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OECD Public Management Reviews : Ireland
Towards an Integrated Public Service

Chapter 5

Motivating Performance

Introduction

Citizens ultimately judge governments, not by intentions, but by results. OECD countries are under pressure to improve public sector performance as its citizens are demanding that governments be made more accountable for their performance. The fundamental challenge for governments is how to interlink their key components – policy, people, money and organisations – in a manner that promotes the translation of broad policy goals into desired outcomes.

Over the past decade, the Irish government has introduced several initiatives to improve Public Service performance and has taken significant steps to introduce performance frameworks and develop performance information. However, to ensure more rapid implementation and impact, there needs to be more focus on the objectives, design, and coherence of these reforms initiatives. There should be greater emphasis on ensuring this information is actually used and on *integrating performance information* with existing planning, budgeting and other decision-making processes. Only by aligning the accountability and performance structures and by making sure that the right incentives are in place, can the Public Service embed changes into organisational cultures in order to ensure the meaningful implementation of performance initiatives across the Public Service.

This chapter reviews the reform initiatives introduced by the Irish government to improve the performance of the Public Service and places these initiatives in the context of wider OECD experiences. The introduction discusses why improving performance is important and the different reform levers adopted by OECD countries to achieve this aim. The chapter then looks at changes in budget practices and procedures developed to strengthen fiscal performance in Ireland and to improve the reallocation of resources to higher government priorities. The subsequent section reviews initiatives to improve the focus on results throughout government, concentrating on performance management and budgeting reforms. This is followed by a section which addresses how harnessing competitive pressures can be used to improve performance in public service delivery. The chapter concludes with a section that focuses on the importance of building a performance culture that ensures that initiatives are being carried out as intended. It also suggests what changes to the existing accountability and incentive structures are required in order to better foster a performance culture.

Why improving public service performance is important

Efficient and effective government is vital to a well-functioning economy and society. Governments' actions and behaviour influence the economy through setting and maintaining the state's legal framework, through its economic, regulatory, and taxation policies, and through the level and quality of public expenditure. A key actor in the economy, the government directly or indirectly provides essential services such as education and health. Efficient and effective public institutions and policy instruments, well-managed public resources, and robust and high quality regulatory frameworks are

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essential for maintaining competitiveness in a global economy. While improving public sector performance has always been a priority for government, over the past decade, calls for better results have taken on a new urgency.[1] OECD countries are under pressure to control increases in public expenditure, while citizens are demanding that their governments produce results and be made more accountable.

Governments are experiencing increasing claims on public expenditures from the growing health care and pension costs of ageing populations, to new infrastructure demands in security and defence in light of potential terrorist threats. Furthermore, countries in the Euro zone, such as Ireland, have agreed to the conditions of the European Union (EU) Stability and Growth Pact to achieve set targets designed to promote fiscal discipline. This pressure on public expenditures is often combined with citizens' reluctance to pay more taxes. In this climate, most governments have very little scope for raising taxes or issuing debt to finance higher public expenditures. Thus, they are focusing not only on controlling increases in spending, but also on achieving better value for money and results.

Traditionally in OECD countries, transcribing policies into laws formally drove performance and regulations and ensured that rules were respected.[2] In this traditional system, controlling inputs and complying with rules were more important than efficiency and effectiveness. Organisations and public servants were not evaluated on whether programmes achieved their goals or produced results, but rather, on whether they complied with the rules. In a more modern society – with customised services, the need for constant adaptation, pressures for efficiency, and the increased use of private agents – there is a demand for sharper performance focus and incentives.[3]

Citizens and businesses expect higher-quality public services in line with improved living standards. They expect government services to keep pace with technology and developments in the private sector, and to become more flexible and responsive to evolving needs.[4] Citizens are not only seeking improved performance in the traditional areas of public service delivery; they also want governments to develop and implement policies that provide solutions to new and more complex problems.

Governments are evaluated on different aspects of their performance. Key among these is the management of the economy and fiscal performance, the introduction and implementation of policy initiatives, the management of current and emerging pressures, and the day-to-day delivery of public services.

Reform levers to improve performance

There is really no single blueprint for improving public sector performance. The challenge of motivating governments at all levels to be more attentive to goals and achievements has been addressed from a number of different angles; OECD governments have adopted diverse levers and approaches to reform.[5] These include: reorganising and restructuring their public sector (*e.g.* creating agencies or merging ministries); transforming the workforce structure; reforming human resource management arrangements; devolving functional responsibilities and spending control to sub-national governments; strengthening competitive pressures within the public sector (*e.g.* privatisation, contracting out, public private partnerships); changing the mode of service delivery (*e.g.* joined-up government, delivery of shared services, e-government); changing budget practices and procedures; increasing managerial and financial flexibility within the public sector; and introducing a performance focus into management and budgeting processes.[6]

Some OECD countries have embraced all these levers, while others have concentrated on only a few. The Irish government has adopted many initiatives to improve public sector performance. These include creating agencies and reforming human resource management. These are addressed specifically elsewhere in this report.[7] This chapter will concentrate on reviewing the performance initiatives of the Irish government in the context of wider OECD experiences. The following areas will be considered:

- Improving fiscal performance and resource allocation through changing budget practices and procedures.
- Improving the focus on results by introducing performance-oriented approach to management and budgeting.
- Improving public sector delivery through the strengthening of competitive pressures.
- Moving from compliance to a performance culture.

Improving fiscal performance and resource allocation through the budget process

Ireland has been extremely successful in terms of its fiscal performance as witnessed by high levels of economic growth and a budget surplus. As discussed in the chapter on Fiscal and Demographic Developments, however, the current climate of slowing economic growth, and a corresponding impact on revenues, makes it more challenging to maintain this success. The fiscal performance of government is essential to maintain a healthy economy and to improve the government's overall performance. Governments' expenditure management impacts on operations of the whole of government, therefore it is important to have an efficient and transparent system.

As in most jurisdictions, the budget is one of the most anticipated political events of the year. It not only sets out the government's assessment and projections of economic and fiscal developments and prospects, but also actualises policy objectives, which affect all citizens. It may also announce changes in government management, for example, by introducing new accountability structures, or upgrades to existing structures. The budget, therefore, is much more than a collection of numbers, it is a reflection of a country's priorities, its needs and how it proposes to respond to them.

This section will discuss two sets of issues for improving fiscal performance: 1) the current process for improving and maintaining fiscal discipline, and budgeting for the medium- and longer-term; and 2) the transparency of the current budgetary process.

Improving and maintaining fiscal discipline

In OECD countries, the budget process impacts on fiscal performance through fiscal rules, the expenditure planning process, and transparency in estimates and liabilities. The rules and expenditure process should be designed to enforce budget discipline and improve transparency.

In Ireland, the main fiscal rules are the EU Stability and Growth balance budget rule and the debt rule. In addition, since 1999, the government has adopted a policy of transferring 1% of GDP to pre-fund pension liabilities. On a *General Government Balance* (GGB) basis, Ireland has gone from having one of the highest debt-to-GDP ratios among all OECD countries in the 1980s to currently one of the lowest, reflecting the impact of prudent

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fiscal management and strong economic growth (Table 5.1). Since 1998, Ireland has met the EU fiscal requirements under the Growth and Stability Pact of an annual deficit of no more than 1% of GNP and debt-to-GNP ratio of no more than 60%.

While the Irish government does adhere to the fiscal rules set out in the Stability and Growth Pact, this has not been a difficult target to reach given the robust economic growth of recent years and its impact on revenues. The government's current fiscal target is based on the measure of the budgetary balance and is set on an annual basis for the upcoming budget year only.

In the 2007 budget, the government pledged to run an annual surplus of at least 1% of GDP for fiscal year 2007. Preliminary estimates for 2007 indicate a surplus of 0.5% of GDP. Due to the impact of downward adjustments to the economic outlook and its adverse effects on revenue, in conjunction with the government's commitment to honour capital expenditures under the National Development Programme, a GGB deficit of 0.9% of GDP is

Table 5.1. **International debt comparisons (gross financial liabilities)**

Percentage of GDP, selected years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Ireland	**61.4**	**50.7**	**40.7**	**37.9**	**35.9**	**34.7**	**33.5**	**32.5**	**30.4**	**30.2**
Euro area										
Austria	67.4	70.0	69.3	70.2	71.7	69.8	69.5	69.6	68.9	67.6
Belgium	122.9	119.6	113.4	111.8	108.2	103.4	98.5	95.0	90.7	87.5
Czech Republic	..	..	..	..	33.1	34.9	35.5	35.5	35.6	35.3
Denmark	69.7	64.1	57.1	55.0	55.4	53.6	50.1	42.0	34.7	30.6
Finland	60.9	54.7	52.3	49.7	49.3	51.2	51.4	48.4	46.2	47.9
France	69.9	66.5	65.2	63.8	66.8	71.0	73.3	76.1	75.0	73.7
Germany	62.2	61.5	60.4	59.7	62.1	65.4	68.8	71.1	71.4	68.8
Greece	85.0	88.0	100.1	102.6	101.2	98.0	99.6	97.7	92.5	89.7
Hungary	64.7	65.9	59.9	59.5	60.6	61.2	65.1	68.6	73.2	74.2
Iceland	48.0	43.5	41.1	46.0	42.3	40.9	34.5	25.5	31.5	31.0
Ireland	61.4	50.7	40.7	37.9	35.9	34.7	33.5	32.5	30.4	30.2
Italy	132.0	125.7	121.0	120.1	119.0	116.9	117.3	120.0	119.9	118.9
Luxembourg	11.2	10.0	9.2	8.2	8.4	7.9	8.8	7.9	9.8	12.8
Netherlands	80.8	71.6	63.9	59.4	60.3	61.4	61.9	61.4	59.7	59.2
Norway	30.8	31.1	34.0	32.9	40.2	49.0	52.7	49.0	41.3	40.7
Poland	43.8	46.6	42.4	37.4	50.3	50.8	49.7	50.2	49.8	48.1
Portugal	64.9	60.9	60.2	61.6	65.0	65.9	67.9	72.0	73.2	73.9
Slovak Republic	41.0	53.1	57.4	57.1	50.1	48.6	47.6	39.1	37.0	35.5
Spain	74.4	68.4	66.5	61.9	60.2	55.1	53.2	50.8	47.1	42.9
Sweden	83.5	74.7	65.7	64.4	61.7	61.1	60.9	61.3	53.9	50.2
Switzerland	55.5	52.5	53.4	52.2	57.7	57.4	58.5	59.6	59.1	58.8
United Kingdom	53.6	48.5	45.7	41.0	41.3	41.8	43.7	46.6	46.6	47.2
Euro area	**79.7**	**77.9**	**74.8**	**73.4**	**73.7**	**74.7**	**75.5**	**76.8**	**76.1**	**74.2**
Other OECD										
Australia	32.3	28.0	25.0	22.1	20.2	18.8	17.1	16.8	16.1	15.1
Canada	95.2	91.4	82.1	82.1	80.6	76.5	72.1	70.8	68.5	66.8
Japan	114.3	128.3	136.7	145.1	153.6	159.5	167.1	177.3	179.3	179.0
Korea	13.1	15.6	16.3	17.4	16.6	18.4	22.6	24.7	26.5	30.0
New Zealand	42.2	39.6	37.4	35.4	33.6	31.6	27.1	24.5	24.8	23.4
United States	64.5	61.0	55.2	55.2	57.6	61.0	61.8	62.2	61.5	62.4
Total OECD	**72.9**	**72.3**	**69.5**	**69.8**	**71.8**	**74.0**	**75.6**	**77.5**	**77.1**	**76.8**

Source: OECD (2007), *Economic Outlook*, June.

projected for 2008, with similar deficit the next two fiscal years. Other targets, such as for total expenditure and tax policy, are established on an Exchequer Balance basis.

