Measures to increase efficiency and effectiveness

28-30 November, 2001, Rome

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1. The Framework
Elements of control

- Costs
- Inputs
- Process
- Outputs
- Outcomes
Relations of control

Value for money

- Outputs
- Process
- Inputs
- Costs

- Outcomes
- Effective-ness
- Efficiency
- Economy
# Strengths and weaknesses of control regimes

<table>
<thead>
<tr>
<th>Input</th>
<th>Strengths</th>
<th>Weaknesses</th>
<th>Good for situations with…</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Easy and affordable</td>
<td>• Does not support efficiency</td>
<td>…low confidence and variable competence</td>
</tr>
<tr>
<td></td>
<td>• Strengthens compliance</td>
<td>• Can be inflexible</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Facilitates control of aggregate expenditure</td>
<td>• Short term</td>
<td></td>
</tr>
<tr>
<td>Output</td>
<td>• Facilitates efficiency</td>
<td>• Can distort focus</td>
<td>…confidence, sound accounting and professionalism</td>
</tr>
<tr>
<td></td>
<td>• Accountability</td>
<td>• Measurement problems</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Costs</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Information overload</td>
<td></td>
</tr>
<tr>
<td>Outcome</td>
<td>• Facilitates re-allocation</td>
<td>• Measurement problems</td>
<td>… the above and dedicated politicians</td>
</tr>
<tr>
<td></td>
<td>• Support policy formulation and coordination</td>
<td>• Accountability problems</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Long term</td>
<td>• Costs</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Information overload</td>
<td></td>
</tr>
</tbody>
</table>
2. Outcome Focussed Management and Budgeting
An outcome focus to budgeting and management - Main motives

- Orientation of Public Sector Production
- Public Awareness
- Reallocation
- Coherence
An outcome focus to budgeting and management - Main implications

- Linking costs, inputs, outputs and outcomes
- Increasing the use of policy evaluation
- Restructuring budget processes
International trends...

Are targets routinely displayed in the budget documentation

- In the main budget documentation: 12
- Separate government wide report: 1
- Each ministry prepares reports: 4
- No: 2
- Other: 4

Legend: Output targets - Blue, Outcome targets - Red
Challenges

- Expectations
- Resistance
- Measurement
- Information - a double edged sword
- Costing
- Co-ordination/coherence
- Information overload
- Incentives
- Being of use to politicians
- Limits on capacity
3. Accrual Accounting
Accrual Accounting - Main Motives

- Part of Larger Modernisation Project
- Move to Results/Output/Outcome Budgeting
- Improved reporting of operating costs to managers, parliamentarians and the public
- Better decision-making
- Improved accountability for assets
- Improved long term planning
Accrual Accounting - Main Implications

Cash
• Managers constrained by “input” of cash

Accruals
• Managers must maintain “assets”
• Managers focus on liabilities -- know what the obligation is prior to the cash transaction
• Long term sustainability
International trends...

Numbers...
Challenges

- Operating balance fluctuations
- Difficult for managers to deal with factors outside their control
- Difficult for Parliaments to understand and communicate to public
- “Cooking the Books” is an accrual term
- Cash based budgeting is cheap, reliable and straightforward
- Power to Tax not recognised in accrual
- More difficult to use with Fiscal Policy
Enhanced Human Resource Management - Main motives

- Lack of Confidence on the Civil Service
- Economic Recession
- New Public Management (NPM)
- Increased Expectation from People

Pressure to change “People Management”
Enhanced Human Resource Management - Main implications

- Reducing the Gap between Public & Private HRM
- Providing with Greater Flexibility and Freedom
- Securing Accountability and Performance
- Maintaining a Good Employer Model

Enhanced Efficiency and Effectiveness
International trends...

1) Most Governments reduced the size of public workforce ...

Share of Public Employment to Total Employment (1985 to 1999)
International trends...

2) *Many Governments linked “pay” with “performance” ...*

- Performance - pay link
  - a salient feature in many countries (DK, UK, FI, AU)
  - for higher level officials than lower level officials

- Various types of PRP scheme - performance pay, productivity bonus, diligence bonus

- Many PRP schemes are not functioning effectively
  (OECD’s previous survey)
International trends...

3) More emphasis was given to HRM and performance...
International trends...

4) Governments tried to maintain good employer model ...

Share of Female Employment in Public Sector (%)

Total Public Sector

Central or Federal Government

<table>
<thead>
<tr>
<th>Country</th>
<th>1990</th>
<th>Last year available between 1998 and 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>60</td>
<td>55</td>
</tr>
<tr>
<td>USA</td>
<td>50</td>
<td>45</td>
</tr>
<tr>
<td>Greece</td>
<td>40</td>
<td>35</td>
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<tr>
<td>Germany</td>
<td>30</td>
<td>25</td>
</tr>
<tr>
<td>Korea</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>France</td>
<td>50</td>
<td>45</td>
</tr>
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<td>15</td>
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<tr>
<td>Korea</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Germany</td>
<td>5</td>
<td>2</td>
</tr>
</tbody>
</table>
Challenges

• Knowledge-intensive society
  – Need to effectively manage information and knowledge
  – How to manage knowledge?

• Lessened common *esprit de corps* of the civil service
  – Need to improve integrity of the public service
  – How to develop public sector leadership?

• Worsened image of the public sector
  – Problems of recruitment and retention
  – How to make government a competitive employer?

• Need to foster diversity in the civil service
5. Implementation
Implementing public service controls

<table>
<thead>
<tr>
<th>Externalised controls</th>
<th>Mixture</th>
<th>Internalised controls</th>
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<tbody>
<tr>
<td>Input focussed</td>
<td>Externally controlled</td>
<td>Internally controlled</td>
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<tr>
<td>Mixture</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internalised controls</td>
<td></td>
<td>Managed by performance</td>
</tr>
<tr>
<td>Output focussed</td>
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</table>

- Low management delegation
- High management delegation

- Input focussed
- Output focussed
Why governments can’t do all the things all the time...

- Time
- Limits on the amount of information that can be incorporated into decision-making
- Only possible to pay attention to a few things at a time.
- Some incentives have much more influence on how officials direct their attention than others (e.g. the urgent driving out the important)
More information

- www.oecd.org/puma
- www.oecd.org/puma/budget/
- www.oecd.org/puma/hrm/
Measures to increase efficiency and effectiveness

- Managing Money
- Managing organisations
- Managing people
- Managing countries

Integrating management and budgeting to from a whole of government perspective