

# Performance budgeting and efficiency

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# Performance budget

- **1970's: First trial**
  - a top-down approach
  - Goals defined by Ministry of Finance
  - complete failure
- **1997: Second attempt**
  - regulations by Ministry of Finance
  - bottom-up approach (?)
  - policy objectives defined by line ministries
  - indicators also by line ministries
- **2004: Evaluation of performance budgeting**

## What were our goals?

- **More transparent budget/ annual report**
  - **Focus on policy goals**
  - **The way to achieve these goals**
  - **More measurable goals**
  - **Better authorization and control by parliament**
- **Instrument to achieve efficiency**

## Remarks about the process:

- **Complicated process with many actors**
- **Create room of manoeuvre: big boom vs experiment**
- **Time table**
- **Capacity of policy directorates**



# What are our results: budgets?

- **Positive:**
  - Long introduction (average 60 pages) → Policy agenda (15 pages)
  - Structure budgets: instruments → output
  - Reduction number of line items 800 → 140
  - Annual report September → May
- **Negative:**
  - Unreadable document, too much technical information
  - Unclear policy objectives
  - Unclear effect of government intervention



## What are our results: indicators?

Every line item should have indicators:

- Labour participation: 55-65 age must increase to 40% → economic cycle?
- Success introduction market for electricity: measured by acquaintance with companies → bad administration and salaries of top management?
- Success foreign policy: attack on the Dutch territory → until now 0

## **What are our results: indicators?**

**What is the meaning of these indicators?**

- **Relationship between money, objectives and indicators is often unclear**
- **Exogenous factors are not mentioned**
- **An overflow of indicators: red tape**
- **Indicators give no information about efficiency**

## **Some problems with performance contracts: example police forces**

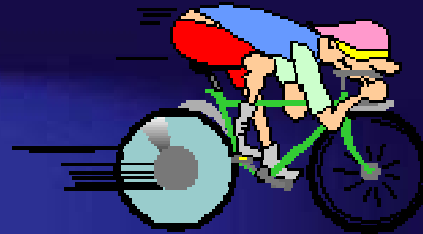
- Invites forces to “meet the number” at cost of quality: pro-active crime prevention, frivolous fining, picking the easiest criminal charges
- Fixes level of output without changes in (regional) circumstances
- Government does not have data to set performance target at the right level: the government does not know exactly what has to be done
- Central managed system as the solution?



# Last but not least: overflow of information



## Performance budgeting: the way ahead?



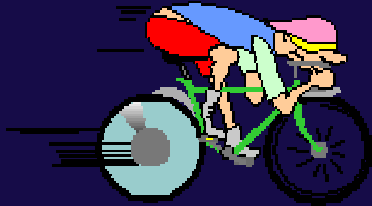
- New policies must be started with policy documents (white papers)
- Budgets must perform their basic task: authorization of line items and control
- Efficiency must be promoted with other instruments



## First part: policy documents

Ensuring basic questions are answered:

- What is the problem behind the need for policy?
- What is the cause of this problem?
- Why does the government feel responsible for solving this problem?
- What objective can be formulated?
- Which instruments can be used?
- What are the costs?



## Second part: budgets and annual reports

- Reduce text by focusing on information needed to authorize spending; use internet
- Where possible use indicators, but be aware of “information paradox”:
- Numbers start to determine policy; at the end the information is decreasing
- In some areas policy can better be assessed in qualitative terms



## Final part: drive for efficiency

- Evaluation of effects of policy
- Long tradition in the Netherlands
- New procedure: all line-items will be evaluated with the basic question for policy documents
- Alternative for performance information
- Gives better information on efficiency
- Reform of financial management: demand driven incentives



## Final part: drive for efficiency

- **Example: social assistance**
- **City councils receive “objective budget” based on:**
  - **Inhabitants, income, ...**
  - **Basic rights for unemployed in law**
  - **Management freedom for city council**
  - **Macro-economic risk for central government**
- **Big success: reduction 25%**

# Too important to fail

