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Colin Pidgeon

Linking budgets to outcomes: international experience

This paper presents two approaches that link budgets to outcomes and may provide possible models for improving financial and budgetary processes in Northern Ireland. It also presents a detailed survey of initiatives to link performance against objectives to budgetary inputs.

Executive Summary

The research presented in this paper suggests that a way can be found to present the budget which both:

- recognises the Assembly's desire for linkage to demonstrate the resources that underpin the priorities in the Programme for Government (PfG); and,
- takes account of the practical difficulties that implementing outcome-based budgeting has caused internationally.

Part A of the paper presents two possible approaches to linkages between budgets and political priorities. The approaches examined are somewhat different, but would go some considerable distance to making clear the relationship between resources and objectives.

The Canadian approach has the distinct advantage of presenting budget lines beneath the strategic priorities which they are intended to support. This allows the reader to get a clear feel for how spending on particular lower-level programmes or policies links into the overall vision. And, whilst it may not be totally straightforward to produce a similarly presented budget publication, it seems likely to be a less complex process than immediately moving to full outcome-based budgeting.

Part B of the paper explores the international experience of outcome-based budgeting. It finds not only that there are differences in approach and implementation, but also to the fundamental issues of definition and purpose. The evidence is mixed and to an extent is conflicting: there have been some successes, but also many difficulties.

The evidence presented confirms the view that linking budgets to outcomes for the purposes of affecting allocations is extremely complex. It also raises a number of practical difficulties, not least of which is cost. Additionally, the evidence shows some possible problems for the transparency of budgeting – as a result of potential 'information overload'. One result of this may be that, despite all the effort required to produce performance data, it may not be actively used by legislators.

On the other hand, there is evidence of what might be called 'benevolent by-products' of initiatives to link budgets to priorities. These can include enhanced accountability to the legislature and the wider public, enriched policy debate and better informed scrutiny.

Taken together, the evidence seems to suggest that a move to linking budgets to outcomes fully should be a long-term objective. In the short-to-medium term, the other less complex approaches may deliver significant benefits. In order for these to be achieved, however, there are some issues which need to be considered in some depth, and these are presented on the following page.

Key issues for consideration

The lessons that may be drawn from the research presented suggest that some of the highest priority issues for consideration are as follows:

- A clear understanding of the **objectives** of linkages between the budget and political priorities is required. Not least because of power-sharing, this understanding needs to be shared not just between political parties but also between the Northern Ireland Executive and the Assembly;

- This shared understanding needs to include the **degree of complexity** that is required in creating the linkages. Key questions need to be asked and answered: is full outcome budgeting what is required, or is there a kind of halfway house that would satisfy all actors? The following observations suggest that there could be benefits from moving in the direction of an outcomes approach without necessarily going the full way:
    - An approach along the lines of that taken in either Canada or Australia seems capable of demonstrating to Assembly Members more clearly how the resources they approve for use by departments relate to the Executive's priorities;
    - There could also be benefits for Ministers and departmental officials of such an approach – it would be easier to explain the inter-relation between spending and results than is currently the case.

- An agreement of **how much performance information** should be included in or alongside the budget is necessary to avoid the risk of 'information overload' and, perversely, reduced transparency around the budget. A slightly less developed, more simple form of linkage, supported by a joined-up framework of performance evaluation may help mitigate that risk. The provision by DFP of an analysis of the previous work undertaken on linkage would help inform that decision;

- In order to achieve progress on a budget which can demonstrate linkage to priorities however there are considerations for the institutional architecture of government in Northern Ireland. It seems likely that the goal of a linked budget along the lines of the Canadian model would be more readily achieved if – as in that country – the **development of priorities and the associated allocations are carried out by the same body, or at least at the same time**;

- **Because of the inherent and well-documented difficulties in achieving and sustaining outcome-based budgeting, it may be appropriate for the Assembly to set that goal as a long-term objective, with a less complex form of linkage in the medium term that could be implemented in time for the next Programme for Government and budget cycle.**

Contents

1. Introduction

In a number of coordinated reports over the last few years, the Committee for Finance and Personnel ("the Committee") has called for the Executive's budget to be linked to the Programme for Government (PfG).[1] These calls have been motivated by the Assembly's committees desire to see the amount of funding that is allocated to particular objectives or priorities.

Ultimately, the concept is a fairly simple one: the legislature wants to see how the resources it formally approves for use by departments are committed towards particular intended outcomes. Such a position was clearly envisaged in the Good Friday/Belfast Agreement which states:

> *The Executive Committee will seek to agree each year, and review as necessary, a programme incorporating **an agreed budget linked to policies and programmes**, subject to approval by the Assembly, after scrutiny in Assembly Committees, on a cross-community basis.[2] [emphasis added]*

In its *Report on the Response to the Executive's Review of the Financial Process in Northern Ireland* the Committee stated:

> *The Committee firmly believes that there should be **clear, visible linkages between Budget allocations and the Programme for Government** and is unable to endorse Review Recommendation 7 [that performance outcomes and the delivery of the Programme for Government should not be directly attributable to allocations in budgets but should be monitored and delivered regardless of budget inputs].[3][emphasis added]*

In responding to the Committee's comments the Minister stated:

> *There are […] particular difficulties with attaching funding even to specific targets in the Programme for Government, which has been tried in the past. Departments tried to match funds to their PSAs, and many of them commented that it was a meaningless exercise. The Department of Education, for example, said that it was unable to complete the required mapping. If we were to go down below the strategic level and map those targets, we would disaggregate the Budget to a level at which it would*

[1] For the most recent example see CFP (2012) 'Report on the Response to the Executive's Review of the Financial Process in Northern Ireland' available online at: http://www.niassembly.gov.uk/Documents/Reports/Finance/nia28_11-15.pdf (accessed 14 February 2012) (see paragraphs 35-42)

[2] Strand One, Paragraph 20 available online at: http://www.nio.gov.uk/agreement.pdf (accessed 14 February 2012)

[3] CFP (2012) 'Report on the Response to the Executive's Review of the Financial Process in Northern Ireland' available online at: http://www.niassembly.gov.uk/Documents/Reports/Finance/nia28_11-15.pdf (accessed 14 February 2012) (see paragraph 42)

> *become impossible, and it would not be a practical or even efficient use of resources.*[4]

The introduction into budgeting of performance-related information is not a new concept. It is also clear from the Minster's statement that it has in fact been previously attempted in Northern Ireland. **What seems to be currently missing is a coherent and detailed analysis of the previous attempts by the Northern Ireland Executive which explains or provides evidence of precisely *why* the chosen model or form has been so difficult to achieve in practice.**

There has been no clear policy justification for the apparent shift from the previous position that the Department of Finance and Personnel (DFP) held. This was referred to in the Committee's recent *Report on the Response to the Executive's Review of the Financial Process in Northern Ireland:*

> *The Committee notes that this position appears to represent a shift in DFP thinking in this regard; the Review of the NI Executive Budget 2008-11 Process, completed by DFP in March 2010, included the following recommendations:*
>
> ■ *"Recommendation 1: An exercise should be conducted at the start of the next Budget process to seek to determine the level of public expenditure underpinning actions to deliver each Public Service Agreement in the Programme for Government (PfG).*
>
> ■ *Recommendation 7: Every departmental spending proposal should clearly state the impact on the respective PSA target, if successful."*[5]

In the absence of a rationale from DFP to explain this shift, the purpose of this paper is to provide detail on international examples of budgeting for outcomes. It is intended that the research will help to close the information gap between the Northern Ireland Assembly's clearly expressed desire for the budget to be linked to PfG commitments and the Minister's recently articulated position.

The Minister of Finance has interpreted the Committee's recommendation as requiring a move to full outcome budgeting. <u>However, the Committee has not expressly called for outcome budgeting in the short-to-medium term: it has called for 'linkage to the PfG.</u>'

In the debate on the Committee's report on 13 February, the Deputy Chairperson highlighted the distinction:

[4] Official Report 13 February 2012, available online at: http://www.niassembly.gov.uk/Assembly-Business/Official-Report/Reports-11-12/13-February/#a11 (accessed 14 February 2012)

[5] CFP (2012) 'Report on the Response to the Executive's Review of the Financial Process in Northern Ireland' available online at: http://www.niassembly.gov.uk/Documents/Reports/Finance/nia28_11-15.pdf (accessed 14 February 2012) (see paragraph 36)

> *…it is important to be clear on the distinction between, on the one hand, establishing a full outcomes-based budgeting system and, on the other hand, creating clear linkage between the underpinning objectives or actions required to deliver high-level PfG priorities and the associated budget allocations and expenditure.*[6]

Part A of this paper presents examples of linkage between budgets and political priorities which fall somewhere between current Northern Ireland practice and full outcome budgeting; the Canadian or Australian approaches outlined may provide useful models for achieving that linkage.

Part B then explores the merits and demerits of budgeting for outcomes in some detail to help the Committee, and the wider Assembly, decide whether such an approach should be taken in the longer term.

Before proceeding to examine the literature, however, further definition of the concept of budgeting for outcomes, and explanation of the purpose, is provided. The following sections examine (i) the purpose of linking budget inputs to outcomes, and (ii) the different motivations that can underlie those purposes.

1.1. Why try to link budget inputs to outcomes?

An obvious question raised by the debate is, if performance on outcomes is not strong is it because the outputs are wrong? Or is it that the outcomes are framed wrongly? Or are the resources being used in the right way?

In turn, these questions give rise to an important consideration: is the budget to be used by the Assembly to drive performance improvements? At least one element of performance-related budgeting is about providing information for **accountability** – not necessarily exclusively for decision-making for budget allocations.

