

Performance Budgeting in the UK

Ten Lessons from a Decade of Experience

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9 June 2008



OUTLINE

I. Performance Budgeting in the UK

- a. UK Public Spending Framework
- b. Multi-year Spending Reviews
- c. Public Service Agreements

II. Lessons from a Decade of Experience

- a. Choosing Performance Indicators
- b. Monitoring Departments' Progress
- c. Holding the Government to Account
- d. Linking Performance Back to Spending Decisions

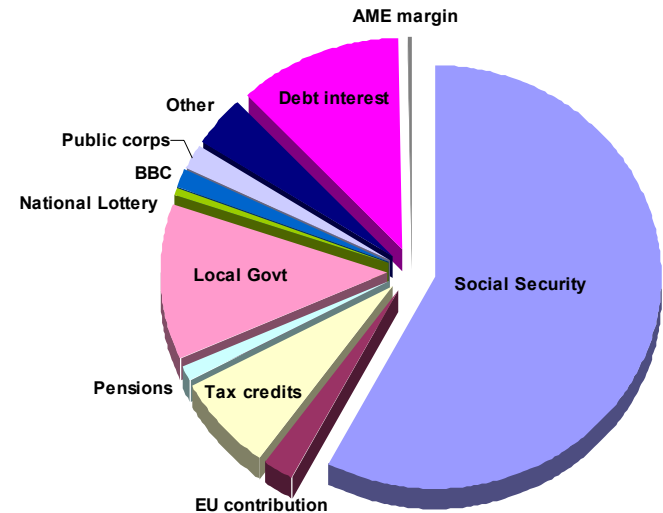
I.a. UK Public Spending Framework

- **Fundamental reform of fiscal & spending framework in 1998**
 - **New Labour Government** elected in 1997
 - ***Code for Fiscal Stability*** enacted in 1998
- **Two medium-term fiscal rules**
 - **Golden Rule:** Balance the current budget over the economic cycle
 - **Sustainable Investment Rule:** Keep net debt below 40% of GDP
- **Bi/triennial “zero-based” Spending Reviews**
 - Fiscal rules determine overall **expenditure envelopes** for the exercise
 - **Three-year spending limits** fixed for each Department
 - **Spending Reviews** in 1998, 2000, 2002, 2004, 2007
- **Public Service Agreements (PSAs)**
 - Comprehensive **performance management framework** for public services
 - **Multi-year, outcome-based “contract”** with each Department
 - Targets fixed as **part of Spending Review exercise**

I.b. Multi-annual Spending Reviews

Annually Managed Expenditure (AME)

- £256bn (40% of total spending)
- Volatile or demand-led expenditure
- Managed on an annual basis



