# Performance budgeting: selected international experiences and some lessons for Slovenia

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31 May 2009

# PERFORMANCE BUDGETING: SELECTED INTERNATIONAL EXPERIENCES AND SOME LESSONS FOR SLOVENIA

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**Abstract**

The paper's main purpose is to briefly discuss the concept of performance budgeting and challenges encountered by other countries when seeking to implement performance budgeting, which might offer some helpful guidelines for Slovenia. The paper also presents the methodological framework applied in defining goals in a society as well as the role and the interdependence of social indicators and performance indicators for specific units/programs in public administration. Theoretical bases of such procedures will be presented along with an empirical concept which is believed to be appropriate for Slovenia. The formulation of the concept stems from the definitions given in the Budget Manual for 2008-2009 where individual budget users are responsible for monitoring their performance and efficiency. On this basis, we developed a theoretical concept of connections between different levels of long-term goals, implementational goals as well as efficiency and effectiveness indicators at the level of sub-programs of selected budget users. A theoretical and methodological framework constructed in this way will hopefully serve as the basis for realizing the concept of Slovenian direct performance budgeting in the near future.

**Keywords:** performance budgeting, budget programming, indicators, methodological framework, OECD, Slovenia

## 1. Introduction

In the last decade, performance measurement has emerged as the most important public sector reform of many years, surpassing even management by objectives, total quality management, zero-based budgeting, and program planning and budgeting in the speed and breadth of its adoption (Gilmour and Lewis, 2006). Closely related to performance measurement is the idea of performance budgeting, or performance-based budgeting, which seeks to link the findings of performance measurement to budget allocations (Joyce, 1999). Both performance measurement and performance budgeting are part of a worldwide effort to transform public management (Kettl, 2000). These reforms are intended to transform public budgeting systems from the control of inputs to a focus on outputs or outcomes in the interest of improving operational efficiency and promoting results-oriented accountability. These experiences have significant relevance for public sector reforms in countries which lag behind these advanced reforms.

A number of countries around the world, including Slovenia, are attempting to improve the performance of their government sectors and performance budgeting is often seen as an important aspect of these efforts. This is a very worthwhile objective, yet one that often is difficult to achieve. Countries may have embarked on budget reform for different reasons and have implemented it in different ways, but they do share some common objectives. These can broadly be grouped into three categories: budget priorities such as controlling expenditure and improving the allocation and efficient use of funds; improving public sector performance; and improving accountability to politicians and the public.

The paper is organized as follows. In the next section we introduce the concept of performance budgeting system. Section 3 describes some performance budgeting practice in selected developed countries, in particular OECD countries. Section 4 briefly examines performance budgeting processes in Slovenia. Section 5 covers a suggested methodological framework of performance budgeting in Slovenia. The final section offers the main concluding remarks.

## 2. The Concept of Performance Budgeting

Spurred on by economic pressure and increasing demands from citizens to improve public performance, the new budgetary doctrine advocates 'a conversion from a budgeting system that focuses on inputs to a system that focuses on results' (Joyce, 2003; NPR 1993). While the input-oriented (traditional) budget is focused on incremental levels of funding, the performance budget focuses primarily on the results. The major drawback of a line-item budget is that it does not provide guidance as a policy- or decision-making tool. In addition, it may result in misallocation and inefficiency because it does not allow management enough flexibility to address changing situations and often involves a 'use it or lose it' situation at the end of the year (Alberta Government, 1998).

**Table 1:** *The Contrast between Line-Item Budgeting and Performance Budgeting*

| Traditional Budgeting | Performance Budgeting |
|---|---|
| Inputs as ends in themselves | Relationship between inputs and outputs and/or outcomes |
| Changes in inputs at the margin | Changes in inputs and results for the entire program |
| Budgeting divorced from planning and management | Budgeting integrated with planning and Management |
| Budgeted resources | Program costs |

Sources: Joyce (2003); van Nispen and Poseth (2007)

Performance budgets use statements of missions, goals and objectives to explain why the money is being spent. It is a way to allocate resources to achieve specific objectives based on program goals and measured results. The key to understanding performance budgeting lies with the word 'result' (Young, 2003). With this method, the entire planning and budgeting framework is result-oriented. There are objectives and activities to achieve these objectives and these form the foundations of the overall evaluation. According to the more comprehensive definition by Segal and Summers (2002) performance budgeting comprises three elements: the result (final outcome); the strategy (different ways to achieve the final outcome); and activity/outputs (what is actually done to achieve the final outcome). Segal and Summers also point out that, within this framework, a connection exists between the rationales for specific activities and the end results and the result is not excluded, while individual activities or outputs are. With this information, it is possible to understand which activities are cost-effective in terms of achieving the desired result.

The OECD has defined performance budgeting as budgeting that links the funds allocated to measurable results. There are three broad types (see Table 2): presentational, performance-informed, and direct performance budgeting.[1] The basic level of performance budgeting is presented by *presentational performance budgeting* (e.g. in the United States) which simply means that performance information is presented in budget documents or other government documents and is not intended to play a role in decision-making and does not do so. The next level is *performance-informed budgeting* (e.g. in Australia) where resources are indirectly related to proposed future performance or to past performance. The performance information is important in the budget decision-making process but does not determine the amount of resources allocated and does not have a predefined weight in the decisions. Performance information is used along with other information in the decision-making process. Finally, the most developed level is *direct performance budgeting* which involves allocating resources based on the results achieved. However, this form of performance budgeting is rarely used (only in specific sectors in a limited number of OECD countries, e.g. in New Zealand) (OECD, 2008).

