De-risking financial planning across government – be certain in uncertain times

Governing for performance

Public sector performance has taken on a special urgency over the past decade. As technology transforms how we live and interact, citizens expect better and more personalised services. Rising demands have combined with the soaring health and pension costs of an ageing population. While sluggish economic growth contributed to stubbornly high levels of public debt following the global economic crisis.

Then significant, unexpected additional demands were placed on public services by the pandemic. While overall spending will increase, to deliver projects that protect health and well-being, support businesses and households, administrative spending is likely to remain highly constrained and under the microscope. Which means that substantial improvements to efficiency and effectiveness will be needed.

As a result, all parts of the public sector should be pre-occupied with the measurement and improvement of performance. This means they should focus time and effort on:

- Responsiveness, seeking to reduce the time lag between pursuing goals, planning, implementation and impact;
- Measurement, including the quantification of outputs (new or improved services or changes to business operations) and outcomes (improving the efficiency or the quality of a service); and
- Management capacity, which means having the skills and capacity to deliver, manage for results and evaluate impact.

The benefits of being clear about measurement – in terms of business change, control and service quality – are well known. But governments need to be strategic and persistent to capture these benefits. It can take time to develop meaningful measures of the progress made and reliable indicators. Particularly when data is unreliable or dispersed across an organisation.

In this paper we examine how public sector budget and management processes can refocus on both inputs (how a service is provided) and results (the public value achieved). And how performance budgeting can improve public sector performance on a tight budget.

What does performance mean for government?

Citizen's judge and evaluate public services in a variety of ways. But the test of how well the government is performing is the degree to which citizens benefit – their ability to access safe and high-quality primary care services or children having the qualifications they need to enter higher education or progress in the workforce. Ultimately governments are judged by results rather than intentions.

Traditionally, performance is evaluated when policies are transcribed into laws, regulations and programmes. This involves an analysis of the extent to which a programme is being implemented, including how the programme is being administered or managed. This involves government asking:

- What resources are being or have been expended – what government tends to focus on, rather than…
- The extent to which the programme is reaching the appropriate target population; or
- Whether or not its delivery is consistent with programme design (are the vision and goals for the area of spending being achieved)?

The monitoring of the process of implementation provides policy makers, managers and others with tools for evaluating the way in which a programme is being delivered. This information can be used to correct and control the delivery process more effectively. Even allowing for the redirection of scarce resources, when or before performance falls short or the original ambition for the programme is no longer valid.

This monitoring depends on the routinised accumulation and organisation of management information which can be fed into the decision-making process. A core technique is the use of financial and other data to establish the effectiveness and efficiency of delivery – how efficient has been the use of resources and how many/much could have been or should have been achieved and how much was (in reality) achieved.

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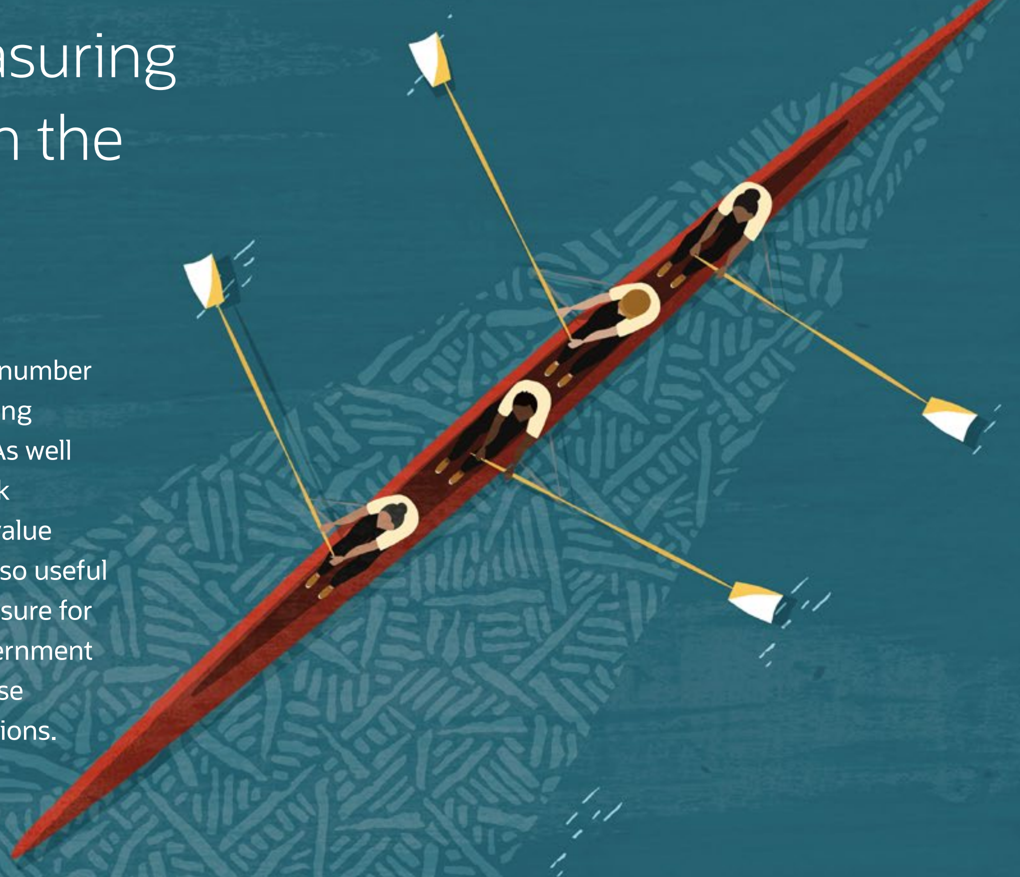
A case for measuring performance in the public sector