It seems possible that these considerations are behind DFP's comment in its Discussion Paper that:

> *…performance should not be considered to have any direct link to funding inputs. Performance outcomes and the delivery of the Programme for Government should be monitored on a stand-alone basis.*[7]

But it is arguable that this leaves an accountability gap. A key function of the Assembly's Public Accounts Committee is to consider the reports of the Northern Ireland Audit Office (NIAO) under section 60(2)(c) of the *Northern Ireland Act 1998*:

[6] Official report, 13 February 2012 available online at: http://www.niassembly.gov.uk/Documents/Official%20Reports/Plenary/2011/20120213.pdf (accessed 24 February 2012) (see page 192)

[7] DFP (2011) 'Review of the Financial process in Northern Ireland: a discussion paper for key stakeholders' (see page 34)

> *into the economy, efficiency and effectiveness with which the Northern Ireland departments have used their resources in discharging their functions.*[8]

It is explicit in this duty that there is a link that must be examined between a department's resources (i.e. budgetary and other inputs) and its effectiveness (i.e. the outcomes achieved through departmental programmes). The Assembly relies on the NIAO to carry out value-for-money studies that investigate those linkages. But the NIAO can only carry out a limited number of investigations.

In the words of one expert:

> *…outcomes are what matters in the final analysis.*[9]

Perhaps, then, from the Assembly's perspective the over-riding consideration is for the budget to be presented in a way that enables statutory committees to make these value-for-money assessments more easily for themselves?

1.2. Motivations for focusing on outcomes

Part B of the paper demonstrates that there is no single model of budgeting for outcomes. Even when similar models have been employed, they have been implemented differently. It is reasonable to assume, then, that the motivations behind various attempts also vary somewhat. And it also seems reasonable to further assume that large numbers of countries would **not** have tried to implement performance-related budgetary reforms if there was no apparent value in doing so.

The OECD *Journal on Budgeting* has featured many country studies on performance budgeting. Countries studied include: Australia, Poland, Turkey, Sweden, the UK, the US, Canada, Denmark, Korea and the Netherlands.[10]

None of these countries appear to have perfected an approach to budgeting for outcomes. This begs two questions: what is the explanation for the prevalence of attempts across the globe? And why have so few places apparently cracked it?

In the words of one expert in this field, Allen Schick:

> *Vast amounts have been written about the compelling logic of allocating resources on the basis of the results to be achieved rather than in terms of the inputs to be purchased or the organizational units to be financed. Little*

[8] See http://www.legislation.gov.uk/ukpga/1998/47/section/60

[9] Blöndal, JR (2003) 'Budget Reform in OECD Member Countries: Common Trends' available online at: http://www.oecd.org/dataoecd/1/51/43505551.pdf (accessed 16 February 2012) (see page 18)

[10] See http://www.oecd.org/document/14/0,3746,en_2649_34119_2074062_1_1_1_1,00.html (accessed 14 February 2012)

has been written, however, about why this eminently sensible idea has had an elevated mortality rate.[11]

It might be attractive to dismiss the concept of budgeting for outcomes as a public expenditure 'fad'. Yet in the same article (written in 2008) Schick notes that the concept has been around for sixty years. If it is a fad, it is a resilient one.

There are different motivations described in the literature. These include:

- improving accountability to the legislature;[12]
- controlling expenditure and improving allocation and efficient use of funds; and,
- improving public sector performance.[13]

This points to an important decision for the Assembly: what is the motivation for seeking linkage between the Northern Ireland budget and the PfG? A **clear and shared understanding of the objectives** behind linking the budget to outcomes is a necessary step to selecting the means of achieving those objectives.

For the purposes of Part A, it is assumed that the first and third motivations listed above (improved accountability and public sector performance) are the Assembly's primary concerns. The discussion in Part B is more closely related to the second motivation (controlling expenditure and improving allocations) because full outcome budgeting explicitly links the allocation of money to results in the previous period.

The paper now looks to two different approaches to providing linkages between budgets and political priorities.

[11] Schick, A (2008) 'Getting performance budgeting to perform' available online at: http://siteresources.worldbank.org/INTMEXICO/Resources/AllenSchickFinal.pdf (accessed 14 February 2012) (see page 2)

[12] Sterck, M (2007) 'The impact of performance budgeting on the role of the legislature: a four-country study' in International Review of Administrative Sciences, Vol. 73(2): 189-203

[13] OECD (2008) 'Performance Budgeting: A Users' Guide' available online at: http://www.oecd.org/dataoecd/32/0/40357919.pdf (accessed 14 February 2012) (see page 3)

Part A

2. Linking budgets to political objectives

This Part of the paper presents evidence in relation to linkage between budgets, government objectives and performance. The basis for the examples provided is that **broad conceptions** of linking budgets to outcomes are closer to the express desire of the Assembly for linkages between budget and the PfG than direct performance-based budgeting.

2.1. Linking expenditures to performance goals or strategic objectives

The OECD *International Budget Practices and Procedures Database* contains the results from surveys of the OECD membership. The most recent data is from 2007/08. Whilst this is a little dated, and practices and procedures may have subsequently changed, it does provide a starting point for examining the extent of linking budgets to performance.

Presentational performance budgeting

Table 1 details the results to question 75 of the survey: approximately how many performance targets are there in the budget?

Table 1: use of performance targets in the budget

Estimated % of expenditure specifically linked to performance targets	Countries	Number (% of whole sample)
Not included	Austria, Czech Republic, Denmark, Iceland, Luxembourg, Poland	6 (20%)
1-10%	Italy, Norway	2 (6.7%)
11-20%		
21-30%	Mexico	1 (3.3%)
31-40%	Hungary	1 (3.3%)
41-50%	United Kingdom	1 (3.3%)
51-60%	Finland, New Zealand	2 (6.7%)
61-70%		
71-80%	Netherlands	1 (3.3%)
81-90%	Korea	1 (3.3%)
91-100%	Australia, France, Slovak Republic, Sweden, United States.	5 (16.7%)
Missing answer		10

On the basis of this evidence, it is relatively common for OECD countries to include some performance information with the budget. Four fifths of OECD member countries include a degree of such data. In these instances, however, such data is not necessarily explicitly linked to allocations.

Performance-informed budgeting

Table 2 gives the results to question 76 of the survey: are expenditures linked to performance goals or objectives? This moves from presentational performance budgeting to performance-informed budgeting (see section 5.1.)

Table 2: are expenditures linked to performance goals or objectives?

	Countries	Number (% of the whole sample)
No	Austria, Belgium, Czech Republic, Iceland, Japan, Switzerland, United Kingdom.	7 (23.3%)
Yes, 0-20% of expenditures	Denmark, Hungary, Mexico, Poland, United States.	5 (16.7%)
Yes, 21-40% of expenditures		0
Yes, 41-60% of expenditures	Luxembourg	1 (3.3%)
Yes, 61-80% of expenditures	Norway	1 (3.3%)
Yes, 81-100% of expenditures	Canada, Finland, Netherlands, New Zealand, Slovak Republic, Korea, Sweden.	7 (23.3%)
Missing answer	Australia, France, Germany, Greece, Ireland, Italy, Portugal, Spain, Turkey.	8 (30%)

This data demonstrates that it is also relatively common in the OECD member countries to have a degree of explicit linkage between performance goals/objectives and allocation. In fact, the same proportion (just under a quarter) of countries reported that they had 81-100% of their budget linked to performance goals/objectives as reported they had none – with a number of other countries somewhere in between.

The following section examines the budget process and documents in Canada and the way budget allocations are linked to strategic objectives. The documents seem to offer a model that has some potential for meeting the aim of supporting increased accountability to the Assembly.

2.2 Process for constructing the Canadian Budget

The Canadian budget process is first presented in outline form below. Figure 1 shows the process for budget construction in Canada, and Table 3 shows a summary the roles and responsibilities of the different actors in that process.

