

The Future of Performance Budgeting

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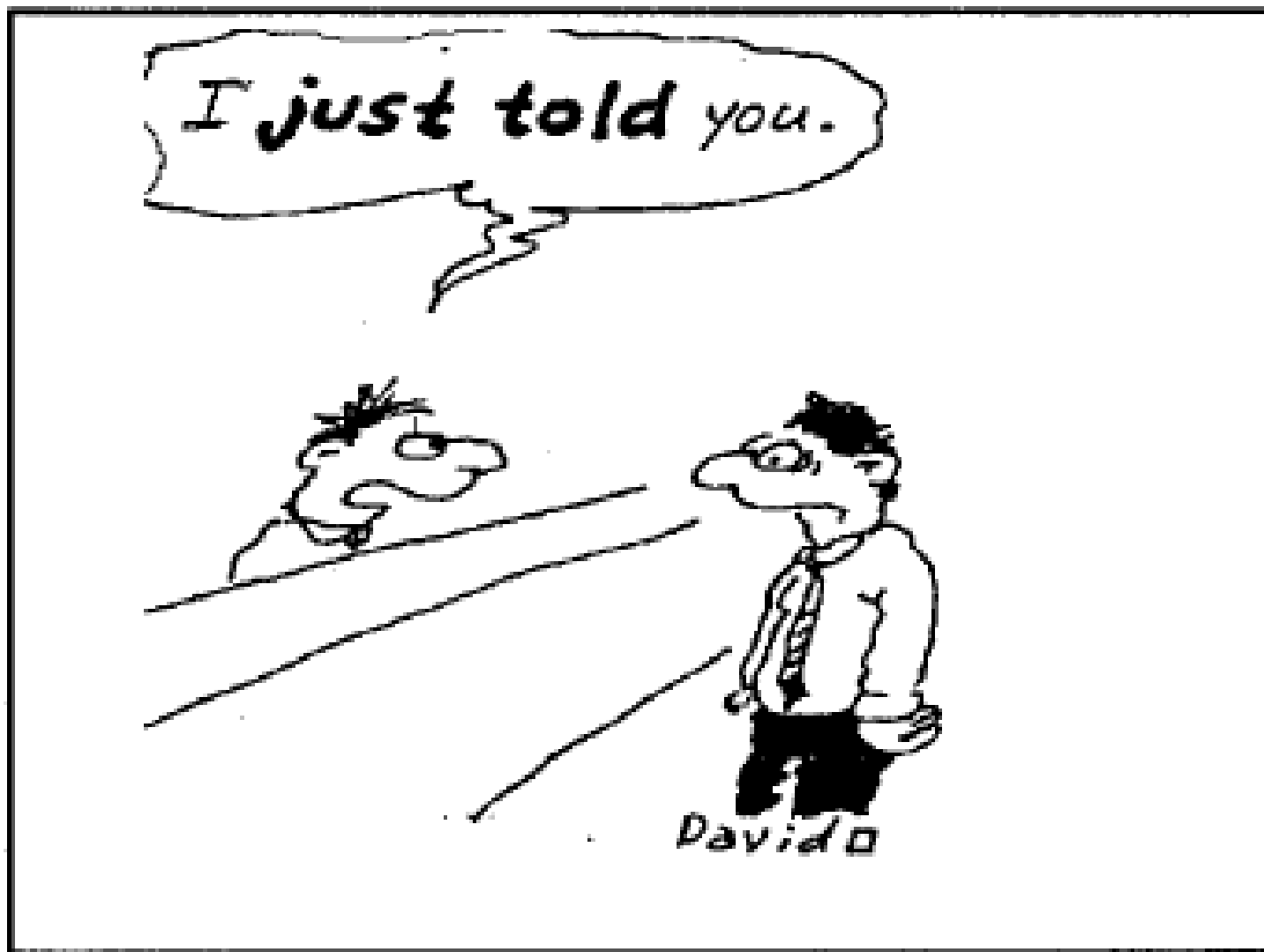
Outline

- Motivations for Performance Budgeting Reforms
- What is performance budgeting?
- The Spectrum of Performance Budgeting in Practice
- Lessons from Current Practices
- Future Directions for Reform