In Ireland, the government's main fiscal anchor/target is for one year only, although projections of the budgetary balance are also published for the following two years. A more medium-term fiscal anchor/target should be considered, reflecting the term of the government. This would set out more clearly the government's policy directions and the environment in which they are being considered. It would also set out a medium-term economic and fiscal framework for planning purposes to allow greater alignment of budgetary resources and policy commitments, especially in light of the National Developments Plans and the Social Partnership agreements.

Budgeting and planning for the medium and longer term

An expenditure planning process should be designed to maintain fiscal discipline, and to allow the government to reallocate resources from lower to higher priorities. In OECD member countries, medium-term budget frameworks form the basis for achieving fiscal consolidation. They clearly state the government's medium-term fiscal objectives in terms of high-level targets such as the level of aggregate revenue, expenditure, deficit/surplus, and debt. This lends stability and credibility to the government's fiscal objectives.[8] In addition, the government sets the aggregate expenditure totals and expenditure ceilings for individual departments to reflect its political and programme priorities. In the Netherlands, for example, the current main anchor of their framework is a medium-term fiscal balance target of some 2.5% of GDP. The medium-term is defined as the term of the government. Expenditure envelopes are fully planned for the duration of the government on the basis of a four-year "coalition agreement" between the political parties of the government.

Medium-term expenditure frameworks can be either flexible or fixed. Under flexible frameworks, aggregate ceilings for total expenditure are adjusted from year to year in light of macroeconomic circumstances. Under a fixed framework, high-level targets are operationalised by establishing hard or fixed ceilings for total expenditure over the term of the framework. Therefore total expenditure ceilings established or confirmed in the previous year are maintained during the budget preparation of the next year. Countries, with a fixed-term framework include Denmark, the Netherlands, Sweden and the United Kingdom. This framework is still adaptable with annual adjustments or reallocations allowed among departments and social security funds as long as these changes do not affect the totals or any changes are offset by structural changes in tax revenues. This helps to enforce greater fiscal discipline over the medium-term.

OECD guidelines recommend that the budget include a medium-term perspective showing how revenues and expenditure will develop during at least the two years beyond the fiscal year, but preferably for five years. The Irish government currently has a three-year rolling flexible framework. Summary revenue and expenditure projections are provided for each of the next two fiscal years. The setting of expenditures is largely a "bottom-up" process, whereby departmental/agencies' existing requirements and new policy initiatives are added up to provide an aggregate expenditure number, subject to approval by Cabinet, rather than "top-down" whereby the government establishes an overall aggregate for expenditures which is then allocated among the departments/ agencies and new policy initiatives.

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In the spring of each year, Irish departments and agencies are required to prepare their expenditure projections for the following three years, based on a no policy change scenario. These are referred to as Existing Level of Service (ELS) expenditures. They are primarily an update of the previous year's plan including the impact of initiatives approved during the course of the previous year. These are reviewed with the Department of Finance. In the May-June period, the Department of Finance updates the Cabinet on current economic and fiscal developments and provides revised fiscal projections. Based on these revised fiscal projections, the Cabinet approves targets for the main budgetary aggregates, including aggregate expenditure ceilings which are based on the roll-up of proposed departmental and agencies' spending plans for the next three years. Included in these aggregate expenditure ceilings will be the impact of new spending initiatives, consistent with the National Development Plan, Social Partnership Agreement, and other government priorities. Under the new Unified Budget arrangements introduced in 2007, the Budget Strategy Memorandum for government sets out overall spending parameters for the unified budget. Many OECD countries publish multi-year estimates at the detail of departmental level. Countries that are leaders in the area of medium-term expenditure frameworks such as Sweden, Denmark, the Netherlands and New Zealand publish more detailed multi-annual expenditure estimates at the subhead item level in their annual budget documents presented to the legislature.

Based on these Cabinet decisions, the Sectoral Policy Division (Department of Finance) issues an annual Estimates Circular to the departments and agencies that details the parameters within which the departmental/agency expenditure estimates are to be prepared. Departments/agencies are requested to resubmit their detailed estimates for the upcoming fiscal year consistent with these parameters as well as aggregate spending levels or envelopes for the next two fiscal years. These are examined by the Sectoral Policy Division in the July to September period and discussed through bilateral meetings with the respective departments. The Minister of Finance will also meet with individual Ministers to finalise their spending projections. Any remaining areas of dispute are brought to the attention of the Cabinet for resolution. Then the final budget is presented to Parliament.

Since the current process in Ireland is a flexible framework, this means that the medium-term ceilings are not acting as hard budget constraints over a number of years. Rather, each year the ceilings are reset for a next three-year period. This contrasts with countries such as the Netherlands and Sweden, which are leaders in the design and development of medium-term expenditure frameworks. They combine a fixed framework with a top-down process that begins by setting the hard aggregate expenditure ceiling.[9] In Ireland, while on paper there is a medium-term framework, in practice the medium-term perspective is not guiding the budget process, and there is no medium-term fiscal target acting as a main anchor or objective.

The OECD encourages countries to prepare and publish medium-term economic and fiscal forecasts (minimum of five years) and planned expenditures within a five-year expenditure plan, as well as long-term economic and fiscal projections (minimum of ten years). In recent budgets, the Department of Finance has published longer-term projections (sustainability of public finances) which focus on the implications of demographic changes on the age-related spending components of the budgets for ten-year periods to 2050. The potential fiscal consequences of demographic change – for example, providing for pensions, health care, education and environmental protection – cannot be assessed unless economic and detailed fiscal projections are made for the long-term.

Ireland has a number of longer-term policy plans. Through the various National Development Plans, the government has set out multi-year (five to seven) capital investment project, and through the Social Partnership agreements, broad policy objectives over the longer-term (currently ten years). In the 2008 budget, the Department of Finance published a multi-year capital investment framework for the period 2008 to 2012. At the beginning of each new mandate, an Agreed Programme for government is released, setting a vision for action over the next five years. However, without longer-term economic and fiscal projections, these multi-year policy plans lack the proper context and discipline in which they can be assessed and debated. The National Development Plans and the Social Partnership agreements raise expectations about new spending and policy initiatives. Such expectations can be realised in an environment of robust economic growth. However, slowdowns in economic growth may render such plans unachievable.

Other OECD countries are using a medium-term expenditure framework and long-term planning in conjunction with performance information in an effort to relate extra spending to performance returns. For example, the United Kingdom reviews spending biannually with the aim of reallocating money to key priorities and of enhancing and expediting the delivery of public services. After a review of existing departmental spending, each department develops a three-year spending plan and a Public Service Agreement (PSA). The Treasury negotiates with ministries and outlines key performance targets for the next three-year period; these targets are included in their Public Service Agreements. The current PSAs mainly focus on outcome targets, although there are still a few output targets. In addition to the PSA, each department produces a technical note stating how the targets will be measured, and a delivery plan explaining how it plans to achieve the targets.

In addition to a medium-target or anchor, the Irish government should consider a more top-down budgeting framework within a medium-term expenditure framework. Introducing such an approach would result in the aggregate expenditure totals driving the process. Moreover, having a fixed framework with hard aggregate expenditure ceilings would help to constrain spending, and force reallocation and efficiency measures to be met, while addressing new priorities. Departments would have to reconcile the expenditure ceilings with the detailed multi-annual line item estimates. Within such a system, each Minister is responsible for maintaining spending within his/her own department's expenditure ceiling. This could require departments to make efficiency savings or reallocations. However, these changes can only be made when departments have the flexibility to reallocate resources. There has been some improvement in this direction with more flexibility being granted with respect to capital programmes. A carry-forward provision of up to 10 % of approved capital funding is currently in place.

Improving transparency

Improving the transparency of the budget process and budget documents is an important element in improving fiscal performance and in generating and maintaining the confidence of the public and business in public finances and in the government in general. Important aspects of the budget process that require transparency include: the presentation of economic assumptions; the content of budget documents (that they should fully disclose all government liabilities); and the timing and presentation of documents and accounts to Parliament.[10]

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Economic assumptions

It is important that all key government economic assumptions are disclosed explicitly and are as accurate as possible. Deviations from the forecasted key economic assumptions underlying the budget are the government's key fiscal risk.

In Ireland, the economic forecasts are prepared by the Budget, Economic and Pensions Division of the Department of Finance. In deriving these forecasts, the Division compares its forecasts to those prepared by national (the Economic and Social Research Institute, the Central Bank), and international (*e.g.* European Economic Union, Organisation for Economic Co-operation and Development, International Monetary Fund), as well as private sector organisations. Although these forecasts are not used directly in the Department's forecasts, major differences are reconciled and justified as required. Official published economic forecasts are for the next three years, although the Division does undertake longer-term analysis for internal planning purposes.

While the practices vary across OECD countries, in order to improve transparency and fiscal responsibility, a more independent element in generating economic assumptions can be desireable. This is achieved either through having an independent body/panel generate the assumptions or having an independent review of the assumptions produced by the government. In countries such as the Netherlands, Austria, Germany and Chile, there is an independent organisation or independent committee/panel that generates fiscal assumptions. For example, in Austria all of the macroeconomic assumptions used in the budget process are prepared by the independent Austrian Institute for Economic research. In the Netherlands, the Central Planning Bureau fulfils this role. In Chile, an independent panel made up of 14 leading economists from academia and research bodies generate the forecasts. The Minister of Finance appoints each member of the panel, who are appointed for one year at a time.[11]

In other countries, for example New Zealand and the Slovak Republic, an independent panel reviews the government's economic assumptions. In Sweden, in 2007, the government established a Fiscal Council to provide an independent scrutiny of fiscal policy, promote active public debate and strengthen the credibility of fiscal policy.

In Ireland, while independent economic commentators are in place, transparency and credibility of government's finances could be further enhanced by having an independent element in the generation of economic assumptions either through having an independent body generate the economic assumptions or having an independent panel or body formally review the assumptions.

Transparency of budget documents and reporting

It is important that budget documents give a full account of all government's financial and contingent liabilities and that these documents as well as the government accounts are provided in a timely manner and be updated regularly.

The Irish budget documents include an update of the Economic and Exchequer Account projections for the current fiscal year and forecasts for the next three years, as well as details of the proposed new initiatives. For the outer two years, the budget includes a general contingency provision to guard against budgetary costs that cannot be quantified at the time. This is not a contingency reserve to guard against adverse economic developments, but rather, it is solely for new expenditure initiatives that may be forthcoming in future budgets.

The Irish budget documents also include a risk or sensitivity analysis of the fiscal projections, highlighting the impact of different economic assumptions on the budgetary balance. In addition, the budget documents provide comparisons of current budget projections of real GDP growth, the GGB and the general government gross debt to those in the previous budget. However, there is currently no reconciliation of differences of the detailed revenue and expenditures projections, which would be helpful in fully understanding changes to the current fiscal estimates and projections.

Furthermore, the government's stated target fiscal anchor is on the general government balance basis, consistent with its obligations under the EU. Yet the budget and the various financial statements are on an Exchequer Account basis, which is much narrower in scope than the GGB, and is on a cash basis only. Many of the activities over which the government has direct control are excluded. The Exchequer Balance does not include the activities of all enterprises, agencies and other bodies over which the government has control. Nor does it include all liabilities such as employee pensions, health care, and potential legal settlements, among others. As such, it provides only a partial picture of the government's financial position.