Figure 1: outline budgeting process

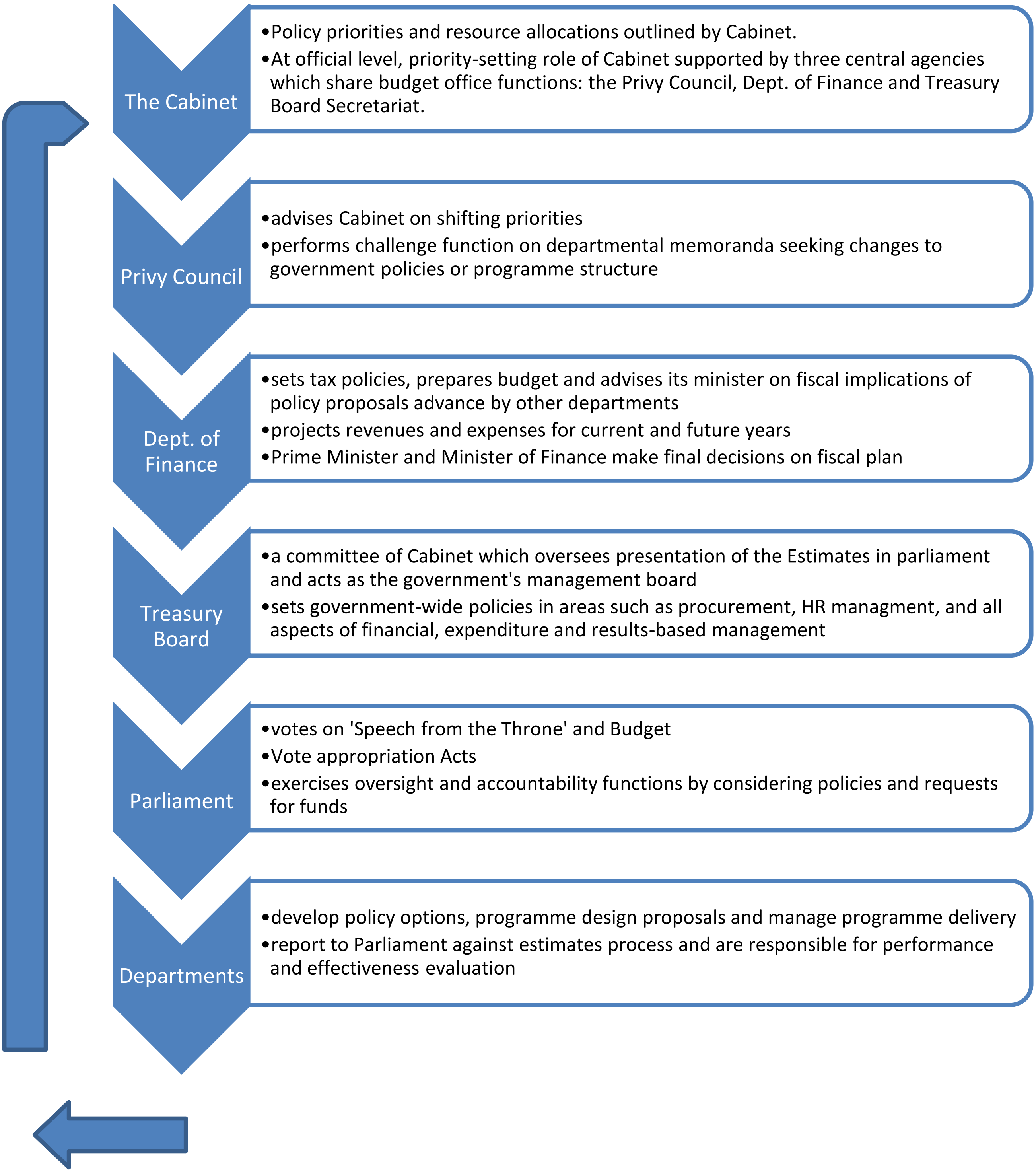

Table 3: roles and responsibilities in the Canadian expenditure management system[14]

Element	Responsibility
Holds the government to account, **approves all spending** on an annual basis.	Parliament.
Developing an **annual budget** and a multi-year fiscal framework.	Minister and Department of Finance.
Establishing annual departmental reference levels (the ongoing programme resource base), **considering the renewal of existing programmes**, setting results management policies.	Treasury Board (a committee of Cabinet supported by the Treasury Board Secretariat).
Approval of new policies and "go ahead" to develop new programmes.	Cabinet supported by the Privy Council Office and the Department of Finance.
Allocating and reallocating to ensure alignment with priorities and aggregate expenditure control.	Departments routinely – plus the three central agencies in special cases.
Seeking parliamentary approval of spending plans through the *Estimates* process.	President of the Treasury Board – supported by the Treasury Board Secretariat.
Reporting to Parliament on spending plans, actual expenditures and results achieved.	Ministers supported by the Treasury Board Secretariat and departments.

It should be noted that, whilst the Canadian budget presented is at the federal level, the principle that shapes the presentation of linked information flowing from strategic commitment to allocation seems readily applicable to the Northern Ireland context.

Table 3 shows it is the Treasury Board which reports on the performance of departmental programmes. It uses a Management Accountability Framework (MAF). MAF assessments are posted on its website.[15]

What is interesting in the context of this discussion is not so much the detail of the MAF, but that this performance reporting function is delivered **not** by a particular government department (the role is the responsibility of OFMDFM in Northern Ireland): rather it is a **separate secretariat of a sub-committee of the Cabinet**. It is this body which is responsible not only for performance reporting, but **also** the parliamentary Estimates process. The Treasury Board is also responsible for reporting on actual expenditures and results. The issue of the joined-up approach – and the challenges presented in the Northern Ireland context - is picked up below in section 4.

Having looked at the institutional framework, the next section explores the budget documentation.

[14] Source: McCormack, L (2007) 'Performance Budgeting in Canada' available online at: http://www.oecd.org/dataoecd/42/16/43411424.pdf (accessed 27 February 2012) (see page 6)

[15] See: http://www.tbs-sct.gc.ca/maf-crg/index-eng.asp (accessed 27 February 2012)

2.3. The Canadian budget

Strategic Priorities

Canada's Budget 2011 was presented with a focus on four strategic areas:

- **Supporting Job Creation**: Creating the right environment for businesses and entrepreneurs to invest in Canada and succeed in the global economy, leading to higher rates of productivity growth, more and better-paying jobs for Canadians, and a higher standard of living;
- **Supporting Families and Communities**: Ensuring that all Canadians can enjoy a high quality of life and benefit from the opportunities that long-term growth creates;
- **Investing in Innovation, Education and Training**: Promoting the research and development that will give Canadian firms a competitive advantage in global markets and providing Canadians with the opportunity and incentives to acquire the education and skills needed for increasingly complex, high-wage jobs;
- **Preserving Canada's Fiscal Advantage**: Maintaining a strong environment for growth by ensuring the Government will return to fiscal balance in the medium term, providing confidence and certainty to Canadians and Canadian businesses.

It is immediately apparent that the nature of these strategic areas - and the way they are framed - bears considerable resemblance to the Northern Ireland Executive's draft PfG priorities (see Box 1):

Box 1: draft Northern Ireland PfG priorities

- Growing a Sustainable Economy and Investing in the Future;
- Creating Opportunities, Tackling Disadvantage and Improving Health and Well-Being;
- Protecting Our People, the Environment and Creating Safer Communities;
- Building a Strong and Shared Community; and,
- Delivering High Quality and Efficient Public Services.

Beneath the strategic areas

Under each of Canada's four strategic areas are subordinate areas of budgetary classification. Beneath 'Supporting Families and Communities', for example, there are five subdivisions:

- Supporting Canada's Seniors;
- Supporting Our Families;
- Supporting Vibrant Communities
- Protecting Canada's Natural Environment; and,
- Public Safety, Security and Justice.

Budgetary allocations are then made that underpin each of these subdivisions, as shown in Table 4.

Table 4: Canadian Budget subdivisions

Supporting Families and Communities

	2010–11	2011–12	2012–13	Total
	(millions of dollars)			
Supporting Canada's Seniors				
Enhancing the GIS for low-income seniors		223	307	530
Enhancing the New Horizons for Seniors Program		5	5	10
Subtotal—Supporting Canada's Seniors		228	312	540
Supporting Our Families				
Improving tax support for caregivers		40	160	200
Enhancing recognition of medical expenses caregivers incur in respect of dependants	1	3	3	7
Increasing flexibility to access RDSPs for beneficiaries with shortened life expectancies		3	1	4
Palliative and end-of-life care		3		3
Introducing a new Children's Arts Tax Credit	25	100	100	225
Subtotal—Supporting Our Families	26	149	264	439
Supporting Vibrant Communities				
Introducing a Volunteer Firefighters Tax Credit	5	15	15	35
Forgiving loans for new doctors and nurses in under-served rural and remote areas			9	9
Renewing the Eastern Ontario Development Program				
Renewing the Harbourfront Centre Funding Program		5	5	10
Supporting Celebrations				
100th Anniversary of the Calgary Stampede		5		5
100th Grey Cup celebrations		5		5
Supporting Special Olympics Canada				
Supporting Canada's cultural sector				
Canada Periodical Fund		15	15	30
The Royal Conservatory of Music		8		8
CBC/Radio-Canada		60		60
Supporting Aboriginal people				
Investing in on-reserve infrastructure		10	12	22
Supporting economic development on reserve lands				
Subtotal—Supporting Vibrant Communities	5	123	56	183

Table 4 (continued)

Table 4.2.1 *(cont'd)*

Supporting Families and Communities

	2010–11	2011–12	2012–13	Total
	(millions of dollars)			
Protecting Canada's Natural Environment				
Renewing the Clean Air Agenda				
Clean air regulatory agenda		122	131	252
Clean energy regulatory actions		43	43	86
Next generation of clean transportation initiatives		22	26	48
Climate change adaptation		25	33	58
International Climate Change Strategy		13	13	25
EcoENERGY Retrofit – Homes program		400		400
Enhancing environmental protection of the Great Lakes		2	3	5
Expanding Canada's National Parks system		0.3	1	2
Taking action on toxic chemicals		100	100	199
Cleaning up federal contaminated sites		34	34	68
Improving Canada's weather services		10	16	27
Subtotal—Protecting Canada's Natural Environment		771	399	1,170
Public Safety, Security and Justice				
Improving the security and efficiency of Canada's air travel system		0.2	0.1	0.3
Youth crime prevention		10	10	20
Promoting safer Aboriginal communities		15	15	30
Nunavut justice system		2	2	4
War Crimes and Crimes Against Humanity Program		8	8	17
Federal Victims Strategy		13	13	26
Firearms licence fee waiver		17	4	21
Communities at risk				
Subtotal—Public Safety, Security and Justice		65	53	118
Total—Supporting Families and Communities	**31**	**1,336**	**1,084**	**2,450**
Less funds existing in the fiscal framework		356	316	671
Net fiscal cost	**31**	**980**	**768**	**1,779**

Note: Totals may not add due to rounding.

An obvious question is: how comparable is the Canadian budget information with that currently provided in Northern Ireland?

The expenditure allocations in Table 4 are at a broadly comparable level to the Sub-head detail provided for Northern Ireland departments in the Estimates publications. For example, the Canadian budget contains a line for 'youth crime prevention'. The Northern Ireland Estimates contain lines for the Youth Justice Agency.[16] Whilst these lines are not necessarily for *exactly* the same nature of expenditure items, they do seem to be at a similar level and of a comparable nature.

It is also apparent that it is immediately fairly clear, both to legislators in Canada and the public, what purpose those allocations are being made for. The subdivision provided in the Northern Ireland Estimates and budget is less clear. This point is picked up in the discussion in section 4 below.