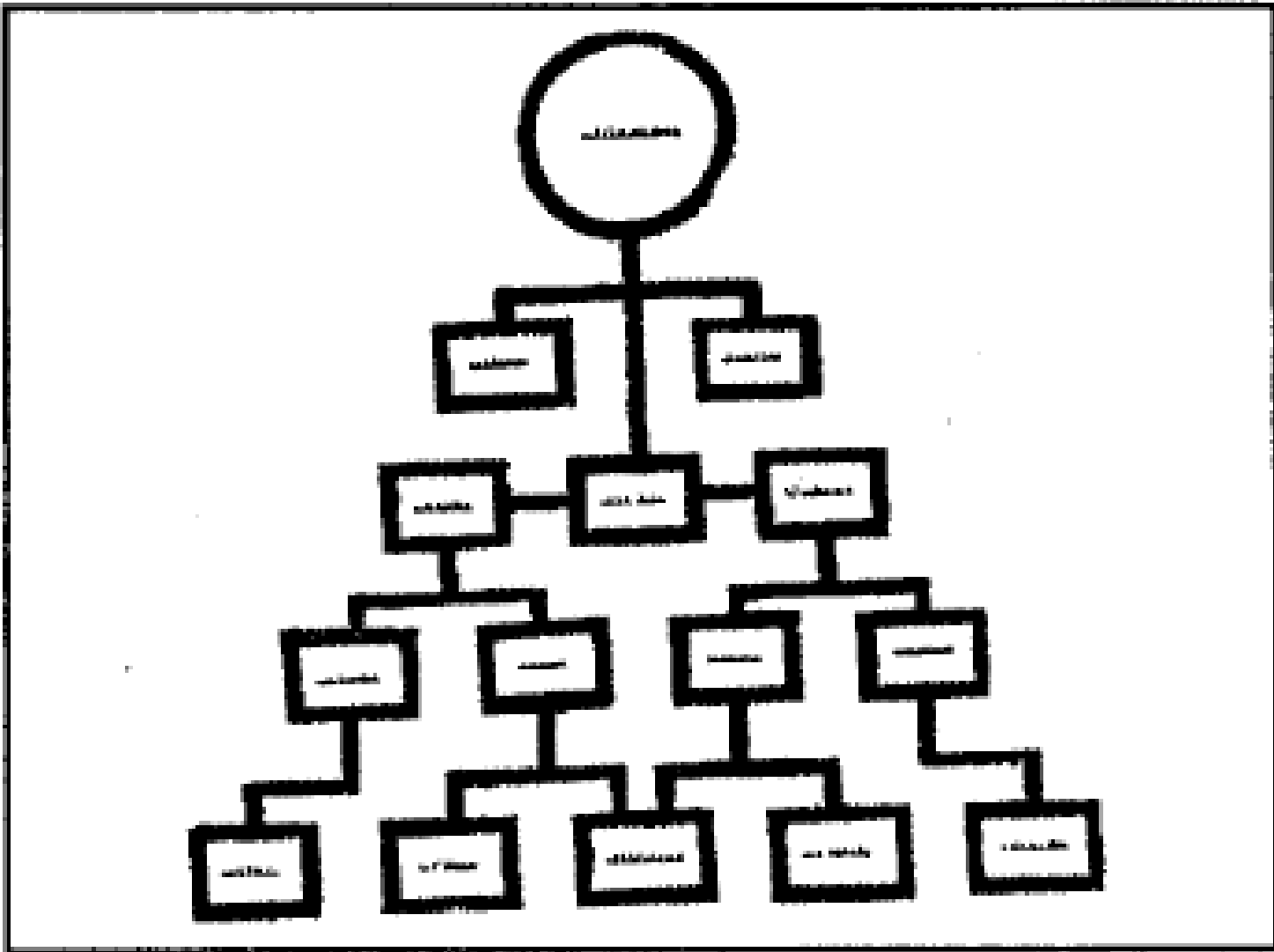
Performance Budgeting: Motivations



Cartoon by Richard Norman

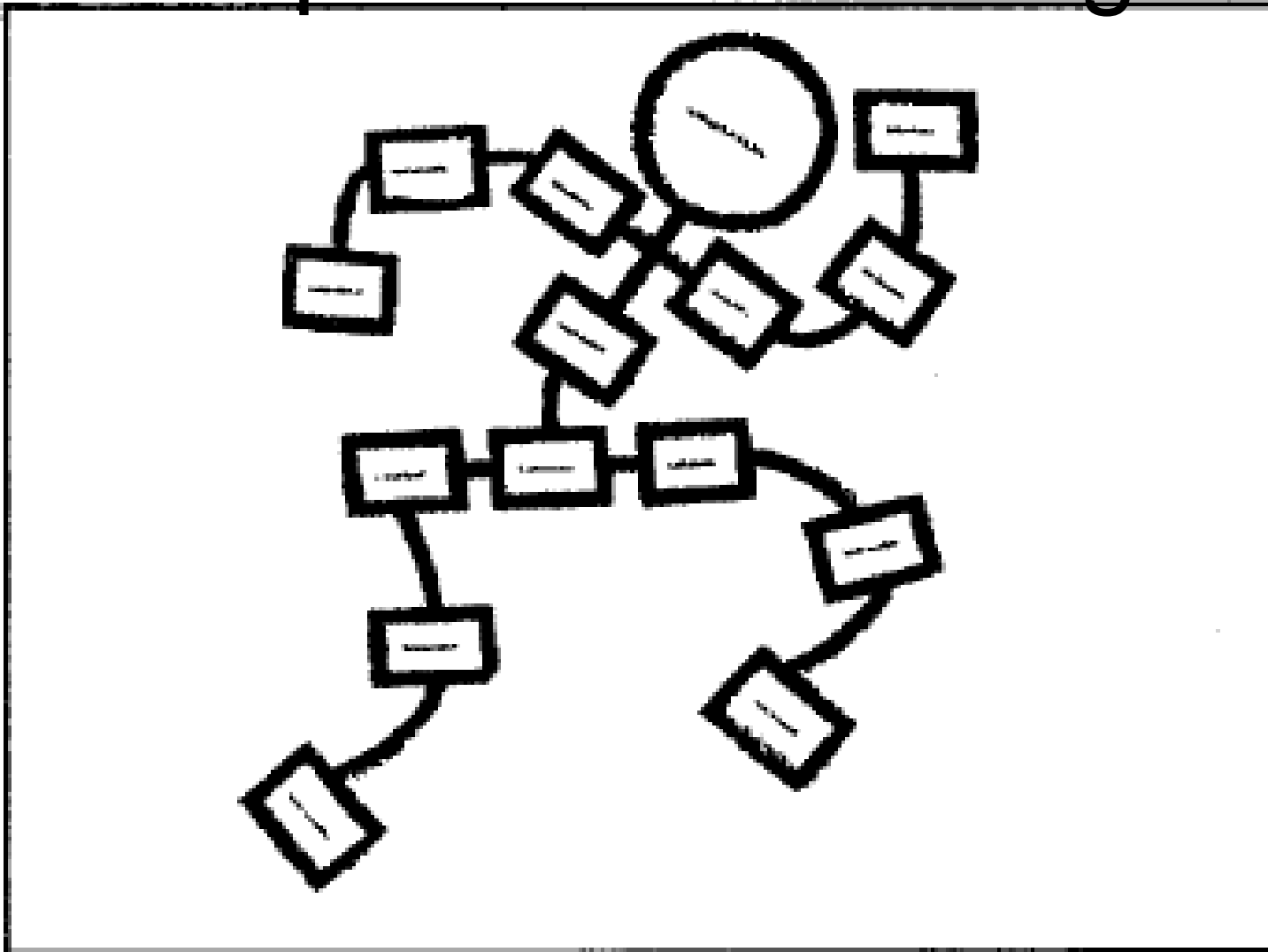


Cartoon by Richard Norman



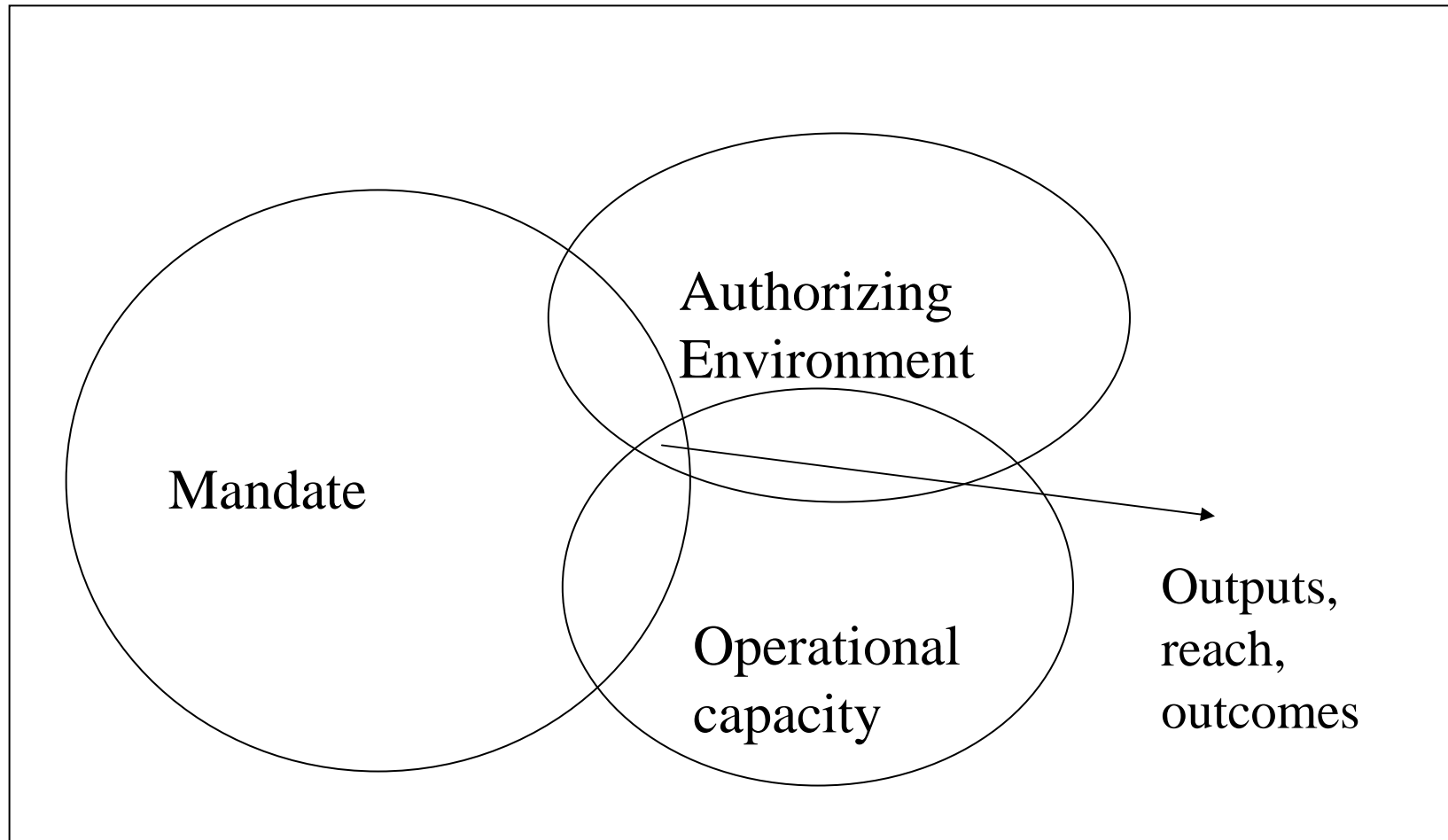
Cartoon by Richard Norman

Goals of performance budgeting



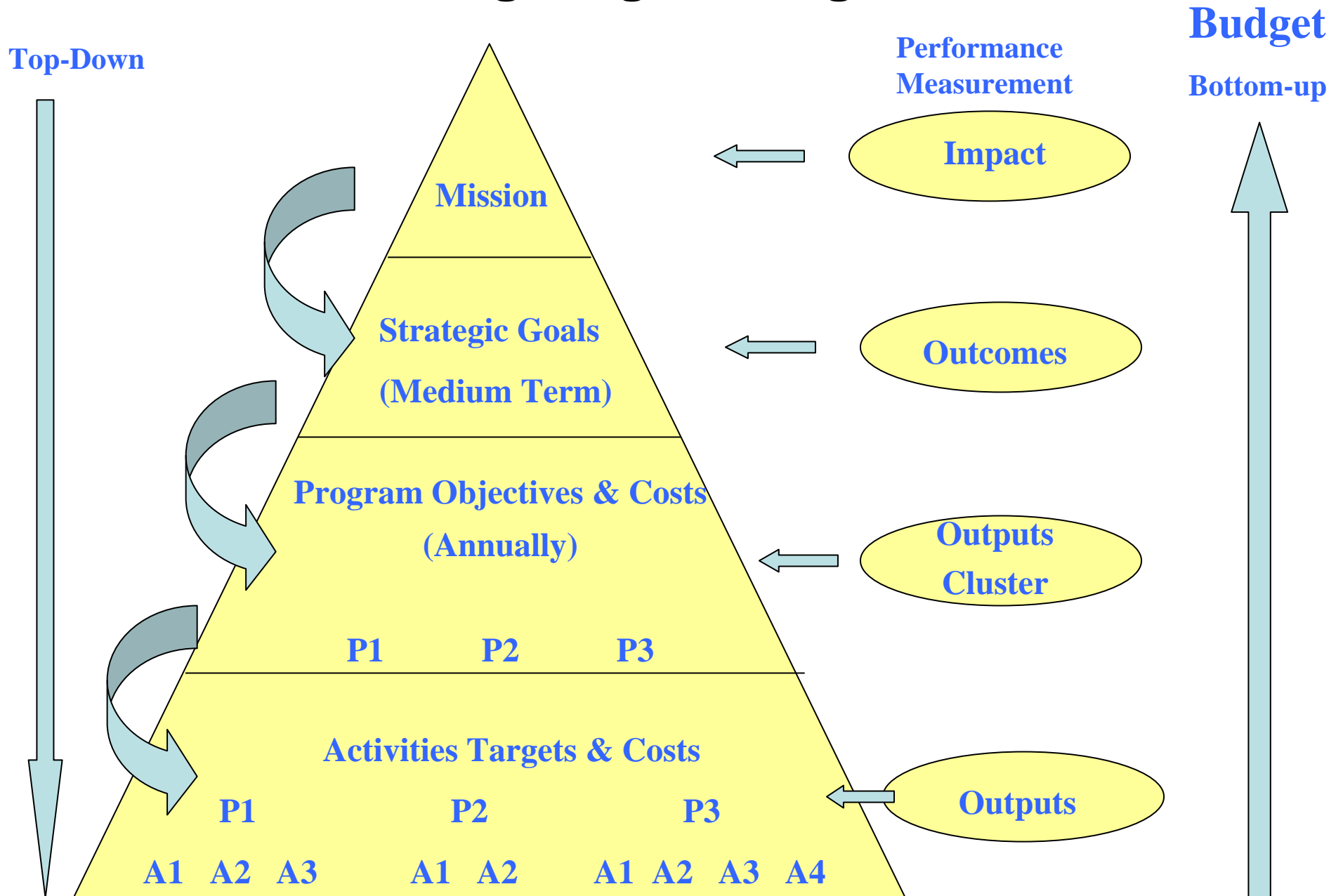
Cartoon by Richard Norman

PB as a consensus building tool



Performance Budgeting: What?

Performance Budgeting Paradigm



A comparative perspective on the two budgeting approaches

Focus on Results



Increased
Managerial
Discretion and less
control



Managers are accountable
for what they achieve.

PB

Focus on Control



No Managerial
Discretion



Managers are accountable
for what and how they
spend on inputs.

Line-Item

Features of Alternate Budget Formats

Feature	Line Item	Program	Performance