The practice of performance budgeting can also be characterized by the utilization of performance information for the allocation of resources. A distinction could be made between two definitions of public budgeting: *'Broadly defined, a performance budget is any budget that presents information on what agencies have done or expect to do with the money provided to them. Strictly defined, a performance budget is only a budget that explicitly links each*

[1] Shah and Shen (2007) distinguish four categories: performance-reported budgeting, performance-informed budgeting, performance-based budgeting and performance determined budgeting. Ultimately, the only difference to OECD classification is performance-based budgeting, where performance information plays an important role for resource allocation, along with many other factors, but does not necessarily determine the amount of resources allocated.

*increment in resources to an increment in outputs or other results. The broad concept views performance budgeting in presentational terms, the strict version views it in terms of allocation'* (Schick, 2003). Generally, many governments reforming the budget satisfy the broad definition (i.e. presentational performance or performance-informed budgeting) and only a few satisfy the strict definition (i.e. direct performance budgeting).

**Table 2:** *The Contrast between Line-Item Budgeting and Performance Budgeting*

| **Type** | **Link between performance information and funding** | **Planned or actual performance** | **Main purpose in the budget process** |
|---|---|---|---|
| Presentational performance budgeting | 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 |

Source: OECD (2007)

Performance budgeting, under the original designation of program budgeting, was pioneered in the United States in the 1950s and applied quite widely in OECD countries in the 1960s and 1970s. This form of program budgeting is clearly inspired by centralized planning (Soviet 5-year plans were a major inspiration). This was a period when governments believed they could plan and manage the development of societies in great detail, and that it was important to do so. At this time, the underlying flaws in the central planning model were not yet generally apparent and a number of European adopted elaborate government planning mechanisms, often based on macroeconomic models. Not surprisingly, 1960s' program budgeting attempts were not particularly successful, partly for the same reason that the Soviet planning model proved to be inadequate. Some countries produced elaborate sets of programs, documents and indicators, but the process was often mechanistic and decoupled from actual decision-making. Even more importantly, civil service management was hampered by a number of rigidities in deploying resources and managing personnel; the tracking of indicators and results was not well developed, and there were few explicit rewards or sanctions related to results. Managers often perceived the program budget efforts as a passing fad and paid little attention to it (Tandberg, 2009).

Performance information is a fairly simple concept: providing information on whether programs, agencies and public service providers are doing the job required of them effectively and efficiently. The OECD has defined performance budgeting as budgeting that links the funds allocated to measurable results. There are three broad types: presentational, performance-informed, and direct performance budgeting. Performance information has a long history in OECD countries: most of them have been working on it for at least five years and almost half of them for more than ten. Much of this information does find its way into budget documents, although simply including information on performance in budget documents is a long way from performance budgeting. If governments want to use performance information when setting budgets, they need to find a way to integrate performance into the budget decision process, not just the budget paperwork. To complicate matters, there are no single agreed standard definitions of performance budgeting, of the type of information it should include, or of the stage of the budget process when it should be introduced. There is also the question of whether performance information should be used for deciding how to allocate resources and, if so, how. There is no single model of performance budgeting. Even when countries have adopted similar models, they have taken diverse approaches to implementing them and adapted them to their own national capacities, cultures and priorities (OECD, 2008).

Nevertheless, if a program performs poorly does that mean it should be cut because it is wasting money or increased so that it can do better? Few people would argue that because, for example, the border police do not succeed in sealing the national border against illegal immigrants, its budget should be slashed. There are many other important programs for which evidence of weak performance could be interpreted as requiring more, not fewer, resources on the grounds that the program's mission is so important that it cannot be permitted to fail. Because of these complications, it is difficult to argue for any kind of mechanistic link between evidence of performance and budget

decisions. In performance budgeting, measures still must be interpreted and evaluated in the context of the programs, their missions, and their histories (Gilmour and Lewis, 2006b).

A common criticism of performance and program budgeting efforts is that they lead to budget planning systems that are mechanistic, overly complex, overloaded with useless data and that performance data have little or no impact on actual decisions. Many critics compare performance-oriented budget mechanisms to the planning models developed by Soviet central planners and claim they are equally useful (or useless). Moreover, many reform efforts are quite mechanical and ritualistic. There little attention is given to the quality of budget programs and indicators. Program and indicator definitions tend to focus on inputs and activities, and to some extent outputs. In many countries there are few examples of well-defined programs with clear outcome objectives and coherent indicators. Countries often retain detailed line-item budgets, effectively giving line managers little authority to manage their budget to meet objectives as efficiently as possible. Other rigidities are also prevalent, including those concerning staffing decisions such as hiring and firing. In addition, performance tends to have little or no influence on budget decisions. In many cases performance information is not even available or presented in a coherent manner when budget decisions are taken (Tandberg, 2009).

Usually, the measurement process itself is not neutral, political considerations may warp the assessments as well as their application. Indeed, certain programs are more appropriate for the use of performance information in determining budget allocations. Rather than imposing a system for all programs to follow, the reform should respect institutional differences among agencies and help them develop approaches suitable for their own situations and contexts, approaches that can provide them with useful information for reviewing the effect of what they are doing and identifying how this information can aid them in their planning and budgeting (Perrin 2002). Many programs provide services that are important but not essential and compete with or overlap other programs to varying degrees. One could use performance information to shift resources among such programs in order to achieve greater allocative efficiency. Determining which programs are so essential that their failure is unacceptable will never be an impartial process – it is likely that each party will see the programs it likes and supports as essential and it is unlikely that it will see weak performance as evidence that a program should be cut. Thus, it is possible that the party in power will implement performance budgeting in a politicized way, insulating the programs its favors from negative performance evaluations but cutting the budgets of programs they do not favor that are unable to demonstrate results. When performance measures incorporate a significant political component, they cease to be performance measures and become political measures with their use in budgeting becoming not easily distinguishable from standard budgeting practices (Gilmour and Lewis, 2006a).