[16] DFP (2012) 'Spring Supplementary Estimates 2011-12' available online at: http://www.dfpni.gov.uk/spring-supplementary-estimates-2011-2012.pdf (accessed 2 March 2012) (see page 213)

3. Highlighting new or proposed expenditure

Another budgeting practice which may be of interest to the Committee is the explicit presentation of 'new' (in contrast to recurring) expenditure.

During discussion on the DFP's response to the Committee's report on 25 January 2012 an official noted that only about 10-15% of the DHSSPS budget could readily be mapped to PfG priorities. It was argued that the remaining 85-90% related to routine (albeit important) recurring expenditure on existing services.[17]

This discussion hinted at the possibility of mapping **new** programmes and expenditure to PfG commitments, rather than the **whole** of Executive expenditure. There is some evidence of this approach being used in other jurisdictions and a specific example is presented below.

Table 5 gives the results to question 76 of the OECD Budget Practices and Procedures survey: in the annual budget documentation presented to the Legislature are expenditures under current commitments in law and policy distinguished from new policy?

Table 5: are expenditures under current commitments distinguished from new policy?

	Countries	Number (%of total sample)
No	Austria, France, Hungary, Japan, Portugal, Slovak Republic, Spain, Sweden, Turkey, UK.	10 (33.3%)
Yes, but not in all cases	Belgium, Canada, Greece, Iceland, Luxembourg, Mexico, New Zealand, Poland, Korea.	9 (30%)
Yes, comprehensively	Australia, Czech Republic, Finland, Germany, Ireland, Italy, Netherlands, Norway, Switzerland, US.	10 (33.3%)
Other	Denmark	1 (3.3%)
Missing answer		0

An example from Australia is helpful for the purposes of illustrating this approach.

3.1. The Australian budget

The Australian government introduces separate bills for appropriation for ordinary services and for new policies. Appropriation Bill no.1 is for the ordinary annual services of government, which is defined as "continuing expenditure for existing policies." Appropriation Bill no.2 is for expenditures outside of the definition for Appropriation Bill no.1 - in other words, monies for funding **new** policies, new capital expenditure and

[17] Official Report, 25 January 2012, (not yet available online)

grants. Once a new policy has been approved in Bill no.2, it becomes 'ordinary' and moves to Bill no.1 in future bills.[18]

It should be noted that the reason for handling appropriation in this way relates to the powers of the Australian Senate to introduce amendments, rather than simply to enhance transparency – but this does not automatically mean that the approach would be without value in the present context in Northern Ireland. **On the contrary, in fact, it might provide a model that could help with the linking of allocations to PfG priorities.**

3.2. Appropriation Act no.1

Tables 6 and 7 are extracts from the Australian Appropriation Act no.1 (2011-12).[19]

Table 6: summary appropriation for Agriculture, Fisheries and Forestry.

AGRICULTURE, FISHERIES AND FORESTRY PORTFOLIO

SUMMARY

Summary of Appropriations (plain figures)—2011-2012
Actual Available Appropriation (italic figures)—2010-2011

Entity	Departmental	Administered	Total
	$'000	$'000	$'000
Department of Agriculture, Fisheries and Forestry	308,526 *415,871*	164,367 *227,602*	472,893 *643,473*
Australian Fisheries Management Authority	22,985 *23,228*	5,693 *4,100*	28,678 *27,328*
Australian Pesticides and Veterinary Medicines Authority	6,482 *3,150*	- -	6,482 *3,150*
Total: Agriculture, Fisheries and Forestry	**337,993** *442,249*	**170,060** *231,702*	**508,053** *673,951*

[18] Blöndal, JR et al (2008) 'Budgeting in Australia' available online at: http://www.oecd.org/dataoecd/59/24/42007191.pdf (accessed 27 February 2012) (see pages 32-33)

[19] Available online at: http://www.comlaw.gov.au/Details/C2012C00205/c98c2c48-a6f8-4cf2-b285-ffdec1f13115 (accessed 27 February 2012)

Table 7: breakdown of appropriation for Department.

AGRICULTURE, FISHERIES AND FORESTRY PORTFOLIO

Appropriation (plain figures)—2011-2012
Actual Available Appropriation (italic figures)—2010-2011

	Departmental $'000	Administered $'000	Total $'000
DEPARTMENT OF AGRICULTURE, FISHERIES AND FORESTRY			
Outcome 1 -			
More sustainable, productive, internationally competitive and profitable Australian agricultural, food and fibre industries through policies and initiatives that promote better resource management practices, innovation, self-reliance and improved access to international markets	113,682 *112,740*	149,169 *205,896*	262,851 *318,636*
Outcome 2 -			
Safeguard Australia's animal and plant health status to maintain overseas markets and protect the economy and environment from the impact of exotic pests and diseases, through risk assessment, inspection and certification, and the implementation of emergency response arrangements for Australian agricultural, food and fibre industries	194,844 *303,131*	15,198 *21,706*	210,042 *324,837*
Total: Department of Agriculture, Fisheries and Forestry	**308,526** *415,871*	**164,367** *227,602*	**472,893** *643,473*

It is noticeable that the Australian system appropriates against 'outcomes'. But it should be noted that the outcomes presented in this Act bear some resemblance to the departmental purposes described in Requests for Resources used in the Northern Ireland Estimates process.

For example, Outcome 1 from Table 7 is:

> *More sustainable, productive, internationally competitive and profitable Australian agricultural, food and fibre industries through policies and initiatives that promote better resource management practices, innovation, self-reliance and improved access to international markets.*

The Request for Resources A for the Northern Ireland Department for Agriculture and Rural Development is:

> *Promoting sustainable development of the agri-food industry and the countryside; stimulating the economic and social revitalisation of rural areas; reducing the risks to life and property from flooding; promoting sustainable development of the sea fishing and aquaculture industries; and managing, protecting and expanding forests in a sustainable way.*[20]

This suggests that it might be a relatively straightforward process to produce a disaggregated budget document for Northern Ireland along the lines of the Australian one – the level of the budgetary allocation appears to be similar.

[20] DFP (2012) 'Spring Supplementary Estimates 2011-12' available online at: http://www.dfpni.gov.uk/spring-supplementary-estimates-2011-2012.pdf (accessed 2 March 2012) (see page 12)

3.3. Appropriation Act no.2

Tables 8 and 9 are extracted from the Australian Appropriation Act no.2 (2011-12) for spending on new items/programmes.[21]

Table 8: new item appropriation for Agriculture, Fisheries and Forestry

AGRICULTURE, FISHERIES AND FORESTRY PORTFOLIO

SUMMARY

Summary of Appropriations (plain figures)—2011-2012
Actual Available Appropriation (italic figures)—2010-2011

Entity	Payments to States, ACT, NT and local government	New Administered Outcomes	Non-operating	Total
	$'000	$'000	$'000	$'000
Department of Agriculture, Fisheries and Forestry	-	-	14,169	14,169
	-	-	*1,271*	*1,271*
Total: Agriculture, Fisheries and Forestry	**-**	**-**	**14,169**	**14,169**
	-	-	*1,271*	*1,271*

Table 9: breakdown of appropriation for Department.

AGRICULTURE, FISHERIES AND FORESTRY PORTFOLIO

Appropriation (plain figures)—2011-2012
Actual Available Appropriation (italic figures)—2010-2011

	Payments to States, ACT, NT and local government	New Administered Outcomes	Total
	$'000	$'000	$'000
DEPARTMENT OF AGRICULTURE, FISHERIES AND FORESTRY			
Non-operating			
Equity Injections			14,169
			1,271
Total: Department of Agriculture, Fisheries and Forestry	**-**	**-**	**14,169**
	-	-	*1,271*

The Explanatory Memorandum also provides additional information to underscore what is proposed. In this instance, for example, 'equity injections' are defined:

> *"equity injections" can be provided to agencies to, for example, enable investment in assets to facilitate departmental activities and for Designated Collecting Institutions to purchase heritage and cultural assets.*[22]

[21] Available online at: http://www.comlaw.gov.au/Details/C2011B00069/7ff852e2-2f84-4df8-910b-dcb57ab11b5c (accessed 27 February 2012)

[22] Available online at: http://www.comlaw.gov.au/Details/C2011B00069/21249ded-ebc6-4d8f-bd9e-beead20ea185 (accessed 27 February 2012)

In this way, the Australian process enables legislators to focus straightaway on what is **new expenditure** in a draft budget.

4. Discussion: would these forms of linkage between budget and priorities meet the Assembly's needs?

The Committee has previously noted that the breakdowns provided in the Northern Ireland Estimates are not particularly meaningful. In DFP's Discussion Paper on the Review of Financial Process, recommendation 6 stated that:

> *Spending Areas in Departmental Expenditure Plans should be restructured in such a way as to be meaningful and informative to the reader and indicative of the range of services delivered by the Department. Spending Areas should be used in all publications.*[23]

This recommendation was broadly supported by the Committee in its report:

> *The Committee agrees that the level of detail currently provided in departmental expenditure plans often does not provide meaningful information on key areas of public spending, and welcomes any proposals that will simplify and harmonise information, increase transparency and ensure that expenditure is more readily scrutinised. While there was also general support for the thrust of Review Recommendation 6 from other Assembly committees, it was noted that further consultation will be required with the Assembly on the level of the breakdown proposed.*[24]

The Committee may wish to consider the structure of, and breakdown provided in, the Canadian budget document (shown in section 2.3) in regard to these considerations. It is suggested that if DFP's recommendation 6 is implemented, then perhaps it is not such a large step from there to achieving the kind of linkage that the Committee and wider Assembly want. To that end, a clear definition of purpose is required.

A separate, more fundamental, issue arises from the Canadian process. In Northern Ireland, the PfG is developed by and reported on by the Office of the First and Deputy First Minister. But the budget is developed by DFP. In Canada, it is a single body – the Treasury Board – which supports the key procedural processes of seeking parliamentary approval for spending, reporting on actual expenditures and results as well as considering the renewal of existing programmes.