On an international basis, most countries are moving to generally accepted accounting principles (GAAP), endorsed by independent national or international accounting boards. These financial statements encompass all the entities over which the government has control, and are prepared on an accrual basis of accounting. This provides a comprehensive picture of the government's overall financial position, including all of its liabilities and assets. It includes liabilities for Public Service pension that are presently not included in any of the financial statements. This also forces departments and agencies to concentrate on accrual-based information for accounting, planning and decision-making purposes.

The government's financial statements should encompass all the entities over which it has control, and be prepared on an accrual basis of accounting in keeping with the generally accepted accounting principles (GAAP), endorsed by independent national or international accounting boards.

In accordance with *OECD Best Practices for Budget Transparency,* the Irish government provides a pre-budget outlook document and a monthly economic bulletin summarising current economic conditions. In addition, it has timely release of the Exchequer returns, presenting the monthly results for revenue and expenditures within five days of the period.

According to the *OECD Best Practices for Budget Transparency*, the end-of-year report is the government's key accountability document. It should be audited by the supreme audit institution and released within six months of the end of the fiscal year. Final financial results (Financial Accounts) based on the Exchequer Account for the fiscal year just ended are prepared by the Department of Finance and submitted to the Comptroller and Auditor General no later than June 30 of the following year. The Comptroller and Auditor General submits his/her opinion on these Financial Accounts to the Minister of Finance no later than August 31 of that year. The final audited Financial Accounts are tabled before the Dáil Éireann no later than September 30 of that year. This means that, in Ireland, the audited financial statements are published nearly nine months after the end of the fiscal year. This is an extremely long delay, especially given that the financial statements are on a cash basis of accounting. For financial statements to be meaningful and credible, they should be released on a more timely basis. Recently there has been an improvement and the 2006 financial accounts were published in June 2007.

The Irish government has recently introduced a change in the presentation of budget information to Dáil Éireann that should improve both the transparency and efficiency of the process. In the 2008 budget tabled on December 5, 2007 by the Minister of Finance, all new spending and tax measures were announced in a unified manner on Budget Day, instead of on a piecemeal basis as was previously the case. This eliminated the duplication in tabling the estimates, and now presents updated revenue and expenditure estimates, including the impact of proposed budget initiatives, in one unified document. The end-of-year final accounts should be presented to the Dáil within six months of the end of the fiscal year

Departmental Annual Output Statements were first tabled for the 2007 fiscal year. The Annual Output Statements are designed to match key outputs and strategic impacts on financial and staffing resources for the financial year. These statements are published early in the New Year before the Dáil committees meet to discuss the estimates, and are tabled in March of the fiscal year to which they pertain. The terms of reference of the committees have been revised to include discussing the Output Statements with the estimates, as well as the Value for Money and Policy (VfM) reviews. It would be preferable if these statements were released earlier with the budget so that the parliamentary committees examining the budget estimates would have all of the relevant information available at the same time.

Focusing on results through performance oriented management and budgeting

This section examines the development and use of performance information in management and budgeting processes to ensure that governments get better results from the money they spend. It first briefly addresses the development of performance information in OECD countries and examines recent Irish government initiatives to develop performance information. It then concentrates on departmental Output Statements and expenditure and evaluations, especially Value for Money and Policy Reviews. Finally it assesses the challenges in developing and using performance information in the Irish system, which is a system that requires better co-ordination, transparency and new approaches to integrate performance information into decision-making processes.

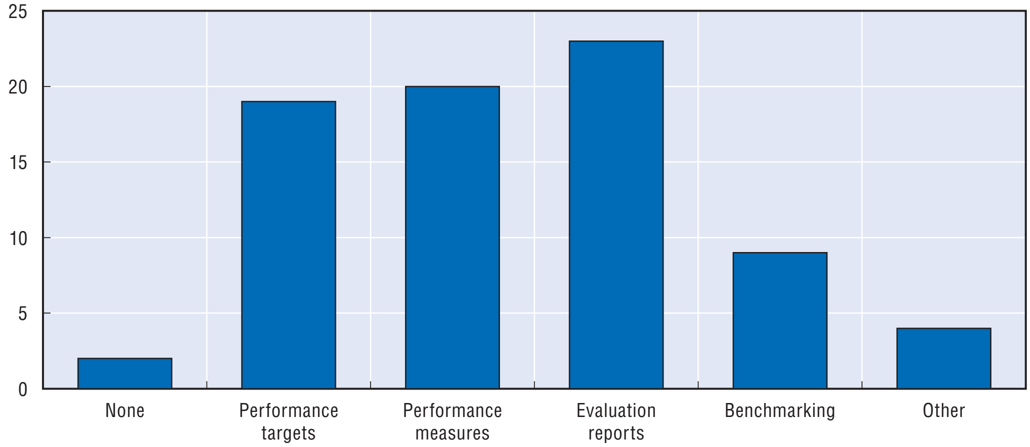
Introduction: Performance information into management and budget processes

Across OECD countries, the introduction of performance information into the management and budgeting processes is a widespread and long-term trend. Over 70% of OECD countries include non-financial performance information in their budget documents.[12] Figure 5.1 highlights the different types of performance information developed by OECD governments to assess their non-financial performance.

In 2007, 60% of OECD countries, including Ireland, used both evaluation and performance measures (outputs and/or outcomes) to assess their government's performance.[13] This shift from inputs to results is a long-term trend with over 40% of OECD countries working on developing outputs for more than ten years. While Ireland has been conducting programme evaluations for a number of years, it only introduced Output Statements on a government-wide basis in 2007.

Figure 5.1. **Type of performance information produced by OECD countries in 2007**

Distribution of responses in percentage terms



Source: OECD Budget Database.

The Irish government has introduced a number of initiatives to promote greater emphasis on measurable results in management and budgeting processes. Experiences with previous reforms, however, have left a general wariness about the use of performance information, as well as scepticism about the validity of some data and the costs of gathering information. This section examines the major government-wide initiatives on the management information framework, the development of departmental Output Statements and policy and programme evaluations.

Management Information Framework

In March 2000, the Management Information Framework (MIF) was launched. Its aim was to provide departments and agencies with a flexible system of financial management integrated with performance and output indicators, so as to enhance efficiency, performance and accountability. The essential features and objectives of the MIF are:

1. **Financial reporting:** for both statutory and non-statutory financial reporting; facilitate cash-based and accrual reporting; capture direct and indirect costs; and distinguish between current and capital costs.
2. **Performance indicators:** relate expenditure not only to inputs but also to outputs and outcomes.
3. **Management reporting:** provide periodic reports during the year showing initial objectives, performance targets and associated budgets, ongoing performance and associated expenditures, reasons for variances, etc.
4. **Cost allocation and budgeting:** devise budgets and budgeting information; provide cost allocation on a programme, project or individual cost centre basis using an approach that facilitates the possibility of cost and performance measurement comparisons.

Each department and agency set up an MIF Steering Group and Project Team to manage its implementation of MIF. A MIF Central Unit was established within the Department of Finance to provide guidance to departments and agencies, while the Centre for Management and Organisation Development (CMOD) in the Department of Finance was responsible for ICT-related issues. Other committees were also formed to ensure successful integration of the MIF reforms with wider Public Service modernisation initiatives.

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By mid-2005, new financial systems had been launched in all departments and agencies. The focus since late-2004 has thus been on developing performance indicators and completing the costing framework. This has almost now been completed, and performance indicators were published in the 2007 annual Output Statements. It has taken about ten years to put in place the applicable financial infrastructure essential to the accomplishment of other Public Service reform initiatives announced in *Delivering Better Government*.

Departmental Output Statements

In preparation for the 2007 budget, the Department of Finance required all departments to produce Output Statements as part of their annual budget submissions, so that financial and staffing requests are linked to key outputs and strategic impacts. In the first round of submissions, departments were invited to indicate their projected outputs (and in some instances, outcomes) for the coming year. These Output Statements were submitted to the relevant parliamentary committee as well as to the Public Accounts Committee. In the Output Statements of 2008, Ministers and departments will be expected to report on their progress in achieving the 2007 output measures. These documents will assist departments, the Department of Finance, and the parliamentary committees in assessing the various programmes, and provide input into the resource allocation process.

Departments vary considerably in their level of preparation and capacity to develop output measures and statements. Some have already invested considerable time and energy in the development of performance indicators (*e.g.* Department of Health and Children and Department of the Environment, Heritage and Local Government) while others are not as far advanced. Even before the government-wide requirement to produce Output Statements, a variety of information was available at the departmental level, but this was usually information on inputs, rather than performance indicators. The Department of Education and Science, for example, provides in its reports and on its websites, information on input factors, such as the number of pupils, teachers and budgets. Information on success rates of pupils, dropout rates, and quality of educational institutions, however, is not available.

Performance objectives in other OECD countries typically list a limited number of clear, precise, measurable, high-level and strategic goals. The strategic goals, in turn, are translated into several operational goals that anticipate the actions needed to achieve the high-level goals. These are quantified so that progress is measured and reported. Both high-level and operational goals are to be expressed as outputs rather than as inputs or process indicators. There is considerable variation when comparing the quality of the departmental Output Statements, as can be seen from Table 5.2. The number of operational goals varies from nine for the Department of Defence, to 105 for the Department of the Taoiseach. Some departments have indicators that are almost all quantified, whereas others propose only a few. Departments with Output Statements that are for the most part quantified include the Department of Enterprise, Trade and Employment, and the Department of Education and Science. Other departments have proposed indicators that are *quantifiable* but that are not *quantified, i.e.* an indicator is proposed, but there is no concrete target connected to it. For almost all Output Statements, no benchmark values are given for previous performance. Nor is there a benchmark for agreed standards. It is thus difficult to see whether or not the outputs targets that are given are ambitious. Nor is there

Table 5.2. **Content analysis of Departmental Output Statements, 2007**

Department	Number of high level goals	Number of operational goals	Quantifiable share of operational goals %	Quantified share operational goals %
Enterprise, Trade and Employment	6	44	> 75	> 75
Education and Science	5	48	> 75	> 75
Community, Rural and Gaeltacht Affairs	7	97	> 75	> 75
Defence	3	9	> 75	25-50
Social and Family Affairs	6	36	50-75	50-75
Health	8	40	50-75	50-75
Environment, Heritage and Local Government	7	42	50-75	50-75
Communications, Marine and Natural Ressources	8	43	50-75	25-50
Agriculture and Food	5	18	25-50	25-50
Justice	9	23	25-50	25-50
Finance	7	53	25-50	< 25
Taoiseach	9	105	25-50	< 25
Arts, Sport and Tourism	3	20	< 25	< 25
Transport	4	53	< 25	< 25

Source: OECD analysis of Departmental Output Statements.

any indication that the first year will serve as a starting point for future benchmarking of performance.

There appears to be no consistent definition of what constitutes an output. Many of the indicators do not actually focus on real outputs. Several departments mention implementation action plans, participation in networks and meetings, and developing policy as outputs to be realised in 2007. Although these might all be valuable activities, they are not in themselves outputs; in the best case they might be intermediate steps in order to realise outputs.

In Ireland, the initiatives for developing performance information are not exclusive to central government. The local government sector has been working on general indicators for longer than the Civil Service and has made some progress in this area. Every year, the Local Government Management Services Board publishes a voluminous publication called *Service Indicators in Local Government,* which is also available on its website.[14] While this publication contains many indicators, they tend to focus on process, inputs and throughput, as opposed to outputs or outcomes. These indicators can be quite detailed at a programme level, *e.g.* the number of schools involved in environmental campaigns. They do not necessarily provide information on policy achievements or actual results.