## 3. Experiences of Performance Budgeting in OECD countries

Across OECD countries, the development of performance information has been a long-term, widespread and evolving trend. Hence, most OECD countries nowadays present performance objectives to parliament and the public in either government-wide performance plans or ministerial or agency plans (OECD, 2005). The majority of OECD countries has been working on developing outputs for at least five years, with over 40% of countries working on this approach for over ten years. Recently, nearly three-quarters of all OECD countries have included non-financial performance data in their budget documents. Countries have adopted different approaches to assessing non-financial performance; however, countries develop evaluations and performance measures in equal amounts. Of those that have developed performance measures, the majority of countries have developed a combination of outputs and outcomes for all, most or some programs (Curristine, 2005). Generally, country approaches to these reforms are not static; instead, they are constantly evolving. Within the past five years, around three-quarters of OECD countries have introduced a new initiative (OECD, 2007).[2]

The OECD (2007) analysis also shows that in the majority of cases the Ministry of Finance (MOF) does not use performance results to financially reward or punish agencies. The difficulty in linking funding to results reflects the fact that the issues and context surrounding budget decisions are complex. The MOF's capacity to eliminate or even

[2] The OECD/World Bank Survey (2008) shows that performance information is used as part of the budget discussions/negotiations between the Central Budget Authority and line/spending ministries in about half of the OECD countries (in 2007). In addition, at least some expenditures are linked to performance goals or objectives in 46.7% of OECD countries (in 23.3% for more than 80% of the expenditure) and there is no linkage in just 23.3% of the countries (with 30.0% of missing answers). Similarly, expenditure is specifically linked to performance targets in 46.6% of the countries and only in 16.7% is no link established (with 36.7% of missing answers).

cut back programs can be restricted by a lack of institutional capacity and power or by a lack of political support. While MOFs do not financially punish or reward agencies for their performance, they do still use performance information to hold ministries to account. Information on poor performance serves as a trigger for the MOF to more closely monitor or review agencies and programs. The most common course of action taken by MOFs against poorly performing agencies is that resources are held constant and the program is reviewed during the course of the year. Other actions include maintaining programs on condition that they perform well in the future.

In general, most OECD countries continue to struggle with reforms to attain the concept of direct performance budgeting. Some reforms concentrate on one objective but most performance reform initiatives have several objectives. Some common challenges, regardless of approach, include improving measurement, finding appropriate ways to integrate PI into the budget process, gaining the attention of key decision-makers, and improving the quality of the information. Implementation challenges range from perverse incentives to inertia. For many countries the major issue is not too much change but too little, with mere lip service having been paid to the reforms over many years. Although legislation on performance budgeting has been enacted, actual practice and behavior have not been altered. Inertia has dominated, with less than full implementation and/or a lack of incentive to change behavior. Although there are exceptions, most governments find it difficult to provide decision-makers with good quality, credible and relevant information in a timely manner (OECD, 2006), let alone incentives to use this information in budgetary decision-making.

Now, we describe the specific performance budgeting experiences in four selected OECD countries: Australia, Sweden, the United Kingdom and the United States.

Australia's current performance budgeting and management framework has been in place since the mid to late 1990s and followed an incremental approach[3] to reform over the past 15 years. In 1996, the introduction of an outcome budgeting and reporting framework in the Australian public sector was discussed. The framework was implemented for the first time in the budget of 1999/2000. Within the Australian outcome budgeting framework, 'appropriations are structured around outcomes, whilst Portfolio Budget Statements specify the price, quality, and quantity of outputs agencies will deliver and the criteria they will use for demonstrating the contribution of agency outputs and administered items to outcomes' (Scheers et al., 2005). The current framework develops both performance measures and evaluations. At the national level, Australia operates within a devolved financial framework. Performance management and budgeting are generally the responsibility of individual ministers and their departments and agencies. Thus, the current system is outcome-focused, concentrating on agency-level outcomes. Every department and agency within the general government sector is required to identify comprehensive and explicit outcomes, outputs and performance measures for the quantity, quality, price and effectiveness of their activities. They are required to report on those items and any major evaluations in their budget plans (portfolio budget statements) and their end-of-year results (in annual reports). Expenditure and program reviews are a central feature of the Australian budget process and an area where performance information is used to inform budget decisions. Until recently, the lapsing budget measure review process was the most commonly used type of review (OECD, 2007). Despite the comprehensive performance budgeting framework, members of the Australian parliament have criticized the output information in the portfolio budget statements and annual reports as being too aggregated. They have complained that it is difficult to gain a clear view of the agencies' contributions to the outputs. Moreover, in general there is little evidence that the output and outcome information is actively used in political decision-making, although the Department of Finance and Administration states that when savings had to be made the government did not slash funding in an arbitrary and linear way but took the new results-oriented information into account (Scheers et al., 2005).

In Sweden performance budgeting was an offshoot of the spending control policies introduced during the economic crisis of the 1980s and early 1990s. The established system of performance budgeting seeks to link policy objectives to expenditure, which is not legally binding. The 2001 budget bill created a program classification by which all government activities are categorized in a three-level program structure: policy areas, activity areas and branches. The objective of the change was to better communicate the government's political priorities and facilitate a management-for-results approach which would enable a comparison between the sectors. Performance information is not generally used as a basis for negotiating or deciding on future resources. However, it is used to monitor agencies'

[3] In contrast to the 'incremental approach', governments are more likely to adopt a 'big bang' approach when there are strong drivers for a quick change such as an economic crisis or a change in government (OECD, 2007).

activities and to report on the results to parliament. Every year in the budget bill the government submits a statement of operations to parliament on policy areas and activity areas, and this statement contains performance information. However, there is still a clear separation between the financial and performance aspects. Therefore, the current system has been criticized by parliament and the Ministry of Finance and in 2006 the government launched a review with a wide mandate to evaluate how performance information is used in the relationship between ministries and agencies (OECD, 2007).

