

Linking budgets to outcomes?

Comments prepared for the inquiry into best practice budget processes by the Finance Committee of the National Assembly for Wales

Thank you for the opportunity to contribute to your discussion. I would like to focus my remarks on the issue of linking budgets to outcomes, as this is an area where I believe reform has the potential to damage the ability of the assembly to hold government to account. Let me first clarify some concepts in performance budgeting, before looking at core choices in linking budgets to results and how they affect legislative bodies.

Concepts

The idea of performance is intuitively appealing – most people want governments to perform better and to improve their lives. In the US, the idea of performance budgeting dates back to the 1940s (Schick 1966, US General Accounting Office 1997). Budgeting for results has become a popular item on the reform agendas of other OECD governments in recent decades (Blöndal 2003). In the UK, the spending review system introduced in the late 1990s was linked to Public Service Agreements that suggested a greater focus on results, including outcomes. More established is the term “value for money”, which traces the link from funding to the purchase of inputs (economy), from inputs to the production of outputs (efficiency) and, finally, from outputs to the achievement of outcomes or impacts on society (effectiveness). While there is no universal language of performance these basic concepts are widely recognised (Kristensen et al. 2002).

There are different basic approaches for linking budgets to results. Schick (2003: 101) suggests two definitions of performance budgeting: a strict one, where an increment in funding is directly linked to an increment in results; and a broader one, where budgets contain information on what organisations intend to do with their resources. Similarly, Curristine and Flynn (in Cangiano et al. 2013: 229) distinguish presentational, performance-informed, and direct performance budgeting. Few governments make direct links between performance and funding on an extensive basis, while the less mechanistic use of performance information in budgetary decisions is more common. This entails using performance measures to assess the economy, efficiency and effectiveness of the activities of an organisation. Specific output and outcome measures can be, but need not be, linked to targets.

Concretely, there are four fundamental mechanisms of performance budgeting systems (Robinson 2007): programme budgeting, funding-linked performance targets, agency-level budgetary performance incentives and formula funding. Of these, a programme classification is the most important and least controversial element (Kraan 2007). Programmes are objective-based spending categories, to which performance measures can be attached. Unlike for some other budget classifications (Jacobs et al. 2009), there are no internationally fixed categories, since the structure of programmes in a budget reflects a government’s political priorities and objectives.

Implications for legislative bodies

Moving from traditional input control in budgeting to a more results-focused approach has implications for the level of detail at which a legislative body can authorise budgets. Traditional input budgets have a large number of line items – several thousand if you look at central government budgets in the United States or Germany. In contrast, a results focus typically requires a substantial reduction in the number of line items, and a higher level of aggregation. Budget systems with a focus on outcomes, such as Australia, present the legislature with highly aggregated appropriations. Once approved, these allow substantial in-year reprioritisation within departments (virement) without having to seek parliamentary approval. New Zealand, by contrast, has adopted output-based appropriations. These enable the legislature to retain more control of the activities that funds are spent on within departments while giving the executive some flexibility to move money between different output classes.

In my view, outcome-based approaches fundamentally challenge parliamentary control and accountability (see also Johnson and Talbot 2007). One reason is that outcome appropriations impose few constraints, due to their high level of aggregation. Another problem is attribution. Outcomes are typically more long-term and affected by a variety of exogenous factors that make it difficult, and often impossible, to clearly attribute responsibility to a single organisation and specific government interventions. If in addition an outcome takes years to achieve and the politician responsible for delivery changes, then accountability becomes impossible. For these reasons, outcome-based approaches are most compatible with systems where legislatures do not exercise detailed control of public finances. In contrast, outputs are produced within the boundaries of an organisation and within a shorter period of time that is more aligned with the annual budget process. Hence, outputs can be clearly attributed and provide a better basis for accountability.

More broadly, the history of performance budgeting provides valuable lessons for governments that are currently contemplating such reforms. The experience of several OECD countries suggests that the budget process easily becomes overburdened when it is the primary focus for assessing performance (US General Accounting Office 1997, Schick 2003). The integration of a large number of performance measures into budget documents can obfuscate rather than elucidate. In several countries, governments are now reducing the amount of performance information in the budget so as to declutter the documents and to refocus on financial analysis. In the Netherlands, the recent undoing of an outcome-focused budget reform in the 2000s followed increasing legislative demands for more meaningful fiscal information (De Jong 2013).

What are possible alternatives? Performance is important, and all governments should strive to achieve better results with the available resources. Performance information, including on outputs and outcomes, has an important role to play. But such information should not clutter the budget and distract from its primary role as the most important source of financial information. In fact, the assessment of performance need not be attached to the annual budget approval process. More selective and periodic programme reviews and evaluations and

value for money audits are all sensible tools that enable lesson drawing of this sort. Such information can and should be harnessed when interrogating programme-level spending data over a number of years.

To help strengthen the consideration of performance in the legislative review of government budgets, one approach is to ensure that programme-level expertise and information are injected into the process. This can be achieved by giving sectoral committees a role in scrutinising and prioritising expenditure within departments. In OECD countries, a number of legislatures have adopted a sequenced two-step process that gives the finance committee a role in considering the aggregates and how spending is divided across broad functional areas, while sector committees review the prioritisation of departmental expenditure within their available sector total (Wehner 2010). Another approach is to ensure that findings and lessons from audit scrutiny, especially from value for money audits, feed directly into budgetary decisions. For instance, in some legislatures the audit committee is a subcommittee of the finance committee, thus creating a direct link between audit review and budget approval.

Conclusions

As Allen Schick (2003) reminds us, 'Performance budgeting is an old idea with a disappointing past and an uncertain future.' Of course, questioning and analysing performance are crucial for making wise decisions about scarce resources. But the budget should not be the main vehicle for performance reforms. Outcome-based budgets and appropriations risk undermining legislative control by giving departments a blank cheque and making accountability for actual performance arguably impossible. A more sensible approach is to focus on outputs, which are embedded in wider outcomes. This could either be achieved by appropriating money by outputs, as in New Zealand, or through a sensible programme classification that allows appropriating money at that level and to which performance measures can be attached when these are directly relevant for determining allocations. Finally, information about the performance of government programmes can best be harnessed in a legislative process that gives a role to sector committees in scrutinising and prioritising spending within departments, and where audit results feed into deliberations on annual budgets.

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