PROGRAM BUDGETING
Methodology
Budgeting for results

October 2011

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Structure of the Presentation

A. Methodical base for Program budgeting

B. Budgeting for results
   (Framework and slovenian case)
A. Methodical base 1
Program Budgeting

Combined with performance budgeting but prerequisites are needed:

• Good governance (i.e. transparency, accountability, predictability and participation)

• Changes in traditional budget management (greater spending flexibility alongside with increased pressure/incentives to improve performance)
A. Methodical base 1
Program Budgeting

Program budgeting supports objectives of Public Expenditure Management:

- (Aggregate Fiscal Discipline)
- Allocative Efficiency
  (Re)allocation of expenditures according government policy and program objectives
- Operational Efficiency
  Agencies should produce outputs efficiently
A. Methodical base 1
Program Budgeting

Program budget elements:

- Setting program’s goals and link them to strategic/sectoral priorities.
- Classifies expenditure by types of services and objectives instead of inputs.
- Development of performance information by program for monitoring and evaluation results to enable assessment of effectiveness.
- Linking performance information with costs to enable assessment of efficiency.
- Budget preparation and execution should be program based.
A. Methodical base 2
Program Budgeting

- Strategic framework
- Budget Classification Structure - Program Classification
- Costing system
- Performance budgeting
A. Methodical base 2

Program Budgeting in a strategic framework

Strategic Planning Process

- Development Strategy
  - Government strategy
  - Strategic Goals
  - Action Plans
  - Performance Plans

Budget process

- Budget Strategy
  - Expenditure/Fiscal MTEF Budget Framework MTBF
  - Strategic Resource Plans
  - Sectoral Plans
  - Annual (allocations) budgets

Long term focus

- Medium-Term Framework
  - 3 – 5 years

1-2 year focus

A. Methodical base 2
Program Budgeting

Medium-Term Framework of budgeting

- Medium-Term Fiscal Framework
  - Aggregates (revenues, expenditures), fiscal policy

- Medium-Term Budget Framework
  - Sector/Program ceilings/forecast and strategies
  - improving the consistency of expenditure and revenue policies with fiscal policy

- Program / Performance budgeting
  - Within ministries, programs, costing, input-output relations
  - Performance measurement
A. Methodical base 2
Program Budgeting

- Strategic planning enables government to structure its budget on the basis of missions and objectives (program) rather than trying to integrate policy planning into the budget process.

“...But the more a strategic plan tries to influence the budget, the less strategic it is likely to be” (Allen Schick: Does Budgeting Have a Future? OECD, 2001).
General guidelines on the design of programs:

- Program has to be linked to only one function.
- Programs have to be hierarchically structured.
- Programs have to be defined to support decision making and prioritization (political and managerial).
- Program has to include all activities and projects that contribute to program goals.
- Responsibility for implementation of program should be align by administrative unit or assign to leading role in a case of interministerial programs (e.g. cross-cutting issues).
- Sub-program level should have managerial responsibility, if possible within single organizational unit (ministry/agency specific).
A. Methodical base 2
Program Classification

Program classification of expenditure as element of decision making:

• Should be linked to outputs and outcomes.

• All expenditures should be covered.

• Accounting system that enable recording expenditure on program base (groups of activities and projects).
A. Methodical base 2
Costing system

Use information on costs and benefits of the program (objective-based) expenditure categories for expenditure prioritization and (re)allocation:

- Program level for government decision-making
- Sub-program level for agency decision-making
A. Methodical base 2
Costing system

- Expenditure on inputs are allocated according to objectives for which those inputs are used (program classification)

- Break down the program into the activities and identify cost objects (operating unit, cost center, output, projects)

- Identify all resources used and their costs for a cost object

- Allocate direct and indirect costs to specific cost object using an agreed cost methodology
A. Methodical base 2
Costing system

- Work Unit Costs
- Costs on Behalf of Work Unit
- Government-Wide & Department-Wide Costs
  - Direct Costs
  - Indirect Costs

Cost allocation method

- Activity 1
- Activity 2
- Activity 3
- Activity N

- Program

- Inputs consumed
- Inputs costs
- Allocation to activities
- Aggregation to programs
A. Methodical base 2
Costing system