In Ireland, as in many OECD countries, the quality of performance information produced by different departments in the Public Service varies considerably. It can be difficult to discern precisely what factors explain this variation. OECD research has pointed to a number of possible explanations. In a recent survey, OECD Ministries of Finance were asked to identify the most important factors contributing to the successful development of high quality performance measures. They listed the following two factors:

1. Strong leadership: For performance information to play a role in the management of organisations and budget processing, it is clear that strong leadership is an important factor in pushing change. OECD governments have continuously emphasised the need for the active engagement of those at the top.

2. The types of goods and services provided: Governments carry out a wide variety of functions, from building roads to providing advice on foreign travel. Performance measures are more easily applied to certain types of functional and programme areas. For example, it is easier to create reliable unit cost measures for programmes which involve the delivery of a tangible good or service such as issuing driving licenses and passports, or collecting taxes.[15]

It is possible, although more difficult, to design output and outcome measures for more complex services to individuals, such as education and health care. In fact, across OECD countries, these sectors have the most developed performance measures. This appears, however, to be less the case in Ireland. While diagnosis-related group (DRG) data are collected by individual hospitals, for example, it is not clear how this information is used in decision-making processes at the department level, nor if the data is made available to the public. As yet, there are no transparent global sector output or/and outcome measures or targets in the health area (see case study on Hospital Reconfiguration). In education, under an agreement with unions, school results data are collected, but not published at the individual school level.

Performance indicators are very difficult to apply to non-tangible activities, such as policy advice and co-ordination, where the outcomes are not always visible. Thus, it is not surprising that in the first round of departmental Outputs Statements, departments with large policy advice and co-ordination roles, such as the Department of the Taoiseach and the Department of Finance, produced relatively few quantifiable output indicators. The Department of Foreign Affairs also experienced difficulties in developing quantitative performance measures, particularly as they often provide non-tangible services and are often influenced by events that are not within their control.

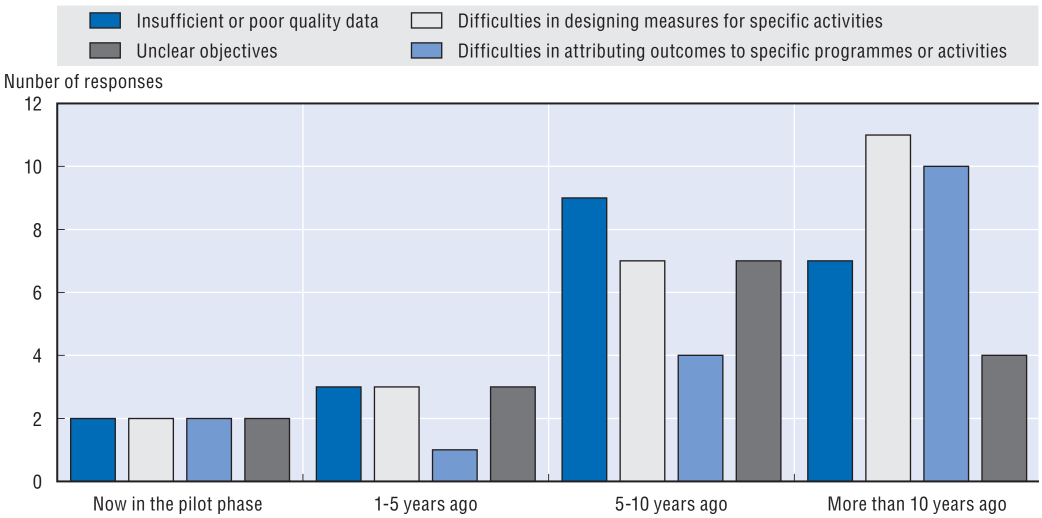
Many OECD countries have indicated that strong political pressure is needed to improve performance. For example, under strong political and public pressure in light of the tsunami disaster in 2006, the Ministries of Foreign Affairs in Nordic countries met to discuss how to best to measure and improve performance in their Ministries. While it is difficult, it is not impossible to evaluate performance where the service outputs and outcomes are not visible. It is, however, important to note that *performance indicators* are not necessarily the most suitable approach to evaluating performance in such cases.

As noted earlier, while performance can be difficult to measure in the areas of health and education, these tend to have the most developed measures. One explanation for this is that these sectors are under strong political pressure to improve performance. Political pressure can serve as a motivator for Ministries to take these reform initiatives seriously and to engage in efforts to improve performance.

Moving forward

Given that 2007 was the first year that departments were required to produce Output Statements, it is important not to become cynical based on these early efforts. OECD countries report that it typically takes three to five years for a performance initiative to actually begin developing significant indicators. Figure 5.2 relates the challenges encountered by OECD countries when introducing performance measures to the length of time countries have been developing this approach. For the first five years, the main problems were finding clear objectives, obtaining sufficient data of high quality, and designing measures for specific activities. This is unsurprising considering that one of the first steps in developing a performance system is setting objectives and designing measures. These examples reveal that it takes time to develop meaningful measures and to collect relevant data of sufficient quality. Ireland's initial experience with developing Output Statements therefore has much in common with the challenges experienced by other OECD countries.

Figure 5.2. **If performance measures have been developed, what were the four most difficult problems encountered when introducing these measures?**



Source: OECD (2005), *Journal on Budgeting* (Volume 5, No. 2).

The first year of this reform initiative in Ireland highlights a tendency to develop a large number of indicators of varying quality. It also shows that there is a focus on measuring internal processes rather than outputs. These tendencies are also common in OECD countries.

Several OECD countries started out with a large number of targets but subsequently reduced them. For example, when Public Service Agreements were introduced in the United Kingdom in 1998, there were 600 performance targets. By 2004, this number had been reduced to approximately 110.[16] Having too many targets can create information overload and make it difficult to prioritise, resulting in an unclear focus. On the other hand, too few targets can create a distortion effect. It takes time to get a realistic balance and OECD experience has highlighted that it is better to limit the number of targets, but to set many measures for the achievement of a target.

Drawing up outcome measures or identifying how outputs contribute to outcomes can help to avoid the goals distortion that can result from concentrating on a limited number of outputs measures. In 2000, the Danish government reviewed its performance-based contract model (*i.e.* performance contracts between ministers and agencies) that had been in place since the early 1990s. One of the key recommendations was to shift from the concentration on process and internal targets towards external targets, concerned with organisational results. This new focus had an impact. By 2004, 71% of targets in agency contracts had an external focus. The Danish experience emphasised the importance of having external measures that focus on the goals of the organisation and its customers, as opposed to those that focus on internal processes.

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The first round of departmental Output Statements demonstrates that there are a number of areas in which Ireland can benefit from the experience of other OECD countries. The first round highlighted the need to set clearer objectives for departments and agencies and to prioritise them in the context of the whole-of-government framework. It is also important to consider what the programmes contribute towards achieving these goals. If it is not possible to measure how a programme is performing, it is not possible to improve service delivery.

Advice on developing measures needs to be clear. In particular, advice should be given on how many high-level objectives and operational indicators are needed. In addition, guidelines about measuring outputs *versus* outcomes can be helpful. In some circumstances, a framework stipulating how departmental Output Statements and targets relate to those objectives contained in the agreements with their agencies can be useful, as are more precise definitions of outputs and outcomes. Targets need to be measurable and, as far as possible, quantitative. Performance information is enhanced when targets concentrate on external goals as opposed to internal processes and when standards and other types of comparison (*e.g.* with past performance, other comparable lines of business, or level of need) are applied. Judgements can then be made on the extent to which interventions are achieving desired results. Best examples from the first round of international examples should be circulated and discussed in order to help departments develop a better understanding of how to move forward for the second round. Expectations should also be clear in terms of how this information will be used in decision-making processes.

It is important that the results are provided in a timely, simple and integrated manner. The planned and actual results should be presented (if possible in a time series) in the same document along with financial information. For transparency purposes, it is also helpful if any changes made to performance measures or targets are carefully noted and explained, should there be a failure to meet a performance target.

Experience in other OECD countries reveals that in order to improve the quality and validity of performance information, it is important to have an independent element in the process. This can take the form of a supreme audit institution or other independent institutions. This may include experts from the Department of Finance and external experts (*e.g.* agencies/individuals) which conduct or participate in evaluations, or have an independent "check" or audit of performance data, processes or results. For example, in the UK, the National Audit Office reviews the quality not only of the process for collecting performance data and the data itself, but also the quality of performance measures produced. It does not, however, comment on government policies or the effectiveness of agencies in achieving these policies. In Chile, it is the Ministry of Finance that approves agencies' performance measures and targets and reviews their yearly results. While the approaches and roles of key institutional actors may differ, an independent element is essential.

Evaluation of public policies and programmes

Output Statements are just one source of performance information produced by the Irish government; the other main source is evaluations. This section will examine the evaluation system.

The practice of evaluating policies and programmes has a long history in OECD countries. While Ireland has also been engaged in evaluation to some extent for over two decades, since the late 1990s, interest in the evaluation of public policy in Ireland has increased. Several instruments to evaluate public policies were put into place during this period. In 1993, the *Comptroller and Auditor General Act* was passed. This Act gave a mandate to the Comptroller and Auditor General to carry out Value for Money and Policy reviews, and to assess departments' mechanisms for evaluating the effectiveness of their operations. As part of the broader process of Public Service modernisation, in 1997 the government also announced an *Expenditure Review Initiative* (ERI). This initiative proposed an agreement between the Department of Finance and spending departments to schedule reviews at least once every three years. The objective was to analyse Exchequer spending in a systematic manner in order to provide a basis on which more informed decisions on priorities within and between programmes could be made. This process was set up as a broad evaluation of government programmes, with expenditure outcomes as a key focus of concern. This approach was heavily influenced by the Australian evaluation system.[17] The reviews were expected to include four main elements:

1. a review of the objectives of the spending being reviewed;
2. a review of performance indicators relevant to the area being reviewed;
3. an evaluation of the effectiveness of spending; and
4. an evaluation of the efficiency in the area being reviewed.

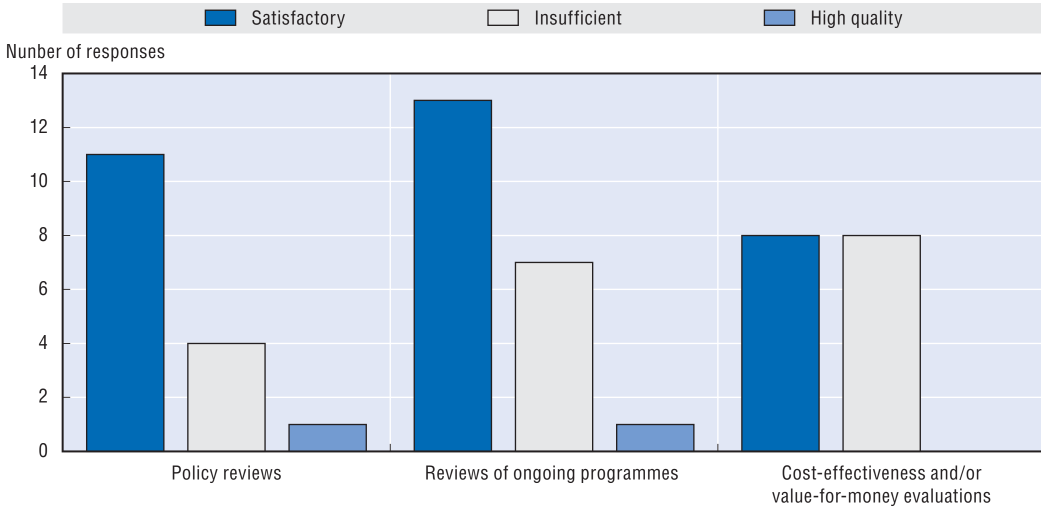
The spending department in the Expenditure Review Initiative played a key role in determining the expenditure programmes and also conducted the review. There was a steering group for each Review consisting of the spending department and the Department of Finance. The Expenditure Review Steering Committee (ERCSC), serviced by a secretariat from the Department of Finance, oversaw the process.