In the United Kingdom, the 1997 election of the Labour Party created a shift in the wider political landscape which saw numerous public sector management reforms, including changing the budget process. In contrast to Australia and Sweden, the United Kingdom established a top-down centrally driven performance system. However, similar to Australia, the United Kingdom has changed the budget structure to focus on results. The United Kingdom introduced a comprehensive spending review in 1998 and repeated the exercise on a biannual basis in order to reallocate money to key priorities and improve the efficiency and delivery of public services. After a review of existing departmental spending, each department develops a three-year spending plan and a public service agreement (PSA). The Treasury negotiates with ministries regarding their key performance targets for the next three-year period; these targets are included in their public service agreements (containing measurable targets for a whole range of government objectives). The current agreements mainly focus on outcome targets, although there are still a few output targets. In addition to the PSA, each department will produce a technical note stating how the targets will be measured and a delivery plan explaining how it plans to achieve the targets. The development and evolution of the PSA framework has been led by the Treasury. All performance agreements and ministerial targets are agreed with the Treasury. Performance information is discussed as part of the spending review negotiations between the Treasury and ministries, although there is no automatic link between results and resource allocation. In the United Kingdom, key objectives and targets are integrated into the decision-making process at a high political level. There is a special cabinet subcommittee on public services and public expenditure (PSX) which is chaired by the Chancellor of the Exchequer. This committee discusses progress vis-à-vis targets and key strategic objectives and challenges (OECD, 2007).

There is little systematic evidence thus far that performance budgeting, as it has been implemented in the United States, has had a major impact on budgeting decisions. In 1993, the United States General Accounting Office reported that 'in states regarded as leaders in performance budgeting, performance measures have not attained sufficient credibility to influence resource allocation decisions. . . . [R]esource allocations continue to be driven, for the most part, by traditional budgeting practices' (GAO, 1993). A survey of state budget officials by Melkers and Willoughby (2001) indicates that performance budgeting does not have a major impact on how money is allocated. Only around 40 percent of those who responded to the survey agreed that 'some changes in appropriations were directly attributable' to performance budgeting. But respondents overwhelmingly agreed that performance budgeting had increased their workload. In 2002, the Program Assessment Rating Tool (PART) and the Budget and Performance Integration Initiative were developed by the Office of Management and Budget. The PART assesses the management and performance of individual programs. It evaluates a program's purpose, design, planning, management, results and accountability to determine its overall effectiveness. Each PART exercise asks departments to answer 25 basic questions and some additional questions tailored to the program type. The answers to these questions are scored and programs are ranked as effective, moderately effective, adequate, ineffective or 'results not demonstrated'. PART ratings do not result in automatic decisions about funding. However, the results are published and recommendations are made on how agencies can improve their performances. There is follow-up on agencies' progress. Over the four years of this program there has been a substantial increase in the total number of programs rated either 'effective', 'moderately effective' or 'adequate'. However, less progress has been made on linking performance information to budgets and resource allocations. In addition, congressional use of PART has been limited. In addition, the United States has preferred to keep the existing budget structure and to add performance information in supplementary documents provided to the legislature. However, the process of creating a performance management system is still in its infancy (Blöndal et al., 2003). Performance information is added to the budget documentation, yet it is not actually used by budgetary actors in deliberating and in making decisions. Thus, the current budgeting practice in the United States is more accurately called a presentational performance budgeting system.

## 4. Performance Budgeting in Slovenia

Since its independence, Slovenia has undergone various development stages of the budget process. In the 1990-92 period the concept of integral budgeting was introduced, a comprehensive tax reform designed and the amount of public debt determined. Another important period was between 1993 and 1999. During this period the budget implementation rules were defined, the classifications of revenues and expenditures and public expenditure charts of accounts prepared, the amount of public debt determined and external control of budget expenditure introduced. The most important period for the performance budgeting concept emerged after 1999 when Slovenia started adjusting its budget system in line with the regulations of the European Union (EU). After the Public Finance Act (Official Gazette of the RS, no. 79/99, (PFA)) had been adopted and enforced in the budget year 2000, Slovenia drew up a program classification serving as a basis for performance budgeting. Besides the general part (budget revenue and expenditure balances) the budget also consisted of a so-called special part including financial plans for direct budget users (PFA, Article 10) (Klun, 2009).

One of the basic principles of the PFA to be abided by when drawing up the national budget can briefly be described as *performance orientation.* Among other things, this means that the financial plan of a direct budget user must be performance oriented which should also be reflected in the explanation of the financial plan. Therefore, the goals and related anticipated results must clearly be defined, together with indicators of their attainment. Such an explanation of the financial plan can serve as a basis for establishing performance and assessing the actual efficiency and the attained goals at the budget year's end when compared to the planned results and sources of funds adopted in the same year's budget (MOF, 2007).

The current budget of the Republic of Slovenia is therefore underpinned by program classification serving as a basis for performance budgeting. According to the report of the Court of Audit, users fail to pursue the set goals if they are inadequately defined, let alone inexistent.[4] This mainly involves identification of the tasks of the government or the state by area, main program and subprogram. The reporting is still insufficiently focused on the results achieved. The ministries fail to underpin their assessments of performance and efficiency of operations by predefined indicators, their reports only rarely include comparisons of operations or achievements with those recorded in previous years and there is a lack of information on the measures (activities) geared towards the goals and a comparison of the latter with the planned ones. There is still a paucity of information that would provide a clear picture of subprogram performances and enable conclusions to be drawn about the program and subprogram performance with regard to the set goals.

