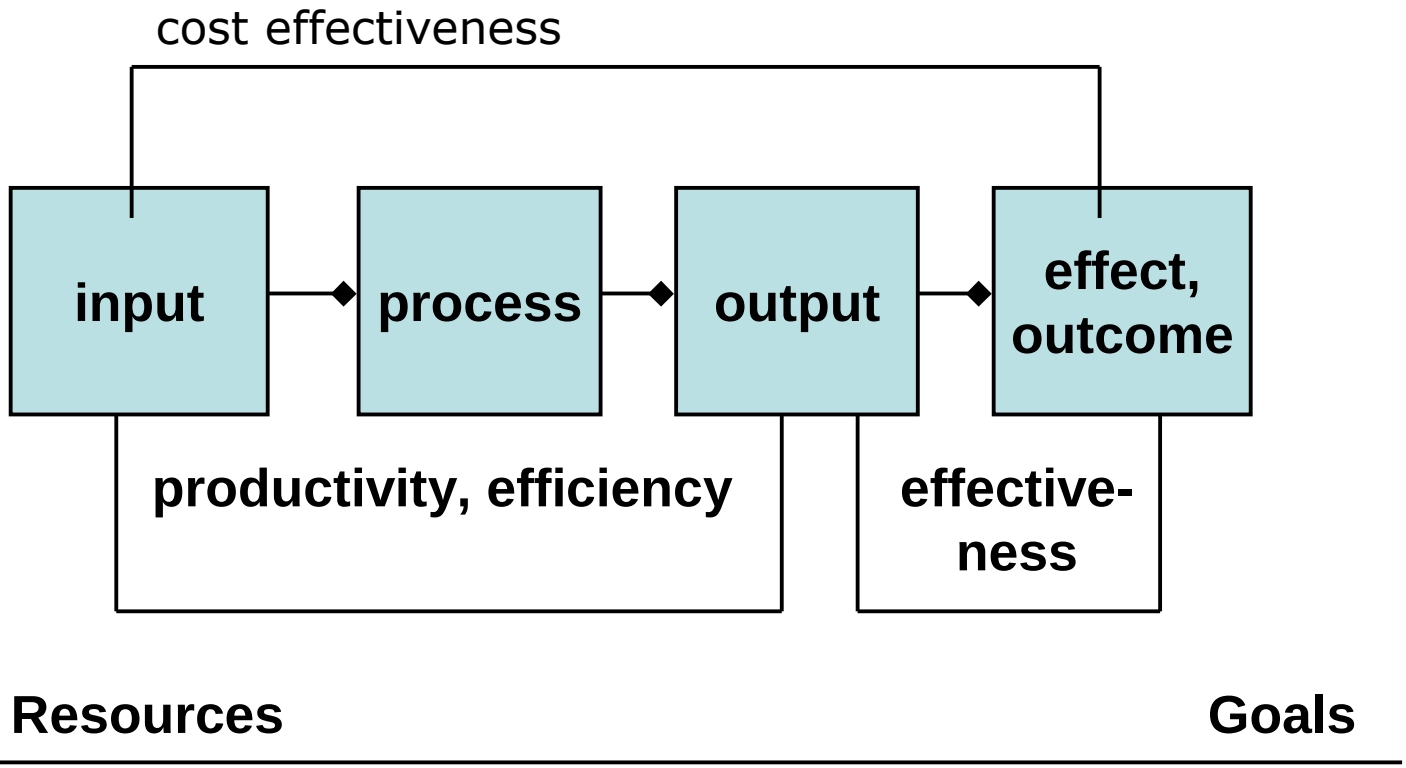
PI on effectiveness (doing right things?) rather than on productivity (doing in the right way?)



