8th ANNUAL SEMINAR: BUDGETING FOR RESULTS: MOVING TOWARDS PERFORMANCE BUDGETING

Roundtable Discussion 3: Entrenching performance measures in the budget process

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Introduction

By 2007 almost two thirds of OECD countries included non-financial performance information in their budget process (Arizti, Brumby et al. 2010). Similarly, of the 61 non-OECD members that had completed the 2007/8 Budget Practices and Procedures survey, 69% had developed output measures and 66% outcome measures by that time and 39% had linked more than 60% of their expenditure to performance objectives and targets (OECD 2007). Yet, while many countries reported the existence of performance-based institutions in their budget cycles, the type of performance information and the way in which it is used in the budget process differs significantly among countries, presenting a continuum of practices, some of which are more successful than others in entrenching this use of performance measures.

Across the board however, the shift to using performance information in the budget process has been in response to the shortcomings of line-item, input control-oriented budget formats and practices (Shah and Shen 2007; Robinson and Last 2009). While central budget agencies' interest in controlling expenditure has endured, modern governments and their stakeholders now have an equally strong interest in understanding better what the purposes of spending are and the results relative to priorities, objectives and legislative mandates. Since the 1950s, several innovations in budgeting have been attempted to address the limitations of traditional budget formats and practices in this respect, examples of innovations are budgeting by cross-cutting programmes in the 1950s, aggregate sector allocations in the 1960s and zero-based budgeting in the 1970s (Shah and Shen 2007). Continuing these efforts, performance-based budgeting has evolved since the 1980s to improve the allocative and operational efficiency of public expenditure and to create fiscal space for new priorities. As a reform, performance budgeting aims to improve the use of public resources, and accountability (Arizti, Brumby et al. 2010, p21). Entrenching it as an effective component of the budgeting system to achieve these aims, however, has proved to be difficult in many countries.

Across countries, entrenching performance measures (see box below for a discussion on how the term is used in performance budgeting) and a performance orientation in the budget process requires progress against two building blocks of performance budgeting: (i) the availability of quality performance information and (ii) the effective use of this performance information in government budget processes. These two are interdependent: quality performance measures are unlikely to emerge unless the information is used in one or other way. At the same time, performance information will be used only if it is relevant, reliable and timely.

Making progress on entrenching a measurement and performance culture in government therefore requires careful sequencing of reforms to generate quality performance information and reforms to budget systems and processes to ensure that the information is used in a meaningful way. This background paper looks at a series of (i) useful conceptual and practical distinctions to demarcate and describe performance budgeting and performance measures; (ii) key issues that countries face in entrenching performance measures in the budget process and (iii) good practices to address these issues and ensuring both the availability and effective use of performance measures in the budget process. The distinctions and key issues are presented below in the main body of the text as a series of observations in respect of the use of performance measures in the budget process. The final section draws on the observations made to highlight good practices and key factors in establishing effective performance budgeting institutions.

The paper is one of five papers drafted to inform discussions at the 8th CABRI Annual Seminar on *Budgeting for results: Moving towards performance budgeting*. Other papers are

- Sequencing and timetable for PBB reform
- Organisation and Change Management Implications for PBB Reform
- Preconditions for programme and performance based budget reform
- Country reform experiences

Box 1: What are performance measures?

What are performance measures? Performance budgeting is strongly associated with the use of *performance measures* linked to expenditure allocations. Performance measures can be conceptualised as a sub-set of performance information. It is the quantitative metrics or indicators for targeting and tracking

- business processes such as compliance to rules or the activities targeted / required to achieve a result;
- results such as the use of inputs, outputs produced or policy goals achieved; or
- more complex ratios such as efficiency, productivity, effectiveness and cost-effectiveness (Ketelaar, Manning et al. 2007, p8).

In the international literature, the term performance measures is used interchangeably with performance indicators.

Arizti, Brumby et al (2010) further argue that in order for a set of indicators to be seen as performance measures, they would need to include more than just indicators of inputs and include relevant indicators of outputs and outcomes and the relationships between them. In some countries, central agencies target what type of measures should be used as performance information in the budget process (for example in South Africa, Australia), others allow spending agencies more discretion to design performance measures of relevance to them (for example Sweden).

What are *quality* performance measures? Performance measures should be specific, measurable, achievable, relevant and time-bound (or the often-used acronym SMART). This ensures that performance can be measured through comparing like with like in a budget process, for example this year's target or achievements compared with previous years (relative to resources); the targets and achievements of budget units delivering the same programmes or cross country comparisons of effectiveness. In addition, the data used to calculate performance measures should be reliable and sufficiently recent to be relevant to the policy and budget process.