Information on performance is important to governments for a number of reasons. It can help in managing and controlling public services. As well as in enabling oversight, to check whether government is getting value for money. This information is also useful in meeting increased public pressure for accountability, as it enables government to fulfil its duty to publicly disclose and take responsibility for its actions.



Transparency	Better understanding not just of what is spent but also what is 'bought' on behalf of citizens (what is actually delivered, to what standards of quality)
Accountability	Making explicit the performance objectives and targets, which helps the public and politicians to hold public bodies to account for the proper use of public funds and for the achievement of policy goals

...contributes to...

Greater efficiency	The monitoring of indicators of outputs and outcomes in different areas alongside the corresponding financial allocations or by reference to benchmarking of unit costs

Unlike in the private sector, where profit and share price provide handy metrics of performance, in the public sector gauging performance can be more complex. Governments need to understand their inputs (such as budgets and headcount), their outputs (such as the number of medical procedures performed) and outcomes (such as improvements to public health). Unfortunately, public policy outcomes can be difficult to quantify, politically contentious and can be affected by multiple factors (not all of which in the control of public servants).

Nevertheless, in our experience, we have seen that it is possible to identify appropriate measures to track every element of public sector performance, inputs, outputs and outcomes. As part of the 2020 Spending Review, a new framework and metrics will be used across Whitehall to judge how well departments are managing public money. The framework signals a new interest in government being able to develop credible financial and performance plans, aligned with each other.

Departments are asked to translate their aspirations into specific outcome-focused performance measures and targets, against which performance and progress can be measured. Success will depend on:

- Having a sound understanding of the purpose of each programme, including the needs of users or beneficiaries;
- Including the benefits (or outcomes) expected, how these are to be achieved (inputs, activities and outputs) and the person(s) responsible for delivery;
- Identifying indicators and metrics that illustrate how a programme is performing and data sources for measurements; and
- Making sure that the data can be collected accurately, testing for errors and inconsistencies, and measuring performance over time (and perhaps with similar programmes, including benchmarking performance).

Although there are dangers in too mechanical an interpretation of performance measures, this approach can catalyse rapid improvements in public sector performance. As a rule, less is more, and measures of performance should be limited to key areas of performance.

The use of dashboards, reports, alerts and visualisations is an area of performance management that needs considerable improvement across government. Presenting metrics visually is a good way to maximise the likelihood that the information will be acted on. Dashboards will help inform decisions, often with the help of real-time data. Alerts can be used to flag a change or an event.

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Budgeting within a performance management system

Performance budgeting is the systematic use of performance information to inform budget decisions. The aim is to instil greater transparency and accountability throughout the budget process - providing information to decision makers and the public on the purposes of spending and the results achieved. This includes the regular preparation of budgets, monitoring and reporting, through to cross government spending reviews and programme evaluations.

The shift in the focus, away from management of inputs and towards a focus on the results, represents a profound change in the character of the budget process. From budget specialists focussed on the numbers. To a more strategic, transparent and multi-disciplinary exercise, with greater involvement by departments, agencies and even (although rarely, at least at the moment) citizens and service users.

Key characteristics of a performance budgeting process include the following:

- When preparing a budget, spending decisions take account of priority policy objectives as well as past programme performance (where relevant, including baseline financial and operational data);
- Financial and non-financial targets and performance indicators are presented in the budget and linked to spending programmes;
- Performance information is provided to managers together with budget data to help them monitor performance and improve the quality of spending; and
- Regular reports on budget execution include performance information and a narrative explaining the reasons for under or over-performance.

Performance budgeting provides an opportunity to strengthen the alignment between decisions on budget allocation and government policy priorities. Enhancing the chances that the government can deliver on important pledges. Providing new types of information that help decision makers allocate resources based on evidence of what works. And giving programme managers the tools to make a stronger case in support of new or more innovative programmes when submitting budget proposals.

The OECD recently assessed all countries adopting performance budgeting and helpfully identified good practice principles. These are summarised in the table below.