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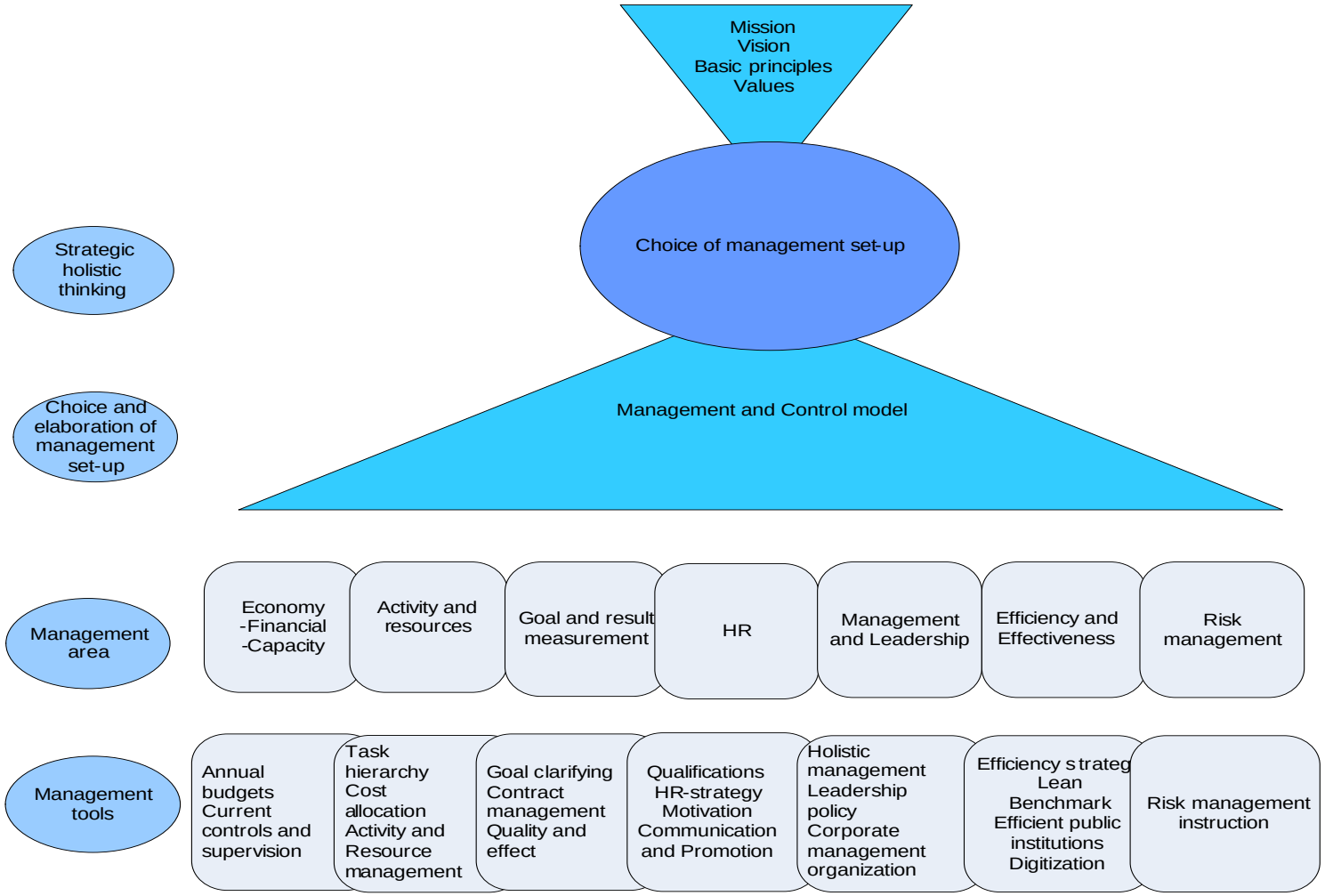

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How to motivate performance – how to engage politicians ?

- **Leadership accountability through:**
  - Vision, mission, demands for results, service information
  - Directors contract, incl. an element of bonus/incentive
  - Management flexibility in line with accrual budgetting and acc.
- **Employee dedication through:**
  - Ongoing qualification measures – courses, on the job training etc.
  - An element of incentives connected to personal effort/performance
- **Competition and transparency:**
  - Competition/ comparison between institutions (best practice etc.)
  - Team work as well as competition/incentives at individual level
- **Common political-administrative understanding of reform**
  - F. ex. Launching of a comprehensive public sector "Quality reform"

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Opportunities and Challenges in introducing PBB

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Two different management systems

Two tracks with some elements of linkage:

- Mangement by expenditure frames and economic tools
- Management by goal setting and performance information

Main tools for performance management

- **Performance agreements** (contract based management)
  - Performance objectives and demanded results
  - Regular reporting – coupling of results with incentives
- **Taximeter budgetting** (activity based budgetting)
  - Actual performance (production) releases a calculated budget
  - Is applied for selected sectors: Education & hospitals
- **Periodical/ Annual Reports** (incl. performance reporting)
  - Statement of output performance & overall financial performance
  - Statement of approval & management accountability
- **Evaluations & budget analysis** (ad hoc, external/self evaluation)
  - Focus on selected policies, programmes or institutions

