

# English translation of the Weekly Web Release



MINISTRY OF FINANCE IN ICELAND

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## Performance indicators as a budget instrument

Many Western governments have developed systematic procedures to link government budget appropriations to performance targets. To this end, good information is required concerning the performance of public services and the cost of improving the performance. Differences exist from case to case concerning how to link performance and appropriations depending on what performance information is available and what kind of objectives are set for performance improvement.

Careful budget design requires a variety of information. The main task is to determine what information is useful in determining budget amounts at various stages of the budget process in order to improve the decision-making process. The task is to determine what data is required and how much should be spent to obtain it.

The countries attempting to draft budgets on a performance basis have not followed a uniform path and have different degrees of experience. Nonetheless, they continue in their pursuit of better performance-based budgeting. Reforms of the budgeting process will continue as long as budgets are made. These issues are regularly discussed under the auspices of the OECD. The IMF has recently joined in the effort to develop performance management and performance-based budgets, both in connection with its own internal budgeting as well as in connection with its advisory role in member countries. Recently, the Fund held a conference of experts to compare notes on the use of public budget-drafting methods.

At the meeting, the experience of the UK in adopting performance targets at all stages of government operations was discussed. The ministries are expected to explain their targets in key areas and what they saw as the benefit for the nation and individual groups. An example of a public service agreement target in the health sector is the reduction in heart-related fatalities in the under 75-age group by 40 per cent before 2010. In 1998, when such performance targets were first set, they were around 600 in number. These targets have been reviewed every two years and had been reduced to 110 in 2004. In every case it is expected to be clear who is responsible for delivering progress towards individual targets, such that the chain of responsibility is clear at all stages. Reaching specific targets always has a cost, and although targets and performance information are used in tandem, there cannot be an automatic link between the setting of a target and the actual budget appropriation. Since performance information is important, it is imperative that it is trustworthy. A number of methods are used to verify such information and assess performance results. The dissemination of performance information to the public and other interested parties is also emphasised.

The US federal government has developed a Program Assessment Rating Tool (PART) by which each project is rated with a set of 30 questions dealing with its purpose, organisation, management and performance. The purpose is to improve responsibility, budget decisions and project performance. A formal link is thus established between performance and budgeting which does not imply automatic decisions. The main impact of this system is to increase the influence of the Office of Management and Budget. The system has also served to improve performance measurements in government operations. The assembly of performance data is also useful to call attention to areas that need to be reassessed from the ground up and in improving performance-based management, to name a few.

An extensive discussion took place on the use of performance measurements in order to allocate a previously agreed total sum between agencies through a calculation model (formula funding). Many countries use such methods to finance schools and healthcare. At the conference, the example of a new system of funding of universities in Ethiopia was mentioned whereby funds are granted on the basis of a method used in

the UK and other countries. The state pays a unit amount for each full-time student, whereas part-time students pay their own tuition. The appropriation is based on a few simple parameters, since more complicated calculations are not expected to lead to a more just result. The appropriation differs between faculties and campuses. There is a sevenfold difference between the highest and the lowest appropriations. The most expensive area is a doctoral programme that demands laboratory facilities. Payment is conditional upon completion of the academic year by each student, and payment is only made for each student up to a certain number of years. The experience from using formulas for allocating funds is generally favourable, although they turn out to be quite complicated, since they demand increased performance monitoring, a change in management motivation and a formal review of performance measurements for purposes of data confirmation.

## The publication of macroeconomic forecasts in 2006

The Ministry's [Icelandic Economy](#) will be published four times this year instead of three times before. The publication will differ somewhat from the practice of earlier years. During the winter- and summer months, a revised forecast covering the next 2-3 years will be published. These forecasts will be briefer than in the past, with fewer appendix tables and will only be published on the Ministry's website. Other tables will be independently updated on the same website in association with the publication. The winter forecast will be revised in accordance with the passage of the fiscal budget and supplementary budget, taking also into account recent information concerning economic developments. A more detailed forecast will be issued in the spring and autumn with emphasis on economic developments in the medium term, the next four to five years, along with an extensive statistical appendix. A new forecast will be released in the autumn in connection with the premises implicit in the fiscal budget proposal. The spring and autumn forecasts will be printed. The publication schedule for this year is as follows:

January 24 <sup>th</sup>	Revised forecast for 2005-2007
April 25 <sup>th</sup>	Forecast for 2006-2010
June 20 <sup>th</sup>	Revised forecast for 2006-2007
October 2 <sup>nd</sup>	Forecast for 2006-2010

## Award for an outstanding government agency

Work has begun on searching for an outstanding government agency that will earn an award for its performance. The Minister of Finance will present such an award for the sixth time this spring. The Reykjavik Women's School received the first award in 1996. The Reykjanes Regional Office for Services to the Disabled was awarded in 1998. The Soil Conservation Service received the award in 2000, the Energy Authority in 2002 and the Wine and Tobacco Monopoly in 2004. A performance award will also be bestowed; the Akranes Hospital and Health Clinic received such an award in 2004.

In assessing government agencies the focus is primarily on the management. Targets (goals, purpose etc.), management methods (paths of responsibility, personnel issues, financial management etc), how managers and staff may discern that said methods have yielded results and that performance targets are set in the right direction (e.g. feed-back from users and personnel, quality assessment). Finally, methods of development and improvements in an ever-changing environment (policy activity, the will and ability to effect change) will be reviewed. Agencies running a deficit will not be considered unless they can demonstrate that the deficit is due to circumstances beyond their control.

The award will take place in May. The Ministry plans to hold a conference on government agency management shortly thereafter.

Treasury revenue, January-November			Treasury expenditure, January-November			Treasury finances, January-November			Economic indicators		
	2003-2004	2004-2005		2003-2004	2004-2005	Million krónur	2004	2005		2004-2005	2005-2006
12 month changes (%)			12 month changes (%)						12 month changes (%)		
Total tax revenue	13.7	21.3	Administration	8.2	4.8	Cash from operations	-8,177	21,461	Inflation (Jan. '06)	4.0	4.4
Income taxes	13.3	24.6	Social affairs	9.2	6.4	Net financial balance	9,557	70,420	Core inflation (Jan. '06)	4.0	4.3
Social security taxes	10.3	16.4	Economic affairs	1.9	-2.0	Debt redemption	-32,321	-61,597	Wage index (Nov. '05)	5.4	7.3
Asset taxes	44.2	31.6	Interest	-6.1	35.7	Gross borr. requirement	-29,639	3,691	Total turnover (Jan. - Aug. '05)	9.6	9.2
Indirect taxes	12.7	19.5	Other	6.0	63.4	Net borrowing	27,567	7,734	Retail turnover (Jan. - Aug. '05)	4.3	6.3
Total revenue	8.0	45.6	Total expenditure	6.9	8.9	Overall cash balance	-2,072	11,425	Unemploy., sa, % (Nov. '05)	2.8	1.7