The Comptroller and Auditor General evaluated the Expenditure Review Initiative in 2001. This evaluation concluded that the aim of reviewing all expenditure programmes every three years was not achieved. Many departments were slow to start work on their review and slow in carrying them out once started. By the end of 2000, 62 of the 118 planned reviews had been completed. The quality of the review reports varied considerably. The evaluations tended to be better at reviewing objectives and efficiency than in assessing performance indicators or evaluating effectiveness. Departments relied primarily on line managers in the area under review to do most of the work. A few reviews were contracted out to private suppliers.

A number of improvements were made to the ERI following the Comptroller and Auditor General Evaluation, including building up the skills of those conducting evaluations. Despite these measures, however, the self-evaluation of the ERCSC in 2004 provided a mixed picture. Although 52 Reviews were committed since 2002, only half of them were finished after two years. The topics for review tended to be rather small in some cases, and there were concerns about the evaluation capacity of certain departments.

While evaluations by line departments of their own programmes can be a comparatively less expensive option for conducting evaluations, the experiences of OECD countries highlights that self-evaluation can raise quality issues. Figure 5.3 shows Ministries of Finance opinions on the quality of evaluations commissioned or conducted by spending ministries over the past three years. In general, Ministers of Finance have found evaluations to be satisfactory, relevant and accurate for policy reviews and for reviews of

Figure 5.3. **What has been the quality of the information provided by evaluations commissioned/conducted by spending ministries in the last three years?**



Source: OECD (2005), *Journal on Budgeting* (Volume 5, No. 2).

ongoing programmes. However, very few respondents found any evaluations to be of high quality. They were the least satisfied with cost-effectiveness and/or Value for Money evaluations.

The quality of evaluations is one factor that can influence whether or not they are used in decision-making. In Ireland, it is unclear to what extent expenditure reviews were actually used by departments to improve management or the process of budget allocation.[18] As noted earlier, the quality of evaluations can be improved by including an independent element in the process.

In June 2006, the government announced changes to the Expenditure Review Initiative. It was renamed Value for Money and Policy (VfM) reviews, with a broader mandate, bringing together the various evaluation initiatives, primarily in capital expenditures, that had been introduced in recent years. Additional measures were added, including: the adoption of fixed-price contracts as the norm; the appointment of project managers with individual responsibility for major projects; lowering the threshold for undertaking full cost-benefit analysis for major projects from EUR 50 million to EUR 30 million; reporting by departments and informing agencies of outcomes on projects above 30 million; and peer reviews of ICT projects.

In the new reviews, the Department of Finance was given a much stronger role in co-ordination. It issued guidelines on the conduct of VfM Reviews to departments and created a Central Expenditure Evaluation Unit to promote compliance with these guidelines and best practices in evaluation. Formal policy reviews must now be published and submitted to the select committees of the Parliament. The other elements remained the same as before: evaluation by the spending department, involvement of the Department of Finance via internal steering groups, external quality review by experts and transmission to Parliament.

Two new support structures were also introduced at this time: the Value for Money and Policy Review Central Steering Committee and the Value for Money and Policy Reviewers' Network Committee. The former monitors the review process in departments and agencies, focusing on the selection of topics for review and progress in the conduct of reviews. The latter offers support and advice to officials undertaking VfM reviews. The Comptroller and Auditor General recently stated that these changes fully address the evaluation deficit found in the evaluation of the ERI.[19]

It is too early to assess the new VfM review framework. This should occur in late 2008, when it is expected that there will be a *Second Formal Report to the Minister of Finance* covering the period 2006 to 2008. However, the two earlier reports identified a number of common shortcomings, even though they covered different periods; many of the reviews were not completed on time.

The reviews undertaken primarily related to smaller spending programmes. This is an issue that has been highlighted by other OECD countries, especially when programmes for evaluation are selected by the line ministries. For example, the Netherlands had a similar experience with line ministries who avoided reviewing large areas of expenditure until interdepartmental requirements were introduced which changed the selection criteria. This, in turn, meant that proposals for policy reviews had to be approved by Cabinet.

Another issue is follow-up on the recommendations of evaluations. Unlike performance measures, evaluation reports – depending on the type of evaluation – can provide explanations for the success or failure of programmes and also make recommendations for future action. Therefore, the production of these reports is only one stage in the evaluation process. If they are to be taken seriously, it is important that they are monitored to see if accepted recommendations are being implemented.[20] In OECD countries, in 67% of cases there is a follow-up process to examine if the actions or activities recommended for evaluations have been carried out.[21] In the Irish VfM reviews, it is not evident that there is a clear process for follow-up. While the majority of OECD countries have adopted some type of follow-up process, in many cases it is the responsibility of the ministry in charge of the programme under evaluation. As in the case of failure to meet performance targets, sanctions do not typically apply for non-compliance with recommendations of evaluations.

The evaluations of VfM conducted by the Comptroller and Auditor General also found that evaluation capacity in departments is variable and that it is unclear to what extent VfM findings are being used in the allocation of resources. It appears that most of these shortcomings still remain today. In April 2007, in a follow-up report on issues identified in his *Value for Money Reports 1997-2000*, the Comptroller and Auditor General noted that there remains "considerable scope to improve performance in the delivery of public services".[22] While the Comptroller and Auditor General been instrumental in reforming the expenditure review initiative into the VfM reviews thanks to these evaluations, it could play a further role in improving the quality of department VfM reviews by examining a certain number of completed reviews at random.

In the 2008 budget, the Minister of Finance announced that all departments and agencies would be subject to an "efficiency review" of their administrative spending. "Back office" functions such as finance, human resources, information technology, legal services, facilities management, travel services, marketing and communications, as well as procurement costs and transactional services were also to be reviewed. In addition, departments will be asked to review the need for Boards and Agencies under their aegis. Departments are to provide specific savings proposals to the Department of Finance by 1 March 2008, which will review the proposals and report to the government. The savings approved will be applied to reducing spending in 2009. It is unclear how this exercise fits in with the existing reviews.

Although it is too early to evaluate the Value for Money and Policy reviews, several concerns still exist, including co-ordination with other performance evaluation initiatives, evaluation capacity within departments, and the involvement of Parliament. These challenges also relate to the development and use of performance measures. The next section will examine the challenges encountered with the development and use of performance information in decision-making processes.

Current challenges

Several challenges face the Irish public sector as it seeks to improve the use of performance information in decision-making. Some are particularly relevant to the Irish context, such as improving the overall coherence of performance systems and reform initiatives. Other challenges are common to many OECD countries, such as enhancing the capacity of line ministries, integrating performance information into the planning, budgeting and management processes, and engaging key actors in reform process. Each of these challenges will be examined in turn.

Improving the coherence of performance reforms

The way in which all the different performance initiatives are linked together is essential for the overall functioning of performance systems. There needs to be both *horizontal and vertical coherence* (Table 5.3). There are several elements to this coherence: objectives, indicators and methodology. Performance initiatives specifically mention the purpose of the instrument, indicators and methodology. These elements are part of guidelines that have been formulated for the different performance initiatives, such as the former Expenditure Review Initiative, the Performance Management and Development System (PMDS), Value for Money and Policy reviews, and Strategy and Output Statements.

Table 5.3. **Level of coherence across different performance management initiatives**

	Horizontally, across initiatives[1]	Vertically (cascading objectives)[2]
Objectives	Are crosscutting, shared and whole-of-government objectives identified?	Are visions, missions, objectives, and measures consistent across operational/institutional levels?
Indicators/measures	Do initiatives draw from a common set of data/integrated dataset, *e.g.* MIF?	Do targets and objectives explicitly link back to how they support overall strategic objectives?
Methodology	Is technical assistance/capacity building available to improve the quality of performance management?	Is there a common understanding of the purpose of monitoring and evaluation and how initiatives at different levels fit together?

1. *E.g.* VfM, Output Statements.
2. *E.g.* government programme, Department and agency strategies, business plans, Output Statements, annual reports, PMDS.

Irish policy documents do not state the actual or even intended links between the different performance initiatives. While there could be an implicit vision of how the different initiatives relate or should relate to each other, there is no stated strategic policy or design that links them together. Rather, they have evolved over time. This section will therefore investigate the current implementation and the challenges with horizontal and vertical coherence of performance initiatives.

Horizontal coherence of performance reform initiatives

Many performance initiatives are isolated reforms that do not reinforce each other. Although several performance initiatives have been presented under the umbrella of an overarching strategic Public Service reform programme, most are, in fact, not related. More horizontal coherence between Value for Money and Policy (VfM) reviews and Strategy and Output Statements could increase the relevance and effectiveness of both instruments. Departments themselves now select themes for VfM reviews. Although the guidelines stipulate that the topics should represent major policy issues or significant levels of expenditure, this has not always been followed. The selection of the topic for VfM reviews could be linked to the high-level goals of Strategy Statements and the indicators of Output Statements; every year one of these high-level goals could be subject to a VfM review. This would not only ensure that these reviews deal with an important policy or expenditure item, but would also provide more evidence on whether goals in Output Statements have been achieved.

There should now be an enhanced effort in linking together the various reforms (VfM, internal audit, performance indicators, delegation of authority, etc.) for informed planning and decision-making. Many of the initiatives proposed in *Delivering Better Government* have been introduced in an incremental manner without the proper financial infrastructure and expertise in place to support them. Performance programmes could make better use of departmental management information systems and information across different initiatives could be shared more efficiently. It has taken time to implement the required information and financial systems that are necessary to provide full information on performance (see section on Management Information Framework).

Vertical coherence of performance initiatives

Along with coherence of reform initiatives across government, to achieve organisational goals there also needs to be vertical co-operation and coherence between departments and the agencies that are delivering the services. Efforts to increase the clarity of organisational objectives are only useful if they are internally consistent and provide a cascade of objectives that support overall organisational mandates. Currently, Strategy Statements set out the overarching objectives a Department or agency proposes to address to realise policy priorities (for example as set out in the government Programme) and the Key Performance Indicators (KPI) it will use across each division or unit of the Department or agency, to measure performance in meeting these objectives. The preparation of Strategy Statements began informally in late 1994 after the launch of Strategic Management Initiative (SMI), but the first formal Statements only began to be issued in 1997 after the passage of the *Public Service Management Act*. These Statements can be found on departmental websites, can often exceed 50 pages, and vary considerably in their approach and presentation.

The high-level performance indicators set out in the Strategy Statement are broken down into further detail on an annual basis through divisional Business Plans, which in-turn provide a basis for staff to develop their individual Role Profile Forms through the Performance Management and Development System (PMDS) that allows them to set out their own key performance objectives for the coming year and the outputs that will be used to assess their performance. Progress on the Strategy Statements is reported on each year through Annual Reports, and as noted earlier, since 2007, departments are also required to produce Output Statements as part of their budget submissions.

Ideally, these departmental performance reporting mechanisms should allow objectives to cascade down towards divisions and at the individual level. As will be discussed later, this reporting structure needs to be further developed as part of a performance dialogue with agencies. Although strengthening vertical coherence is more of an ideal than an actual practice in most OECD countries, it nonetheless remains a useful standard in determining whether or not different performance initiatives are mutually supportive. Aligning division goals to broader departmental goals could increase the effectiveness of the Public Service in several ways. First, it could improve clarity of performance reporting and thus reduce burden on public servants. Second, it could help determine whether or not all divisions and agencies in a department are contributing to the high-level strategic goals.

