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Performance-Based Budgeting: a 'Whole of Government' Initiative

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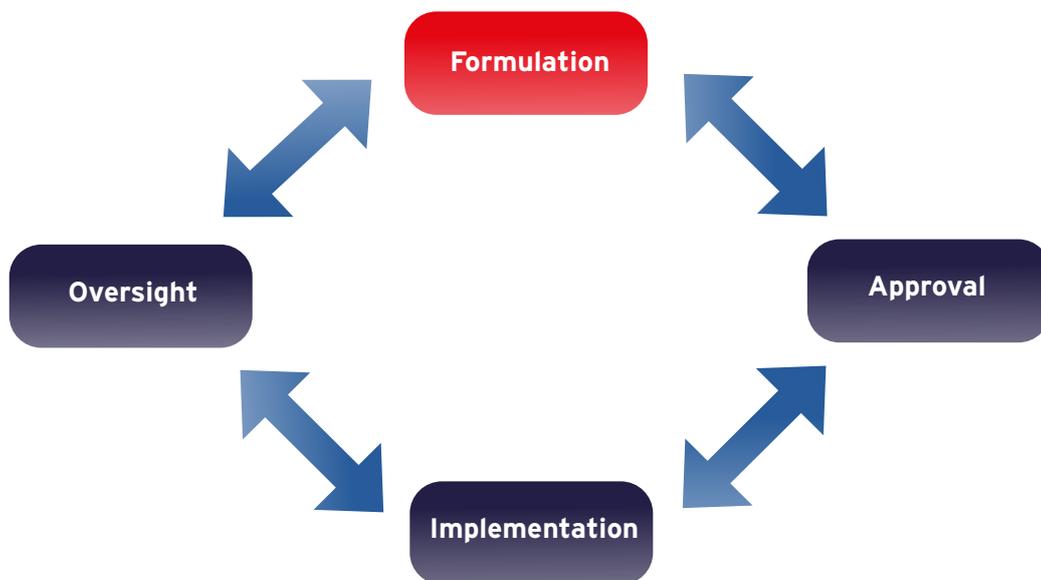
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What is Performance-Based Budgeting?

Performance-Based Budgeting (PBB) refers to 'any budget that represents information on what agencies have done, or expect to do, with the money provided to them'.¹ As part of Westminster Foundation for Democracy's (WFD) eight-part series of briefs about financial accountability, this brief covers:

- what PBB is and how it differs from 'traditional' line item budgeting;
- when PBB was first introduced;
- what the prerequisites for adopting PBB are;
- who the key institutional players in PBB are; and
- how PBB lays the groundwork to evaluate programme performance and strengthen parliamentary oversight.



What is PBB and how does it differ from 'traditional' line item budgeting?

PBB is defined as: 'the systematic use of performance information to inform budget decisions, either as a direct input to budget allocation decisions or as contextual information to inform budget planning, and to instil greater transparency and accountability throughout the budget process, by providing information to legislators and the public on the purposes of spending and the results achieved.'²

Examples of its use include:

- A health ministry may create a budget based on the number of vaccines given to a specific number of patients, or a target for reducing maternal mortality.
- The education sector may create a budget around the financial cost of increasing literacy among children.

1. OECD Best Practices for Performance Budgeting, Public Governance Committee Working Party of Senior Budget Officials. November 23, 2018. Online at: [https://one.oecd.org/document/GOV/PGC/SBO\(2018\)7/en/pdf](https://one.oecd.org/document/GOV/PGC/SBO(2018)7/en/pdf)

2. Idem. [https://one.oecd.org/document/GOV/PGC/SBO\(2018\)7/en/pdf](https://one.oecd.org/document/GOV/PGC/SBO(2018)7/en/pdf).

PBB contrasts with line item budgeting. In the case of line item budgeting, 'agencies are provided with budget appropriations specified in terms of input categories (that is, by economic classification).'³ Inputs include separate lines for travel, office supplies, and salaries. In Canada in the 1960s, for example, 'expenditure requests by managers "were based on a rudimentary line item method of budgeting... listing the main objects of expenditure," such as how many paper clips a department required or the cost of renting an office building. Little thought was given by the administrator regarding how effective spending was or how spending contributed to a larger set of results within the government.'⁴

There are three types of PBB systems, categorised from the least to the most extensive form. However, it should be noted that, according to a European Parliament research document entitled, 'Aligning the Budget with the Performance-Based Budgeting: Lessons from Member States', there are few PBB practices that are universally accepted, nor are there detailed standards.⁵ The three types of PBB systems are represented in Figure 1 and Table 1, below.