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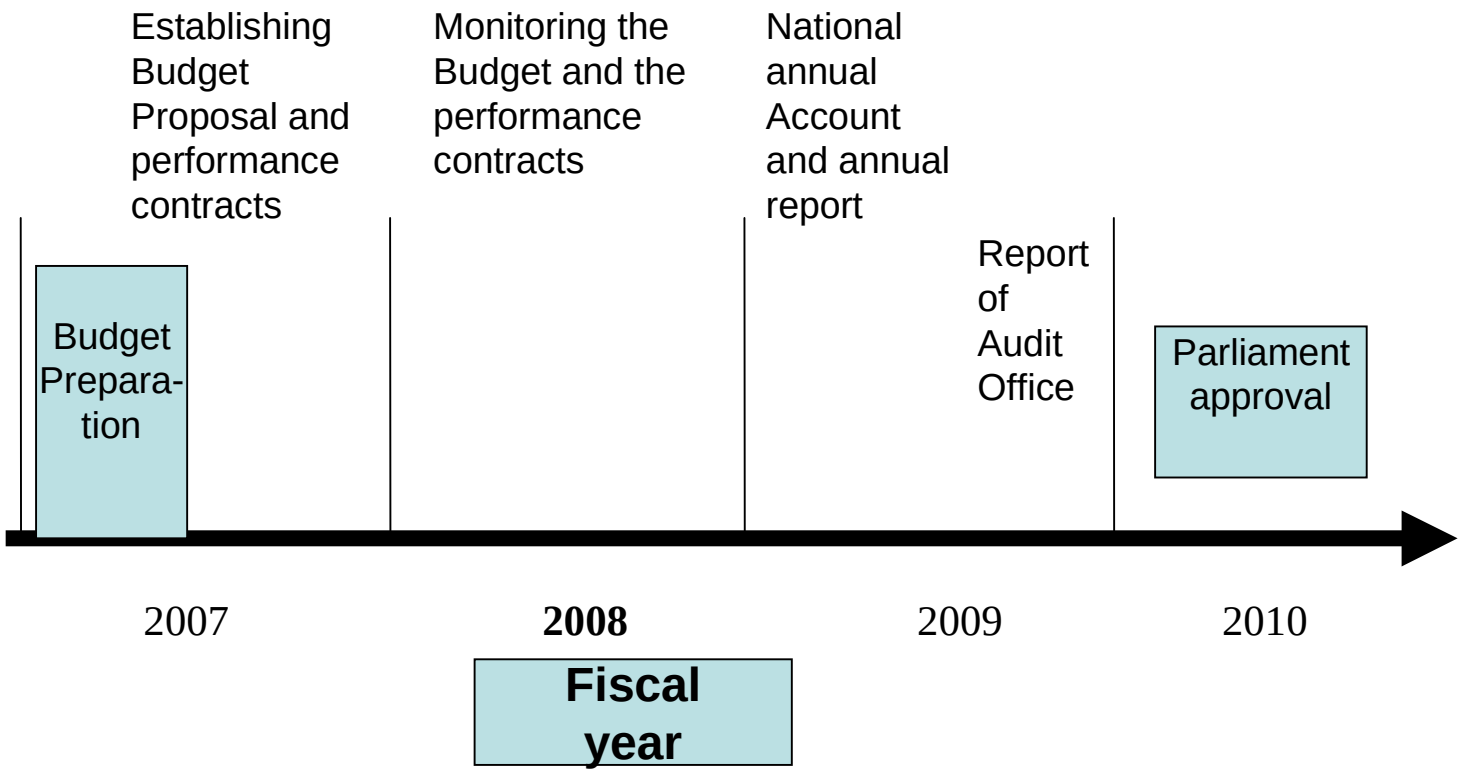
Budgeting and planning, Control Process and follow-up and accounting



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• The state budget process

- Funding of institutions rather than programmes
- Funding of activities/programmes/goals within institutions
- Focus on wording of tasks and goals – committing
- Follow up:
  - Accounts; Annual reports; Performance results
- **Challenge:**
  - No stringent performance review system is feeding directly into the state budget process

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	Management of expenditure frames	Tools to compare costs, activities & results	Performance management
Planning & Budgetting	MoF: Budgetary framework Budget proposals	•long-range budgets •investment planning •consolidated budgets •guidance for corporate governance	Performance objectives Performance contracts
Periodic control & follow-up	Quarterly approval of accounts Framework statement	•speedy procedures •key figures (MIS) •cash management •activity based costing •task hierarchy	Day-to-day management using various information systems
Accounting	Annual report National annual account	•approval of accounts •surplus reserves •performance reporting	Annual report Performance reporting

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Unspent appropriations: Information on ”Free surplus” vs. ”Reserved surplus” in budget law & annual reports

Result of the year - To be divided in two parts:

- **Free surplus:**
  - Better efficiency than expected by budgeting. Can be used for whatever activity within the overall purpose.
- **Reserved surplus**
  - Earmarked residual reserved for delayed projects. Demands an explanation as to content and reasons.