Performance budgeting and performance Management - good practice principles	
The rationale and objectives of performance budgeting are clearly documented	The rationale, objectives and approach to performance budgeting are set out in a strategic document
	The interests and priorities of multiple stakeholders (including service users) are reflected in the design of the performance budgeting system
	Performance budgeting is championed by political leaders, with support from senior officials
Performance budgeting aligns expenditure with strategic goals and priorities	Budget proposals are systemically linked to relevant statements of strategic direction and priority
	Multiyear budget frameworks provide realistic and reliable fiscal parameters for preparation of performance budgets
	The achievement of complex objectives, requiring collaboration, is supported by coordination activities and budgets
Performance budgeting is flexible enough to handle the complexities of government	The use of a mix of performance measures to reflect the nature of the programme
	Programme structures are aligned with administrative responsibilities and service delivery functions
	Expenditure classification and controls are revised to facilitate programme management and promote accountability
Government invests in human resources, data and other infrastructure	Government builds capacity to manage and operate the performance budgeting system
	Performance measurement systems are reviewed and improved to provide quality data on a reliable basis
	Performance data is managed as a strategic asset, the objective being it is discoverable, interoperable, standardised and accessible
Performance budgeting facilitates systematic oversight	Budget and expenditure reports contain information about performance targets and the level of achievement
	Scrutiny takes place of performance-based budgets and financial reports, holding decision makers and managers to account
	Budget and expenditure data is, wherever appropriate, made available in accessible formats
Performance budgeting complements other improvement tools	Formative appraisal of new spending programmes is used to strengthen programme design and facilitate monitoring and evaluation
	Evaluations of major programmes are carried out on a rolling basis and the findings are systematically fed back into the budget preparation process
	Spending reviews are used with performance budgeting to review the justification for spending and to identify savings that can be reallocated
Incentives encourage performance orientated learning	Performance management encourages comparison between similar entities as a means of improving effectiveness and efficiency
	Managers organise structured discussions to review financial and operational performance regularly through the year
	Responses to programme under-performance emphasise learning and problem solving

Building the evidence base for planning

Governments face extraordinary challenges in transforming performance because of their scale and complexity. They have enormous workforces and must coordinate public services across organisational and geographic boundaries. And they face almost unprecedented fiscal constraints.

Some parts of the public sector are aiming to address these challenges by investing in new capabilities, applications and systems. This includes adopting new approaches to performance budgeting such as:

- Zero based budgeting, to re-examine all expenditure and evaluate if they should continue, starting with a budget of zero and building in what is truly needed rather than taking last year's budgeting and adding or removing a percentage from it;
- Activity based budgeting, to trace expenditure to the services, channels, citizens, and users that cause those expenditures to be incurred, creating economic cost models to underpin decisions and contribute to productivity improvements;
- Strategic modelling for uncertainty, ambiguity, complexity and volatility, with long-range scenario modelling to evaluate the impact of new programmes, ways of working or strategic risks, often including a mix of financial and non-financial data.

However, too often, the absence of good data and metrics makes it difficult to plan ahead or hold people and projects accountable for their performance.

Typical challenges include budgeting and forecasting with spreadsheets, that are prone to error and tied to one owner to change and recalculate. How often have you found that a seemingly small formula error can have large consequences and be very difficult to find and correct? A lack of oversight means there are few incentives for stopping unproductive and inefficient programmes, reallocating resources towards more productive and efficient uses.

Whether to address deficiencies in assembling data or to introduce new approaches to performance budgeting, many public sector organisations are replacing home grown, spreadsheet-based planning and budgeting systems. They are moving to purpose-built applications that includes out of the box best practices for financial and asset planning and strategic modelling.

Often combined with a move from on-premise to the cloud, dedicated applications simplify performance budgeting, improve forecast accuracy and can accurately assess delivery across public services. Finance teams are released from the time-consuming collection of data and can elevate conversations to a more strategic level. The cloud also provides a platform for introducing advanced technologies, like artificial intelligence and machine learning for predictive planning.

Actions for public sector leaders

So far, we have set out the scale of the performance challenge facing public services and the benefits to be gained from improving performance management. But where should public sector leaders start when they face technical and change management issues? In this section we set out the five actions that governments might take to guide performance management efforts:

1. Set clear, long-term aspirations for public sector performance. You must recognise that, in many cases, the scale of improvement needed to meet todays fiscal and user challenges cannot be delivered through incremental changes.
2. Identify and focus on the key set of metrics that matter to public sector performance, which indicate whether objectives are on track to be delivered and seek to refine and improve those metrics over time.
3. Put data at the heart of decision making, moving away from unreliable spreadsheets, and including financial information on the amount spent at each stage of delivery, producing forecasts to understand and manage the impact of spending on future years.
4. Hold regular stocktakes on performance with those accountable for progress, to review and discuss performance, highlight options and gain agreement on key actions needed, share best practices and celebrate successes.
5. Undertake or commission strategic evaluations of priority policies and major programmes to understand whether activities are having the intended consequences and to ensure insights are used to adapt processes or improve performance.

Final thoughts and further information

Oracle has a broad cloud portfolio of business applications for every part of the public sector. Users have the latest innovations at their fingertips across finance, operations, procurement, human resources and talent management. All accessed through an intuitive interface that works across multiple devices.

Oracle applications are used across the public sector and inform mission critical planning, budgeting and forecasting. Finance teams are able to inform strategy and implementation, leveraging data to rapidly model multiple scenarios and understand the impact of decisions. Then track policy, project and programme performance, using prebuilt metrics and bespoke performance indicators.

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