Contents	Exp. by objects (wages, travel, utilities, vehicles /equipment) or organization	Exp. by cluster of activities (enforcement, investigations..)	Results based chain
Format	Operating and capital expenditures	Exp. By program	Inputs, outputs, outcomes, impacts, reach
Orientation	Input controls	Input controls	Focus on results
Management paradigm	Top-down, rules driven	Top-down but flexibility within a program	Managerial flexibility but accountability for results

Performance Budgeting: The Practice

The Practice: Spectrum of Performance Budgeting Reforms

- **Performance Reported Budgeting (PRB)** Performance information presented as part of the budget documentation but it is infrequently used by budgetary actors in allocations. **Denmark, UK., U.S. Federal Government, South Africa**
- **Performance Informed Budgeting (PIB)** Performance information is actively used to inform budget decisions, along with other information but it may not significantly affect budgetary decision-making. , **Australia, France, Finland, Malaysia, Singapore, Sweden, Netherlands, Uganda, Local Governments in Canada, Indonesia and US**
- **Performance Based Budgeting (PBB)** Performance information is very important in the decision-making process but it does not necessarily determine the amount of resources allocated. **New Zealand**
- **Performance Linked/Determined Budgeting (PLB/PDB) (or “strict” performance budgeting)**. Allocation of resources is directly and explicitly linked to units of performance. Not feasible in practice

Performance Budgeting Payoffs: Budget as a useful source of performance information