In performance budgeting, performance measures are closely associated with strategic planning practice and language. Performance measures therefore are related to spending programme objectives in respect of inputs, outputs, outcomes (and impact). Performance measures on their own however, will not tell an institution or central budget agency enough about programme performance: they should be supplemented with periodic programme or institutional expenditure reviews.

Not all performance budgeting systems work with spending programmes and sub-programmes as the unit of analysis. Some, where the shift to allocating to programmes at a high level of the appropriation vote or budget structure has not occurred, may work with institutional objectives.

1. *Key distinctions and issues in performance budgeting*

1.1. Performance management and performance budgeting: Performance budgeting is not the only performance information linked innovation in public management to improve government outcomes. Performance management and contracting are often seen as complementary public systems that together with performance budgeting serve to entrench a performance culture in government. A first useful distinction therefore within this overall field, is between performance budgeting and performance management[1].

Performance budgeting refers to the instrument used by government for decision-making processes to use resources effectively and efficiently in achieving political, economic, policy and/or organisational goals (World Bank 2005), so that the funding of public sector organisations are linked to the results they deliver, making systematic use of performance information (Robinson and Last 2009). These systems are often concerned with moving the budget process focus from allocating the 'new money' to assessing all of government spending, through monitoring performance measures and through periodic review[2] of all spending programmes.

Performance management on the other hand, refers to a system incorporated with the political, corporate and individual management in the public sector overall, using performance information, monitoring, reporting, assessment and evaluation (World Bank 2005), and which may include information contracting. While there has to be linkages between these two systems

[1] Some authors see performance-based budgeting as a sub-set of activities under performance management. For Scott (2008) for example, the objective of performance based budgeting is improving the performance of government, as for performance management overall.

[2] In Zero-based budgeting the budget process requires that all spending is reviewed and justified in every budget cycle, to ensure full alignment with arising priorities. However, the system is highly demanding in terms of capacity, is not favoured by politicians and undermines budgeting principles of predictability and stability, while itself being rendered less than effective by on-going or multi-year spending obligations such and contracts and personnel. In some countries, such as in Canada, the system instead requires the review of 25% of spending programmes annually, and the reallocation from lower to higher priorities of at least 5% of expenditure per programme.

– as the budget process should reflect the same political and corporate priorities as are driving performance management processes -- countries differ as to the degree to which these linkages are formalised. At the most basic level, it is inevitable that a spending agency's performance information management system would need to manage and often integrate indicators and data from both performance budgeting and performance management systems (see discussion on good practice in section 2). In a most integrated form, indicators in the performance contracts of individual politicians (with a head of government) and officials (with their executive officer for the head of department and with the head of department for lower level officials) would reflect indicators and targets in the performance budgeting system.

1.2. Performance measures can be used for several purposes, each with its own logic, dynamics and incentives: This distinction brings to the fore that performance measures – evidence on the performance of a policy or expenditure programme or institution – can be used for different purposes in the public sector. Examples include controlling, budgeting, motivating, promoting, learning and improving, evaluating and to hold to account. Each of these usages of performance information has a different logic and determinants (Van Dooren and Van de Walle 2008). For example, using performance information for learning and improving public service delivery will evoke different responses / carry different incentives from the producers of information than using it for budgeting and accountability purposes. Performance information generated in performance management systems could act as signals of issues that can be investigated further in evaluations. Countries that set up performance budgeting systems need to be aware of how different uses of performance information impact on its identification and quality and to exactly how and when related, but distinct uses performance information will interact in the budget cycle.

1.3. Performance information can be qualitative or quantitative: The type of performance information required is also affected by its intended use. In general, performance information can be qualitative or quantitative: commonly countries that implement performance budgeting systems pursue the systematic production of structured, more quantitative performance *measures* so that changes in performance are measurable and can be targeted to justify or inform resource allocations, and so that spending can be compared in relevant dimensions.

1.4. The use of performance measures in the budget process can be more or less tightly linked to allocations: However, not all performance budgeting systems operate on a narrow, direct link between resource allocation and performance targets. Azirti, Brumby et al (2008), defines performance budgeting as occurring when there is the expectation that *the dialogue in the budget process will be informed by performance information*. This expectation can be expressed either as a formalised link, where budget holders are given the resources to achieve targets, or informally where in practice the dialogue about resource allocation is underpinned by information about the performance of programmes and institutions.

Robinson and Last (2009) in deriving good practice lessons from the array of performance budget practices in the world, made a useful distinction between *performance-informed budgeting* – as a basic version of performance budgeting – and more sophisticated systems of full-fledged performance budgeting. Azirti, Brumby et al (2008) calls the most formalised systems formula-based budgeting, where an increase in resources is linked to increased outputs.