- Major challenge:
  - To develop a relevant level of specification in order to inform decision-makers properly

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Follow up on performance contracts – an example (MoF)

2007 – 2nd Quarter/ Institution	Accom-plished	Expected acc.	Not accompl.	Not expected acc.	Partly accompl.	Expected partly acc.
Ag.Gov. Mgm. (65)	11 pct	79 pct	0 pct	9 pct	0 pct	12 pct
Ag.Gov.Mgm. (48)	31 pct	100 pct	0 pct	0 pct	0 pct	0 pct
Ag.Gov. Build (50)	16Pct	82Pct	0 pct	6 pct	0 pct	12 pct
Total (163)	18Pct	85 pct	0 pct	6 pct	0 pct	9 pct

Performance contracts

- Focus on output and outcome (external targets and objectives) with a limited number of output targets
- Performance based salary contracts for CEO's and managers
- Review of targets and objectives in annual reports

Reporting on results in Annual Reports

- Introduction to mission and organisation
- **Performance report**
  - Statement of output performance
  - Statement of general financial performance
- **Financial account**
  - Profit and loss account and balance sheet
  - Cash flow statement
  - Various financial key figures
- **Approval** by management – (accountability)
- Major challenge: Does Parliament use information?

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The accrual accounting and budgeting reform – Why?

- **The reform focuses on efficiency and better management of agencies and departements through greater transparency about the cost of public production**
- **More freedom to the institutions to achieve their results by greater possibility to borrow and make investments (Leadership)**
- **Better connection between resources and results internally in the institution**

Accrual Accounting and Budgetting Reform

- Applying private sector accounting and budgeting principles to the public sector
- From cash to accruals: focus on the use of resources (depreciation – longer term) rather than payments
- All departments and agencies must prepare financial statements with balance sheet, income statement etc.
- More focus on cost distribution (by task-hierarchy etc.)
- A better basis for substitution of factors of production
- A precondition for performance based budgeting

Main principles in the accrual accounting and budgeting reform (Implemented 2003 – 2007)

- All departments and agencies must prepare financial statements with balance sheet, income statement etc.
- Appropriations are given as a lump sum to cover all operational costs, including depreciations and capital costs
- All assets are financed by internal government loans. Loans are paid back at the same rate as depreciations
- Loans are administered through the central government net banking system, which automatically calculates interest payments
- Each agency has a maximum credit, limiting their investment possibilities

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Performance auditing in order to improve efficiency and effectiveness

Historic glimps about PI related to State Budget (SB)

- 1965 – Intro of framework budgetting + activity information
- 1975 – Extended quantitative information + service standards
- 1987 – Budget reform; Schematic activity overview incl. info on demand, supply, ressources/capacity, productivity, quality
- 1994 – Intro of business activity survey; tailor made
- 1999 – Intro of Annual Report incl. Accounts for each institution; decoupling of PI and SB to avoid mix of decisions
- 2005 – Adaption of Annual Report to requirements following the introduction af accrual budgetting & accounts (2003-2007)

Performance information in the budget

- The performance information is only to a limited extent linked to the budget
- However, ”taximeter-budgeting” links the allocated budget to the output (productivity) of the institution
  - Primarily used on the **education** sector: eg. 30-50 pct. of the university budgets depend on the amount of students passing the exam. Also widespread in **hospital** sector.
  - Is presently considered in new areas as a follow-up on the accrual accounting and budgeting reform
- Unspent appropriations: “Free surplus” vs. “Reserved surplus**”**

- **A "Quality Reform" was launched as from 2007**
  - High political priority: Rooted in Prime Ministers office
  - Comprehensive preparatory proces: Thematic dialogue with citizens and experts
  - **5 main lines of focus and priority:**
    - Citizens choice, user involvement and personal responsibility
    - Coherent public service – with respect for the individual citizen
    - Clear objectives/targets and responsibility for results
    - New ways of thinking and competition, innovation
    - Management, involvement and motivation of public employees
  - **Major challenges:**
    - State-Municipality: Long range contract mgm. by objectives
    - Proper balance between front end efforts and documentation

- **Nine principles for good service management and delivery:**

  - **At eye level** (meet the citizen where she/he is)
  - **Clear speach** (Open and clear communication)
  - **Clear expectations** (clarify for users what can be expected)
  - **Humbleness** (be humble as to your role and power)
  - **Act on failures** (failure must be adressed without hesitation)
  - **Professionalism** (Skills and competence is basis for good service)
  - **Coherence** (users must experience a unified public interface)
  - **Development** (Development & innovation must mark the public sector)
  - **Ressources and reflection** (Use public ressources carefully)

Performance Audit Actors

- Internal evaluation in state institutions / public institutions
- Auditing by National Auditors Office (sub. to Parliament)
- Public – state owned - auditing institutions:
  - National Evaluation Institute (EVA)
  - Institute for Municipal and Regional Evaluation (KREVI)
- Private professionals:
  - Consultancy companies
  - Private Authorized Accountants

Institute for Municipal and Regional Evaluation (KREVI) advertises for applicants (An Example)

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KREVI.