- **Cost:** Inputs/resources used to produce outputs
- **Output:** Quantity and quality of goods and services produced.
- **Outcome:** Progress in achieving program objectives
- **Impact:** Program goals
- **Reach:** People who benefit or are hurt by a program
- **Quality:** Measure of service such as timeliness, accessibility, courtesy, accuracy
- **Productivity:** Output by work hour
- **Efficiency:** Cost per unit of output
- **Satisfaction:** Rating of services by users

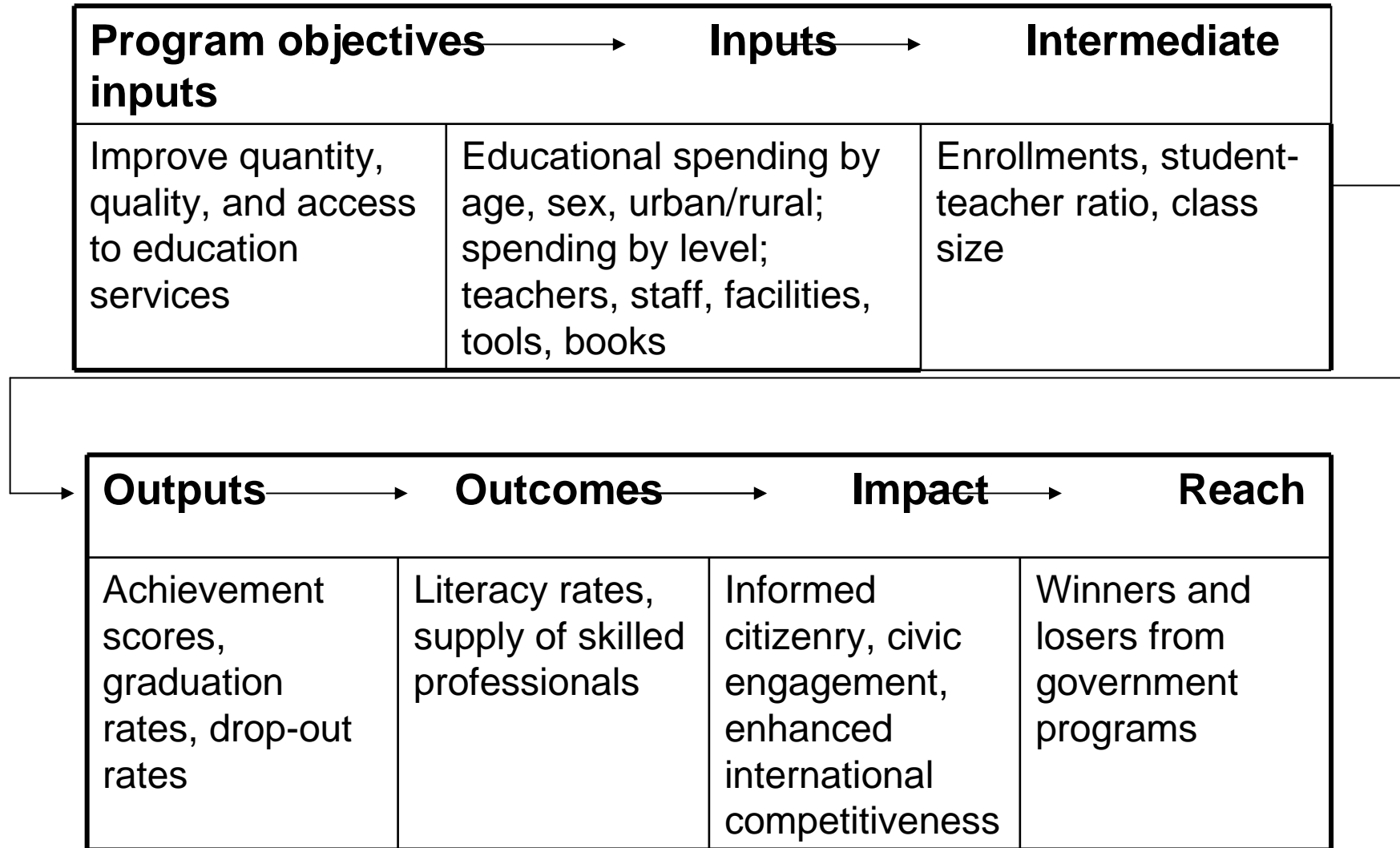
Experience to date with a decade of performance budgeting reforms

- Budgets seen as more useful tools for letting the sunshine in on government performance.
- Citizens and policy makers are better informed about government operations.
- Positive impact at local government performance
- But the impact on central government performance with a few exceptions is modest or negligible in most countries.
- Seen by some as a costly, information overload exercise with uncertain benefits

Reasons for lack-lustre performance

- Complimentary reforms to strengthen results based management framework lagging behind
- Limited progress on activity based costing
- Lack of clarity on logical framework and the results based chain
- Culture of managing for results new to some governments
- Performance budgeting not helpful for policy, planning and R&D organizations and functions
- Inconsistency of organizational structures with accountability for results
- Focus on outcomes with diffused accountability
- Inadequate focus on REACH (winners and losers associated with government programs)

Performance Budgeting Difficulties: Not all programs give the citizens a clear window on the results chain



Lessons: Motivation to make a change by the executive and the legislature is critical for the success of performance budgeting

Athenian Oath: “We will strive increasingly to quicken the public sense of public duty; That thus... we will transmit this city not only not less, but greater, better and more beautiful than it was transmitted to us”.