• Cost information has to be relevant for decision making.
• Costs should be clearly assigned to activities, avoiding cross subsidization.
• Importance of balance between accuracy and information costs in the design of costing system.
• Experience shows that sophisticated accounting methods e.g. ABC are too expensive and demanding to be generalized for use in government budget programs.
• Integration of accounting system and the performance measurement system (categories within which performance is measured should be aligned with categories in which accounting information are collected).
A. Methodical base 2
Performance budgeting
Result chain

Value for money

Costs → Inputs → Process → Outputs → Outcomes

- Economy: Direct & Indirect costs
- Efficiency: Human & Physical resources
- Effectiveness: How the ministry carries out its work
- Goods and services produced by the program
- Intermediate: benefits & changes resulting from the outputs
- Ultimate: final/long-term consequences
A. Methodical base 2
Performance budgeting

Relations between costs, inputs, outputs and outcomes for decision making:

- Ratios of actual (ex-post e.g. competition between providers, reallocation purposes, learning and accountability)
- Ratios of actual and intended (ex-post e.g. target setting, performance assessment and evaluation)
- Ratios of intended (ex ante e.g. policy/program analysis/evaluation for planning purposes)
A. Methodical base 2
Performance budgeting

System of performance information influencing budgeting:

• the risk of information overload (instead right kinds of data);
• cost of generating and processing budget information;
• availability of information (lower to higher level of decision making), knowledge and time to process them;
• importance of cost allocation (changes in expenditure – changes in results);
A. Methodical base 2

Performance budgeting

Using Performance Information in the budget process on achieved results and on costs of achieving those results for:

• Accountability
  presentational performance budgeting
• Planning
  performance informed budgeting
• Resource allocation
  direct/formula performance budgeting

Performance information has to be used to be useful!
B. Budgeting for Results 2
Using performance information

- **Budget discussions:**
  - Negotiations between the MOF and ministries
  - Management within ministry

- **Annual instruction to ministries**
  - Allocation of funds (linking planned/actual performance to funding, direct/formula funding)
  - Specification of required results

- **Annual report**
  - Financial and performance data
  - Audited by court of auditors and/or parliament
A. Methodical base 3
Consider when introducing program/performance budget

- An effective program budgeting system cannot be developed centrally by MoF alone.
- Programs need to be within ministries to ensure accountability and in reasonable number to avoid flood of information.
- The program concept should integrate recurrent and capital budgets and direct costs need to be allocated to programs.
- Government has to manage for results before budget for results.
A. Methodical base 3
Consider when introducing program/performance budget

- Foster an environment that supports and demands performance before introducing performance or outcome budgeting (rewards, sanctions).
- Control inputs before seeking to control outputs.
- Establish external controls before introducing internal control and internal control before introducing managerial accountability.
- Have effective financial auditing before moving to performance auditing.
A. Methodical base 3
Consider when introducing program/performance budget

- Operate a reliable accounting system before installing an integrated financial management system.
- Adopt and implement predictable budgets before insisting that managers efficiently use the resources entrusted to them.
B. Budgeting for Results 1
Slovenian development

Main legal framework established and classification introduced (1999-2009):

- Public Finance Act
- Changed budget preparation procedures from “bottom up” to “top down”
- Two Year Budget"
- According Rules of Procedure of the National Assembly program classification (sub-programe) of budget is basis for decision making.
- Economic (accounting classification, GFS), Functional COFOG, Programme and Institutional Classification
- “Source of Funds Classification”
B. Budgeting for Results 1
Slovenian development

Public Finance Act (1999) set program/performance base:

1. **Presentation of objectives, strategies and programs** in individual fields;

2. Legal and other bases on which the planned strategies and programs are based;

3. **Adjustment of objectives, strategies and programs to the long-term development planning documents and budget memorandum**;

4. Guidelines and indicators on which calculations and estimates with regard to the funds required are based;

5. Other clarifications facilitating an understanding of the proposed strategies and programs; and

6. A report on the objectives attained and the results of strategies and programs applied within a direct spending unit for the period of the first half of the current year.
B. Budgeting for Results 1
Program/Performance budgeting in 1999-2009

Legal framework, pilot projects and performance audit, but:

- Little evidence of systematic performance information being provided in the budget process.
- Performance budget(ing) not aligned with performance management.
- Budget process oriented toward spending control.
- Lack of support “from the top”.
- Line ministries unwilling to cooperate closely with the MoF. Need to look at their internal processes and organization structures.
- Capacity constraints (MoF specialized staff, IT system).
Decree on the documents of development planning bases and procedures for the preparation of the central and local government budgets (2007, revised 2010):