Joining up these processes may help the Northern Ireland Executive produce a budget linked to outcomes. One option for consideration might be for the Executive's existing sub-group on the budget (The Budget Review Group which is currently reviewing revenue-raising options) to oversee the construction of a linked strategic plan when the time comes for the existing budget and PfG to be reviewed and renewed.

[23] DFP (2011) 'Review of the Financial process in Northern Ireland: a discussion paper for key stakeholders' (see page

[24] CFP (2012) 'Report on the Response to the Executive's Review of the Financial Process in Northern Ireland' available online at: http://www.niassembly.gov.uk/Documents/Reports/Finance/nia28_11-15.pdf (accessed 14 February 2012) (see paragraph 34)

Another issue that has been raised with the Committee by DFP is the difficulty that can arise when the timescales for developing the budget and the PfG differ because of external factors - such as UK Government spending reviews and the election cycle, for example. One consideration that was discussed in Committee to help resolve this problem – and which might therefore help resolve the issue of joining up the two processes – would be to produce a PfG that has an overlapping period with a new mandate of the Assembly.

What is particularly interesting in the Australian example is not the specific content of the tables included above but the **approach**. By separating new expenditure from routine, reoccurring expenditure it is immediately clear what is the fiscal effect of new policies and priorities.

In the example in section 3.3, the Department of Agriculture is only planning a single new item of expenditure. All other appropriated funds, therefore, relate to the continuation of spending under existing programmes and policies. If the Northern Ireland budget could be structured so that it were divided into recurring expenditure on continued programmes and new expenditure reflecting PfG priorities, the aim of enhancing accountability might be met.

What this approach might **not** resolve, however, is the difficulty of reflecting the contribution that **existing** programmes make to political objectives. Having said that, over time, one might expect that, as ‘new’ expenditures become ‘old’, the linkage to outcomes would not disappear. Incrementally and over time, then, a clearer picture would develop – albeit, perhaps over a period of a number of years.

This approach certainly appears to have some advantages in terms of presentation, and may be a helpful model for consideration in Northern Ireland. There are also perhaps some risks. **In particular, there may be a danger that by focusing on new expenditure items during the legislative authorisation of spending plans, the recurring items considered ‘ordinary’ may therefore escape full scrutiny.**

On the other hand, if applied in the Northern Ireland context, such an approach would not **preclude** the investigation of expenditure – as now – by the NIAO. This could still help to identify inefficient spending on old programmes.

It will be shown in Part B that it is far from clear that full budgeting for outcomes is the immediate goal that the Northern Ireland Executive should be aiming for. Nevertheless, it is apparent that applying some less complex reforms could achieve positive results.

Part B

5. Budgeting for outcomes

This Part of the paper presents a survey of the considerable international evidence that exists on outcome budgeting. The purpose is to help the Committee explore whether budgeting for outcomes **over and above the kind of linkage presented in Part A** is a desirable long-term priority for Northern Ireland.

Performance/Outcome budgeting

At the outset it is worth considering what is meant by performance budgeting and budgeting for outcomes. Unfortunately, the term 'outcome budgeting' appears to be used frequently, and often seemingly interchangeably, with 'performance budgeting'. This creates confusion, especially as the underlying principles do not appear to be noticeably different.

To a large degree it is logical for the concepts of performance and outcomes to be considered together: without some measurement of the performance of public agencies against a framework of targets or objectives, how can the success of achieving outcomes be assessed? If that performance assessment cannot be undertaken, what would be the point of attempting to link budgets to outcomes?

In 2004, it was noted that 'performance budgeting' is:

> *…an **increasingly broad term that now describes almost any approach or methodology that embodies a significant focus on impacts** (including output budgeting) [that] has gained increased acceptance. To a large degree, most recent refinements in budgeting practice have a common objective of improving the administrative performance, or service delivery, of budgetary institutions, rather than significantly altering the process of appropriation or financial control.[25] [emphasis added]*

For the purposes of evaluating the evidence, however, some form of definition is required.

5.1. A definition

In essence, the concept of budgeting for outcomes can be simply expressed as shifting the focus away from inputs ("how much money will a department get?") towards the measurable results of those inputs ("what can a department achieve with this money?"). In other words, what outcomes are the budgetary inputs designed to achieve? And how well do they achieve this?

[25] Webber, D (2004) 'Managing the Public' Money: From Outputs to Outcomes – and Beyond' available online at: http://www.oecd.org/dataoecd/3/25/43488736.pdf (accessed 20 February 2012) (see page 103)

According to the Organisation for Economic Cooperation and Development (OECD):

> *There is no single model of performance budgeting. Even when countries have adopted similar models, they have taken diverse approaches to implementing them and have adapted them to their own national capacities, cultures and priorities.* [26]

In 2006, the OECD provided this definition of performance budgeting:

> *Strictly defined, it is only a budget that explicitly links each increment in resources to an increment in outputs or other results. Broadly defined, a performance budget is any budget that presents information on what Government organisations have done or expect to do with the money provided to them. The latter is also sometimes referred to as performance-informed budgeting.*[27]

By 2008, the OECD had refined the definition to: *"budgeting that links the funds allocated to measurable results."* It identifies three broad sub-types:

- **Presentational performance budgeting** simply means that performance information is presented in budget documents or other government documents. The information can refer to targets, or results, or both, and is included as background information for accountability and dialogue with legislators and citizens on public policy issues. The performance information is not intended to play a role in decision making and does not do so.
- In **performance-informed budgeting**, 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.
- **Direct performance budgeting** involves allocating resources based on results achieved. This form of performance budgeting is used only in specific sectors in a limited number of OECD countries. For example, the number of students who graduate with a Master's degree will determine the following year's funding for the university running the programme.

Part A of this paper focused on the former two sub-types. In Part B, the focus is more upon the third – direct performance budgeting.

The different interpretations from within the same organisation highlight again that one of the difficulties associated with linking budgets to performance against outcomes is definitional; a clear understanding of a concept is necessary to design and implement

[26] OECD (2008) 'Performance Budgeting: A Users' Guide' available online at: http://www.oecd.org/dataoecd/32/0/40357919.pdf (accessed 14 February 2012) (see page 2)

[27] OECD (2006) 'Budget practice and procedures database: final glossary' available online at: http://www.oecd.org/dataoecd/30/46/39466131.pdf (accessed 28 February 2012) (see page 5)

it. A further complication is caused by the term 'outputs' which appears in the 2006 OECD definition and also in much of the literature. This is addressed in the following section.

5.2. The difference between outputs and outcomes

An increased focus on outcomes in budgeting requires an understanding not only of how outcomes differ from inputs (which is at the outset fairly obvious), but also from outputs. Table 10 gives a summary of the strengths and weaknesses of what outputs and outcomes measure and what each are linked to, and this helps to demonstrate important differences.

Table 10: strengths and weaknesses of outputs and outcomes[28]

	Outputs	Outcomes
Strengths	Clear, measurable statements of results, defined by quality, quantity and timeliness indicators. They can be clearly linked to the ability of a particular organisation and chief executive to achieve and provide a 'no excuses' approach to accountability for results rather than inputs.	Purpose-oriented descriptions of results, which take a broad and long-term perspective. They are potentially inspirational and motivational and sufficiently broad to incorporate contributions from a number of organisations.
Weaknesses	The focus on measurement can shift toward that which can be measured and easily audited. The output can become the goal in the process of goal displacement, at the expense of longer-term and more meaningful achievements.	Outcomes can become so broad that they can mean all things to all people, with achievement being very difficult, if not impossible, to measure. Outcome statements can become window dressing that prevent outsiders from assessing how well an organisation is doing.

Ultimately, the difference between output and outcome may be best illustrated through example. Box 2 contains an extract from an OECD study into budget reform in member countries.

Box 2: the difficulty of measuring results[29]

At the most basic level, some government activities simply lend themselves to results measurement much more readily than others. For example, an agency that produces a single or a few homogenous products or services can be rather easily measured. An agency that issues passports is a good example. On the other hand, agencies that produce heterogeneous and individualised services can be very difficult to measure. The majority of government services fall into the latter category. Various social services are the outstanding example.

We are also faced with the choice of defining results either in terms of outputs or outcomes. Outputs are the goods and services that government agencies produce. Outcomes are the impact on, or the consequences for, the community of the outputs that are produced. An example highlights this. A government may wish to reduce the number of fatalities on highways caused by drunk drivers. This would be the outcome. In order to achieve this, it may launch a series of advertisements in the media highlighting the dangers of drunk driving. It's easy to measure

[28] Norman, R (2007) 'Managing outcomes while accounting for outputs' in Public Performance and Management Review Vol.30(4) pages 536-549.

[29] Blöndal, JR (2003) 'Budget Reform in OECD Member Countries: Common Trends' available online at: http://www.oecd.org/dataoecd/1/51/43505551.pdf (accessed 16 February 2012) (see page 18)

the output, i.e. that the prescribed number of advertisements were in fact shown in the media. Let's, however, assume that at the same time the number of fatalities went up, not down. The link between the advertisements and this outcome is very unclear, since many other factors than the advertisements would impact on the outcome. But what lessons do we draw from this. Do we abandon the advertisement campaign? Do we expand it? Do we try other outputs? Do we wait to see if this is a one-off or a sustained trend?

From an accountability point of view, the question arises whether you hold managers responsible for outputs or outcomes. Outputs are easier to work with in this context; but outcomes are what matters in the final analysis.

Do we want an accountability regime based on outputs even though the outputs may not be contributing to the desired outcome? Or do we have an accountability regime based on outcomes, even though a number of factors outside the control of the director-general of the agency may contribute to it?