Lessons: Performance Management Framework is a pre-requisite for PB

	Making managers manage	Letting managers manage
Strategy	Market-like incentives (competition, voice and choice)	Management norms
Mechanism	contracts	empowerment
Commonality	Managerial flexibility	Managerial flexibility
Difference	Contracts and rewards, new CS framework	Trust and intrinsic rewards, life-long appointments
Examples	New Zealand	Australia, Sweden

Lessons: Additional elements of a performance management framework

- Activity based costing
- Capital charging
- Accrual accounting (optional)
- Subsidiarity principle
- Competitive service delivery and benchmarking
- Incentives for cost efficiency (including capital use)
- Local home rule

Lessons

- Performance budgeting must be an integral element of a broader reform package to bring about performance culture. In the absence of an incentive environment for better performance and accountability for results, the introduction of performance budgeting might not lead to better performance.
- Managerial accountability must be on outputs and not on outcomes as the latter are influenced by external factors. Outcomes however should be monitored.
- PB most relevant for public services with delivery to citizens – most local services.
- Incorporating citizens' evaluation of outputs in PB helpful in improving budgetary outcomes.

Performance Budgeting: Future?

Why performance budgeting reforms are expected to be sustained?

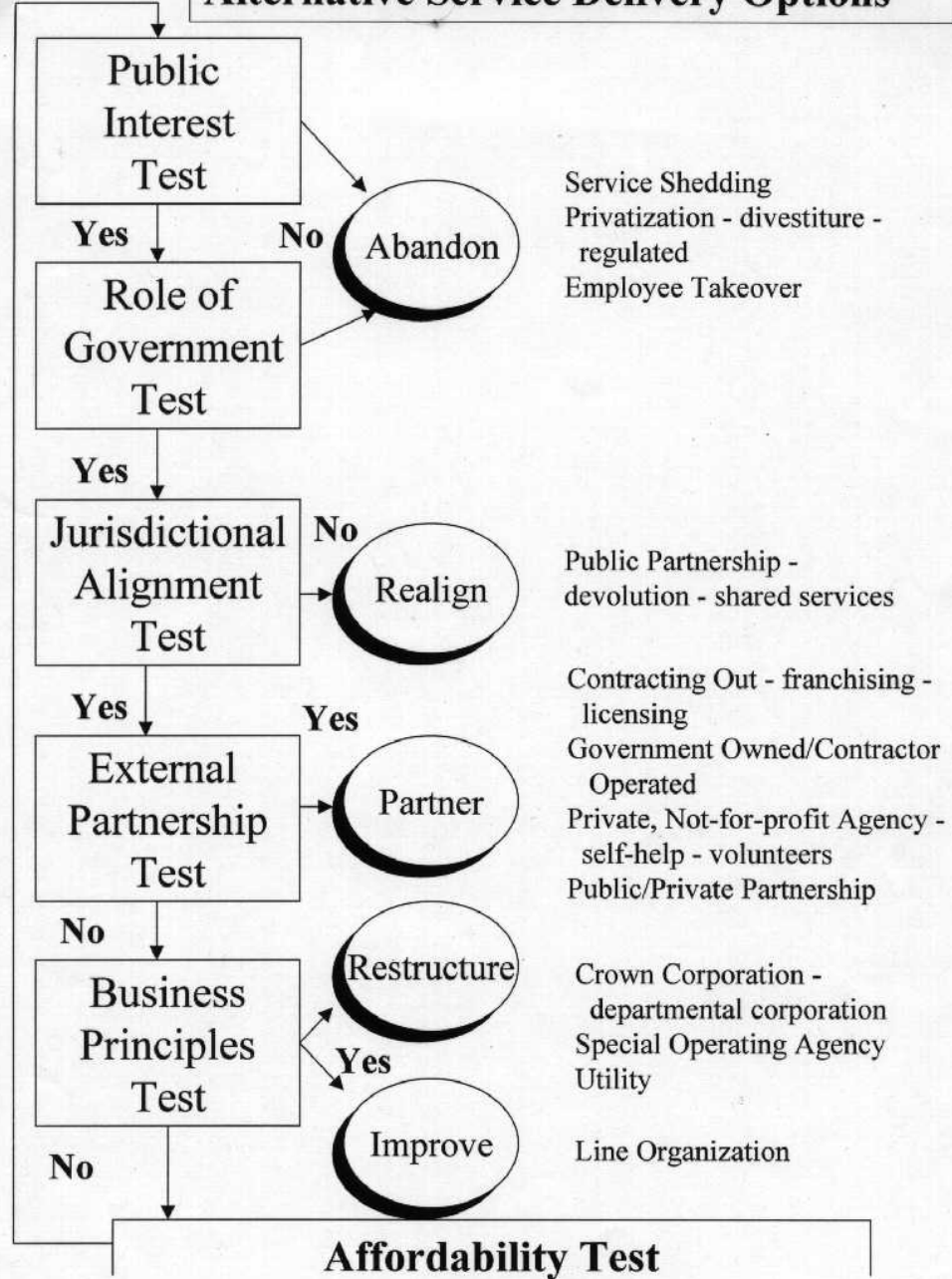
- Rising concerns regarding fiscal sustainability, efficiency and equity of public services provision.
- Rising expectations on transparency, integrity and accountability of government operations
- Constitutional rights to know
- Constitutional/legal rights: Demanding to be served
- Growing citizen activism regarding the use of taxpayer monies

Directions for future performance budgeting reforms

- Greater clarity and focus in mission, objectives and results based chain – program reviews using alternative service delivery framework
- Greater measurement focus on benchmarking service delivery performance and reach
- Reducing information overload for policy, planning, coping and craft organizations and functions.
- Integration of citizen based evaluations with the budget – citizen centered performance budgeting
- Further progress in government renewal and organizational change to strengthen results based culture