Figure 1: Three forms of PBB



In Level 1, presentational PBB, performance information is included alongside budget documentation. However, there is no link between the performance information provided and decisions concerning budgetary funding. Instead, performance information provides background and context in order to enhance 'accountability and dialogue with legislators and citizens on public policy issues'.⁶

Level 2, performance-informed budgeting, 'aims to ensure that, when formulating the government budget, key decision makers systematically take into account the results to be achieved by expenditure'.⁷ Performance-informed budgeting requires that performance indicators be developed so that the objectives and results of government expenditure can be measured and evaluated. Then parliament can, *ex-post*, review the performance indicators to determine whether the performance targets have been achieved.

For Level 3, direct performance budgeting (sometimes called the managerial performance approach), resources are directly tied to results achieved. For example, the number of students who graduate with a Master's degree at a university will determine the university's funding for that degree programme the following year.⁸ Only a small number of government agencies in select OECD countries have fully adopted this advanced version. Direct performance budgeting would not be appropriate as an all-of-government approach. For example, cutting funding from the ministry of health for not meeting vaccination targets would have adverse effects on the population and likely result in less people being vaccinated the subsequent year.

3. The World Bank. Program classification for performance-based budgeting: how to structure budgets to enable the use of evidence. January 1, 2013. Online at: <http://documents.worldbank.org/curated/en/627581468322141749/pdf/Program-classification-for-performance-based-budgeting-how-to-structure-budgets-to-enable-the-use-of-evidence.pdf>.

4. Geoff Dubrow, 'An Overview of the Canadian Budget Process'. The Parliamentary Centre (Canada) 2005.

5. European Parliament. 'Aligning the Budget with the Performance-Based Budgeting: Lessons from Member States'. Policy Department D: Budgetary Affairs. March, 2019.

6. OECD. Performance Budgeting: A User's Guide. Policy Brief. March 2008. Online at: <https://www.oecd.org/gov/budgeting/Performance-Budgeting-Guide.pdf>

7. Marc Robinson and Duncan Last. 'A Basic Model of Performance-Based Budgeting'. International Monetary Fund. Technical Notes and Manuals 09/01. 2009. See also OECD Best Practices for Performance Budgeting.

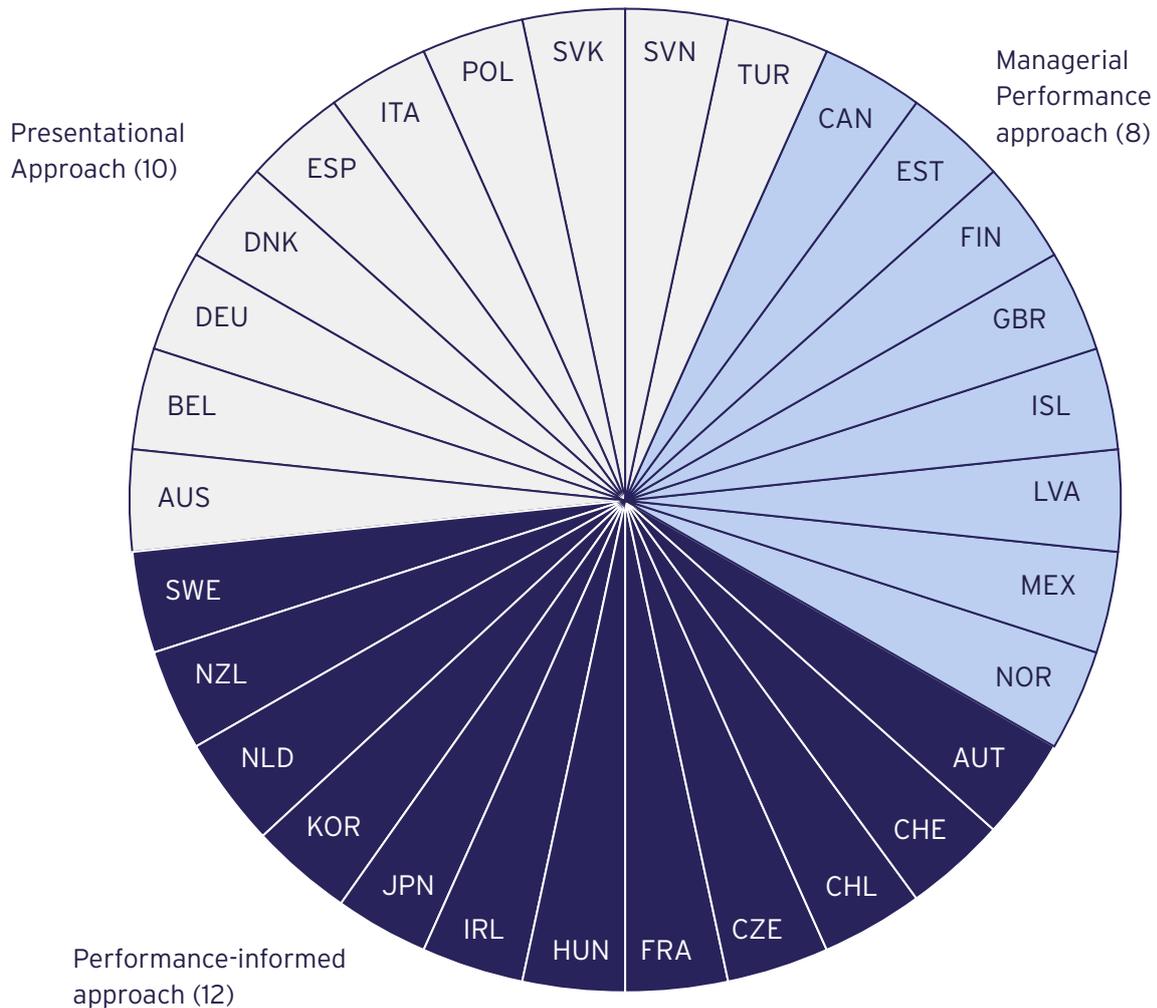
8. Ibid.