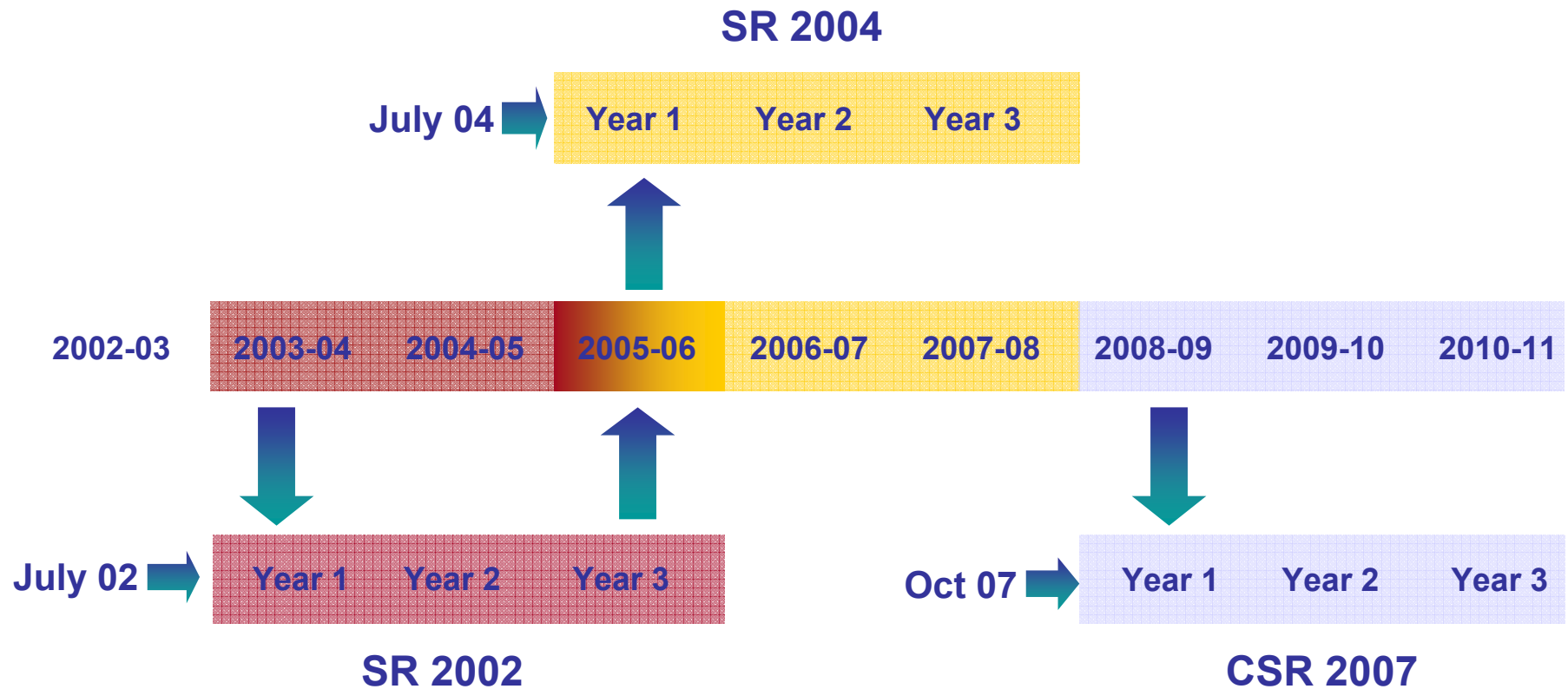
Departmental Expenditure Limits (DEL)

- £361bn (60% of total spending)
- 3-year fixed Departmental budgets
- 90% current and 10% capital