Alternative Service Delivery Framework

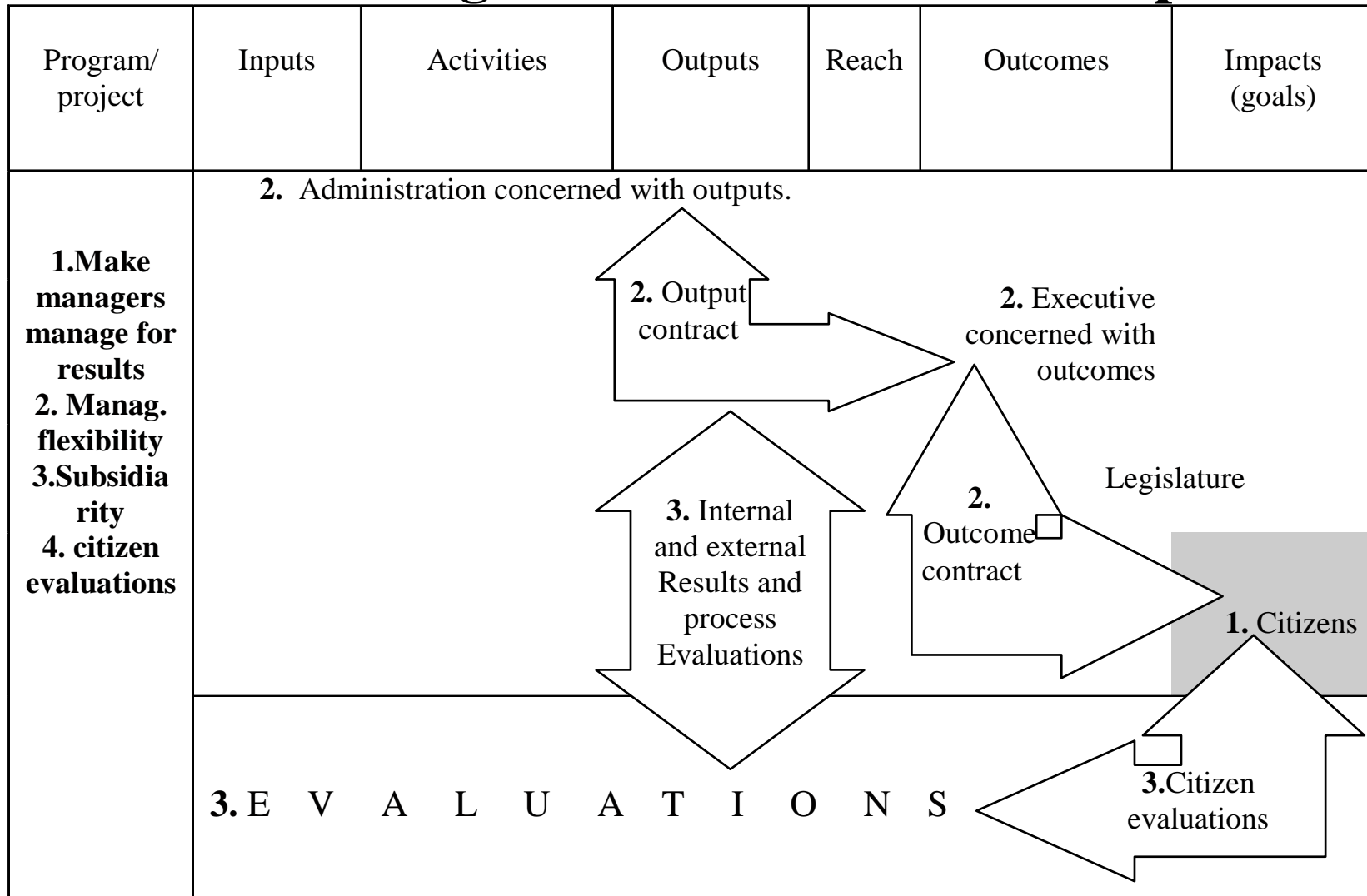
Alternative Service Delivery Options



Citizen-centered performance budgeting

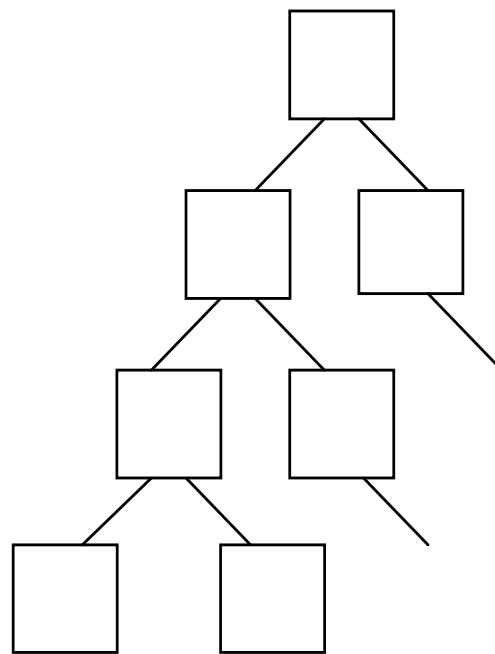
- Budget format to follow closely service delivery format and also to include an annual performance report and net worth assessment
- Citizens charter (client's charter in Malaysia) and sunshine rights
- Citizen inputs in local budget process to be formalized at all stages
 - Formulation: Town Hall meeting on the previous year's performance and new proposals. Comments on Porto Alegre and Belo Horizonte, Bolivia
 - Review and execution: Formal process for complaints
 - Post: Compliance and feedback reports.