In the past, this was one of the reasons for establishing various working groups in charge of implementing the performance budgeting concept. The key achievements of the first working group (formed in 2005) included the drawing up of new Instructions for the Compiling of Budget Users' Draft Financial Plans and the implementation of training in selected ministries. The Instructions included a detailed explanation of terms (output, result, input, goal, indicator, outcome etc.), instructions for defining goals and indicators and a presentation of practical examples.
This was also corroborated by the Court of Audit's subsequent audit reports confirming that a major progress had been achieved in the selected ministries (Klun, 2009). The second working group (formed in 2007) established that the key problems in introducing the performance budgeting concept consisted of a much needed change in the understanding and implementing of the budget process, staff shortages, organization and information shortcomings of budget users and a lack of political support from the government and the parent ministries (Čok et al., 2008).

In Slovenia, the statutory basis for performance budgeting has been prepared and a series of activities has been implemented by different expert groups to step up the introduction of performance budgeting. Despite the above, Slovenia is still in the initial phase of implementing performance budgeting characterized by the defining of goals and indicators and/or establishing of a reporting method which focuses on the realization of the planned programs. Little was done to facilitate the evaluation of results and even less to link the results with the planning or the budget

[4] During its audit of financial statements' compliance and implementation of the 2006 budget of the Republic of Slovenia, the Court of Audit also analyzed and evaluated the reporting on the attained goals and results of three selected subprograms by three ministries and described them as 'underperforming'. The audit report on the draft year-end accounts of the 2007 budget of the Republic of Slovenia contained no analysis of goals and results; however, the Court of Audit conducted individual audits of the efficiency of operations by area (MOF, 2007).

allocations. However, over the years some ministries have improved their goal and indicator definition process. Nevertheless, the ministries' financial plans only exceptionally define target values, deadlines for the set goals and 'zero' values. The Slovenian budget, similarly to those of OECD countries, lays a greater emphasis on results and a smaller emphasis on outcomes. The explanations of budget users' financial plans basically lack a link between the defined goals and indicators and the proposed and/or planned resources. The reporting on the achieved goals or results is of poorer quality as the year-end accounts often contain a report in the future tense, fail to establish a link between the draft plan and the report and, even more frequently, between the money spent and the achievements (Klun, 2009). However, in the future some major shifts can be expected in Slovenia in the sphere of performance budgeting, partly also due to the growing budgetary pressures.

## 5. Suggested Methodological Framework of Performance Budgeting in Slovenia

As has already been established, one of the main reasons for the failure to concretize the theoretical frameworks in most attempts to measure performance and efficiency in the public sector is the insufficient focus on the definition of goals which the public administration should attain and the indicators which should measure the attainment of these goals. Obviously, the goals of the public sector's operations are diverse and frequently difficult to define. Therefore, caution should be exercised in laying down the requirements at various levels of operations – from implementational goals at the subprogram level, the long-term goals of programs all the way to the goals of individual ministries and/or activities in a given comprehensive area. The historical-concrete level must follow the theoretical-analytical one.

The starting point of every public administration goal, including implementational goals, should be the values of society and their evolution. If these values change, changes in social relations should follow. Any identified discrepancy between the values of society, expressed as the desired state of affairs, and the actual state of affairs should trigger activities of the state in the first place (followed by the public administration). Therefore, a fair system of measuring or defining the two states of affairs should be established in society and underpinned by social indicators.

Already in the 1960s, scientists started linking social indicators to national goals so as to pave the way for changes in public policy. Social indicators help identify the difference between the actual conditions (state of affairs) and the desired ones. Movements in the indicators show the direction of the trend – either upwards or downwards. Social indicators are used in the sense of measurement of the broadest area which influences the prosperity of mankind or population of a country. The tasks involved in the definition of this process can be divided into two groups. The task of politics is to detect changes in the values of society and any discrepancy between the desired and actual state of affairs. It should define long-term goals, strategies and projects geared towards minimizing this gap. The tasks of public administration experts are as follows:

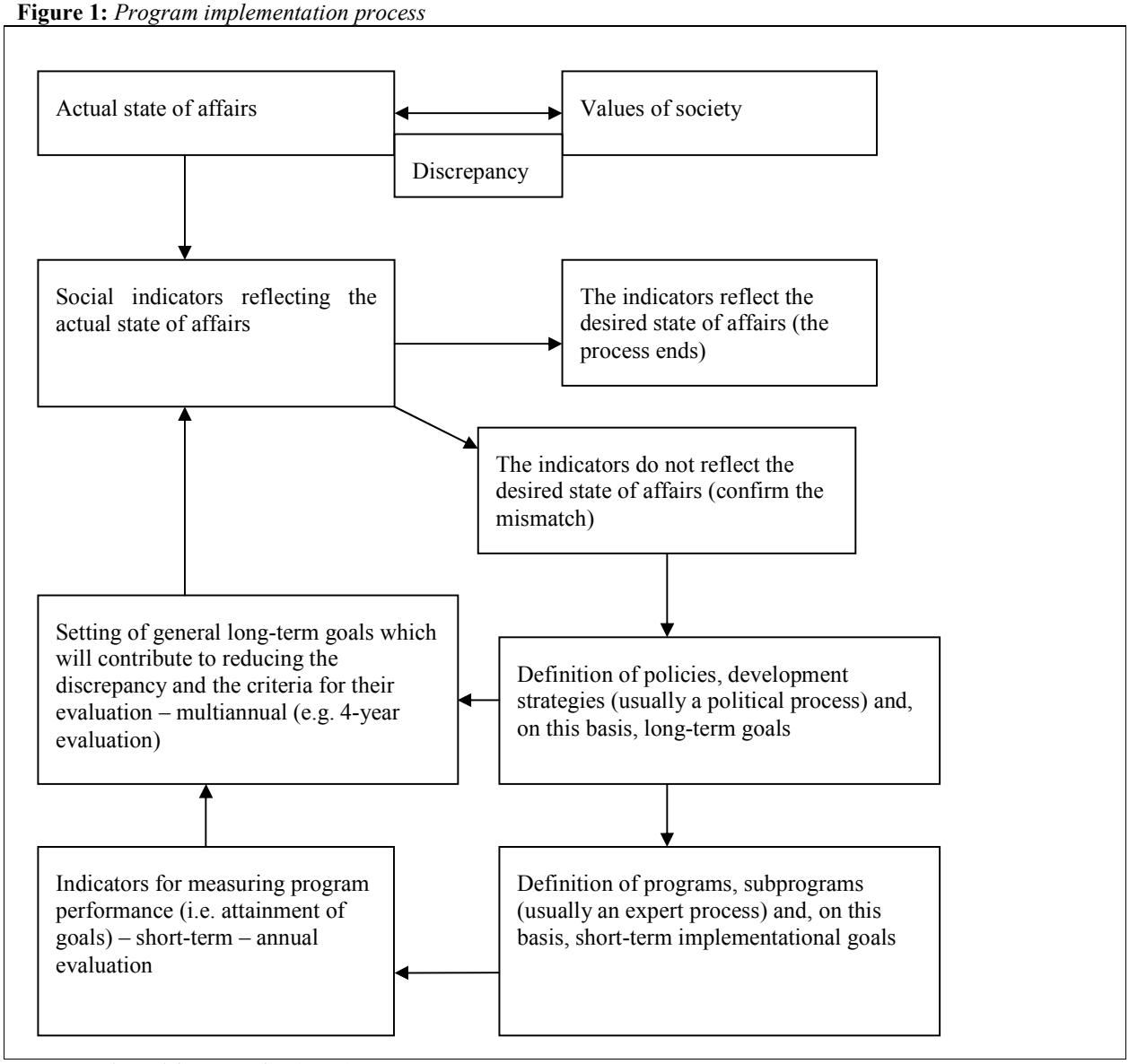
- define indicators for individual long-term goals which will be used to measure their achievement (appropriate social indicators);
- define short-term implementational goals on the basis of long-term goals;
- define indicators to use for measuring the stage of attainment of short-tem goals – the so-called efficiency and effectiveness indicators of program implementation; and
- define target values of efficiency and effectiveness indicators of program implementation which must be aligned with the target values of long-term strategies.

