

Use of performance information in budgeting and management processes

Lessons of an OECD conference¹

The budget is one of the most important economic policy documents of the governments, in which the coordination and implementation of political objectives is translated into concrete actions and concrete budgetary allocations. Transparency – i.e. openness in the formulation and implementation of economic and political intentions – is a key element of good governance. The OECD countries are in the lead in terms of budgetary transparency: they are seeking forms of conciliation with which they can win the society and the economic players over to the budgetary targets as much as possible. However, the key element continues to be the agreement between the legislative and executive powers, and the conditions and real content of this agreement. To monitor the development of the budgetary system, each year OECD selects one or two topics for detailed examination based on the responses given to the questionnaire.

All over the world, citizens claim more and more from their governments, demand more transparent spending, decision-making, more and better quality services for the taxes they pay. They would like if the performance of the public sector became tangible for them, too.

In order to research this topic, the following question must be asked: what do we understand by public sector performance, and how can it be measured?

An essential part of public sector reform all over the world is the integration of performance information into the process of budget planning and execution, and institution operation. In 2004, the Public Governance Committee of the Directorate for Public Governance and Territorial Development, OECD, included the topic in its agenda within the framework of the Performance and Outcomes working group. At the first meeting dedicated to the topic – which was held in April 2004 – many matters of dispute were brought up. It was concluded that the use of such information is costly and requires fundamental changes that go on for years, i.e. they can be best implemented within the framework of a wider reform of budget planning and execution. Many countries had doubts whether the performance information could be successfully integrated into their management and budget systems.

The topic of discussion of the conference is closely related to the launch of state reform related works in Hungary, as well as to the modernisation of budget planning, execution and reporting within the competence of the State Audit Office (SAO) and the Ministry of Finance of Hungary.

In line with its strategic objective, the SAO carries out performance audits in an increasing

number of fields, which assumes the measurement of the effectiveness and efficiency of public spending. This work would significantly improve if performance information was more extensively integrated into the process of budget planning, decision-making, execution and reporting. No wonder that in many countries the performance indicators are applied and refined upon the initiation of the supreme audit institutions.

The Ministry of Finance works on the restructuring of budgetary institutions and their procedures within the legal frameworks based on the international practice, expectations, as well as audit findings and recommendations in order to fully ensure transparency, authenticity and reliable accountability of public spending.

The aim of the OECD conference was to give an overview – based on the experiences of the member states – of the status of the use of performance indicators, the manner performance information is used by the different countries in the budgetary and management processes; as well as of the counter-effect it has on budgetary, management and political decision-making, and governmental performance itself.

The use of the indicators assumes the elaboration of a new, performance based budget (performance budgeting)², which focuses on outputs (production, services, value) and outcomes (results) rather than on inputs.

The use of the indicators is often determined by performance based agreements, where the number one task is to define – for ministers and institution heads responsible for implementation – the objectives to be attained. For this purpose governmental services must be re-defined in a more result oriented manner, and budgetary needs must be supported with information on performance and program costs. At the same time, in most countries an important part of this public sec-

tor modernisation process is the shift to accrual accounting³.

Concrete topics of the conference:

- Description of the budgetary performance systems of the different countries, discussion of the experiences, development of the use of performance information in budgetary and management processes.

- Performance measurement and result evaluation: types, problems and bottlenecks of information development, directions of the refinement of output and outcome indicators.

- Integration of the performance indicators into the entire process of budgeting and management, the connection thereof with the budgetary decisions.

- Dissemination of the main lessons as best practice.

In 2005, the Secretariat of the OECD performed a questionnaire survey⁴ among the member states about what performance indicators they use in their budgeting processes. The findings of the survey – which included the following questions among others – were also disclosed at the conference.

- Since when have the countries been using performance measurement and indicators in the field of public finances?

- When do you plan to introduce performance budgeting, budget execution or accounting? (Hungary did not give a definite answer.)

- When was output measurement first initiated? Which institutions are responsible for this?

Based on the reports and the survey it can be concluded that most countries use some performance measurement and performance indicators in the budget process. However, such practices differ from country to country, they are of different weight, representing mostly supplementary information, and in reality they are not organically integrated into the budget planning, decision-making, execution and auditing processes.

As far as Hungary is concerned, according to the responses, output and outcome information and indicators and measurements in Hungary are related to the funding of primary education and prisons. Direct performance budgeting is used in the case of higher education programs, while high quality output measurement is used in the budgeting of the healthcare system, education and the tax authority.