Table 1, below, summarises the three PBB approaches, while Figure 2, also below, depicts which of the three PBB levels have been adopted by OECD countries.

Table 1: Three Forms of PBB

Type	Linkage between performance information and funding	Measuring/ monitoring planned or actual performance	Main purpose in the budget process
Presentational	No link	Performance targets and/or performance results	Accountability
Performance-informed budgeting	Loose/indirect link	Performance targets and/or performance results	Planning and/or accountability
Direct/formula performance budgeting	Tight/direct link	Performance results	Resource allocation and accountability

Figure 2: PBB Adoption in OECD Countries



When was PBB first introduced?

The adoption of PBB was part of a movement in the 1970s known as 'New Public Management' (NPM). NPM stemmed in part from the 1970s global economic slowdown, which precipitated a drive for funds to be spent as judiciously as possible. The movement was given greater form and substance in academia before being more fully adopted by governments globally. The role of programme managers under NPM shifted as they were given 'greater discretion in the use of resources and deciding the input mix'.⁹ This devolution in control was offset by an increase in internal controls and oversight mechanisms, including managers being held accountable for the results they achieved (or failed to achieve).¹⁰ Over the past four decades, PBB has become prevalent in both high income as well as low- and medium-income countries. However, as noted above, most countries have adopted the more basic level of PBB. Even when adopted, the extent to which it is implemented according to best practices varies widely.

What are the prerequisites for adopting PBB?

PBB is most efficiently adopted when good governance exists. Good governance is characterised by 'predictable, open and enlightened policymaking, a bureaucracy imbued with a professional ethos acting in furtherance of the public good...(and) transparent processes'.¹¹ More specifically in relation to good governance, a robust public financial management (PFM) system is important to the successful implementation of PBB. A robust PFM system has at least four requirements. First, budgeting and budget execution systems need to be predictable: governments or state institutions should have the capacity to generate accurate expenditure and revenue forecasts as well as debt projections on a medium-term basis.¹² Second, budgetary rules and procedures need to be respected so that budgets are implemented as planned. Third, accounting and auditing procedures need to be in place to enforce the rules and procedures. Fourth and finally, corruption and rent-seeking at the senior political and bureaucratic levels of government needs to be under control: departments cannot be held accountable for the results achieved with their budgetary envelope if the funds they are authorised to spend are being misallocated for other purposes.¹³

Who are the key institutional players in PBB?

The adoption and implementation of PBB requires commitment from a number of key institutional players.