In performance-informed budgeting, the system seeks to ensure that "when formulating the government budget, key decision makers systematically take into account the results to be achieved by expenditure" (p 2). In order for this to be assured, information should be available about the objectives and results of government expenditure (in the form of indicators and some form of programme evaluation) and the budget process – even if still allocating funds to budget holders and inputs -- needs to facilitate the use of this information.

More advanced forms of performance budgeting either allocate funds to objectives and outputs and/or set performance targets to be achieved with available funding. The Australian and New Zealand performance budgeting systems operate with such formal links. These systems require fully functional performance information management systems to be in place as part of an entrenched measurement culture to deliver reliable performance information and should generally therefore not be attempted in the early years of a performance budgeting system. They also often rely more on ex ante performance information, rather than ex post.

1.5. Performance budgeting often relies on more than just performance measures to inform allocations: The targeting and monitoring of performance through structured, systematic performance measures is not the only information stream associated with performance budgeting. Robinson and Last (2009) also highlight the importance of some form of systematic programme review, which will make use of routinely collected performance information, but which may also generate specific once-of information for the purpose of the review. In most OECD countries spending programmes are reviewed periodically in this way, including in Canada, Sweden, the United Kingdom, the Netherlands and South Korea. The use of such reviews to supplement performance-measure based monitoring can be seen as important to ensure that performance measures are relevant and useful. In effect, they themselves become institutions through which performance measures are used. At the same time, they are also necessary supplementary mechanisms to fully describe or assess performance in the public sector: performance measures on their own are not sufficient.

1.6. Performance measures provide both too little and too much information: A key trade-off in selecting performance information for performance budgeting purposes concerns the difficulty of selecting a comprehensive set of performance information against which to allocate budgets without resulting in too much information creating cognitive overload or paralysis. Van Dooren and Van de Walle (2008) argue convincingly that no set of performance information can ever be comprehensive enough to budget for or control all aspects of public expenditure: coupling in performance information systems between the information and its use in decision-making may therefore in practice be more loose than what the outward appearance of systems suggests (p 3). In simple terms, this is because the legislative mandates of government institutions are normally much larger than the objectives and activities that are prioritised in strategic plans and because decision-making processes are more non-linear than what the rational decision-making model (which provides a conceptual underpinning for performance budgeting) suggests. As the authors say: "Performance-based systems assume that decision-making is rational – neat performance information contributes to the attainment of neat organisational goals. In reality, the public sector is messy and driven by multiple factors. Performance information can amplify ambiguity rather than reduce it" (p 8).

On the other hand, one of the biggest challenges in the development of performance-based budgeting is keeping "performance information simple, affordable and usable" (Robinson and Last 2009, p4). Many countries when first adopting performance-based budgeting (or performance management) are more concerned with the production of information than its use, developing (often externally financed and consultant-designed) sophisticated systems over a short period of time, while not having the skilled resources to maintain the systems (Van Dooren and Van de Walle 2008; Robinson and Last 2009). This uses up limited reform space, leading to a possible disillusionment amongst key stakeholders with the approach.

1.7. Performance measure frameworks are often designed without sufficient clarity on purpose and end-users: When performance budgeting reforms prioritise the production of performance measures in the absence of a clear understanding on how the information will be used when and by whom in the budget process, the result is a multiplicity of performance indicators to cover every possible perspective on the performance of a programme or institution. The operational unit responsible for the programme would want operational indicators for every component of the programme to manage it. The strategic policy unit would want indicators to ensure that the contribution of the programme to strategic objective can be tracked. Budget and financial officers would want indicators on all main inputs and outputs so that they can track programme implementation and efficiency, the head of department would want the strategic information, but also human resource, budget and managerial information. To this layer may be added information required by the central finance ministry on programme contribution to national objectives, by parliament to operationalize accountability, and by external stakeholders to be able to track impact on different population groups or social concerns. While all of the indicators would be valid in terms of the performance footprint of the programme, presenting a large number of indicators when reporting on a programme makes it difficult for any one user to form a judgement on programme performance.

Some countries use summary indicators to overcome the cognitive limits of multiple, relevant indicators. The United States of America for example uses a programme assessment rating tool that rate the performance of all Federal spending programmes as 'effective', 'moderately effective', 'adequate', 'ineffective' or 'results not demonstrated' ((Robinson and Last 2009). The assessment draws on established performance indicators and programme evaluations. Another option is to develop a weighted performance index. Other options is to develop a performance measure framework at the institutional level that arranges indicators in a hierarchy, ensuring that only the necessary measures are provided for any specific purpose, while ensuring that the needs of all users are covered.