Based on the experiences of the different OECD countries it can be concluded that most countries used very general wording and addressed the process of practical implementation only briefly.

Excerpts from the usable elements of the Danish case study⁵ for the definition of output and outcome targets.

- *It was set for the Danish Competition Authority that the productivity of the agencies in service provision should improve by 2% compared to the previous year.*
- *It was prescribed for the Danish Chamber of Medical Doctors that the approval procedure of drugs and vaccines with new ingredients should be 210 days long in 95% of the cases.*
- *The Danish Statistical Office must achieve that the level of satisfaction with the statistical services be 4.3 on a scale of 1 to 5.*

According to the country reports presented at the conference, former efforts pertained to the value of products and services delivered by the government (output), to which it was very difficult to attribute performance information. Currently, the emphasis has shifted towards results and benefits (outcomes) yielded by the outputs, to which it is much easier to attribute performance indicators. The following conclusions were drawn from the experience gained so far:

- it is useful if performance information is linked to a wider reform of the public sector;

- the most important objectives and tasks must be defined in a systemised manner; it is important to keep the number of objectives and programs low. (Each country had to narrow the originally set system of objectives and indicators to make it manageable.);
- the automatic application of performance information must be avoided.

All in all, the reports show that although most OECD member states rely on performance information, such information is used in different ways and in different forms in the governments' activities:

- medium-term budget figures and balance indicators are usually made with the accrual approach;
- the medium-term budget frameworks are filled with programs, i.e. social and economic objectives, actions to be performed for the sake of implementation and the results appear in the budget;
- in the course of budget execution the expectations and results are determined in the framework of agreements between the hierarchical levels, wherefore accountability improves at all levels;
- governmental actions are monitored on the basis of various professional reports and – a reasonable number of – quantified indicators;
- apart from the measurable products increasing significance is attributed to the evaluation of the impacts, usefulness of these products, as well as to how much they contribute to the achievement of social and economic goals, and to the analysis of the overall social and economic impacts;
- the financial report contains a complex account about the property, income and financial standing.

The OECD meeting was especially useful for Hungary, since it offered several solutions and lessons for the reform of public finance,

budget formulation, execution and reporting institutions and processes, as well as for preparation for this reform. The theoretical and practical questions or issues are the following:

- transparency, publicity, predictability and accountability must exist in all stages of budgeting; this can be fostered by the system of performance information;
- it can be seen in several countries that the major budget policy measures are taken and implemented on the basis of a national consensus;
- the performance information system has enhanced the independence of the ministries in that they can determine the priority professional fields within their budgetary means, and in line with the national priorities;
- in several countries program implementation is reviewed by a separate committee at intervals of two or more years;
- the correlation between performance budgeting and improved efficiency is confirmed, for instance, by the case of the budget of the Netherlands: the preparation of the annual budget report for the Parliament has accelerated (the report is now submitted in May as

opposed to the former submission date of September);

- the structure of the budget has become more transparent, partly due to the succinct policy justification (15 pages instead of the former 60 pages).

Further challenges were formulated:

- Australia uses the indicators primarily in reporting. The weakness of the system is that the integration of the performance indicators into the budget procedure involves several problems, and there is no adequate relationship between the performance indicators and budgetary decision-making;
- the greatest threat is that the application of the indicators becomes automatic;
- it is important to ensure the reliability of data, to integrate the central and local levels of governance in the decision-making process, as well as to separate the decision-making and executive powers.

OECD is preparing a summary report on this topic that will serve as a certain guideline for the countries in the field of the elaboration, application, evaluation, modernisation, etc. of performance information.

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NOTES

¹ Public Governance Committee of the Directorate for Public Governance and Territorial Development, OECD, Paris, 2–3 May 2006

² Performance budgeting is used as a synonym of program budgeting.

³ Accrual accounting, and partial accrual budgeting have been introduced in many member states in the most varied forms. Some countries have fully switched over to accrual accounting and budgeting, while others use accrual accounting only in their reporting systems. There are also some countries

that enforce certain accrual elements while retaining the cash flow system, or utilise accrual background information, like Hungary.

⁴ Performance Information in the Budget Process: Results of the OECD 2005 Questionnaire (by Teresa Curristine), *OECD Journal on Budgeting, Volume 5, No. 2. OECD, 2005*

⁵ Experiences of Utilising Performance Information in Budgeting and Management Processes, Draft Case Study – Denmark, *OECD, Paris, 2–3 May 2006*