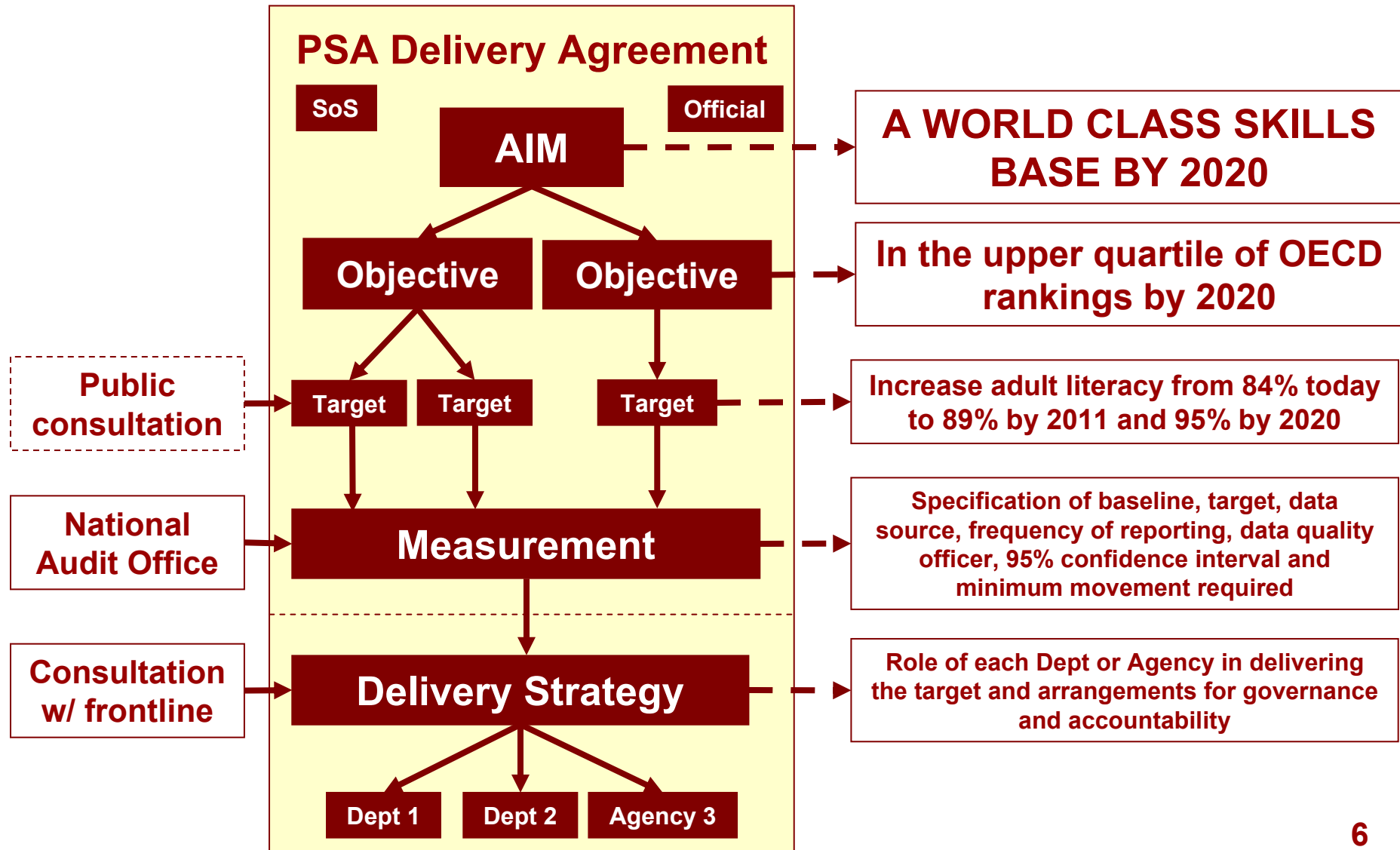
I.b. The Spending Review Cycle:

5th SR concluded in October 07 and fixed DELs out to 2010-11



I.c. Public Service Agreements:

A performance-based “contract” with Departments





II. 10 Lessons from a Decade of UK Experience with Performance Budgeting

- a. Choosing Performance Indicators**
- b. Monitoring Departments' Progress**
- c. Holding the Government to Account**
- d. Linking Performance Back to Spending Decisions**

II.a. Choosing Performance Indicators

Lesson # 1: Choose objectives with political resonance

Labour Party Manifesto's Five Pledges for 1997 Election

1. Cut class sizes to 30 or under for 5, 6 and 7 year-olds
2. Cut NHS waiting lists by treating an extra 100,000 patients
3. Halve the time from arrest to sentencing for persistent young offenders
4. Get 250,000 under-25 year-olds off benefit and into work
5. No rise in income tax rates and inflation and interest rates as low as possible





II.a. Choosing Performance Indicators

Lesson # 2: Don't have too many targets

Spending Review:	<div>Spending Review 1998 CSR 98</div>	<div>Spending Review 2000 SR00</div>	<div>Spending Review 2002 SR02</div>	<div>Spending Review 2004 SR04</div>	<div>Spending Review 2007 CSR07</div>
# of PSAs:	<div>300+</div>	<div>160</div>	<div>130</div>	<div>110</div>	<div>30</div>