The examples in Box 2 give an insight into the difficulties facing the public sector in trying to introduce an outcomes focus into the budget through the production of performance-related information.

The core problem can be identified as the relationship between inputs and outcomes. This point was alluded to in DFP's Discussion Paper on the Review of Financial Process:

> *Perhaps to link spending areas to [PfG] Public Service Agreement Targets fuels the belief that allocating additional funding to an area will enable the achievement of targets when quite the contrary could be the case and, in fact, could mask inefficiency.*[30]

In the debate on the Committee's report on 13 February, the Minister developed this point:

> *…when you try to link funding to particular targets, the danger is always to suggest that if you are missing a target, you should stick more money into it and you will achieve it. Of course, that is not always the case. The target could be missed for a whole lot of reasons. Indeed, it might be that the target is not being met because resources are not being used efficiently or wrong processors are being used, so throwing more money at it would only reinforce that.*[31]

This suggests that the link between budgetary inputs, outputs and outcomes is not directly causal. Indeed, some outputs may, perhaps, have unintended consequences. They may appear, when designed, to be likely to contribute to a particular outcome (such as in the road deaths example in Box 2). This is discussed further in section 6.1 below.

The Minister's argument, however, also highlights an alternative benefit to linkage. **Rather than simply underpin an assumption that more funding is required to**

[30] DFP (2011) 'Review of the Financial process in Northern Ireland: a discussion paper for key stakeholders' (see page 34)

[31] Official report, 13 February 2012 available online at: http://www.niassembly.gov.uk/Documents/Official%20Reports/Plenary/2011/20120213.pdf (accessed 24 February 2012) (see page 203)

enable achievement of an outcome, the provision of performance-linked information could facilitate scrutiny.

Take, for example, a target or outcome that is not being delivered. If it is clear what resources underpin that target, the Assembly would potentially be more able to assess the causes: is it due to insufficient funding? Are the processes wrong? Are those resources being used inefficiently? In each case, there could be potential transparency and accountability benefits – this point is developed further in section 6.2 below.

The next section asks in broad terms whether budgeting for outcomes actually works. It should be read bearing in mind the point made in section 1.2 that **motivations** for moving from input to outcomes focused budgeting differ.

6. Does budgeting for outcomes work?

Any assessment of the effectiveness of a particular initiative needs to be framed with respect to the original policy intentions. The question of whether budgeting for outcomes 'works' may be more difficult to answer than it initially appears. The breadth of motivations for attempting to focus budgeting on outcomes through performance measurement was noted in the Introduction to this paper; this makes comparative analysis of 'success' complicated.

For example, two countries might embark on similarly structured outcomes-based budgetary reforms. Legislators in country A might be motivated by a desire to increase accountability for performance. But in country B the focus might be on improving the technical allocative efficiency of the budget.

If both sets of reforms were implemented equally well, would they both have been successful? What if, in both country A and B, there were improved accountability of the government to the legislature for results? This could be viewed as success. But on the other hand, it was not what country B originally set out to achieve. So in these terms, the result is actually a failure to achieve what was wanted.

With that difficulty noted, an attempt to answer the question can still be made drawing on the wealth of literature on this topic.

An immediately attractive answer might appear to be 'no'. It was noted in the Introduction to this paper that the concept of budgeting for outcomes has been around in some shape or form for more than sixty years. Yet despite many decades of attempts to achieve performance-related budgeting, no model solution has yet been found. Indeed, more than 60 years of attempts without the identification of a best practice model seems to provide fairly compelling evidence that it is **not** possible.

A recent article argues that:

> *In 2011 public sector management is at a crossroads, without a clear way ahead. Politicians in New Zealand and comparable jurisdictions, such as Australia […], are searching for new thinking on how to improve public sector performance.*

The authors go on to note that:

> *In the past New Zealand has shown an ability to forge ahead with path-breaking public sector reform. It was the first country to introduce output-based budgeting and accrual accounting in the public sector. Yet over the last 20 years we have failed in our attempts to move from a dominant outputs-based to a more outcome-focused management system.*[32]

[32] Gill, D and Hitchiner, S (2011) 'Achieving a Step Change: the Holy Grail of Outcomes-based Management' in Policy Quarterly Vol 7(3) available online at: http://ips.ac.nz/publications/files/befaee29584.pdf (accessed 14 February 2012) (see page 29)

And yet, if there had not been some degree of 'success' (however defined), it seems very unlikely that so much international effort would have been put in. Intuitively, there are few obvious incentives for governments with scarce resources to seek repeatedly to emulate the less-than-wholly-successful initiatives of their peers.

This point may be partially explained in a note published by the World Bank in 2003 which made the following observations:

> *Based on the U.S. experience, it is misleading to push performance-based budgeting as a reform that provides a mechanical link between budgets and performance.*
>
> *But performance-based budgeting can offer benefits—once it is accepted that the links between performance measures and resource allocations are not automatic and are subject to political choices. For example,* ***performance measures can enrich policy debates, making legislators more likely to ask questions about outputs and outcomes linked to public spending***.[33] *[emphasis added]*

This evidence supports a view that there **are** benefits, but that these should be seen as **wider democratic ones**, such as: better accountability; improved public debate around the intentions of government; or, enhanced scrutiny. These could be viewed as benevolent by-products.

This question perhaps remains: can the Assembly and the Executive reach an agreed view on the value of such benefits to Northern Ireland? The following sections evaluate further the cases for and against budgeting for outcomes to contribute to that debate.

6.1. The case *against* budgeting for outcomes

Some of the difficulties associated with budgeting for outcomes have already been discussed in relation to definition and measurement. Some further evidence from the literature is presented below.

Too much information and complexity

Box 2 in section 5.2 gave examples of some of the difficulties for governments attempting to define and measure outcomes.

The OECD highlights the confusion this can cause:

> *Agencies produce so much information that it's very difficult for outsiders to judge which are the more important pieces of information. The lesson here*

[33] World Bank (2003) 'Performance-based budgeting: beyond rhetoric' available online at: http://www1.worldbank.org/prem/PREMNotes/premnote78.pdf (accessed 15 February 2012) (see page 2)

is for agencies to differentiate between the measurements they do for internal purposes and those they perform for external purposes.[34]

In fact, this point is reinforced by another finding in a later OECD study:

[T]here is no need to explain the background of policy reforms that do not lead to changes in the fiscal framework or reallocations between programmes (policy decisions because of underachievement on outcomes), since ***such explanations may be detrimental to the transparency of the budget.***[35] *[emphasis added]*

In essence, the point seems to be this: there is a danger that by attempting to incorporate too much performance-related information into the budget documentation the end result can be information overload. This may offer a partial explanation for the evidence presented below about underuse of performance information.

The problem of information overload may perhaps be explained by the complex nature of government data:

Sometimes, having a surfeit of data is a substitute for having the right kinds of data. Agencies can show they are complying with the new performance regime by itemizing all the things they do. This is why [performance-budgeting] systems often are inundated with thousands of indicators, each of which purports to have equal relevance for assessing results.[36]

The ability to obtain the **right data** is evidently key, but is not necessarily easily achieved:

To base […] decisions on performance, one must have information on whether different levels of expenditure generate different results. Generating information on the sensitivity of results to marginal changes in expenditure entails disaggregating outputs or outcomes into units, and distinguishing between fixed and variable costs as well as between average and marginal costs. Although this cost accounting capacity is common in well-run firms, it is rare in government.[37]

Producing, processing and reporting the **wrong kind of data** is clearly both inefficient and ineffective. This leads to a related difficulty with budgeting for outcomes: gathering

[34] Blöndal, JR (2003) 'Budget Reform in OECD Member Countries: Common Trends' available online at: http://www.oecd.org/dataoecd/1/51/43505551.pdf (accessed 16 February 2012) (see page 19)

[35] Kraan, DJ (2007) 'Programme Budgeting in OECD Countries' available online at: http://www.oecd.org/dataoecd/42/17/43411385.pdf (accessed 16 February 2012) (see page 37)

[36] Schick, A (2008) 'Getting performance budgeting to perform' available online at: http://siteresources.worldbank.org/INTMEXICO/Resources/AllenSchickFinal.pdf (accessed 14 February 2012) (see page 5)

[37] Schick, A (2008) 'Getting performance budgeting to perform' available online at: http://siteresources.worldbank.org/INTMEXICO/Resources/AllenSchickFinal.pdf (accessed 14 February 2012) (see page 6)

data is costly. It follows that there is an incentive for agencies to gather what data is already available.

Schick observes that:

The linkage of resources and results is much stronger in budgeting for outputs, even though outcomes generally are regarded as the more appropriate measure of performance. […] This problem has led [performance-budget] systems down divergent paths. One approach is to focus on outputs because government can be held accountable for them. Outcome information may be included in the budget, but it is not the formal basis for allocation. […] The alternative path […] is to target outcomes and to rely on program evaluation, strategic planning and other techniques to relate budget decisions to changes in social or economic conditions.[38]

Unintended outcomes

In a study in 2004, Webber highlighted a key issue in policy which builds on the difficulties of complexity: policies can achieve results that were unintended. He writes that:

…this year's policy problems are not infrequently last year's policy outcomes. ***Policies often do not achieve what politicians or bureaucrats may have hoped or expected of them****, and the expenditure management framework needs to ensure that policy design can respond quickly and appropriately when needed. This may be more difficult if it involves a government "giving up" on particular outcome statements.*[39] *[emphasis added]*

The note of caution in the final sentence draws attention to the difficulty of responding to poor or unintended results from policies.