In the rest of this article the focus will be on the bottom part of the model – after identifying a mismatch between the actual and desired state of affairs (Figure 1). However, the organization of the model must allow for a continuous exchange of information and impulses between the elements. Special emphasis must be laid on the importance of setting goals in any evaluation of activities in a specific social community and particularly in the measurement of the public administration's performance and efficiency in a given area.

In Slovenia, the program bases of performance budgeting are defined in the Budget Manual for 2008-2009. The manual clearly states '… that financial plan of a direct budget user must be performance oriented and this must also be reflected in the explanations to the financial plan. This implies a clear definition of goals and the related results' (MOF, 2007). The definition of national goals lies within the purview of politics. Goals can be found in different government strategies, coalition agreements, long-term development plans etc. They are defined as long-term goals

which should be measured with general indicators falling within the scope of outcomes[5]. Thus, they refer to the level of broader development policies and reflect the performance of a large number of programs.

**Figure 1:** *Program implementation process*




*Source*: adapted from Ferriss (2002)

National goals should be concretized at an annual level within the budget and budget items. The Budget Manual states that '… concrete target values must be specified for each goal together with a time schedule for attaining the set goal' (MOF, 2007). A clear definition is required for all goal-setting levels and the related indicators[6].

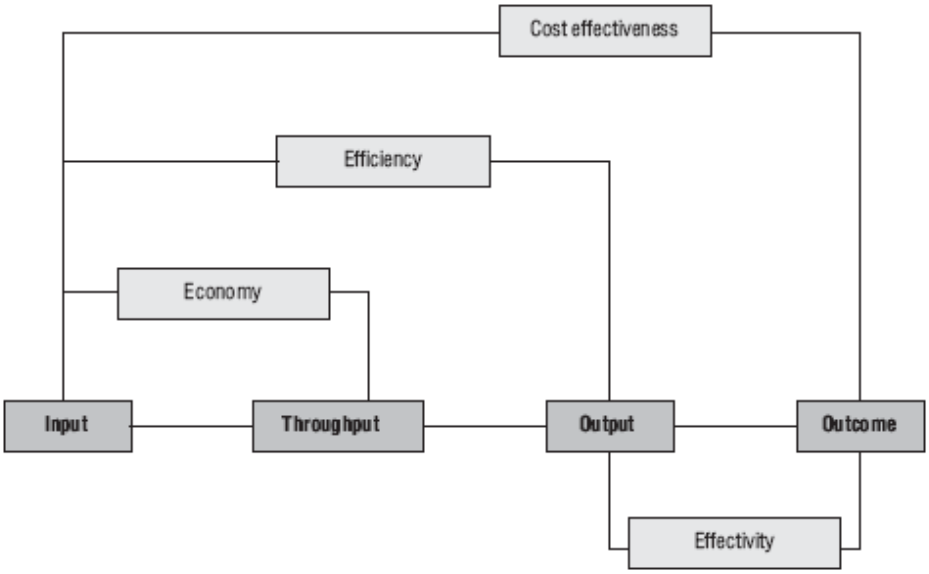
[5] An outcome shows the performance and attainment of a goal which is broader than an institution's goal. An outcome is a socially defined purpose of an institution's operations which indicates the institution's effects on its environment and the evaluation of the institution's operations by society (Andoljšek and Seljak, 2005).

[6] Wolter describes his experience in drawing up a report about education system in Switzerland. Initially, he established that ' any evaluation of education system performance must be based on education goals. …However, education goals are very often unclear, incomplete or have not even been defined in many areas.' (Wolter, 2008). However, this should not lead one to conclude that it would be better not to use such a system. The only alternatives to the governance and management of the education system based on indicators that are periodically and systematically gathered and interpreted would be relying on political-normative ad hoc decisions or a semi-scientific "trial and error" approach.' (Wolter, 2008).