1.8. Some sectors or types of government services lend themselves better to the use of performance measures than others: Performance is easier to measure in some sectors compared to others. Sectors and institutions that deliver frontline services to the population such as health, education, water, roads and civic services, usually have concrete outputs and outcomes that can be measured and used to target, assess or describe sector performance. In other sectors however -- those that provide policy, administrative or regulatory services -- it is more difficult to design performance measures that effectively signal performance (or its lack). For example, different to outputs in health for example (number of immunisations done), the outputs of an organisation responsible for planning are few and their production does not signal performance in the same way as immunisations, kilometres of road constructed. Even when time is used as a proxy (eg was the document produced on time?), this does not say much about the quality of the document and whether it will contribute to achieving objectives. Common solutions to this problem include the use of additional objective criteria (Schacter, 2006) to produce a measure of performance linked to outcomes, including assessments of whether adequate consultation was undertaken; whether the purpose is articulated clearly; whether the output is internally consistent; whether the underlying evidence is presented, accurate and complete and supports the conclusions; whether the viewpoint is balanced; whether a range of options are presented and argued; the presentation quality of the document and whether its advice or proposals are feasible.

1.9. The use of performance measures in budgeting occurs throughout the budget cycle, but this has a central budget agency, a spending agency and an external stakeholder dimension: Performance measures can inform decision-making and drive activities in each phase of the budget process from budget preparation; approval; execution; accounting, reporting and monitoring; to audit and oversight. Within the budget process, performance measures can be used to justify, target or reprioritise the allocation of resources, improve the transparency of the budget for the legislature, improve programme effectiveness, monitor the quality of spending and to hold spending agencies and managers to account. These different uses play out differently across actors in the budget process. For example, while the ministry of finance may be interested in using performance measures to drive budget allocations (and therefore will be interested in output-related measures), at spending agency level, the greater concern might be about improving service delivery (resulting in interest in appropriate outcome measures). Parliament on the other hand, would want to use performance measures to be able to hold agencies to account (resulting in interest in input, output and outcome measures and complex ratios). These different uses of performance measures within the budget process carry different incentives and will impact on whether actors will try to 'game' the system, in other words manipulate the choice of measures and/or data to achieve an outcome favourable to them.

1.10. Important co-systems for entrenching performance measures in budgeting: Performance budgeting systems are often part of a reform package that include a shift to budgeting by programmes and the modernisation of the budget and accounting classification systems; the use of a medium term perspective in budgeting within a top-down MTEF process; and, in least in name, the decentralisation of budgeting and easing of external, ex-ante input controls on budgets, in favour of internal controls and output (or performance) based ex-post accountability (Shah and Shen 2007; Robinson and Last 2009; Arizti, Brumby et al. 2010). The existence and use of an integrated financial management information system also contributes to performance budgeting success. However, while performance based budgeting is facilitated and strengthened by these complementary reforms, they are not essential for it to exist in a basic form, or all of them may not be required. For example, in Canada, where strong performance-budgeting institutions have been established for some time, the concept of 'earned delegation' only came into consideration at the end of the 2000s (Mcormack and Stacey, 2008). In Mali, the budget is still allocated to institutions and by input, while a parallel budget document sets out linked programme performance information (Taiclet and Murara 2011). However, there is consensus among commentators that the feasibility of the effective use of performance measures in the budget process increases with each complementary component that is in place.

1.11. Outcomes measures are problematic, but are important to assess spending effectiveness: Several authors note difficulties with the use of outcome measures. A key driver of this is that the causal link between the policies, spending choices, activities and outputs of public institutions and the achievement of an outcome is difficult to prove. In most cases, an outcome is the result not just of a specific intervention, but of a set of factors. A reduction in crime for example, may be associated with increased policing, but could also be related to making more education and skill-building opportunities available or just improved macro-economic circumstances. In reverse, when an outcome is not achieved, various factors in addition to or even despite of the monitored intervention may be to blame. Countries for this reason may choose not to have outcome measures in their performance budgeting systems. However, performance budgeting systems that do not include outcome measures do not sufficiently support an evidence-based dialogue about expenditure effectiveness.

1.12. Gaming of the performance budgeting system is common: When programme budgeting more formally links performance measurement to allocations or individual promotion, incentives are created to 'game' the system. For example, underlying performance records that will negatively influence a performance indicator can be suppressed or not taken into account. Or, inappropriate but achievable indicators may be selected or targets can be set deliberately low so that they are achieved and exceeded. This undermines the value of performance measures in budgeting, but more significantly also for learning and improving programme design and implementation.