Governing for Results: A Road Map



Output Accountability vs. Outcome Accountability

Results-based accountability relationships inform managerial structures



President/ Prime Minister – Accountable for ‘outcomes cluster’

Minister/ Secretary – Accountable for outcomes

Departmental head/ Program managers – Accountable for ‘output clusters’

Project managers – Accountable for outputs

A Governing for Results Framework for Civil Service

Current culture

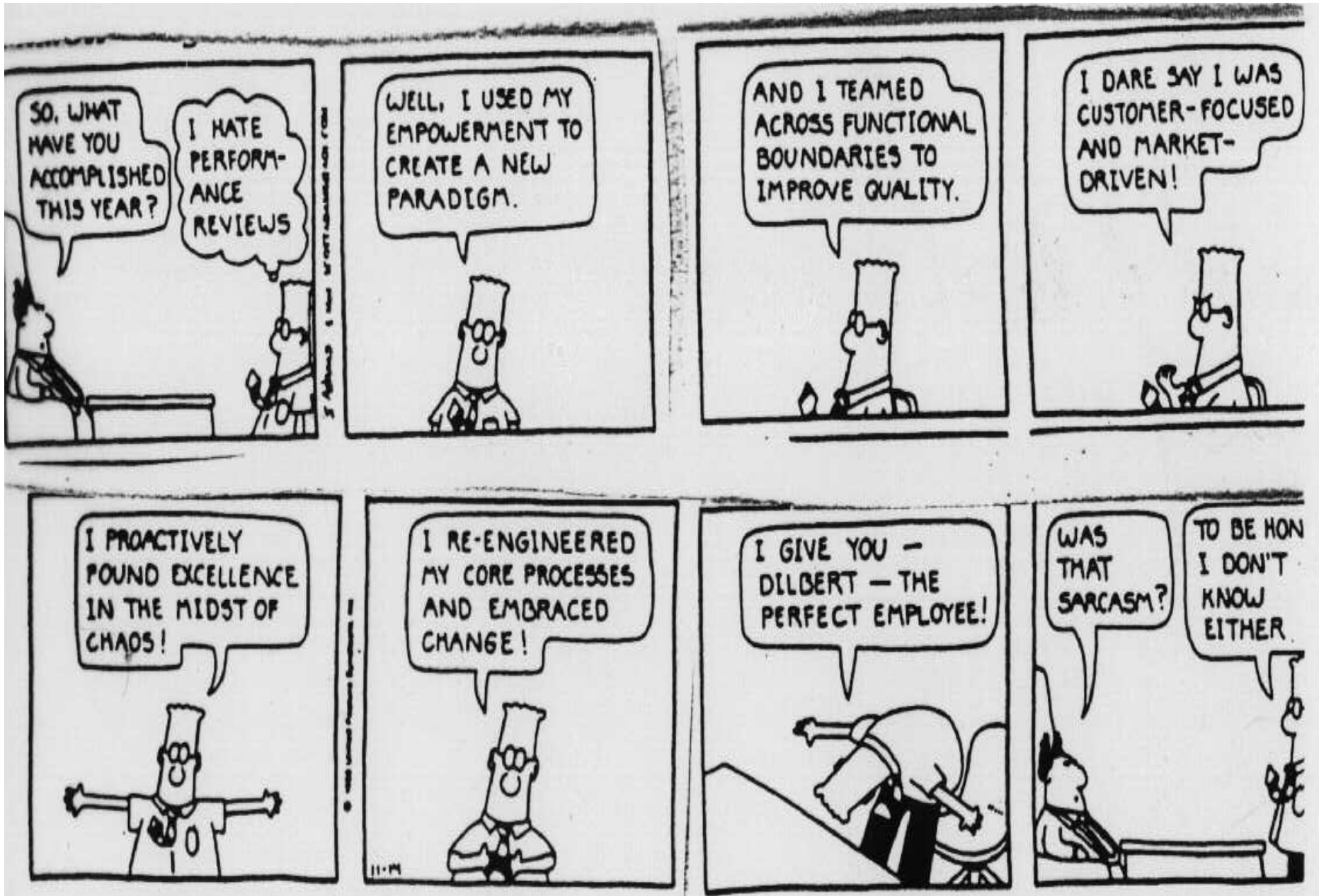
- Rigid rules
- Input controls
- Top-down accountability
- Low wages and high perks
- Life-long and rotating appointments
- Intolerance for risk/innovation

CCCS

- Managerial flexibility
- Results matter
- Bottom-up accountability
- Competitive wages but little else
- Contractual and task specialization
- Freedom to fail/succeed

Tools for Results Oriented Management—external, citizen focus

Question for results-oriented management	Management tool	The entire process driven by a citizen focus:
Contract information—what is the final product we must produce and what do we receive to produce such product?	Performance-based budget	<p>All these tools are connected to Total Quality Management and such devices used to create a results and participation culture, and work effectively where roles emphasize results.</p>
How do we know how we are doing in terms of the contract, and in terms of other producers from whom we can learn?	Benchmarking	
How much does it cost to produce such product (the complete cost)? How can we produce the product better so we can be sure of meeting and exceeding our contract obligation and receiving rewards?	Activity-Based Costing (and others)	
How do we report our results?	Full reporting using accrual accounting	
How do we manage the new reporting, production, and contract obligations we have, as well as run a citizen friendly administration?	Balanced Scorecard	



Cartoons by Dilbert