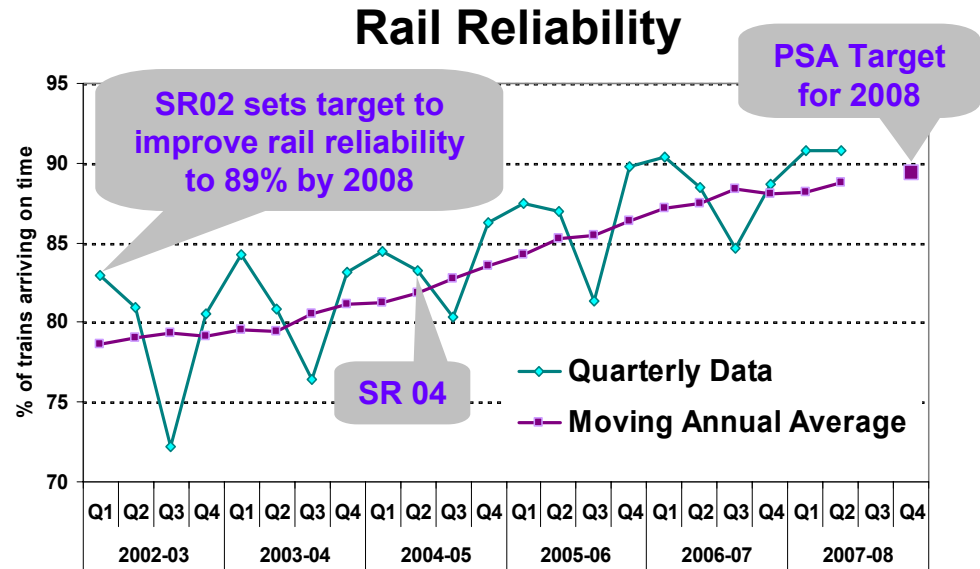
II.a. Choosing Performance Indicators

Lesson # 3: Don't let the great be the enemy of the good

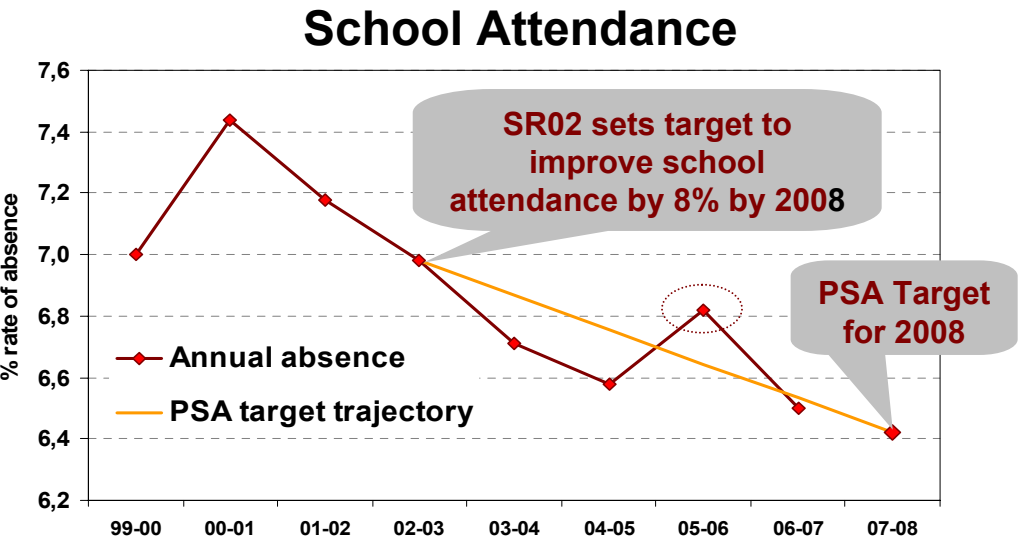
Spending Review:	Spending Review 1998 CSR 98	Spending Review 2000 SR00	Spending Review 2002 SR02	Spending Review 2004 SR04	Spending Review 2007 CSR07
# of PSAs:	300+	160	130	110	30
Focus:					
Boundary:					

II.b. Monitoring Departmental Performance

Lesson # 4: Give yourself time to improve outcomes (and even longer to know if you have)



In transport, ‘leaves on the line’ each autumn made it difficult to judge improvements in rail reliability over a period of less than a year (or more)...



...and in education, exogenous seasonal factors (influenza) could render an entire year’s data unreliable.