1.13. Overall quality performance measures emerge when there is a measurement and performance culture in public institutions: The introduction of performance budgeting is not just about developing and publishing performance measures against the budget structure. It requires a culture change in government, as well as different skill sets and processes. While the introduction of measures is relatively easy, achieving this culture-change has proven difficult.

2. Good practices for functional performance measures

The observations above highlight a key problem in the move to performance budgeting, particularly in developing countries: while the 'form' of performance budget institutions is achieved, 'function' can lag significantly[3].

In Africa for example, respectively 67% and 71% of the 24 responding countries reportedly having developed output and outcome measures in the 2007/8 OECD Budget Practices and Procedures database. At the same time however, the 2008 IBP Open Budget Index data (Open

[3] For a discussion of form and function in PFM reforms in Africa see Andrews, M. (2008). Isomorphism and the Limits to African Public Financial Management Reform. RWP09-012. Cambridge, MA, Andrews, M. (2010). How Far Have Public Financial Management Reforms Come in Africa? Faculty Research Working Paper Series, RWP10-018. Harvard, Harvard Kennedy School.

Budget Initiative 2010) shows that of the 27 countries assessed in Africa, only one country presented non-financial information for all expenditure programmes in the budget documentation, while 16 did not present any non-financial data at all. It is difficult to see how performance information can be used effectively in the budget process if it is not supported by the incentives of also publishing the measures. Furthermore, on the assessment of whether the non-financial data is useful for assessing programme performance, not one assessed African country's non-financial information was found to be 'very' useful. Only 3 of the 27 assessed countries were found to present data that were "mostly" useful.

In at least some cases, performance measures are developed primarily to comply with legal or regulatory requirements of formal performance budget systems; in reality these measures are not used to underpin dialogue or inform decisions in the budget process. Closer inspection of measures also often point to poor design, while there is little assurance of data quality.

The key question then is which mechanisms in a performance budgeting system engender quality measures and their effective use to improve the use of resources and accountability. This section of the paper provides a discussion of key institutions and good practices judged to support the achievement of functionality in performance budgeting.

3. Setting up quality performance measures

3.1. Quality in performance measures starts at the institutional level: This means that the identification of performance measures for programme budgeting is primarily an institutional function. The knowledge to develop indicators that are relevant to improving an institution's programmes and spending quality is located in the institution, not at the centre of government. Prescribing indicators from the centre rarely produce quality data or effective performance budgeting. This is not to say that central finance ministries cannot engage an institution to ensure that the indicators and targets it presents strike the right balance between feasibility and stretch. However, the development and ownership of the measures should reside with the institution.

This means that performance measures should add value to the institution's own management, evaluation and resource allocation processes. The framework of performance measures for an institution must be developed from the perspective of the institution.

3.2. Build on what is in place using institution's existing experience with indicators, start small and focus on quality rather than quantity: Most institutions in developing countries already have indicators which they use or report against – sometimes a large number. Before developing new performance measures for programme budget purposes (which may overlap with existing measures and increase the cost to the institution without adding commensurate value), a good starting point is to systematically map existing indicators against institutional performance management and programme budgeting needs, and assess them against standard quality and performance budgeting and institutional criteria/needs. The principle should be to ensure quality measures for core institutional performance information needs, rather than ensuring full coverage of all needs with indicators that are not relevant, useful or for which quality datasets do not exist.

3.3. Institutions should develop performance information frameworks: A performance information framework allows an institution to collect, classify, filter and vet all indicators in use against the institution's own and external stakeholders' needs. A well-constructed framework will help identify which indicators provide reliable, relevant data on performance and will expose gaps where some aspect of the institution's activities is not monitored. It allows institutions to rationalise indicators, while ensuring at the same time that institutional performance in all key policy areas, against institutional values and for different levels in the structure of the organisation is covered. If allows institutions to measure what is important, rather than to 'make important what can be measured' (Richard and Evans, 2009, p16). The framework should:

- Contain all performance measures on which the institution must report to external stakeholders.
- Classify all available indicators against the institution's strategic objectives, allowing it to identify objectives that are not being measured, or where duplicate indicators are in place.
- Classify indicators against the structure of the organisation's budget, to provide performance information at each level of management, from project, through sub-programme, programme, division and institution-wide.
- Classify all indicators against core organisational values, such as effectiveness, efficiency, quality services, productivity, to ensure that the achievement of these is monitored.
- The framework should assess each indicator systematically for quality, paying attention to (i) data quality, (ii) relevance, (iii) the degree to which the organisation influence indicator outcomes, and (iv) the timely availability of data compared to reporting periods for the indicator.
- If an indicator passes these tests, the framework should finally rate it against each of the SMART criteria, and assess its cost-effectiveness.
- The framework should record the metadata for each indicator that is selected for use, including definition of terms, setting out its calculation and the identification of the datasets that will be used to calculate it.