Parliament

Prior to the adoption of PBB, it is important to raise awareness in parliament about the importance of PBB, particularly to forestall opposition to implementing PBB, which can occur for any number of reasons. For example, ministers may view PBB as a purely technocratic issue, which can lead them to become apathetic. Ministers can also become concerned that their budgets will be reduced unfairly. Additionally, the development of performance information can be viewed in a negative light as a way to punish civil servants for poor performance.¹⁴

9. International Monetary Fund. 'Fiscal Transparency Handbook'. 2018, p. 79.

10. IMF. Fiscal Transparency Handbook. 2018. Online at: https://www.elibrary.imf.org/doc/IMF069/24788-9781484331859/24788-9781484331859/Other_formats/Source_PDF/24788-9781484348598.pdf?redirect=true

11. While democracy is considered to be important foundation for good governance, it does not guarantee good governance.

12. IMF. Marc Robinson and Duncan Last. 'A Basic Model of Performance-Based Budgeting'. International Monetary Fund. Technical Notes and Manuals 09/01. 2009. Online at: <https://www.imf.org/external/pubs/ft/tnm/2009/tnm0901.pdf>

13. Idem. Marc Robinson and Duncan Last. 'A Basic Model of Performance-Based Budgeting'. International Monetary Fund. Technical Notes and Manuals 09/01. 2009.

14. OECD. Improving Public Sector Efficiency: Challenges

and Opportunities. Teresa Curristine, et al. OECD Journal on Budgeting. Vol. 7 - No.1, 2007. Online at: <https://www.oecd.org/gov/>

Legal framework. In countries with an organic budget law, legal tradition dictates that it be amended.¹⁵ Organic budget laws are prevalent in former French colonies, among others. This includes countries in the Middle East and North Africa region such as Algeria, Morocco and Tunisia. France amended its organic budget law in 2001 (See Box 1 below, for more details.) This is generally not required for Anglophone countries that could, however, adopt or amend the public finance act.

Box 1: France PBB and parliamentary oversight

France adopted a 'big bang' (versus an incremental) approach to PBB in 2001, introducing PBB to its full budget. Budgetary and account rules were changed and significant resources were dedicated from 2001-06.

The 2001 Organic Budget Law (LOLF) required that the budget law be accompanied by a series of documents, including performance-related information for programmes. According to the LOLF, the EBP (referred to as the 'overall budget package') is introduced as a collection of approximately 50 'missions' or major public policies, which comprise approximately 170 specific programmes linked to objectives and performance indicators. The parliament is required to vote on each individual 'mission', which typically includes planned expenditures across several ministries or agencies.¹⁶

PBB created an environment for the civil service to report against this performance information. As a result, the National Assembly, in 2009, created a 'Commission for the Assessment and Monitoring of Public Policies' (known as the CEC). Four in-depth reports are discussed and published by the CEC each year.¹⁷ Furthermore, the executive and legislative branches concluded an agreement to both communicate performance data to parliament and for management control of programme administration.¹⁸

Once PBB is adopted, parliament may wish to revamp its *ex-ante* and *ex-post* scrutiny of the budget to incorporate its scrutiny of the performance information accompanying the EBP.

In exercising the *ex-ante* oversight role, sectoral committees will have more information to review the budgetary estimates for ministries, departments, and agencies (MDAs) under their remit. Using the new budget format, parliamentarians can question the minister on the various outcomes, outputs, or activities, depending on how the budget is constructed.

For *ex-post* oversight, committees can hold an analogous exercise; however, this time questioning MDAs on whether performance targets have met their intended goal. PBB provides parliamentary committees with a more robust opportunity to question ministers about whether their policy choices have achieved the intended results. Sectoral committees should be conducting this exercise with MDAs under their remit on an annual basis. This is also to be distinguished from the work of the public accounts committee (PAC), which focuses on whether government programmes were implemented with due regard to economy, efficiency, and effectiveness.¹⁹

[budgeting/43412680.pdf](#)

15. Organic budget laws specify a schedule and procedures for the preparation, approval, execution, and oversight of the budget.

16. OECD. 'France'. OECD Journal on Budgeting Volume 2015/2, 2016.

17. Olivier Rozenberg and Yves Surel. 'Beyond Weakness: Policy Analysis in Parliament'. Charlotte Halpern et al., Policy Analysis in France. Bristol University Press. 2018, p. 149.

18. European Parliament. 'Aligning the Budget with the Performance-Based Budgeting: Lessons from Member States'. Policy Department D: Budgetary Affairs. March, 2019.

19. More information on the role and function of PACs is provided in the WFD brief entitled 'A Critical Review of Public Account Committees' (Brief number 2 in the eight-part series on financial accountability), published October 2020.