Cost

Schick makes the observation that gathering performance data:

…always increases the cost of generating and processing budget information.[40]

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[38] Schick, A (2008) 'Getting performance budgeting to perform' available online at: http://siteresources.worldbank.org/INTMEXICO/Resources/AllenSchickFinal.pdf (accessed 14 February 2012) (see page 13)

[39] Webber, D (2004) 'Managing the Public' Money: From Outputs to Outcomes – and Beyond' available online at: http://www.oecd.org/dataoecd/3/25/43488736.pdf (accessed 20 February 2012) (see page 112)

[40] Schick, A (2008) 'Getting performance budgeting to perform' available online at: http://siteresources.worldbank.org/INTMEXICO/Resources/AllenSchickFinal.pdf (accessed 14 February 2012) (see page 4)

Further, the more ambitious the attempt to relate budgets to performance, the more expensive it becomes. Indeed, he goes on to argue that the financial cost of performance data may explain why many governments that begin such initiatives focused on outcomes end up settling for output data.

This point is echoed by the OECD:

> *It can also be difficult to set clear objectives and establish good systems of data collection. To ensure quality, the data once collected must be verified and validated. These systems can be time-consuming and costly to establish and maintain.*[41]

This point reinforces the need for clear definition of purpose at the outset of any reform.

Use of performance information by legislators

Despite the longevity of the concept of budgeting for outcomes through performance, the OECD notes that:

> *…most OECD countries do not have a systematic government-wide approach to linking expenditure to performance results. And performance plans and targets are not necessarily discussed or approved during the budget process.*[42]

This observation is supported by a study conducted in 2007 of the impact performance budgeting on the role of the legislature. The study focused on the initiatives pursued in the Australian Commonwealth government, the federal Canadian government, and the central governments of the Netherlands and Sweden. It found that:

> *The performance budgeting initiatives whose aim is to improve accountability to Parliament have a dominant focus on changing the budget structure, but do not seem very successful in altering budget functions. […] There is very little evidence that performance information in budgets and annual reports is directly used by members of parliament in their oversight function. […] Changes in the budget procedures and the budget format do not seem to have had a lot of impact on the use of performance information.*[43]

This evidence points at a fundamental issue which has the potential to create resistance to attempts to introduce more focused budgeting for outcomes in Northern Ireland.

[41] OECD (2008) 'Performance Budgeting: A Users' Guide' available online at: http://www.oecd.org/dataoecd/32/0/40357919.pdf (accessed 14 February 2012) (see page 7)

[42] OECD (2008) 'Performance Budgeting: A Users' Guide' available online at: http://www.oecd.org/dataoecd/32/0/40357919.pdf (accessed 14 February 2012) (see page 5)

[43] Sterck, M (2007) 'The impact of performance budgeting on the role of the legislature: a four-country study' in International Review of Administrative Sciences, Vol. 73(2): 189-203 (see pages 201-202)

In fact, this evidence conflicts with the argument put forward by the World Bank that budgeting for outcomes **enhances** policy debate. For Northern Ireland, perhaps the answer is that what the Assembly wants is linkage to priorities (as presented in Part A), not specifically for the purpose of dictating changes to a budgetary allocations.

This potential risk is further highlighted in another relatively recent study:

> *It has been the fate of many promising innovations in budgeting and management that government entities generate vast amounts of new information that is not used when decisions are made. […] Performance budgeting is quickly discredited when spending units perceive that decisions are not based on results.*

Even more significantly, the author goes on to assert that:

> *Suppliers of information become careless or even sabotage the system when data are not used.*[44]

Further considerations are raised in a cautionary note from the OECD:

> *Questions may also be raised as to whether performance information is objective if it becomes part of the political dogfight between the legislature and the executive.*[45]

This draws attention to an important fact: budgeting is by its nature a **political process** whereby allocations are made – which perhaps brings other factors into play.

Cross-departmental working

Related to the previous point, there is an additional factor in Northern Ireland that potentially points against budgeting for outcomes. Power-sharing means that where PfG objectives are to be jointly delivered by two or more departments, there may be ministers from different political parties accountable for those objectives.

High-profile initiatives in areas for which they are directly and solely responsible bring recognition to ministers. Lower key but significant contributions to joint or cross-cutting objectives are less likely to do so. Under the existing system there is little political reward for helping someone else achieve their objectives – either in financial terms or in terms of enhanced status or career prospects. It has also been observed that there is a tendency to focus on the short term and on the need for quick wins – despite the

[44] Schick, A (2008) 'Getting performance budgeting to perform' available online at: http://siteresources.worldbank.org/INTMEXICO/Resources/AllenSchickFinal.pdf (accessed 14 February 2012) (see pages 6-7)

[45] OECD (2008) 'Performance Budgeting: A Users' Guide' available online at: http://www.oecd.org/dataoecd/32/0/40357919.pdf (accessed 14 February 2012) (see page 7)

fact that cross-cutting outcomes are often by their nature not amenable to quick solutions.[46]

On the other hand, a counter argument may also be made which would support a move to budgeting for outcomes. Linking budget allocations to outcomes might provide a driver to ministers and departments to work more cooperatively.

For example, if an allocation were linked to a cross-departmental outcome that was being delivered on, it could place a minister in a stronger position in negotiating future allocations in the process of the Executive developing a draft budget. Potentially, it could provide the department with an evidence base for arguing that a particular programme was higher priority than some others.

This final point, then, leads into the case in support of budgeting for outcomes.

6.2. The case *for* budgeting for outcomes

The evidence in the preceding section shows that achieving a successful system of budgeting for outcomes can be both institutionally and technically challenging. But there is also evidence of positive results being achieved. For example, the OECD notes that:

> *OECD countries have reported a number of benefits from using performance information, not least the fact that it generates a sharper focus on results within government. The process also provides more and better understanding of government goals and priorities and on how different programmes contribute to them.*[47]

This extract echoes the evidence presented by the World Bank that budgeting for outcomes through performance can enrich policy debates.

As discussed above, it might not be possible for the Northern Ireland Executive to accurately map every pound spent on departmental programmes to specific priorities. And yet there is evidence of wider benefits that may be realised, which are discussed in this section.

Public expectation

It was noted above that one motivation for pursuing an outcomes focus in budgeting is the desire of legislators to have better information to equip them in their scrutiny and challenge roles. It was argued in a 2004 study by Webber that public expectation is an additional driver:

[46] For further detail on the issue of implementing cross-cutting goals see RaISe briefing note 'Ensuring delivery of the cross-cutting themes in the Programme for Government' available online at: http://www.niassembly.gov.uk/researchandlibrary/2010/8910.pdf (accessed 24 February 2012)

[47] OECD (2008) 'Performance Budgeting: A Users' Guide' available online at: http://www.oecd.org/dataoecd/32/0/40357919.pdf (accessed 14 February 2012) (see page 1)

> *Since budgeting is really all about managing the public's money, improving the ways departments prepare, disburse and report their budgets can be aided by simply retaining, and in some cases restoring, a focus on* ***what is important to the public****. It is, after all, the public's money that departments are managing.* [48] *[emphasis added]*

The author states that focusing on what the public expects highlights three basic concerns:

- For what purpose, or need, is the money to be allocated?
- How and where is it being spent?
- What has it achieved?

It is notable that these questions bear close resemblance to the position of the Committee (as observed in the Introduction to this paper) that the legislature wants to see how the resources it formally approves for use by departments are committed towards particular intended outcomes.

Webber also points at a fourth element of public interest in budgeting:

> *There are no doubt teams of accountants and others who will add a fourth concern: how fully and accurately was the spending accounted for? Indeed, that is often very important. However, the public's concern with the accounting for public expenditure is invariably less if the above three concerns have been adequately addressed.*[49]

It can certainly be argued that the Northern Ireland system of public audit and scrutiny by the Assembly's Public Accounts Committee does address this concern to some considerable degree.

This argument for outcome budgeting to meet public expectation is **not** therefore to be viewed as a means to improve the technical aspects or efficiency of budgeting. Instead it encapsulates the general desire of taxpayers to see whether public expenditure is delivering.

Motivation of staff

According to the OECD, finance ministries have three basic types of incentives at their disposal to motivate agencies to improve performance:

- financial rewards or sanctions;
- increasing or decreasing financial and/or managerial flexibility; and,

[48] Webber, D (2004) 'Managing the Public' Money: From Outputs to Outcomes – and Beyond' available online at: http://www.oecd.org/dataoecd/3/25/43488736.pdf (accessed 20 February 2012) (see page 104)

[49] Webber, D (2004) 'Managing the Public' Money: From Outputs to Outcomes – and Beyond' available online at: http://www.oecd.org/dataoecd/3/25/43488736.pdf (accessed 20 February 2012) (see page 104)

- 'naming and shaming' poor performers while recognising good performers.[50]

One relatively simple – but perhaps easily overlooked – argument for a focus on outcomes is that outcomes make immediate sense to frontline public servants ("the client is in front of you. You know what the right thing to do is."). It has been argued that a focus on outcomes can work because people are intrinsically motivated – they can be driven to achieve more if they can see the wider benefit of the work they are doing.

Accountability for outputs can be seen as the bottom line of public sector management: they channel effort and ensure a minimum level of performance. But outcomes:

> *…add a top line dimension to public sector performance, which potentially provides a motivational challenge to exceed formally defined accountability targets and take into account the perspectives of clients and citizens in defining public value.*[51]

This approach emphasises motivation at individual rather than at agency level, and is essentially the reverse of 'naming and shaming'. It seeks to motivate through positive engagement of staff in goals, rather than through fear of potential embarrassment for failures.

This point is also supported by Gill and Kitchener who argue that outcomes should be removed from service reporting: reporting would instead be on outputs. They argue that this could bring benefits by:

> *…creating space to explore outcomes by decoupling outcomes from the blame game of accountability and making accountability more meaningful.*[52]

This points at a way of reaping benefits from understanding what progress is being made on outcomes but in a less overtly confrontational manner than can occur in accountability debates. Such an approach may help overcome institutional resistance to an outcomes focus because managers are held accountable only for the outputs that are directly under their control, not the outcomes which may not fully be.