3.4. An institution should decide on the number of indicators that are manageable at executive level: manageability of the scope of performance information is an important factor in deciding how many indicators should be in use. As a general rule of thumb at the executive level in institutions and sectors about twenty indicators should be monitored regularly: some might have fewer. A final set of a few more indicators might still be manageable within review and decision-making processes, but there needs to be recognition that, in general, the greater the number of indicators used, the less time is available for the monitoring of each one, the greater cost of collection and reporting, and the weaker the indicator system.

This has implications for the performance budgeting system too: central budget agencies should be cautious in the number of indicators they require and deliberate about what they want measured.

3.5. A proxy measure for which reliable data can be sourced is worth more than the ideal measure for which records are not kept or poorly kept: A key part of vetting existing measures against performance information needs is the availability and quality of underlying datasets, albeit administrative records or statistical information. If the data to compute the measure of choice is not available, managers should look at designing proxy measures for which reliable information does exist and can be sourced. If these are not available and the indicator measures a critical part of budget or programme performance, then introducing the indicator and collecting data for it should be prioritised in an institution's performance information development plan.

3.6. Institutions should establish clear mechanisms to manage performance information and have a strategy for systematically improving their set of performance measures: This may involve designing new indicators to monitor performance in areas (for example a sub-programme, a value or an objective) that are not covered by the indicators already in use, or improving the reliability of the underlying administrative datasets by improving record management. It could also mean developing a performance information system to ensure that performance against the performance measures in use is systematically recorded, verified and protected against tampering. This does not necessarily mean sophisticated information technology systems: it can be as simple as an excel file with restricted access and an audit trail of access. The monitoring of performance information management systems and reliability of performance information should be within the mandate of internal audit structures.

3.7. Institutions should develop systematic monitoring and evaluation instruments, such as indicator dashboards and scorecards, regular reports or quarterly performance review meetings. Performance measures that are not used have no function and their maintenance represents fruitless expenditure.

3.8. Supreme Audit Institutions can play an important role in ensuring the quality of performance measures: When performance information is included in the audit mandate of the Supreme Audit Institution (SAI), it creates incentives for organisations to ensure the reliability of their performance measures and performance information management systems. Countries should therefore use the SAI strategically to improve the quality of performance measures. The audit of performance information is however not risk-free for the performance information system: when the introduction of performance information into the budget process is largely about compliance and performance measures are not used by the institution itself or in any real way within the budget process, and the information is audited, the development and maintenance of measures become about getting clean audits rather than about performance. This could lead to choosing indicators which are less than ideal for organisational purposes, but which comply with SAI requirements.

Furthermore, auditing the relevance of performance measures is not risk-free for the Supreme Audit Institution: it carries reputational risk in the same way that fully fledged performance auditing does. When the SAI also look at the usefulness, relevance and SMART-ness of an indicator beyond merely auditing the reliability of performance data, they should be aware that assessing indicators is not a tick-box exercise. Firstly it does not require audit and accounting skills: it requires public policy skills. In many cases the institution being audited has better knowledge of its policy area and can legitimately question the judgement of the SAI auditor.

4. Ensuring the use of performance information in the budget process

4.1. Central budget institution changes are as important as developing performance measures: When central budget agencies introduce performance budgeting, the budget process itself must include changed arrangements or new mechanisms to actively use performance information. If the rules of the game do not change, performance budgeting is likely to be about compliance with form changes, rather than any functionality. The shift to performance budgeting is not just a technical change, it involves changing the culture of the budget process and how central budget agency staff behaves when engaging with spending agencies.

Firstly, the shift should initiate a progressive change in the way in which budget decisions are made, away from a fundamental concern about inputs, to a focus on results. This means that the basis for having a dialogue with spending agencies on the bulk of spending should not be about personnel cost, the use of consultants or capital versus recurrent allocations in the first place, it should be about whether the expenditure programme is achieving its objectives and how funding and the mix of inputs support this process. When savings are sought within the budget process in a performance budget system, again the primary form of dialogue should not be about which line item has relatively high spending compared to other institutions, previous years or other line items. Rather, it should be about which programmes and projects are lower priority and can be cut. In a performance budgeting system, in fact, cuts to line items should not occur in the absence of an understanding of the contribution of the items to programme performance.