II.b. Monitoring Departmental Performance

Lesson # 5: Don't waste decision-makers' time

Prime Ministers' Delivery Unit DELIVERY REPORT

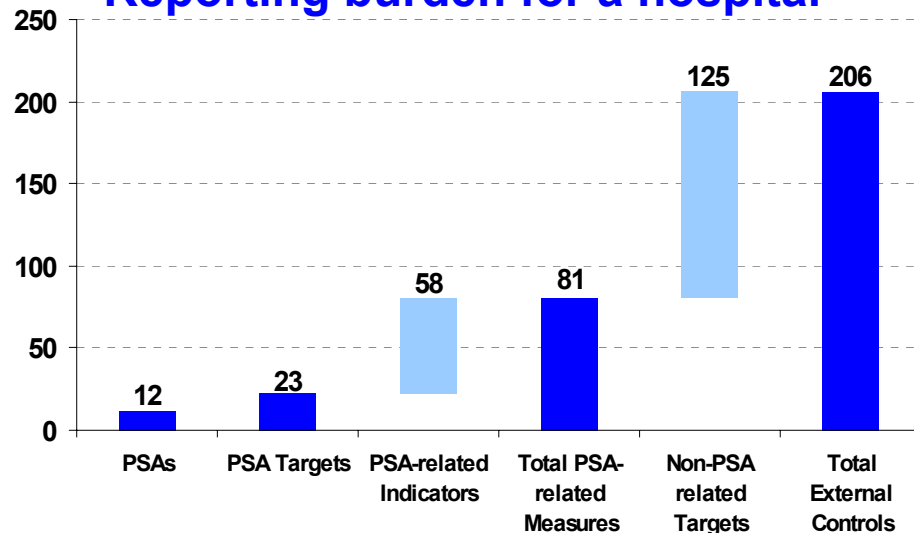
Dept July 2004		Assessment Criteria				Overall Judgement	Rank (out of 21)
		Degree of challenge	Quality of planning, implementation and performance management	Capacity to drive progress	Stage of Delivery	Likelihood of Delivery	
A	PSA 1	L	G	G	3	G	= 1
B	PSA 2	L	G	AG	2	G	
C	PSA 3	H	AG	AG	3	G	
D	PSA 4	H	G	AG	3	AG	
A	PSA 5	VH	G	AG	2	AG	5
B	PSA 6	H	AG	AG	3	AG	6
C	PSA 7	H	AG	AG	2	AG	= 7
D	PSA 8	H	AG	AG	3	AG	
A	PSA 9	H	AG	AG	2	AG	
B	PSA 10	VH	AG	AG	2	AG	= 10
C	PSA 11	VH	AG	AG	2	AG	
D	PSA 12	H	AR	AG	3	AG	12
A	PSA 13	VH	AR	AG	2	AR	13
B	PSA 14	VH	AG	AR	2	AR	= 14
C	PSA 15	VH	AG	AR	2	AR	
D	PSA 16	VH	AR	AR	2	AR	= 16
A	PSA 17	VH	AR	AR	2	AR	
B	PSA 18	H	AG	AR	3	R	= 18
C	PSA 19	H	AG	AR	2	R	
D	PSA 20	VH	AG	AR	3	R	20
A	PSA 21	VH	R	R	2	R	21



II.b. Monitoring Departmental Performance

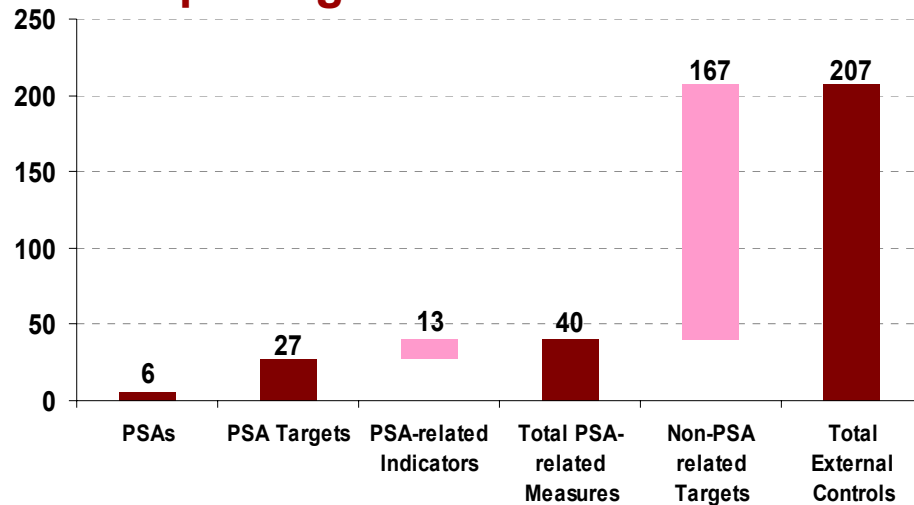
Lesson # 6: Know what your system looks like from the bottom-up

Reporting burden for a hospital



In 2003, the Dept of Health's 12 PSAs were being translated into 208 different targets as they cascaded down the delivery chain...

