

Guide to Performance-based Budgeting

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I. Introduction to Performance-based Budgeting

Traditional and Performance-based approaches to budgeting

Traditional or line-item budgeting relates to allocation of funds based on line item costs regardless of the ability to meet the goals. Accountability is for use of inputs. The line-item budgeting involves focus on “inputs” – staff, equipment, supplies, etc. The budget justification is based on increase in line item costs – an incremental approach. There is lack of attention to “results” or “impacts” of programmes or “performance.” Managers are encouraged to spend, not to ‘economise’ or ‘innovate’. The accountability criterion involves keeping spending in line with budget. There are detailed controls and rigid appropriation rules.

Performance budgeting, on the other hand, relates to funding linked to expected “results” or “outcomes” – what programmes are able to accomplish. Accountability is for results or performance achieved. Performance budgeting focuses on “results” funding ‘outcomes,’ rather than ‘inputs.’ Assessing “results” by measurable indicators, holding managers responsible for performance, giving flexibility to managers to ‘manage’ and ‘innovate’, and having a medium-term and long-term view of use of resources are some of the significant features of the performance budgeting system which enhance the performance of the departments.

Performance-based budgeting is beneficial in more than one respect. The policy-makers find it advantageous as the system focuses on goals, clear information is available on usefulness of programmes and evidence-based policy choices can be made. Managers work with well-defined expectations, having flexibility for innovation and performance. People understand the connection between tax money spent and services provided. Performance-based budgeting has emerged as a tool for performance management. It integrates resources and objectives – budget and performance, suggests public managers to focus on economy, efficiency and effectiveness and makes performance measurement an integral part of budgeting.

More about Performance-based Budgeting (PBB)?

As a literal reading of the term suggests, PBB is about formulating schemes, projects and budgets that are driven by a number of desired results which are articulated at the outset of the budgetary process. It involves calculating and proposing resource requirements on the basis of pre-determined results, rather than merely on the basis of scheduled outputs or activities. PBB requires project directors to identify objectives and results that involve certain changes or benefits to end-users and subsequently to measure the extent to which these changes or benefits have actually been brought about; or, to give the precise definition for PBB, it is a project/scheme budget process in which (a) project formulation revolves around a set of pre-defined objectives and expected results, (b) resource requirements are derived from and linked to such expected results, and (c) in which actual performance in achieving results is measured by objective performance indicators.

PBB establishes a top-down, logical framework, using a number of strictly defined concepts, such as expected results, performance indicators and outputs. Its central tool is the annual budget which provides a direct link between expected results and resource requirements. Also crucial to PBB is the measurement of performance in achieving results. Performance measurement shows whether the activities of the government departments actually make a difference.

PBB is not a new budget methodology, but involves significant changes in the budget format by placing more demanding standards on project design and planning. By mapping the expected results in advance and by tracking to what extent these have been actually met, this budget format is also a versatile decision-making tool.

PBB is not a weapon to trim down the organisation and to cut spending. While efficiency is certainly to be expected from feedback on performance, PBB does not necessarily sanction a failure to meet targets with resource cuts. Rather, PBB will focus on the question why performance was below expectancy and enable managers to detect deficiencies. Nor does it expose project directors to disproportionate responsibility by penalising them for sub-projects/schemes that have not met desired results. "Expected results" are not to be understood as irrevocable production targets that one would find in commercial enterprises.

Why Performance-based Budgeting?

The current project planning, budgeting, monitoring and evaluation cycle of governments tracks the number of inputs and outputs, showing whether quantitative targets have been met and - at best - whether projects/schemes have been *efficient* in the use of resources. They do not, however, have sufficiently reliable means to determine the *quality* of services. Neither are they able to tell how *effective* the work of the government departments is or what the impact of departmental activities has been. One of the main answers, therefore, to the question of "why introduce performance-based budgeting?" is to see if the projects/schemes and activities of the government departments really make a difference in the lives of people.

PBB also serves as a strategic planning tool, improving the clarity, and consistency of project designs, facilitating a common understanding and better communication between different departments and staff in general of the desired results of projects.

PBB allows the departments to attain a unified sense of purpose and direction. Moreover, through the measurement of performance in achieving defined results, PBB provides feedback to projects on how well they are doing, and creates a strong incentive for adopting best practices and efficiencies in use of resources, as well as improving the quality of services and other outputs.

PBB has also been proposed as a means to release project directors from overly restrictive input and/or central controls and to accord them more discretion in determining the right mix of resources to meet expected results. In PBB, the increase of the accountability and responsibility of concerned officials (a consequence of holding them responsible for achieving results) is designed to go hand in hand with an amplified authority for managing financial and human resources.

In the first - **preparatory** - stage, establishing objectives, results as well as performance indicators and linking these to resource requirements in one logical framework constitute the basis for the project/scheme budget proposals.

The project directors need to have identified and established sources of information and methods of collecting data to measure the values of performance indicators that have been incorporated in the project budget. This is considered as the start of the second - **measurement** - stage. Where necessary, baseline measures need to be taken at the beginning of the comparison. Throughout this stage, mid-term measurements provide feedback on the usefulness of the performance indicators and the progress of the projects. Moreover, throughout this measurement stage, mechanisms for linking the expected results of the subprojects to those of the relevant departmental units and to the performance assessment of individual staff need to be developed.

In the final - **evaluation** - stage immediately following the collection of data, measurements are used to establish the actual results of the projects and to determine their success and, where necessary, to analyse shortcomings in performance or project design.

II. The PBB Framework

Setting up a logical framework for the project

The setting up of the framework includes defining the objectives, define the expected results, specifying outputs, identifying significant external factors, and determining required resources.

The existing planning, budgeting, monitoring and evaluation process involves establishing links between inputs, activities and outputs. Objectives are defined in the medium-term plan and the project/scheme/department budget, but are not strictly tied in to the budgetary process. Project/scheme/department budgets and evaluation of performance both focus on activities, outputs and the resources that are required to deliver these. As discussed in Part I, such a model is not capable of providing meaningful information about the desired results or the accomplishments of a project in terms of bringing about benefits to end-users or other changes.

A performance-based model links inputs, activities and outputs, as well as expected results and objectives. In order to allow project planning and decision-making that is based on such a performance-based model, PBB uses the logical framework approach which is set out as under:

Step 1: Set up a logical framework

1.1: Describe Vision 2020

1.2: Describe Long-term Perspective Plan – Broad Strategy – comparison with best 5 States

1.3: Define Objectives

Defining the objectives for the department/project/scheme

Project planners are required to start out by defining their objectives. **The objective expresses what the department wishes to accomplish within the specified time period.** In particular, objectives are defined as the expression of an overall desired achievement, involving a process of change and aimed at meeting certain needs of identified end-users or clients. They describe the underlying or overall rationale for implementing a project/scheme by representing a meaningful benefit or change. Officials and planners should therefore begin the formulation of their objective by addressing the following questions: what is the problem we are trying to address? What do we intend to accomplish? Who are the intended end-users/beneficiaries?

Objectives represent what we want to accomplish, not how we should do it. In other words, objectives are not equivalent to strategies, activities, processes or outputs. Thus, activities such as: to study, to provide support, to advise, to cooperate with etc, are not proper objectives. Rather, objectives should be formulated along the following lines: to reduce/increase; to change; to make progress towards; to strengthen, etc. (Note that objectives are expressed in the infinitive form of a verb).