Changing the behaviour of central budget agency officials will not occur overnight, or in the absence of the introduction of specific institutions in the budget process to enable that dialogue. The United Kingdom for example, introduced public service agreements and spending reviews. Australia splits its budget into two main portions or one, which sustains the running cost of spending agencies, and the other is allocated to outputs enabling a dialogue on programme spending and performance, rather than just on inputs and cost. Canada also introduced periodic spending reviews in which all spending programmes are reviewed over a period, requiring agencies to reprioritise a portion of their budget in each review.

A useful way of approaching the introduction of performance measures is to be clear on how they will be used in each phase of the budget process. For example, what are the mechanisms in strategic budgeting and budget preparation which will ensure their deliberate and meaningful use: will budget hearings include a formal review of programme performance and an effort by the central budget agency to understand how funding affects performance? Or will joint sector working groups review performance annually, so that every part of a sector is reviewed from a programme performance perspective on a rolling basis, as an input into the central budget dialogue?

4.2. Periodic review of expenditure programmes is essential: Working with performance measures on their own is not sufficient. These measures act more as signals of programme performance rather than providing definitive answers. When central budget agencies rely entirely on performance measures for a performance-based dialogue with spending agencies in the budget process, shifting to a performance focus is made difficult as no set of indicators can ever fully describe a programme.

4.3. Capacity building is important, starting with the central budget agency: Performance budgeting requires different skills compared to input-based budgeting. This is true at all levels of the budget process. Building the capacity of officials, executive officers and parliamentarians to learn the language of a performance-based dialogue and work with performance information should form a significant part of performance budget reforms.

4.4. Be cautious about formalising the link between allocations and performance: Countries introducing performance information into the budget process would be better off in the long-term if the link between performance information and budget allocations is not direct and formal early on in the reform. Some commentators in fact argue that this link should never be formalised, nor should the link between individual performance and institutional performance measures. Linking either institutional or individual rewards to performance measures increases the incentives to game the system and undermines the possibility of using performance measures to improve programme performance and service delivery or instil a learning culture.

Furthermore, the link between performance measures and allocations should not be formalised without a full understanding of how the cost of government relates to different programmes and spending objectives.

4.5. Be transparent about performance and performance measures: Many countries have performance measures in the budget process, but do not publish performance information as part of budget documentation. This means that the incentives for actors in the budget process to change their behaviour and for quality performance information is weakened. Parliament, in the first place, would continue to focus on compliance with allocations and the use of inputs unless it has performance information. It would also, for example, be much more difficult for an education department to claim that it has provided text books to all primary school learners when it is not the case, if this claim is out in the public domain. The publication of performance measures, while essential for fostering a measurement and performance culture in government, will only be an effective check if the information is provided in useful ways. For example, just counting the number of court buildings that have been renovated in a budget period and publishing the number on its own has little use. It only becomes meaningful if it is compared with previous periods, with the number that was supposed to be renovated, or with the number that requires renovation.

5. Complementary reforms within and outside of the public financial management system

As emphasised above performance budgeting requires a culture change in government and the budget process. On its own it is unlikely to initiate a culture of analysis, measurement and performance in government. Some of the supportive context changes are to budgeting and public financial management institutions. Essentially, performance budgeting will not be functional unless the central budget agency function is transformed, the skill set of central budget agency officials is built and their behaviour changes. Key aspects to consider are:

- **Programmes and organisational structures**: The shift to allocating by programmes, and enabling the alignment of institutional structures to the budget structure. While the shift to programmes makes sense from a budget perspective and can be argued to be essential for the effective use of performance measures in the budget process as resources are then allocated to purposes of spending rather than the administrative divisions that control money, it cuts across holding institutions and individuals accountable, the result of organisationally based allocations. Addressing this may mean undertaking major administrative reforms, so that implementing agencies' accountability and management structures are in line with budget programmes. Robinson (Robinson 2012) argues however, that the problem can be overcome when the Chart of Accounts and financial management system allows spending agencies to internally map programme budgets to organisational units. As the main vote structure is usually still organisationally determined, being able to map programmatic responsibility internally to administrative structures is a sufficient base for accountability.
- **Financial management information systems**: This implies that a functioning financial management information system is an important complementary reform to a shift to allocating by programme and the use of performance information in the budget process.
- **Medium term frameworks and top-down budgeting**: The use of a medium-term fiscal and expenditure frameworks enables top-down budgeting for spending agencies to make trade-offs within spending envelopes, which in turn supports performance-oriented budgeting, provided that budgets and performance information is transparent and that policy performance is a value in government and society.
- **Change in budget responsibility and expenditure controls**: Similarly, when the central budget agency makes sector-level budget decisions (for example instituting cuts to categories of inputs across the board) and financial management controls are external and input driven, performance measures will continue to take a back seat in budgeting. Spending agencies cannot be held accountable for performance when they are not in control of their spending decisions, and have little flexibility in budget implementation. The shift to managing by results rather than ex-ante input controls require the decentralisation of budgeting and changes to the nature of expenditure controls.
- **Simplifying budget structures**: An effective shift to performance budgeting is often accompanied by a reduction in the number of lines in the appropriations structure. The argument is simple: agencies acquire more flexibility to manage their resources for performance if their allocations are to broad objectives, rather than detailed. Reducing the number of budget lines (and therefore parliamentary and by extension central budget agency controls) was a key first reform in the introduction of performance budgeting in both the Netherlands and Sweden. It can be argued, however, that this shift should only occur if the wider governance context enables accountability and is concerned with policy performance.
- **Strengthening SAIs and parliamentary budget oversight processes**: Similarly, the basis for holding institutions to account in the budget process, needs to broaden to include performance. Providing resources to SAIs to develop their capacity to