Reporting burden for a school



...and while Dept for Education had half the number of central targets, head teachers faced an even bigger compliance burden from other tiers of Government

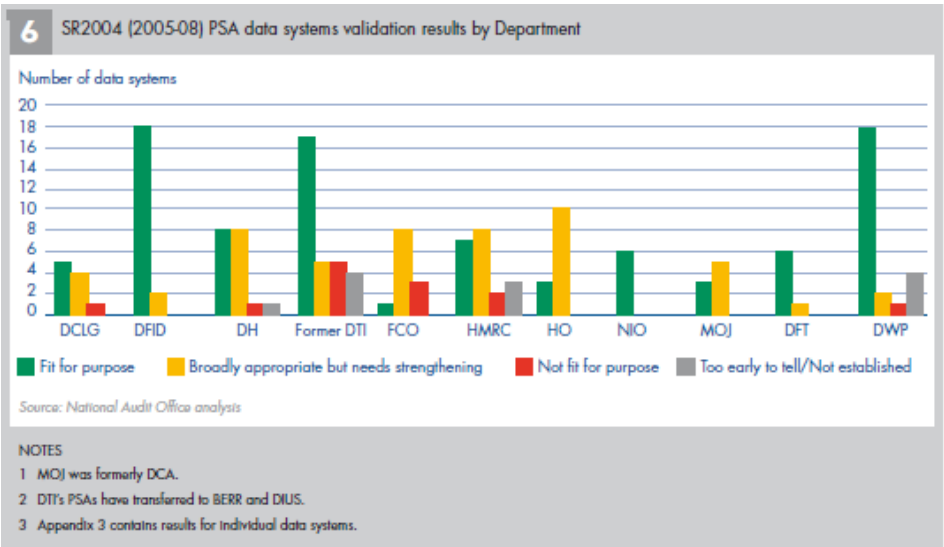
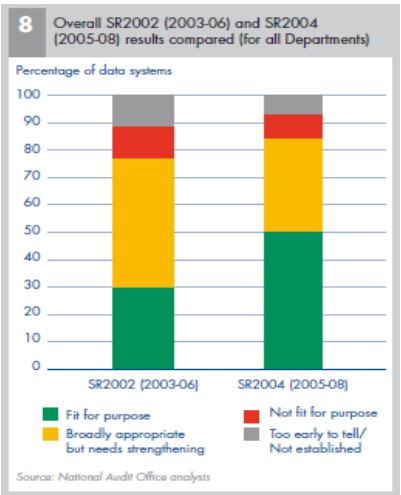
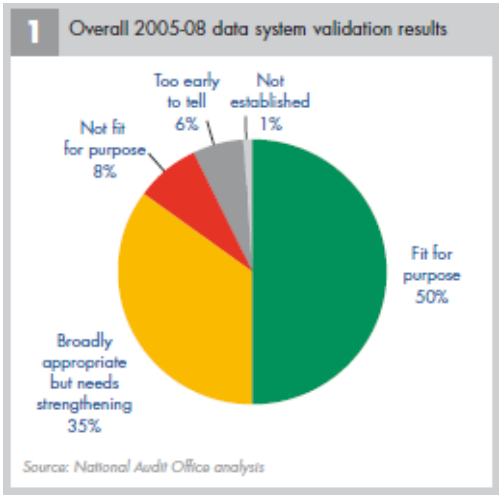
II.c. Holding Government to Account *Lesson # 7: Make use of national audit institutions*



National Audit Office

Fourth Validation Compendium Report: Volume 1

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 22-1 Session 2007-2008 | 19 December 2007