The introduction of Output Statements has not yet been well integrated with existing department Strategy Statements and Business Plans, or linked to departmental performance agreements with agencies. Doing so would likely reduce the number of indicators and therefore reporting burden on public servants. The Strategy Statements contain numerous performance indicators, for example, the Department of Enterprise, Trade and Employment contains 30, whereas the Department of Education and Science uses 280. This number of indicators does not express focus, nor does it lead to transparency. Many of these indicators are input- and process- oriented, and output, and outcome indicators are rare. By more explicitly tying Output Statements to the overall objectives laid out in Strategy Statements, departments can clarify the cascade of objectives and better focus on developing a limited number of clear and measurable indicators that can be reused for performance reporting.

In addition, there is no mechanism currently to link deliverables outlined in Strategy Statements (and by association, Business Plans and Role Profile Forms) back into national goals and priorities. While there are no whole-of-government output targets *per se*, at a central level, a number of documents exist – for example the government Programme, Social Partnership Agreement, the National Development Plan, the National Anti-Poverty Strategy, etc. – that set out the high-level overarching priorities or strategic action areas of the government and nation as a whole. Absent such a mechanism, the outputs and outcomes for which bodies are accountable become the sum of departmental targets rather than government-wide priorities. Although these would ideally add up to a coherent government strategy, this is not necessarily the case. Many departments have goals that are potentially conflicting, for example, when it comes to providing means for more transport mobility and environmental goals. As the Public Service is continuously subject to these trade-offs, a whole-of-government strategy could make its policy choices and priorities more transparent.

Coherence is not an end unto itself. Horizontal and vertical coherence of reform initiatives can, however, clarify to all government actors the main purpose, objectives and expectations of the performance system. This avoids introducing reforms with ambiguous priorities, or with multiple and often competing objectives that show no consideration of how these will be achieved, or of how they relate to one another.

Developing capacity of central and line departments

As experiences in OECD countries have highlighted, it is important for the Department of Finance and spending departments to have the authority and the analytical and administrative capacity to implement performance reforms. Performance information is different from financial information. This has resource implications in terms of staffing and information systems. Staff need to have the relevant training and expertise to collect and analyse performance information.[23]

In order to make judgements and compare performance, the Department of Finance needs the relevant expertise to be able to analyse and evaluate the information received from different spending departments. In Ireland, there have recently been efforts to improve the capacity of the Department of Finance, but challenges still remain. Replacing the Expenditure Review Initiatives with the Value for Money and Policy reviews has strengthened the co-ordination capacity of the Department of Finance. To guarantee better quality of the VfM reviews, a central evaluation unit within this department has been set up. This is a positive step, as it could lead to a more uniform and rigorous evaluation of public policy, but it is questionable whether it is enough. The Department of Finance is involved in the VfM evaluation process via an internal steering group that is rather distant from the operational evaluation process that takes place in departments. Co-authoring evaluations might provide more coherence in quality control. A shift in focus from writing up guidelines to following up on VfM reviews might also be desirable. Current guidelines include extensive publications (110 pages for the VfM guidelines for example) that might form an obstacle rather than a stimulus for departments to become engaged. A brief checklist could suffice.

Efforts made to increase the Department of Finance's involvement in monitoring and evaluating departmental Outputs Statements are so far unclear. Despite the guidelines they stipulate for Output Statements, in practice, there is a wide variation in their quality. Past experiences show that guidelines do not automatically lead to consistent application of an initiative. In addition, it is helpful to facilitate knowledge transfer on how the instruments such as performance measures may be applied through developing best practices and concrete examples of application.

There are also issues with building the capacity of line departments and agencies. In developing performance measures, departments depend on agencies for information. Therefore, like the Department of Finance, they need the capacity to understand and evaluate the information they receive if they are to make judgements as to how realistic proposed targets are, or as to the quality of the performance measures and data.

Even if the interest is there, departments and agencies in some cases do not have the expertise or knowledge to develop performance measures or even effectively monitor performance. This can lead to the passive provision of data that has no real weight in the decision-making process. Building up skills at this level is essential for successful application of the guidelines on several of the performance initiatives.

In terms of conducting evaluations, there are also capacity issues at a departmental level, especially when it comes to the number of staff involved, their skill levels, and the budget available for outsourcing evaluations. There are very few departmental staff full-time on VfM evaluations. In the Department of Education, for example, three to four people are involved in performance evaluation, but none do so on a full-time basis. This contrasts with other OECD countries; such as Canada, where the total evaluation funding is 32 million Canadian Dollars and there are close to 300 full-time staff across the government.[24] All major departments and agencies have internal audit and evaluation units and in 2004/05, evaluations covered approximately 10% of departmental programme funding.

Departments are engaged in a partnership with a Public Policy Analysis Programme of the Institute for Public Administration (IPA): they nominate two candidates per Department to follow this two-year programme, part of which entails working on a VfM evaluation. Since there are no internal evaluations units in departments and since these candidates come from across the departments, they will return to work on departmental evaluations.

Staff capacity has played a role in delivering timely reviews. For example, with the rapid growth in expenditures and new programmes, it has become extremely difficult to assess all expenditures within a three-year time frame. Priority for evaluation has been given to those programmes funded through the EU Structural Funds and the National Development Plan (NDP). Evaluation is a requirement of the EU regulation, and as these funds, in turn, are co-financing elements of the NDP, the government has decided to evaluate all expenditures under the NDP. In line with EU regulations, the NDP is subject to *ex ante*, ongoing, and *ex post* evaluations. As most departments have some amount of NDP funding, priority has been given to these programmes at the expense of non-NDP/EU funded programmes.

While progress has been made in trying to develop the capacity in the Department of Finance and departments, more needs to be done in the area of developing skills and monitoring performance measures and targets. This is a long-term approach that requires investment in recruitment, training and systems.

An unknown is the impact of the government's administrative relocation programme, especially if the expertise acquired over the recent past needs to be reacquired in the transition to new locations. Although training programmes are now in place, the administrative relocation exercise has forced many departments to retrain staff, when those currently involved in the evaluation decide not to relocate.

Integrating performance information into the planning processes

A number of OECD countries have reported that the development of performance information has generated a greater emphasis on planning and has resulted in a move towards outcome focus in policy design and delivery. These reforms provide a mechanism that enables politicians, if they choose to use it, to clarify objectives. The reforms have proved to be a useful tool for setting priorities over the short- and medium-term and can clarify what results are expected from the public sector. If this system operates successfully, it can provide a mechanism for governments to set clear priorities, see how national programmes fit in and contribute to these goals, and measure the actual results and performance of these programmes.

This approach aims not only to elucidate the government's priorities, but also to see how individual programmes fit under the government's wider policy objectives or outcomes. In order to make it clearer to politicians how different policy areas and programmes contribute towards strategic objectives, countries have sought to align programmes with objectives. Some OECD countries, for example Australia, the Netherlands, New Zealand and Sweden, have redesigned the presentation of their budget in an effort to make it clearer how programmes fit under wider political policy objectives.[25]

In Ireland, the performance approach has yet to be applied in a coherent manner that would enable it to improve the planning process. As described in the section above on vertical coherence, there are still challenges in terms of establishing links between Output

Statements and Strategic Plans and between performance reporting in general and national strategic plans such as the National Development Plans. To date, there has not been an extensive development and use of performance information as part of the planning process.

If the government wishes to translate the broad policy goals into desired results, it is important to develop a common whole-of-government planning and reporting framework. Such a framework would enable government-wide strategic planning and reporting and improve transparency. It could help set government-wide objectives which cut across organisational boundaries, assist with prioritising goals, and help show how new and existing programmes relate to government priorities. It could also allow for the comparison of expected and actual performance results.

The current Irish process is a combination of separate top-down National Plans, which have traditionally concentrated on infrastructure, and separate bottom-up departmental Strategic and Business plans. These two planning approaches need to be more closely integrated with each other and with the department Outputs Statements, cascading down with agency performance agreements. The objectives of the National Plan and other government-wide priorities need to be clearly reflected in the departmental Strategic Plans and operationalised in Business Plans. At all levels, these plans should contain clear goals and measurable targets, which should form the main basis of the Output Statements. This would facilitate a closer link between the planning and performance frameworks.

There would, however, need to be improvements in the current development of output measures and evaluations that will need to be linked to existing plans and policy goals. Output indicators would also need to be measurable.

In many cases, it is unclear how the strategies and outputs contribute to the high-level goals. Although developing Output Statements can lead to strategic rethinking of policies (as has been the case in certain OECD countries), because they question whether or not programmes help achieve policy goals; this has not happened yet in Ireland. The Output Statements seem to take current policies and programmes as a given, rather than as a means of achieving a selected set of well-defined and measurable policy goals. Not surprisingly, the use of the Output Statements in the policy cycle has so far been limited. There is currently no clear relationship between the Output Statements and new planning and budget cycles.

Performance information in the budget preparation and negotiation process

It is not clear how performance information will be integrated into budget preparation or in negotiations between the Department of Finance and departments. While the Department of Finance has a role in developing guidelines for outputs and evaluations, there do not appear to be any formal requirements along with proposed spending to present this information as part of budget negotiations. OECD countries have taken different approaches to incorporating performance information into the budget negotiations. The recently announced "Efficiency Reviews" are to identify savings which will be used to reduce spending in 2009. However, it is unclear whether this is a one-time exercise only, or how it fits in with the Value for Money and Policy Reviews.

In most countries, budget negotiations have traditionally included some element of discussion on planning. Performance budgeting has formalised this process and has placed a greater emphasis on setting targets and measuring results. This is clearly the case in New Zealand and the United Kingdom. In the United Kingdom, each department develops three-year spending plans and Public Service Agreements that include performance targets negotiated with the Treasury. While factors such as political priorities and economic considerations influence the allocation of funding, performance targets are used to ensure performance returns in exchange for incremental increases in expenditures. This system has experienced some problems with gaming and manipulation of performance information, which itself was a result of an overemphasis on performance targets.[26] It has, however, improved planning and created more of a performance focus.

Approaches in other OECD countries include evaluating the performance information produced by agencies and using this information as part of budget negotiations. For example, the United States PART (*Programme Assessment Rating Tool*) exercise, which is led by the Office of Management and Budget, rates agencies based on their responses to a questionnaire as effective, moderately effective, adequate or ineffective. These scores feed into the budget process, although not necessarily on an annual basis for all departments and agencies. PART ratings do not result in automatic decisions about funding, but they can influence these decisions.[27] The Korean government has adopted a similar programme rating exercise called the SABP (*Self-Assessment of the Budgetary Programme*). The Australian Finance Ministry has developed a list of questions to assist in diagnosing the quality of performance information; the list is also useful as a framework for monitoring improvement over time. The questions are used by Finance as a basis for dialogue with agencies about the quality of their performance information. In the Netherlands, the Interdepartmental evaluation reviews have been used in budget negotiations as well as being presented to Cabinet.

In Ireland, stronger links between the budget preparation process and performance information could strengthen focus on policy results. The budgetary process is, by definition, oriented towards inputs, but there is, in principle, room for discussion on outputs that are to be achieved from budget increases. Combined with medium-term expenditure frameworks, which in theory inform agencies of their funding for the next two or three years (depending on the length of the framework), the provision of performance information makes it easier to plan the spending available to achieve goals over the coming years. Performance information can provide a clear and logical design that relates resources and activities to expected results. Ireland currently has a medium-term expenditure framework without ceilings for overall as well as departmental expenditure. Spending plans in the medium-term expenditure framework should be linked with Output Statements (performance plans) so as to enable more long-term planning and a greater focus on results. The use of expenditure ceilings as is the case in the UK, the Netherlands and Sweden, would help overcome fears of overspending resulting from any relaxation of input controls.