STYRING • EVALUERING • EFFEKTMÅLING

Kan kvalitet måles ved borger- og brugertilfredshedsmålinger? Hvordan kan de bruges som styringsredskaber?

Hvorfor er det så svært at styre udgifterne på det sociale område? Hvordan kan vi forbedre og udvikle styringsredskaber?

Hvordan har kommunerne organiseret sig efter kommunalreformen? Og hvad er erfaringerne?

Hvordan kan sagsbehandlerne på det sociale område bedst muligt integrere evaluering i det daglige arbejde?

Hvilke effekter har den øgede takststyring i den offentlige sektor?

Det er blot nogle af de spændende spørgsmål, vi skal i gang med at besvare. Har du lyst til at være med, og brænder du inde med andre væsentlige spørgsmål, der skal

Du vil få en høj grad af selvstændigt ansvar, du kommer ikke til at savne faglige udfordringer, og vi garanterer, at du også får det sjovt. Du vil i høj grad få mulighed for at sætte

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Indicators and evaluations – Good and bad examples

Key challenges: performance contracts

-Risk of goal distortion

-Cross-cutting targets

-Fragmented performance information

-Resistance against a very centralized and systematic program approach

-Transparency can create pressure for more resources to serve higher expectations

-No direct integration between the performance information and the budgets

-Measurement of targets / effectiveness

Key challenges: Taximeter-budgetting

- Perverse effects related to criterions of "taximeter"
- Productivity at the expense of quality ?
- Expenditure control
- Need to fine-tune the grants and simplify the model

Key challenges: Accruals and reporting

- To develop new key performance indicators (KPI)
- To establish real time figures and relevant time series
- To improve management due to better information
- To respect liberty of action for management; long run

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Characteristics of danish PI-reform processes

- Pragmatic (Flexibility)
- Experimental (Also risk for single case pressure)
- Participation from different involved groups (consensus/ inclusive approach)
- The main purpose is good performance and greater efficiency
- Departement of Finance has the role as a reform driver
- And the Agency of Governmental Management is an agent for development and implementation
- The Parliament (Folketing)has only been little involved

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New Policy Statement (Autumn 2008)

- Corporate governance
  - Holistic and proactive management
  - Management information
- Contract management
  - Strategic focus on drivers/ core tasks
  - Effectiveness and dialogue/ incentives
- Cost effectiveness
  - Accrual budgetting and accounts
  - Coupling of ressources with results

- **Summing up:**

  - KPI/PI is as important as ever in public service
  - General, direct PI into budget process is too ambitious
  - Evaluations and policy reviews more appropriate
  - Independant evaluation as well as self evaluation
  - Quality of evaluations and –processes is required
  - Improve mgm.; self mgm. and accountability

  Maybe we are about to see:

  - Shifting focus from ”output” to ”outcome” !?

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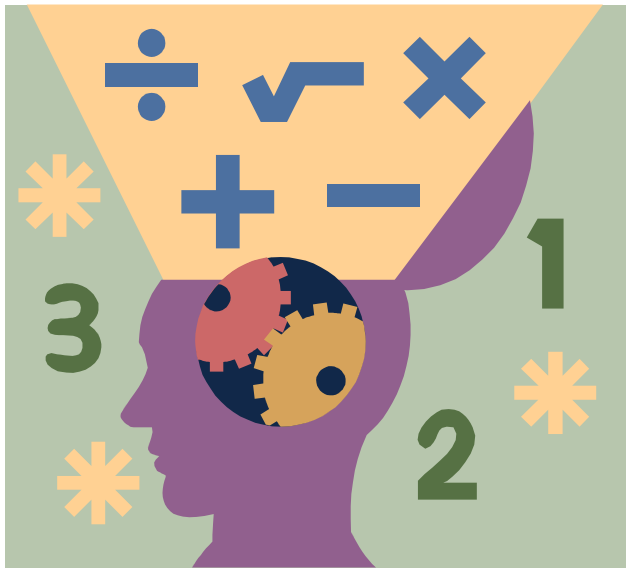
To make performance information supportive for top management

To transform data & information into knowledge for good governance!