

# **PERFORMANCE BUDGETTING**


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## **4. Performance Based Budgeting (PBB)**

- Performance budgeting aims to improve the effectiveness and efficiency of public expenditure, by linking the funding of public sector organizations to the results they deliver.
- It uses systematic performance information (indicators, evaluations, program costings etc) to make this link. The impact of performance budgeting may be felt in improved prioritization of expenditure, and in improved service effectiveness and/or efficiency.



Performance Based Budgeting attempts to solve decision making problems based on a programs ability to convert inputs to outputs and/or use inputs to affect certain outcomes.

Performance may be judged by a certain program's ability to meet certain objectives that contribute to a more abstract goal as calculated by that program's ability to use resources (or inputs) efficiently—by linking inputs to outputs—and/or effectively—by linking inputs to outcomes. A decision making—or allocation of scarce resources—problem is solved by determining which project maximizes efficiency and efficacy.

Performance budgets hold agencies accountable for what they achieve


## **Managing for Results (MFR)**

- Performance budgeting should be viewed in the broader context of a set of related “managing for-results” (MFR) reforms.
- MFR can be defined as the use of formal performance information to improve public sector efficiency and effectiveness. Its fundamental starting point is maximum clarity about the outcomes which government is attempting to achieve, and about the relationship of outputs, activities and resources used to those desired outcomes.
- Good strategic planning and business planning are an essential element of MFR.



## The Basics of PBB

- **Objectives..** Organizations should develop strategic plans of what they intend to accomplish. These plans should contain objectives based on outcomes that the public values.
- **Performance Measures...** Based on their strategic plans, organizations should develop specific, systematic measures of the outcome that can be used to determine how well organizations are meeting their objectives. E.g. mortality rates for health programs.
- **Linkage...** Objectives and performance measures are integral parts of budgetary process. Appropriations are linked to organizations results; how well they are meeting their objectives as indicated by performance measures.



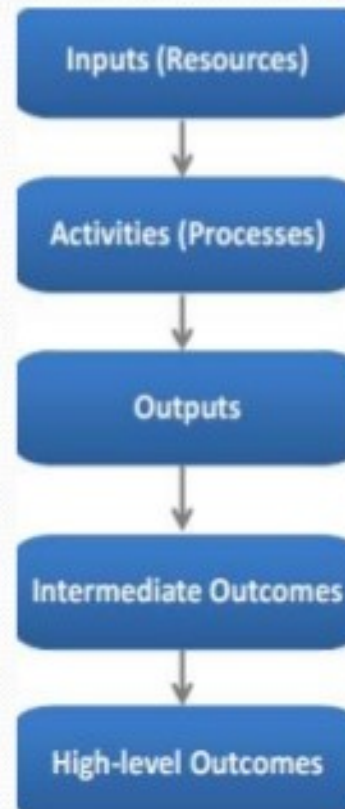
## **Performance Information Fundamentals**

- “Outcomes” and “outputs” play a central role in all models of performance budgeting, and it is essential for any discussion of performance budgeting that these and related concepts are clearly understood.

## **Performance Concepts: the Results Chain**

- In the *results chain framework*, *outputs are produced using inputs (resources) via activities and processes*, and outputs generate outcomes for the community.

# The Results Chain



# Outputs

- *Outputs are goods or services – the “products” – which a ministry or other government organization delivers to external parties.*
- This usually means services delivered to or for the direct benefit of the community. Examples of outputs include: medical treatments; advice received by farmers from agricultural extension officers; students taught; and police criminal investigations.
- Most government outputs are services.



## Outcomes

- *Outcomes are the intended impacts of outputs – more precisely, the changes brought about by public programs upon individuals, social structures, or the physical environment. Health inspections of restaurants are an output, the intended outcome of which is that fewer diners fall sick. Criminal investigations are a police output, and reduced crime the outcome.*
- Many government services aim to achieve more than one outcome. For example, school education aims to increase the level of education of the population. But it also aims, amongst other things, to improve economic performance. Both a higher level of education and a stronger economy are outcomes. Because it is by means of the first of these that the second is achieved, a more educated population is said to be an *intermediate outcome*, and a stronger economy a *higher-level outcome*.
- *The relation between proximate and high-level outcomes is one of logical causality (i.e. the proximate outcomes induce the high-level outcomes).*

# Inputs

- *Inputs, as this example indicates, refer to all inputs, assets and capabilities which are or may be drawn on in the production process to deliver the outputs and outcomes desired.*
- Although “inputs” is the conventional results chain term, and therefore will be used here, the term “resources” actually captures better the scope of what is referred to.
- Thus inputs which contribute to the *capability to deliver results include not only equipment and buildings by, for example, organizational culture and staff morale.*

## Performance Measures and the Budget...

- There are two basic types of performance information: performance measures and evaluation..

### ➤ **Performance Indicators**

- Performance indicators are quantitative measures which provide information on the effectiveness and efficiency of programs and organizations. An indicator is *representative to the degree to which it succeeds in measuring the dimension of performance* which it seeks to measure.
- Performance indicators should be selected according to the extent to which they are:
  - Relevant
  - Representative
  - Cost-effective
  - Comparable

## Evaluation and Performance Budgeting

- Performance budgeting is often represented as being only about the use of *performance indicators in the budget*. This is wrong, because it overlooks the *crucially important role of evaluation*.

### **A Definition of Evaluation**

- “The systematic and objective assessment of an ongoing or completed project, program or policy, its design, implementation and results. The aim is to determine the relevance and fulfillment of objectives, development efficiency, effectiveness, impact and sustainability. An evaluation should provide information that is credible and useful, enabling the incorporation of lessons learned into the decision– making process of both recipients and donors.
- Evaluation also refers to the process of determining the worth or significance of an activity, policy or program. An assessment, as systematic and objective as possible, of a planned, ongoing, or completed development intervention.”

Keith McKay (2007), *How to Build M&E Systems to Support Better Government* (World Bank Independent Evaluation Group).


# Pros and cons of PBB

- **Limit vs. Target**

PBB works with targets and goals. It may set a goal to put computers in 100 hospitals, for instance, instead of setting a limit on how much money can be spent on computers. While this has its advantages, it also creates difficulties. For instance, how much money should be spent on computers? What types of computers are best suited for the hospitals in question? A budget with limits helps answer these questions. A budget with only targets can be too nebulous, leading to inaccurate forecasts and over-expenditure.

- **Measurement Issues**

Another problem with the target system that PBB uses is measurement. Even if an organized budget can be developed and the project is carried through to completion, defining completion can pose problems. Some goals can be vague e.g.-- improving technology in a district hospital. An organization may have conflicting views on when that goal has been reached, which makes it difficult to spot an end for the project and a turning point for the budget.



- **Cost Analysis**

Because PBB is so vague, it does not present a clear cost framework for organizations to follow. In other words, PBB can create a lot of extra work for analysts. They have to focus on a target, but also perform separate cost analysis to set individual prices on the steps involved. This extra cost analysis is a drain on funds and adds confusion to the budget.

- **Flexibility Problems**

Flexibility is one of the primary advantages of PBB. But it also opens the door for broad changes that can make previous cost analyses and budgets obsolete. PBB places a great deal of strategic power in the hands of public leaders and programs, but these have a habit of changing. A new director may be appointed and switch the target to 500 computers in hospitals, which requires a complete reworking of the budget.