Performance information can help in achieving this performance orientation, and thus stimulate political debate directed at finding the balance among the various societal demands. Experience in other OECD countries, such as the United Kingdom and the Netherlands, shows that the introduction of performance measures can facilitate a budgetary debate that is more output-focused. It should be clearly stated that performance information would not serve here as a tool to cut spending, but rather to improve public sector effectiveness.

Incentives could be strengthened by clarifying the goals of the reforms and by clarifying how this information will be used in budgetary decision-making. Across OECD countries, line departments fear that performance information will be used to cut budgets and eliminate programmes. In Ireland, like other OECD countries, this fear makes departments reluctant to share performance information as they think that it will be used for legitimising budget cuts.

In practice, however, in the majority of cases, OECD Ministries of Finance do not use performance results to financially reward or punish agencies. Table 5.4 shows the percentage of Ministries of Finance in OECD countries that often use performance information (evaluations or performance measures) to eliminate programmes, cut expenditure, or to determine pay.

Table 5.4. **Percentage of Ministries of Finance that often use performance information for action**

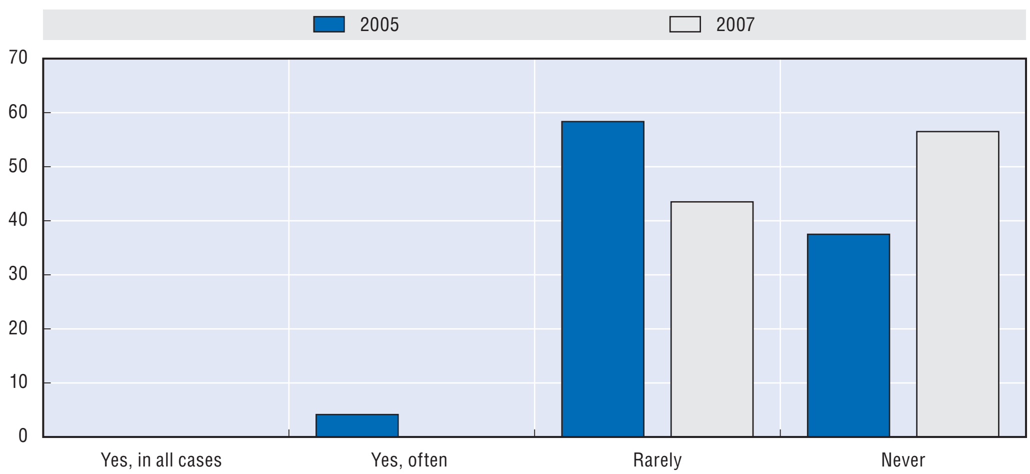
	Performance measures (per cent)	Evaluations (per cent)
To eliminate programmes	4	11
To cut expenditure	10	15
To determine pay	11	5

Source: OECD (2007), *Performance Budgeting in OECD Countries*.

As can been seen from Table 5.4, it is rare that performance information is used by Departments of Finance when deciding on these courses of action. The difficulty in linking funding to results reflects the fact that the issues and context surrounding budget decisions are complex. Budgetary decision making takes place in a political context, and proposals to cut back or eliminate programmes can encounter political resistance, especially if they benefit important political groups or are high political priorities. Figure 5.4 below shows that OECD countries rarely eliminate programmes based on poor performance.

Figure 5.4. **Elimination of programmes by the Ministry of Finance if performance targets are not met**

Percentage of OECD countries, selected years



Source: OECD (2007), *Governance at a Glance*.

There are also a number of technical and incentive issues with financially rewarding good performance and punishing bad, which make it questionable if this approach on a government-wide scale will actually motivate agencies to use performance information to improve performance. It is intuitively appealing to reward good performance, but a method that automatically does this would not take into account government priorities or budgetary constraints. An approach that cuts funding without understanding the causes of poor performance (which could also be based on lack of funding) could make the situation worse and condemn badly performing agencies to continue to underperform. Performance measures do not explain the underlying causes of poor performance. Performance in any given year can be influenced by a variety of factors, both internal and external, that may or may not be within the control of an agency.[28] Furthermore, in some OECD countries it is uncertain if the performance information is of sufficiently high quality to be used in budgetary decision making.

In addition, a mechanical approach can generate perverse incentives and encourage agencies to manipulate data. Incentives to provide accurate information are influenced by the expectations of how it will be used in decision-making. If funding is tightly and automatically linked to results, there can be incentives to engage in gaming and to manipulate data in order to receive more money or to avoid receiving less. An observation made over 30 years ago still holds true today: it is politically irrational to expect agencies to provide objective information if it will be used to cut back their programmes.[29] Automatically linking performance to results on a systematic government-wide scale is not the best approach to promoting the production of credible information or encouraging agencies to focus on maximising their use of performance information. Most OECD countries have not done this, perhaps realising the difficulties of adopting such a systematic approach.

While Ministries of Finance do not financially punish or reward agencies for their performance, they do use performance indicators to hold ministries to account. Performance indicators act as a signalling device that highlights problems within a programme or agency.[30] Information on poor performance serves as a trigger for the Ministries of Finance to more closely monitor or review agencies and programmes. The most common course of action taken by Ministries of Finance against poorly performing agencies is that resources are held constant and the programme is reviewed during the course of the year. Other actions include maintaining programmes on condition that they perform well in the future.

When deciding how best to integrate performance information into their budget process, the Irish have a variety of approaches that are different from OECD countries. The performance-based system that has been introduced is compatible with controlling spending through expenditure targets and/or ceilings, and also shifts the emphasis towards performance, in line with the demands of politicians and citizens.

Integration of performance information (PI) into management processes and decision making

Ministries and agencies use performance indicators most often to manage programmes and to implement policies. Setting goals and targets can provide a clear focus for achieving improvements in service delivery. Adopting a results-focused approach permits managers to deal strategically with the delivery of services. In designing these systems, they address fundamental questions such as: is this service necessary? Is it appropriate for the problem being addressed? What is the intended objective of this service? What is the proposed outcome? How can the service be best designed to achieve that outcome?[31] If agencies are given the flexibility and authority to do so, they can organise their structure and operations to achieve their goals more effectively.

Performance indicators provide basic information on the cost and quantity of services, as well as more complex information on whether or not internal processes contribute to the efficiency or effectiveness of service delivery. Information on the level and quality of services delivered to external stakeholders and on standards of service delivery is also provided. In addition, ministries in internal budgetary decision-making can use this information to facilitate the best reallocation of funds to achieve results.

The performance-based management approach has been widely adopted in OECD countries. Approximately 50% of countries report having a system of performance management, which incorporates the setting of and reporting on performance targets, and their use in the internal decision-making processes of ministries and agencies.[32] This includes internal decisions on changing work processes, setting programme priorities, and reallocating resources within programmes.

While some Irish departments have embraced performance reforms and reorganised their processes and structures, such as the Office of the Revenue Commissioners, many departments have not embraced the opportunities presented by these initiatives. Since it is mainly the agencies that are delivering the service, it is important that performance criteria and targets are a key part of their oversight. However, many departments are currently meeting their agency control function by focusing on input indicators, such as the number of staff and budgets. As a result, agencies invest less energy in monitoring performance, and thus in determining and agreeing with their department on appropriate performance indicators. When this information is available, the responsible department does not usually present it. The proliferation of agencies adds to the fragmentation of the availability of performance indicators. Some agencies have also developed indicators, but these are, again, mostly on inputs. According to a report of the Comptroller and Auditor General on performance in public services, the information on inputs, activities, output and outcomes is limited as well as the availability of evaluation of results. They conclude that some progress has been made, but that the overall level of improvement has been disappointing.[33]

The development of Output Statements is still at an early stage and there is clearly both room and time for improvements in both the development and use of performance information in departmental management and oversight. The performance dialogue between departments and agencies could be improved by ensuring that the performance agreements between departments and agencies concentrate on external performance targets, which reflect the performance of the agency and, where possible, the service delivered to the users. These targets should be decided upon as part of a performance dialogue, so that agencies rather than ministries feel ownership of the targets. Integrating the contracts of the agency chief executive with that of the agency can help to guarantee coherence between the objectives of the agency and those of its chief executive.

Engaging politicians in the performance dialogue

Performance measures can be used as powerful tools for informed political decision making. They will not make large impacts on public sector effectiveness, however, unless this information is used as a tool to better weigh political choices. Dialogue on performance targets and information is thus essential. This can take several forms: between ministers and the Prime Minister; as part of the deliberations of a cabinet committee; and as a parliamentary debate.

Having an institutional mechanism at cabinet level (such as a cabinet committee) could help to increase political awareness of performance issues. In Australia and Canada, Cabinet is involved through selecting policy and expenditure areas for review. In the UK, the involvement is more extensive with the special Cabinet committee examining performance. Despite criticism about the performance measures used in the UK, they have nevertheless managed to put public service delivery on the top of the political agenda.

The parliamentary debates could be focused more on performance and the output of the Public Service. In the Netherlands, a budget accountability day was introduced in addition to the regular budget presentation day. At this annual accountability day, the government is held accountable on its report on output targets achieved over the last year.

So far, the Dáil has had limited involvement in performance evaluation in general. This is particularly the case for Value for Money and Policy Reviews. With the possible exception of the Public Accounts Committee, the interest of Parliamentary committees to discuss the reviews sent to them has been limited. An explanation could be the minor influence that the Dáil has in determining the subjects of the Reviews, not only with respect to Value for Money and Policy Reviews, but also when it comes to the Value for Money audits by the Comptroller and Auditor General. The Public Accounts Committee cannot ask the Comptroller and Auditor General to commission these audits, as it only has the power to advise on the work program of the Comptroller and Auditor General. The Dáil's own capacity to evaluate programmes is also limited: The Public Accounts Committee has only conducted research on two themes last year. There was little interest from Parliament in the new departmental Outputs Statements, but this can partly be explained by the fact that they were presented to the Dáil just before an election.

In most countries it has been difficult to bring performance indicators to the attention of politicians, other than ministers with direct oversight responsibility, and to get them to use it. Only 19% of OECD legislatures use performance indicators in decision-making. The percentage is even lower – 8% – for politicians in parliamentary budget committees.[34] This is despite the fact that in some instances the legislature, and not the executive, initiated these reforms.

In many cases, however, politicians complain about receiving too much information of variable quality and relevance. Often the information is presented in an unclear or incomprehensible manner. Politicians in the legislature and in the executive have different informational needs. To be useful, the information needs to be tailored to their requirements. It should also be provided at the right time for the relevant decision. As noted earlier, a key challenge is to create good quality and relevant information that takes into account of the timing and capacity constraints under which political decision-makers operate.

This section has concentrated on the government-wide framework for developing and using performance information to improve decision making and performance. The next section examines changes in accountability and the incentive structures needed to support these initiatives.

Improving performance through competition

This section examines attempts to improve performance, in particular, in the delivery of public services, through strengthening competitive pressures. This includes introducing market-type mechanisms such as contracting out and Public Private Partnerships.

Strengthening competitive pressures

There is a move among OECD countries to decouple public funding and service delivery in the interests of both improving service delivery and increasing cost efficiency.[35] When successfully accomplished, this has led to market efficiencies. As the needs and requirements of the population change, governments can find themselves entering new territory in which they lack expertise and/or the institutional arrangements necessary to appropriately monitor the efficiency and effectiveness of performance.