Treasury (or Ministry of Finance)

Adoption of PBB. While adopting PBB is not a technical process that takes place in the ministry of finance (MoF) alone, the MoF or Treasury plays a crucial role. The Treasury can block the adoption of PBB. A case in point is the province of Queensland, Australia, where longstanding opposition to PBB by the Treasury was identified in a 1988 legislative debate. According to Hansard:

*'It appeared that the principal reason Treasury was opposed to that concept was that it would involve the devolution of power away from Treasury. In other words, the Treasurer would loosen the hold on the purse strings. Treasury's accounting inspectorate, which basically double-checks the expenditure of other departments to make sure that they are keeping within the funds allocated, would largely have become redundant.'*²⁰

In Australia at the federal level, until the mid-1980s for example, the role of the Treasury in the traditional line item budgeting approach was to 'control expenditure against appropriations and spending the authorized amounts'. Compliance was emphasised over performance: 'Managers viewed their role as complying with present rules, not as driving their organisations to perform better'.²¹

Implementation of PBB. Strong leadership from the Treasury 'is required to support change as ministers come to expect clearer statements of expected and actual results'. The Treasury or Ministry of Finance needs to demonstrate that performance is taken seriously by using performance information in budget discussions.²² Training and capacity building is important as well. See Box 2 for examples of how South Africa and Malaysia included these types of support as part of their adoption of PBB.

Box 2: Treasury and MoF Support to Line Ministries in Implementing PBB

Upon the adoption of PBB, the Treasury and MoF can develop new policies and standards that departments need to meet, as well as provide support via resources and training.²³ In South Africa, PBB was a requirement of the new Public Finance Management Act 1 of 1999. The Treasury approached the implementation of PBB in 1999 as part of a 'change management exercise', which included 'some effort into presenting and explaining the new budgeting format to parliament'.²⁴ Capacity building included the use of the new chart of accounts. However, only since 2007 did the National Treasury provide support and guidance to institutions concerning the quality and performance information in ministries.²⁵

In Malaysia, 'MoF recognized the challenges inherent in implementing a complex reform process and created a dedicated unit to manage' the implementation of PBB.²⁶ 'Change management, staff training and stakeholder outreach were all key components of the MoFs strategy for rolling out PBB'.²⁷ During the first two years of the transition period to Outcome Based Budgeting (OBB) - Malaysia's version of PBB -the OBB team in the MoF 'worked with each ministry to define outcome statements and determine the specific interventions needed to address identified problems...'²⁸ This included a training-of-trainers approach to developing capacity in the building of results frameworks.²⁹

20. https://www.parliament.qld.gov.au/documents/hansard/1988/1988_04_26.pdf

21. John M. Kim, ed. 'From Line-Item to Program Budgeting'. Korea Institute of Public Finance. 2015.

22. <https://www.oecd.org/gov/budgeting/43412680.pdf>

23. Lee McCormack, 'Performance Budgeting in Canada'. OECD Journal on Budgeting. Volume 7, No 4. OECD, 2007, p. 22.

24. 'Budgeting for Results: Moving Towards Performance Information'.

25. 'Budgeting for Results: Moving Towards Performance Information'.

26. World Bank. 'Budgeting for Performance in Malaysia'. March 2018, p. 31.

27. World Bank. 'Budgeting for Performance in Malaysia'. March 2018, p. 12.

28. World Bank. 'Budgeting for Performance in Malaysia'. March 2018, p. 12.

29. World Bank. 'Budgeting for Performance in Malaysia'. March 2018, p. 31.

Line ministries

Staff in line ministries needs to develop a programme structure for their budget, a measure that necessitates strategic planning to examine the nexus between the functions of the department and the government's objectives.³⁰ 'Program budgeting is not simply about changing the way the budget is presented but about the way policy officials, the public and government and staff think of the government, how they plan, manage and budget.'³¹

Line ministries should develop performance information because line ministries, not central agencies, are most familiar with their programmes. However, recommended practice is that performance data should be 'validated centrally to ensure that they are, indeed, useful in measuring program effectiveness'.³² Line ministries therefore, need to build their performance measurement capacity, and central agencies need to develop their capacity to provide guidance as a centre of excellence rather than as a control agency.

Ministries also need to start collecting performance information to monitor both the performance and impact of their programmes.³³

How does PBB lay the groundwork to evaluate programme performance and strengthen parliamentary oversight?