The practice has shown that one of Slovenia's key problems in defining the indicators and their target values is the relationship between the long-term development process and short-term annual budget cycle. In Slovenia this means, for example, a transition from the goals of the Slovenia's Development Strategy to long-term and implementational goals defined in the draft budgets. The second level is the concretization of the first. Therefore, in the initial phase of performance budgeting, the process of defining the indicators and their target values should, at least theoretically, be carried out at two different levels:

- the first group includes indicators measuring the outputs resulting from activities within a specific program as well as other (intentional and unintentional) activities in society. These are social indicators which should be used in the evaluation of the performance of long-term national goals defined in multiannual projects, strategies etc. As they are not only related to one specific program but to the activities of society as a whole, they are relatively abundant in national and international statistical systems. When such indicators come together at higher levels, norms and standards are also required. The norms for these indicators can be the values of indicators of the top performing countries or the highest desired values in the long run (e.g. Seljak, 2001; UNDP, 2007);
- the second group includes those measures which can be directly related to activities within a specific program and should measure their performance and efficiency. In modern society where most activities are closely intertwined this can be a difficult task. They are defined according to a model proposed for this type of indicators by different international organizations (e.g. OECD 2001, Andoljšek & Seljak, 2005): namely, a model of input, process, output and outcome (see Figure 2). These are area-specific indicators. To enable a comparison at higher levels, different methods of combining data are applied and they are essentially based on standardization. When defining aggregate indicators for such specific areas such as the measurement of individual, heterogeneous programs, the standardization must be based on a value which is used in the evaluation of performance or efficiency levels. Thus, each indicator must be assigned a target value as this is the only way to establish the attainment of the goal which the indicator is supposed to be measuring, as well as to merge indicators at higher levels. Only in this way can different program be compared (e.g. OECD, 2008).

**Figure 2***: A basic input/output model*




*Source:* Van Nispen and Posseth (2006)

In the first phase of establishing performance budgeting, all-out efforts will have to be devoted to the definition of indicators and their target values from the second group. In most cases the indicators of the first group can serve as a basis for international comparisons of broader long-term social trends, whereas the second-group indicators should be operational in the short run and linked to annual changes in budgets. They should also serve as a basis and provide an explanation of the second-group indicators.

The program *0504–Technological development*, subprogram *05043201–Programs for the promotion of technological development in the economy*, will serve as an example. The implementation of this subprogram lies within the purview of the Ministry of Higher Education, Science and Technology. In the revised 2008 budget, it was allocated about EUR 24.5 million (MOF, 2009). In the long run, the subprogram contributes to implementation of the goals of the  and the transition to the knowledge-based society while also following the adopted EU guidelines and resolutions of the Lisbon Declaration and the Barcelona Summit in 2002 where it was agreed that investments in research and development and in innovations within the EU must increase so as to attain the objective of 3 percent of GDP by 2010, whereby two-thirds of these investments should be made by the private sector (MOF, 2007).

Naturally, the attainment of these goals depends on the engagement of the Ministry of Higher Education, Science and Technology and other ministries (Ministry of the Economy, Ministry of Finance etc.) and a great many others in Slovenian society (universities, institutes, companies etc.). Data for this indicator are available from Slovenian and international statistical systems and their collection is relatively simple. The target values are optional: these could either be the norms adopted in the  or the Lisbon Declaration (3 percent of the GDP) or the highest values recorded in comparable countries in a given period (e.g. in 2006 Sweden allocated 3.8 percent of its GDP to research and development – UNESCO, 2009). If the criteria for assessing indicators designed for measuring implementation of goals in the framework of a specific project/program are applied, such an indicator is considered to be of high quality if:

- it is sensitive to changes in time – an annual calculation within the national accounts system;
- it is sensitive to changes in space – its uniform definitions allow a comparison between countries;
- its target values are clearly defined and verified within political and expert processes;
- it is directly comparable with other indicators (percent of GDP for education, agriculture etc.) and its form allows the further calculation of aggregate indicators; and
- data collection and application are simple (data can be found in different international databases: UNESCO, OECD, EUROSTAT).

The second group consists of indicators designed for assessing the performance of implementational goals within individual subprograms. Below are some examples taken from the examined subprogram (*05043201–Programs for the promotion of technological development in the economy*).

**Table 3**: Indicators and target values of the subprogram '*Programs for the promotion of technological development in the economy*'

| **Indicator** | **Target value** |
|---|---|
| number of supported research projects in small and medium-sized companies | support 70 to 100 research & development projects of companies, of which at least 50 percent are of small and medium-sized companies |
| number of supported national technological platforms and technological networks | support 10 to 12 national technological platforms and technological networks |
| number of supported new EUREKA projects with Slovenian participants | ensure support to 20 to 25 new EUREKA projects with Slovenian participants |
| number of implemented activities for informing and supporting companies in their participation in the EU 7th Framework Program | implementation of 3 to 5 activities for informing and supporting companies in their participation in the EU 7th Framework Program |
| number of young researchers | increase the number of young researchers by 30-50 |
| number of financially supported technological centers | financially support 20 to 25 technological centers |
| number of supported innovators/private persons | ensure support to innovators–private persons (20 to 40) in innovation activity |
| number of supported innovators/organizations | ensure support to innovators/organizations (3 to 5) in innovation activity |
| number of participations in EU joint technological initiatives for groups of budget users | participate in at least 1 EU joint technological initiative for groups of budget users |

Source: MOF (2007)

These indicators should be selected in a way so as to measure implementational goals and should represent an interim phase in the attainment of the long-term goal defined in the main program. The indicators in the previous group largely result from a political process, whereas those in this group are the result of an expert process within the public administration. These indicators, together with their target values, are mainly defined by the subprogram managers (individuals or working groups) in the ministries. They carry out the activities whose performance is measured by these indicators. At this point a conflict of interests arises which is why in terms of transparency and correctness of the procedure it would be better to entrust at least supervision over the attainment of goals to a group which is not closely related to the implementation (within the Ministry of Finance, Ministry of Public Administration, Government Office for Growth, Court of Audit or a working group consisting of representatives of all these organizations).