The continuous search for improvement

In his 2004 paper Webber made what seems to be an important point: outcomes have an important function in indicating the **sustainability** of expenditure policies. This can be measured by the degree to which government policies collectively (i.e. all state interventions – including expenditure, plus incentives or controls to private behaviour

[50] OECD (2008) 'Performance Budgeting: A Users' Guide' available online at: http://www.oecd.org/dataoecd/32/0/40357919.pdf (accessed 14 February 2012) (see page 5)

[51] Norman, R (2007) 'Managing outcomes while accounting for outputs' in Public Performance and Management Review Vol.30(4) pages 536-549

[52] Gill, D and Hitchiner, S (2011) 'Achieving a Step Change: the Holy Grail of Outcomes-based Management' in Policy Quarterly Vol 7(3) available online at: http://ips.ac.nz/publications/files/befaee29584.pdf (accessed 14 February 2012) (see page 30)

applied by regulation) have a positive or negative impact on long-term socio-economic outcomes:

> *Monitoring of these outcomes, most likely at the sectoral level for most departments, should therefore enable departments to advise the government on the degree to which the total sum of their policies and operations may be contributing to positive change. Measurement of outcomes cannot, however, provide a particularly useful indicator of either the efficiency or effectiveness of individual agencies or expenditure programmes and ought not to be used for this purpose.*[53]

The argument here, then, is that outcomes should be used to support the wider search for improved government **effectiveness**. This implies that outcomes measurement should play a background role in assessing the impact of expenditures. This argument seems to support DFP's assertion that:

> *…performance should not be considered to have any direct link to funding inputs. Performance outcomes and the delivery of the Programme for Government should be monitored on a stand-alone basis.*[54]

6.3. An example from Northern Ireland

Given the degree to which the evidence is mixed – and indeed even actively conflicting - it might be helpful to look at a concrete example from Northern Ireland to examine the degree to which linkage between planned allocations and performance information is useful.

Box 3 contains the example of the Department for Health, Social Service and Public Safety's (DHSSPS) Strategic Resources Framework (SRF)[55] of where performance and budgetary information are presented together.

[53] Webber, D (2004) 'Managing the Public' Money: From Outputs to Outcomes – and Beyond' available online at: http://www.oecd.org/dataoecd/3/25/43488736.pdf (accessed 20 February 2012) (see page 117)

[54] DFP (2011) 'Review of the Financial process in Northern Ireland: a discussion paper for key stakeholders' (see page 34)

[55] HSCB (2011) 'Strategic Resources Framework 2011/12' available online at: http://www.dhsspsni.gov.uk/srf1112.pdf (accessed 28 February 2012)

Box 3: the Department for Health, Social Service and Public Safety's Strategic Resources Framework

Each year the Health and Social Care Board produces the Strategic Resources Framework (SRF). It states that the three key objectives of the SRF are:

• *to provide a comprehensive database of where resources allocated at the start of the financial year are planned to be spent;*
• *to provide benchmarks across regions in respect of planned resources in localities; and,*
• *to enable the DHSSPS/HSC organisations to track how resources are allocated to geographic areas.*

The SRF is provided to assist in four ways:

Improving Transparency *- Where are we planning to spend all the money?*
Supporting Accountability *- What do we get for what we spend?*
Improving Access to Services for the Public *- Is the money being shared out fairly? and,*
Supporting Policy Review/Development *- Is there a better way to deliver services?*

It provides analysis of planned expenditure against a framework of nine Programmes of Care (Acute Services, Maternity and Child Health, Family and Child Care and so on). It also provides geographical analysis of planned resource allocation by Local Commissioning Group (Belfast, Northern, Western, South Eastern and Southern).

The SRF then presents some data relating to outcomes. The chosen indicators are:
• Outpatients waiting for a first appointment;
• Suicide rates;
• Anxiety and mood disorders;
• Teenage birth rates;
• Generic drug dispensing rates;
• Diagnostic reporting;
• Patients waiting for cancer treatment; and,
• Obesity rates among Northern Ireland children.

The SRF indicates explains these outcomes measures present:

Information on a range of general outcome measures is included in this chapter of the report. While the planned expenditure and activity information contained in this publication relates to the current year, the outcomes are historical and generally refer to previous years. There is an inevitable time lag between future plans, based on assessing the latest available outcome measures, and the achievement of improved outcomes. The […] charts indicate various outcomes measures achieved particularly focusing on Ministerial targets.

There are a number of key difficulties with the SRF as a document which is intended to support policy review through budgetary analysis and performance-related outcomes measures. These include:

- The absence of a link between the resources committed under a particular Programme of Care and the outcomes they are supposed to underpin;

- The requirement to read the SRF in conjunction with other – unspecified – documents. It does not stand alone but also does not tell you how it links with other publications;
- The absence of explanation of how the data to evidence performance against particular outcomes is selected. For example, it presents some results as single years, others as three-year averages and others still over five-year periods.

This example illustrates the difficulty of marrying together budgetary allocations with performance information when the processes do not appear to align. The result may be neither totally focused nor satisfactorily comprehensive. This suggests that the linkage should be developed at an earlier more fundamental stage in the budgeting process.

7. Discussion: does the evidence support budgeting for outcomes?

The evidence supports the conclusion that an outcomes focus in budgeting can deliver certain benefits, such as enhanced policy debate and a clearer public and legislative understanding of government goals.

It has been noted, however, that the Committee has not expressly called for outcome budgeting *per se*. What it has done is articulate the common sense principle that budgetary inputs should bear an explicit relation to the ambitions of government programmes. This has been repeatedly voiced across the globe and there is considerable literature that reflects the concept.

What is much less clear is whether outcomes should be used as a basis for the allocation of budgets. The evidence on this is mixed and to a degree is conflicting. There is certainly plenty of evidence to support the conclusion that the overall objective of budgeting for outcomes is challenging to achieve. This evidence could be supplemented by a detailed analysis from DFP of the work undertaken during the previous mandate that the Minister indicated had been unsuccessful.

The Minister argued that departments had attempted this process but had commented that the exercise was "meaningless." 'Meaningless', however, is a somewhat loaded phrase: what is meaningless to one actor may not be without meaning to another.

It might therefore be helpful for the DFP to bring forward evidence of the previous exercises. This would enable the Assembly to judge the outputs of the work – and to decide whether or not it agrees with the conclusion.

Schick has observed that a:

> *…problem occurs when performance measures are devised without regard to the availability of relevant data. When performance budgets have entries that read "data not available", the reform will likely be abandoned before the data become available.*[56]

This suggests that a concerted effort would be required to identify whether there is already available data which would support a more outcomes-focused approach to budgeting in Northern Ireland. It seems likely that such considerations were part of the work previously progressed by DFP. Once again, it would be helpful to the Committee to know, because such information could be very useful in deciding whether or not it believes the Executive should pursue full outcomes budgeting in the longer term.

[56] Schick, A (2008) 'Getting performance budgeting to perform' available online at: http://siteresources.worldbank.org/INTMEXICO/Resources/AllenSchickFinal.pdf (accessed 14 February 2012) (see page 7)

It was discussed above that moving to budgeting for outcomes can lead to an overload of data. It can certainly be said that if a push to budget for outcomes led to reduced transparency, it would be contrary to many of the recommendations made by the Committee in relation to the Review of Financial Process.

Another difficulty relates to cost. Although the projected costs of implementing the Review of Financial Process are as yet unknown, it seems certain that any emphasis on budgeting for outcomes will add to that cost. Finally, there is also a risk associated with attempting to introduce too much change at one time – this could lead to difficulties in implementation.

On a more positive note, one strategy suggested in the literature for achieving the 'holy grail' of outcomes-based management is to reframe the political contest within the authorising environment. This means that the authorisation budget would not be seen – as it is in many countries now – as a vote of confidence in the incumbent government.

To achieve this, it is argued, the political contest would need to be repositioned away from an oppositional approach to approving the budget.[57] The shift could perhaps be on the basis that many social outcomes (such as improved educational attainment for school-leavers, for example) are not often the source of political or ideological dispute. Therefore political debate could be around the level of funding to support an outcome, rather than over the outcome itself.

It has often been the case when looking to best practice in other jurisdictions that it's difficult to identify how particular interventions could be achieved against the complex backdrop of power-sharing.

In this instance, though, it appears that – in the view of Gill and Hitchiner at least – it might offer an advantage:

> *This strategy involves moving from oppositional politics to a more consensual multi-party and community-based approach to improving performance. The aim is to shift the political constraint that has limited sustained progress on outcome performance information by creating a political circuit-breaker that disrupts the iron rule of political contest.*[58]

The key to the approach described is to 'break the blame game' and achieve a consensual, shared approach to policy making. Whilst this may be extremely difficult against the backdrop of conventional Westminster-style oppositional politics, **perhaps the nature of power-sharing in Northern Ireland (which ultimately requires cross-community consensus) might make this goal more attainable** in the Assembly?

[57] Gill, D and Hitchiner, S (2011) 'Achieving a Step Change: the Holy Grail of Outcomes-based Management' in Policy Quarterly Vol 7(3) available online at: http://ips.ac.nz/publications/files/befaee29584.pdf (accessed 14 February 2012) (see page 33)

[58] Gill, D and Hitchiner, S (2011) 'Achieving a Step Change: the Holy Grail of Outcomes-based Management' in Policy Quarterly Vol 7(3) available online at: http://ips.ac.nz/publications/files/befaee29584.pdf (accessed 14 February 2012) (see page 32)

Irrespective of what can be achieved in the longer term with developing a system that allocates budgets to specific outcomes, the research presented in this paper does indicate that progress could be made on linkage in the shorter term.