- Expenditure ceilings in MTBF also by program classification.
- Clear performance framework for preparation individual budget plans.
- Demand to quantify goals at all levels.
B. Budgeting for Results 2
Budget Cycle

BUDGET PREPARATION
- Public Finance Act
- Decree on the development of planning bases and procedures for the preparation of the central and local government budgets
- Budget Manual

Annual Report
Reports on the Objectives Attained and Results

BUDGET OVERSIGHT
- Public Finance Act
- Court of Auditors Act

BUDGET EXECUTION
- Public Finance Act
- Budget Implementation Act
- Rules on Procedures of Implementing the Budget
- Rules of Procedure of the Government

Approved (Annual) Budget

Established Budget
Mid-Year Report Supplementary Budget
B. Budgeting for Results 2
Budget preparation

Inter-organisational cooperation established for priority and goals setting, monitoring results and preliminary budget preparation (policy working groups):

- introduce cooperation among different government organisations,
- set targets and goals for programs and sub-programs,
- prepare(d) budget proposals for programs, sub-programs and spending units within government policy expenditure limit, which reflects government priorities.
B. Budgeting for Results 2
Budget preparation

- Centralized technical support for budget making:
  - connects financial plans and expected results
  - demands targets/goals on implementing levels,
  - demands indicators for measuring goals and expected results on every program level,
  - requires hierarchy of goals.

- Performance information core part of budget documents focused on project groups/activities groups/sub-programs
B. Budgeting for Results 2
Budget preparation

Program logic in budget preparation system
B. Budgeting for Results 2
Budget preparation

Ministry of Finance prepare **Budget Manual** where main elements are (following Government decision and MTBF):

- Budget limits on program, institutional and source of fund classification;
- Preparation of annual financial (business) plans of individual budget users (input planning, summary of project methodology);
- Result oriented budgeting.

The Government Office for Development and European Affairs coordinate linkage between budget and strategic goals/priorities).
B. Budgeting for Results 2
Budget preparation

Program logic in budget preparation system
B. Budgeting for Results 2

Budget preparation

Program logic and financial planning
B. Budgeting for Results 2
Budget preparation

Main instruction try to (IN COOPERATION WITH BUDGET USERS - MINISTRIES !!):

Establishing hierarchy of objectives:
- general – specific – results - outputs
  (operational/institutional)
  and

Answer when setting goals and indicators:
Who does what to whom and why?
- HOW? Resources–Activities-Outputs
- WHO? WHERE? Target groups-Stakeholders
- WHAT do we whant? WHY? Results (outcomes, impacts)

...
B. Budgeting for Results 2
Budget preparation

Promote **SMART** principle when **setting objectives**:

- **Specific**: clear what it is that you are aiming to achieve;
- **Measurable**: there should be a clear and transparent measure of success;
- **Achievable**: should be stretching, and reflect the Government’s ambitions for improved standards of public services. There should be some evidence that demonstrates what is possible.
- **Relevant**: should reflect what the program/organization is trying to achieve - not simply what is easily measurable.
- **Timed**: it should be clear when the objective should be delivered by.
B. Budgeting for Results 2
Budget preparation

Program logic in budget preparation system
B. Budgeting for Results 2

Budget preparation

Promoting performance measurement in cooperation with budget users:

- The success of performance measurement depends on the complete and accurate gathering and analysis of performance data.

- Methods of analysing data
  - Over time and trend analysis
  - Against targets and standards
  - Among subunits if possible (internal benchmarking)
  - Against external benchmarks (performance against that of other agencies, corporate-best practices, process improvement)
B. Budgeting for Results 2
Budget execution

- Execution decision making primary based on program classification.
- **Project/Group of activities** (link to program classification) together with **Budget line** (link to institutional, economic and source of funds classification) form **basic unit of budget execution**.
- Flexibility in budget execution is provided by a wide range of mechanisms allowing the executive to adjust spending in-year without recourse to parliament and is complemented with extensive **in-year reporting** from the Ministry of Finance.
- Accounting service is centralised in the MoF for all entities of State administration (except the defence and interior ministries). The accounting service is provided by uniform software.
B. Budgeting for Results 2