This type of indicators is difficult to evaluate using the same criteria as applied for the first group of (social) indicators. They are quite specific and related to only one type of activity. Thus, in most cases they only enable direct comparability in terms of time, whereas their comparability with other subprograms and comparison with other countries (due to different legislation and program design processes) is considerably limited. Such a comparison is only possible through the standardization of indicators; however, this calls for a clear definition of norms or target values for each indicator. Nevertheless, the procedure for defining norms or target values for such indicators is less transparent than that for social indicators. This procedure is not subject to international comparability and, generally, it cannot undergo such a broad and comprehensive political verification.

Owing to all of these deficiencies, the setting up of a system of indicators used for measuring subprograms' performance calls for a particularly high level of systematization and transparency. The basic characteristics of each indicator must be defined in detail using a prescribed procedure. Only in this way can the adequacy of an individual indicator and its position in the system be directly established. This procedure is time consuming in the initial phase but in subsequent phases it brings a number of advantages. The development of a framework of indicators is a well-established procedure in statistical theory and most international institutions (UN, OECD) include it in their recommendations. The best way is to conceive a standardized framework for this purpose, describing the main characteristics of the indicator and its target values in a specified period (e.g. Seljak 2001, Andoljšek & Seljak, 2005).

In the next phase, the shortcomings of individual indicators can be eliminated by combining indicators together to cover several dimensions of an individual (sub)program. When evaluating subprograms, the decision-making process must consider their diversity. Therefore, it is impossible to reduce the variety of dimensions so as to apply just one individual indicator, even if it is extremely representative, which would indicate the level of or changes in the phenomenon under scrutiny (Munda, 2005). In ideal conditions, the composite indicator should measure multi-dimensional concepts which cannot be covered by only one indicator. Saltelli (2007) stated several reasons for the growing interest in composite indicators:

- composite indicators can be used for merging complex or multidimensional phenomena so as to support decision-making processes;
- composite indicators offer a 'broader view' and they enable the ranking of units during the observation or measurement of complex phenomena;
- composite indicators can raise the public's interest; and
- composite indicators can help reduce the number of indicators.

This procedure is particularly useful in cases where there are no solid expert bases to select a small group of high-quality representative indicators. In such cases a larger group of indicators is selected and, using various methods, combined in a smaller group or (at a final stage) in a single indicator. Over the past few years, this approach has been increasingly gaining ground given that, on the global scale, at least 160 composite indicators (OECD and European Commission, 2008) are already being used to compare different phenomena between countries and within them.

## 6. Conclusion

The past two decades have seen a clear trend among developed OECD countries towards bringing about a stronger performance orientation in public sector management. In the majority of countries, efforts have been limited to generating more performance data and better program evaluations. The priority of performance budgeting reform in most countries has been to provide information about results together with financial information in budget documents or annual reports. Of the selected countries, line-item budgets are still prepared in the United States (aside from other expenditure classifications). Nonfinancial performance data are integrated in budget documentation for all programs in Australia, Sweden and the United States. Nevertheless, the integration of performance information into budget documents does not guarantee that such information will be used in decision-making. Indeed, in many OECD countries this information has simply been ignored when it comes to making decisions about allocations (Blöndal and Curristine, 2004).

In the last few years Slovenia has been following the recommendations of international organizations to implement the performance budgeting concept. It has experienced similar problems as the OECD countries (reforms take time, a lack of administrative capacity, a government-wide approach may not work etc.). Indeed, performance budgeting is a useful tool for performance accountability and budget transparency in line ministries but of limited relevance for ministries that perform central policy functions, such as the Ministry of Finance or Ministry of Foreign Affairs. Moreover, Slovenia must first and foremost tackle the inadequately defined explanations of financial plans which fail to sufficiently clearly define the goals and expected achievements of a program compared to the starting points in a field a budget user intends to influence with their program. In some programs, the budget users fail to adequately define the criteria for operations and the indicators of achievements together with expected values which would enable the achievements of an individual program to be measured after implementation.

Already since 2000 Slovenia has been preparing the relevant regulatory bases and has also adopted instructions for compiling of year-end national and municipal accounts as well as the methodology for drawing up a report on attained goals and results by budget users. However, all of these bases have so far been insufficient to put the said concept into practice. The measurement of the efficiency of performance budgeting clearly requires a change in mindsets at the highest political levels but, even more importantly, in the way this new mindset is accepted by civil servants at middle and lower management levels. Support for such approaches has been clearly publicly declared by former[7] and present governments of the Republic of Slovenia[8]. However, even if the top politicians are sincere in their statements they must first set up the necessary legislative, financial, organizational, personnel and information frameworks for this transition and then convince people at lower level of management (directorates, management of programs and subprograms) that the new approach is correct (i.e. applying a bottom-up approach). Finally, the involvement of citizens is also called for in the reform process in order to ensure credibility and improve the meaningfulness of the collected, assessed and reported data.

[7] The Finance Minister in the Slovenian government for the 2004-2008 period, Dr. Andrej Bajuk, said: '… on this basis Slovenia will be able to follow the steps of the developed OECD countries which for over a decade have been implementing budget reforms geared towards performance budgeting …' (Andoljšek & Seljak, 2005).

[8] The Minister without Portfolio Responsible for Development and European Affairs as of 2008, Mitja Gaspari, MSc, said: '… it is necessary to establish a system which would evaluate the outputs of projects and measurement of efficiency of expenditure by purpose, as this is the only way to assess whether the projects were successful or not.' He added: '… the state budgeting process will have to be radically changed' (Polanič, 2009).

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