II.c. Holding Government to Account

Lesson # 8: Don't overestimate public interest

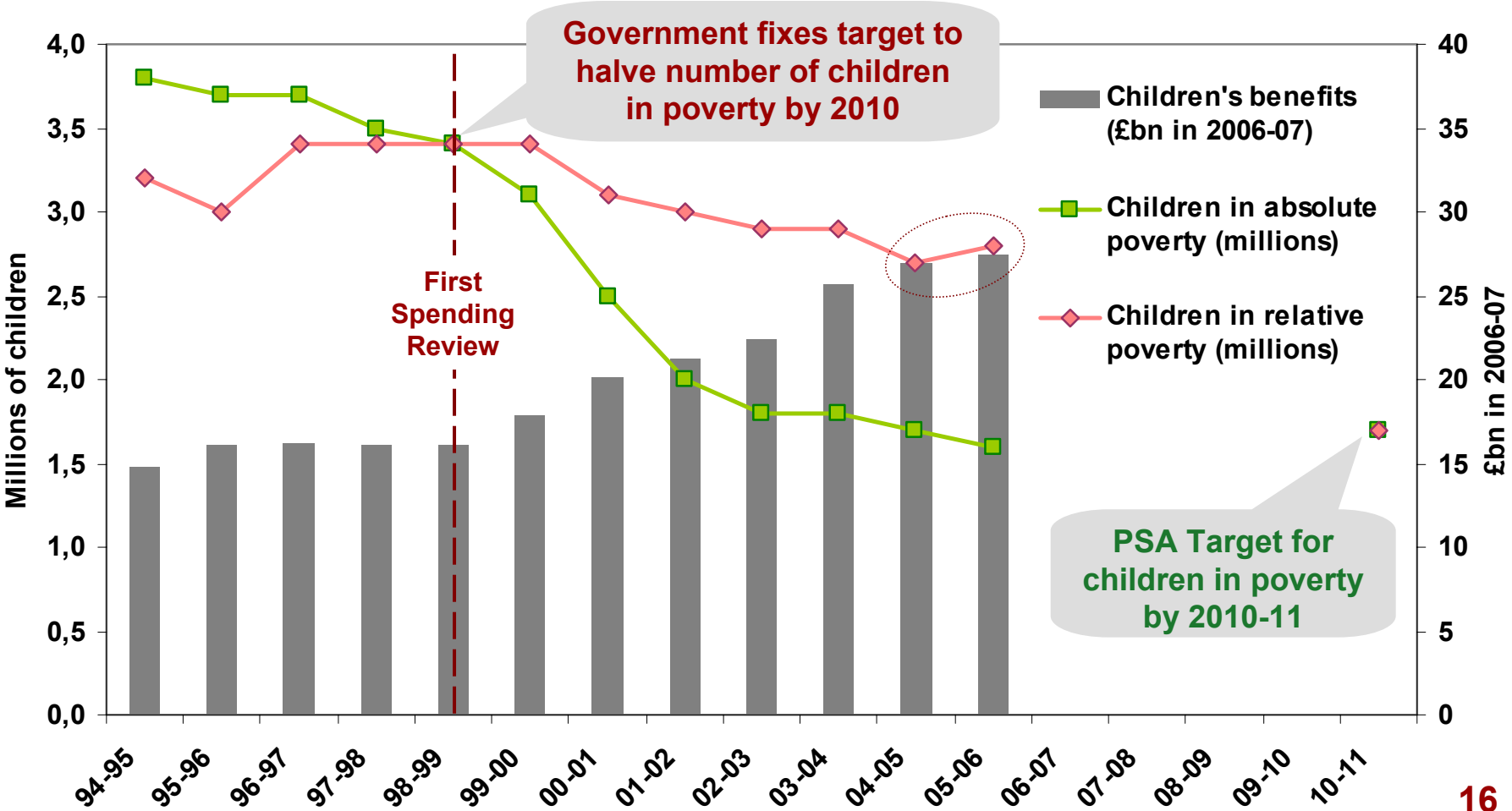


II.d. Linking Performance back to Spending Decisions

Lesson # 9: The spending-outcomes relationship will always be a ‘gray box’

Children’s Benefits and Children in Poverty

1994-95 to 2005-06



II.d. Linking Performance back to Spending Decisions

Lesson # 10: Be realistic about where performance can make a difference