As performance information is generated for planning purposes, governments set baselines against which future performance can be assessed. Annual business plans set out financial and non-financial performance information for ministries, departments, and agencies (MDAs), which ideally should be available prior to parliamentary consideration of the Executive Budget Proposal (EBP). At the conclusion of the fiscal year, MDA performance reports (and a government-wide performance report) are often developed to account for the results achieved and variances in actual performance. Parliamentary oversight is crucial: 'if outstanding performance and poor performance are not addressed through the system, there is a risk that ministries and departments will lose interest and view PBB as only another reporting burden placed upon them'.³⁴ Parliament's ability to play a robust role in the process is dependent on the degree to which it is able to obtain comprehensive PBB information, and the promptness with which this information is delivered. While most parliaments are unlikely to amend or defeat a budget based on the performance information provided, the very process of scrutinising this performance information can serve to shed light on whether the government has a process in place to develop a budget classified by programme and guided by performance indicators.

Successful *ex-post* scrutiny through parliamentary oversight requires a year-end report (or final in-year report) that presents expenditure by programme in a format consistent with the EBP and the enacted budget. This allows for a clear comparison between projected and actual results.

Countries sometimes fail to achieve this type of consistency between year-end reports and the EBP. According to the Open Budget Survey (OBS) data on the availability of PBB for government spending in the education and health sectors, 75% (21 out of 28) of participating countries presented their health or education sector's expenditure by programme as part of the EBP as well as or instead of the enacted budget. However, only 29% (eight out of 28) stated that the year-end report does in fact present the

30. 'From Line-Item to Program Budgeting Global Lessons and the Korean Case'. p. 109.

31. IMF Blog. 'From Line-item to Program Budgeting - Opening the "Black Box" of Spending'. November, 2007.

32. Ibid. IMF. Fiscal Transparency Handbook. Online at: https://www.elibrary.imf.org/doc/IMF069/24788-9781484331859/24788-9781484331859/Other_formats/Source_PDF/24788-9781484348598.pdf?redirect=true

33. 'From Line-Item to Program Budgeting Global Lessons and the Korean Case'. p. 111.

34. World Bank. 'Budgeting for Performance in Malaysia'. March 2018, p. 12.

sector expenditure by programme in a manner consistent with sector's programmes presented in the EBP and enacted budget. Table 2 below contains a more detailed breakdown of the OBS results.

Table 2: Match between EBP/enacted budget and year-end reports in health and education sectors

	Year-end report presents sector's expenditure by programme		Year-end report does not present sector's expenditure by programme
	Matches EBP and enacted budget	However, does not match EBP or enacted budget	
Eastern Europe and Central Asia	3	2	3
South Asia		1	1
Sub-Saharan Africa	5	2	2
Other	0	1	8
Global	8	6	14

Conclusion

The first wave of PBB emerged in the 1970s during the global economic slowdown. An increase in flexibility was accompanied by a reduction in central control. This was offset by an increase in internal controls and oversight mechanisms that included increased accountability of managers for their programmes.

PBB is a transformative budgetary initiative that, while initiated in the MoF or Treasury, requires government-wide support as well as attention by parliament. Initial obstacles to PBB often include resistance from the Treasury owing to a perceived loss of control, and resistance by ministers who fear a reduction in their budgets. The perception that PBB is a technocratic issue also can lead to apathy and lack of support. Parliamentary buy-in at the outset is therefore crucial.

Support from the MoF and Treasury is crucial to the successful implementation of PBB. When South Africa introduced PBB, it presented and explained the new form of budgeting to Parliament. When Malaysia introduced PBB, change management, staff training, and stakeholder outreach were key components of its rollout strategy. Technical assistance to line ministries in developing performance indicators is crucial.

The first visible effect of PBB is on the formulation phase of the budget. However, PBB needs to extend to the implementation phase as well so that the government can track expenditures by result. The best-case scenario is that the year-end report or final in-year report presents expenditure by programme in a format consistent with the annual budget documentation. This allows for a clear comparison between projected and actual results.

More research is required to better understand limitations to PBB. Despite its adoption, some countries, such as Malaysia, continue to suffer from poor financial management. Are there inherent limitations to what PBB can achieve, or do these instances reflect imperfect implementation of PBB?

PBB has been in existence for decades and has been implemented globally. Nevertheless, the extent to which it has been fully adopted and embraced varies widely. Given its relevance to democracy and good governance, further research is also needed to understand this gap in PBB's full acceptance.

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