Budget execution

Public Finance Act and Budget Implementation Act established budget execution tools:

1. discretionary reallocation of appropriations under certain conditions e.g.:
   - direct users can reallocate budgetary appropriations within the same sub-programme,
   - the cabinet - among sub-programmes,
   - managing authority - EU cohesion policy appropriations among policies;

2. mandatory reallocation of appropriations if liabilities for pensions, public debt service, contributions to EU projects, and projects financed by earmarked EU funds exceed appropriations;
B. Budgeting for Results 2

Budget execution

- ...budget execution tools:

4. temporary cash limits to compensate for new commitments or changed economic circumstances (if budget balance cannot be restored within 45 days after overspending has initially been observed, a supplementary budget has to be proposed);

5. proportionate reduction of appropriations if revenues are below expected thresholds;

6. using a budgetary reserve for unforeseen expenditures; and

7. carrying-over certain appropriations to the next budget year.

Overspending cannot occur without prior approval of a supplementary budget. Supplementary budgets have been submitted infrequently in recent years.
B. Budgeting for Results 2

Budget execution

Program logic in budget execution system
B. Budgeting for Results 2

Budget execution

Program logic in budget execution system
B. Budgeting for Results 2

Budget execution

Decision making at government level when dealing with different proposals.

Program focus (project/group of activities) is obligatory when (re)allocating funds for achieving proposed governmental solutions.
B. Budgeting for Results 2
Year end Reporting

Instructions for the preparation of the final accounts (2001) set the methodology for preparing the report on targets reached and results having been taken into consideration, the report must contain:

1. The legislative and other legal bases that clarify the direct user’s area of word;

2. The direct user’s long term targets as they proceed from area strategies and national programs; for the national budget the targets from the area strategies and national programs shall be presented in terms of the area of budget expenditure;

3. The direct user’s annual targets set in the explanation of the direct user’s draft financial plan; the annual targets of a direct user of the national budget shall be presented within the framework of main programs, subprograms, projects and activities;
B. Budgeting for Results 2
Year end Reporting

Instructions for the preparation of the final accounts …

4. An assessment of the success in reaching the targets set, taking the physical, financial and descriptive indicators set out in the explanation to the draft financial plan of the direct user (program of work) into consideration;

5. The occurrence of any impermissible or unexpected consequences during the implementation of the program of work;

6. An assessment of the success in reaching the targets set in comparison with the targets set in the report(s) from the previous year(s);
B. Budgeting for Results 2

Year end Reporting

Instructions for the preparation of the final accounts …

7. An assessment of the cost-effectiveness and efficiency of the direct user’s operations in respect of the prescribed standards and criteria as set out by the relevant ministries or other state bodies, or by the mayor, and the measures for improving the efficiency and quality of the direct user’s operations;

8. An assessment of the functioning of the system of internal financial supervision;

9. Clarifications in areas where the targets set have not been reached as to why the targets were not reached. The clarifications must contain a list of measures and a timetable for reaching the targets set, and proposals for new targets or measures if the targets set are not feasible;

10. An assessment of the effects of the direct user’s operations in other areas, particularly on the economy, the social sphere, environmental protection, regional development and planning.
B. Budgeting for Results 2
Reporting on budget programs

Reporting on governmental programs support transparency as precondition for accountability and predictability; it requires:

- Detailed result chains established for all government programs (logical framework)
- Multilayer and understandable reporting
- Clear specification of objectives, numerical targets
- Includes efficiency and effectiveness measures, as well as quality assessments
- Standardized procedures for monitoring and reporting of results
B. Budgeting for Results 3

Open questions

- Integrate performance with budget execution
- Role of MoF (organization – financial/performance, what level to control)
- Quantity and Quality of information
- Establishing routine and systematic monitoring sys (MF or ministries)
- Budget performance reports (Models of expenditure reviews)
- Flexibility of ministries in using funds to achieve priority targets (carry over, earmarked funds)
- Tools to motivate performance and assure accountability (budget preparation, execution)?
B. Budgeting for Results 3
Open questions

- Costing system (cost objects: cost center or activity or project)
- Allocation of overheads/supporting costs (to what extent for central administration?)
- “Cost” of implementation (what to monitor, evaluate, overall or selective, capacity limitations)

THANK YOU!