intelligently audit performance information and performance would be important. Similarly, the capacity of parliamentary researchers and committees to use performance information when overseeing expenditure needs to be formalised through the introduction of specific instruments and mechanisms.

It should be noted here that overall it would be difficult to introduce performance budgeting successfully, unless the annual budget is credible and the underlying public financial management systems are functional in a culture of compliance with the formal rules of the game and the expectation of accountability. For one, shifting to internal controls with ex-post reporting on performance will be highly risky for the budget in the absence of effective parliamentary oversight and a practice of follow-up and enforcement of audit recommendations

Similarly, some supportive context reforms are located at least partly outside of core budget and financial management institutions. This context should influence how rapidly central finance agencies introduce performance budgeting reforms: the purpose of the introduction at first might be to trigger improved accountability through making the public aware of the links between service delivery quality, budget allocations and budget discipline.

The use of performance measures to improve the quality of spending however, will not succeed unless there is a shift overall to the management of performance in government. This has a political as well as administrative dimension: at the centre of government executive officers should be held accountable for performance; parliamentary oversight should be about performance; and there should be formal processes of targeting, measuring, monitoring, reporting on and evaluating institutional performance.

While linking individual rewards to performance against institutional measures should be approached with caution, political, managerial and administrative institutions should enable accountability for non-performance. Formal mechanisms of managerial accountability are important to sustain the decentralisation of budget responsibility and introduction of internal controls.

6. Implementing performance budgeting

Finally, while not covered extensively in this paper, how performance measures are introduced in the budget process matters.

6.1. Work with willing agencies to demonstrate success first: Country experience has highlighted that different to medium term expenditure management reforms, performance budgeting reforms can be introduced piecemeal as the quality of performance measures are dependent on agency commitment to and leadership for performance.

6.2. Move slowly and establish building blocks; balance budget process changes and efforts to ensure the quality of information. Effective performance budgeting is dependent on having reliable and relevant information to work with. More formalised forms of linking performance and expenditure should not be attempted without experience in the relationship between agency cost and performance.

6.3. Go for limited, manageable and quality information: Performance budgeting systems do not need to be elaborated, but they need to be deliberate and systematic. The central budget agency should assist spending agencies to develop focused performance information systems, with a limited number of high quality indicators, appropriately assigned.

6.4. Develop performance monitoring and reporting systems, be transparent: Performance information should be monitored with a purpose, have consequences in the dialogue with agencies and reported to parliament and the public from early on in the introduction of a system.

6.5. Political leadership is important: Performance budgeting that is introduced as a technical reform only is unlikely to be successful. A strong minister of finance who can change the budget discussion at the political executive level to one on performance, and who consistently publicly supports and promotes performance in budgets, is essential.

6.6. Avoid parallel systems: A lot of energy has been wasted in developing elaborate performance budget documentation (often consultant managed and produced) without any real change in how the budget is discussed and allocated. This has little value and may even be adverse to a performance orientation in budgeting in the long term, as actors experience with the system is negative.

Conclusion

The purpose of the use of performance measures in budgeting is to improve the quality of spending. This is both about reprioritising spending to align with changing priorities in government as well as managing expenditure for performance. This paper has argued that ensuring the quality of performance measures and their effective use in the budget process for these purposes is interdependent and requires deliberate institutional changes. Performance budgeting cannot be introduced successfully without extensive engagement with agencies to develop focused performance information frameworks and systems to manage performance information. It is also most successfully introduced when supported by complementary reforms to budget system rules and documentation, and occurs within an overall political and administrative system that is performance-oriented. The development of performance measures and their use in budget management is not a once-off reform: it requires continuous development to succeed. While it may be a critical part of shifting to a performance culture in government, it will not be functional without other public management systems taking a similar route.

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