What role does government play in service delivery? To what extent should it be involved? In some areas, public sector involvement must be retained in order to ensure that vulnerable groups or those on the margins of society are not disproportionately affected. In other areas, the private sector can either deliver a service more efficiently and effectively, or serve as a catalyst to improve public sector performance simply by introducing competitive pressures. This can involve the privatisation of service provisions that are primarily commercial in nature or devolving certain activities to alternative service delivery providers, such as local government or agencies (see case studies on Waste Management and Managing Agencies). Closer co-operation between the public and private sectors at the policy planning stage can facilitate the development of alternative options for service delivery, which can meet the needs of a more complex environment.

Privatisation

With the greater liberalisation of markets at the EU level, thanks to measures such as the Lisbon Agenda, Ireland has opened up markets in a number of areas since the late 1990s. However, when it comes to state involvement in commercial and potentially competitive industries, Ireland is around the middle of the pack.[36] State-owned firms continue to monopolise post, energy, transport (*e.g.* bus, rail, ports), health insurance, and forestry industries. Even where there are no formal barriers to entry, attracting competitors to a market can be challenging, partly because state-owned companies benefit from lighter regulatory oversight. They also benefit from a lower cost of capital due to implicit guarantees or implicit subsidies (or cross-subsidies), and from any dominant position they may retain from their days as protected monopolies.

Procurement/Contracting out – Agencies

An open, objective and transparent public procurement system, with well-documented and well-understood guidelines and procedures, ensures that transactions are carried out in a fair and honest manner while securing the best value for public money. Contracting authorities must be cost-effective and efficient while upholding the highest standards of probity and integrity. In Ireland, government departments are required to develop and include public procurement policy objectives as part of their strategic frameworks, and within each department, the Finance or Accounting Officers are accountable for seeing to it that the proper procedures are followed. Procurement practices are subject to audit by the Comptroller and Auditor General.

To assist public servants (and particularly civil servants) in meeting national and EU obligations, the National Public Procurement Policy Unit (NPPPU) was established in the Department of Finance in 2002. This Unit is responsible for the formulation of policy, dissemination of best practice and guidance in public procurement, as well as delivery of an e-procurement strategy. It has also developed explicit guidelines for competitive tendering/procurement.[37] Recently, guidelines were issued to encourage "aggregation" of public sector purchases from the same body and/or from different public sector bodies to procure common goods and services from the private sector in order to achieve cost reductions. Guidelines are revised and updated as required and published on *www.etenders.gov.ie*. This is a central website for all public sector contracting authorities to advertise procurement opportunities and award notices. On a daily basis, the website displays opportunities that appear in the national or local press, in addition to opportunities specifically posted by awarding authorities, and those advertised in the Official Journal of the European Union (OJEC).

Contracting out certain existing activities to private operators or carrying out public activities on a commercial basis can also promote efficiencies and generate cost savings. These savings arise in part from efficiency gains from economies of scale and specialisation that can be exploited through outsourcing. Contracting out activities can be divided into three groups.[38]

- **Support services:** Activities such as cleaning of buildings, facilities management, waste management, operation of food outlets, provision of security, etc.
- **Back-office activities:** Activities that are considered ancillary to the core mission of the department or agency, such as information technology functions, banking and financial services, legal services, training, etc.
- **Mainline functions:** Activities previously carried out by the government, such as operation of infrastructure assets (*e.g.* transportation, prisons, water supply, and sewerage), emergency rescue and fire service, food inspection, audit, research and development, welfare, education and health services, etc.

Contracting out can allow a constant quality of service to be provided at lower costs, as documented by a number of case studies.[39] Issues on this subject that will need to be addressed include: Those staff directly affected by moving a service they previously provided to the private sector; ensuring competitive supplier markets; realistic pricing by bidders; transparency; and contract clarity. Among OECD countries, contracting out has increased significantly over the last 20 years and has shown to be applicable to a wide range of government services. While there are constraints in monitoring the delivery of the service at arms-length, services that have been contracted out rarely revert back to the government. Outsourcing is expected to continue to increase in the future.

Contracting out for the provision of publicly-funded services and support functions (*e.g.* building maintenance, architectural services, street cleaning) has not been systematically used in Ireland: the Office of Public Works largely provides such functions for the Civil Service. However, there have been more cases of contracting out non-core functions. For example, in January 2002, a private company was contracted out to undertake the mandatory National Car Test (NCT) for all cars over four years of age. The management of on-street parking, clamping, etc. in Dublin has been contracted out to a private company which has significantly reduced the frequency of illegal-street parking and raised additional revenues for the City Council. Waste collection has been devolved to private agents in many local authorities, even though contracting out may have been a more controlled approach (see case study on Waste Management). Given the backlog in completing financial audits on time, the Office of the Comptroller and Auditor General has made extensive use of private sector firms.

The provision of some social services has been contracted out to non-profit groups. However, this has been criticised by groups involved who claim that in order to provide services of equal quality to those of the Public Service, comparable compensation needs to be paid, which would obviate any potential cost savings (though possibly still bringing services closer to citizens). Concerns have also been expressed regarding the monitoring and management of companies that are contracted out to provide such services.

There appears to be little direct guidance from the Department of Finance regarding the outsourcing of services. Managers would benefit from a guide comparing the cost of delivering a specific service in-house with the cost of contracting-out for services. Other considerations are: the availability of suppliers; assessment of risk; security; and possible dependence on private sector monopolies. Another issue to consider is the likelihood that contracting out would assist in the development of a specialised service industry with wide markets. Managers, as part of the Value for Money and Policy Reviews, should aggressively examine potential candidates for contracting out.

User charges

Experience in OECD countries shows that user charges can be an effective means to reduce excessive demand for some publicly-funded services by making users more cost conscious. Ireland has been employing new or increased user charges to improve efficiency and control costs. All local authorities now charge a levy for waste collection (see case study on Waste Management), although significant variations exist regarding as to whom is liable for charges. In some local authority areas, particularly those where the local authority has retained control over collection, the elderly or those on low-incomes can have charges waived, whereas in other areas, all citizens are liable to pay charges irrespective of their circumstances. However, many services provided by local authorities continue to be provided for free or at low cost. In some cases, it may be appropriate to increase charges or introduce new charges. For example, Ireland is unique among OECD countries in currently not charging domestic consumers for water services; domestic charges were abolished in 1996, although business/commercial users continue to pay water rates. Drinking water quality and sewerage treatment requirements are becoming more stringent and water/sanitary services are getting more expensive to provide and operate. A charging regime for water and/or sewage services could contribute to a more efficient use of what is becoming an increasingly expensive resource. The additional revenue could contribute towards the updating and maintenance costs of the water and sewage systems and would support the long-term objectives of encouraging more sustainable patterns of consumption.

Public Private Partnerships

Private Public Partnerships (PPPs) refer to arrangements where the private sector supplies infrastructure assets and services that traditionally have been provided by the government. PPPs are mainly used to build and operate hospitals, schools, prisons, roads, bridges, tunnels, and water and sewage treatment plants. The use of PPPs can be an effective tool for promoting efficiency and improving the delivery of public goods and services. Private financing can support increased infrastructure without immediately adding to the government debt. At the same time, innovation and better management by the private sector can lead to increased efficiency that, in turn, should result in better quality and lower service costs. However, the use of PPPs is not without risk. It is hard to write contracts that are robust yet flexible enough to accommodate changing circumstances. Moreover, it is the contractor who generally holds the upper hand if the government wants to renegotiate. Governments may have to bail out failing companies or complete projects in cases where the private contractor has gone bankrupt. In some cases, PPPs may have been used simply as an accounting ruse to shift long-term financial commitments off the government's balance sheet, especially in times of fiscal difficulties. Many countries have learned from experience how to minimise these problems and recent evidence places PPPs in a better light.

Ireland has embarked on the use of PPPs for priority infrastructure projects under the National Development Plan. The initial approach was to undertake a number of pilot projects as a means of identifying the demand and potential, as well as the risks, of the PPP mechanism. The first project, involving a bundle of five post-primary schools projects, began in 2000. As of September 2007, there are nearly 70 projects at various stages, primarily in roads, environmental services and schools. The government has set a target that 13.6% of capital spending in the 2008-2012 period (almost euro 8 billion) should be administered through PPPs. This does not include PPPs funded by user charges; these amount to an additional euro 1.6 billion approximately and bring the total percentage up to just over 16%. When measured as a proportion of national income, this would make Ireland's programme by far the largest in the OECD.

In 2004, the Comptroller and Auditor General assessed "The Grouped School Pilot Partnership Project". The Office found that it had taken less time to procure the five schools using the PPP approach than under the conventional approach. Originally, the Department of Education and Science had estimated that the PPP approach would result in savings of around 6% compared to the conventional approach. However, the Comptroller and Auditor General discovered an error in these calculations and estimated that the projected costs under the PPP approach was 8% to 13% higher than the projected cost of procuring and running the schools using the conventional approach.

These initial findings, along with experiences in other countries, prompted the government to make changes to the PPP programme. To provide support for the development of PPPs and to minimise some of the risks associated with PPPs, systems of control and expertise were established. An affordability cap was placed on all potential PPP projects before they were launched for tender. For all large projects, a formal process auditor was appointed to ensure compliance with all regulatory and administrative procedures. A Central Public Private Partnership Unit was set up in the Department of Finance to develop the legislative framework, technical and policy guidance to support the PPP process, and to disseminate best practice in PPPs. The government has established the National Development Finance Agency (NDFA) to assist in providing cost effective financing for priority infrastructure projects as an alternative to up-front Exchequer funding. To address skills and capacity issues arising from the complexity of the process, a Centre of Expertise was inaugurated within the NDFA in July 2005. It was responsible for the procurement of all new PPP projects in the central government, with the exception of roads and rail. Individual ministers will continue to be responsible for all aspects of the assessment and approval of PPP projects, including the decision to set up a PPP, set project budgets and output specifications, etc. The Centre of Expertise will be responsible throughout the bidding process and construction phase, and hand back the completed projection to the department after completion.

Ireland initially adopted a cautious approach to the use of PPPs, setting up a number of pilot projects. Although these projects are now completed, their evaluation and assessment has not yet been completed. For example, the Department of Education and Science is currently drafting terms of reference for the five-year examination of the grouped schools' project for 2008. The Office of the Comptroller and Auditor General has already published two examinations of this project to date. Meanwhile, Ireland has embarked upon a very ambitious programme, earmarking 13.6% of capital spending to PPPs. It is still too early to assess the impact of the Centre of Expertise, as it has only recently been established. In addition, the Centre does not deal with PPP projects involved in roads and rail, which encompass the largest investment under the PPP programme. On paper, Ireland's guidelines on the use of PPPs recognise the potential benefits and risks associated with this type of financing mechanism. It will be important to ensure that these guidelines are adhered to and that the government does not bail out a private sector partner who gets into financial difficulty.

Moving from a compliance to a performance culture

Improving performance is not just about introducing individual reform initiatives. It is also concerned with how these initiatives operate within, and impact on, the whole-of-government system. These techniques are applied within an existing institutional framework and cultural context, which can either support or hinder reforms. Thus, it is important to ensure that the reforms form a *coherent approach*, which is compatible with accountability and incentive structures.

Traditional bureaucratic culture emphasises compliance with rules as opposed to improving performance. A performance culture is one that promotes people, money, and organisations working together towards translating common goals into results. Changing to a performance culture requires motivation and means. Motivating performance is about altering the attitudes, focus and incentives of leaders and employees and aligning the systems, organisations and money in a manner that provides the flexibility to innovate.

Promoting performance is complex as it involves altering not only formal structures, but also the informal incentives and culture which underpin the system. Governments as well as individual organisations have their own cultures, beliefs, values, and norms which establish acceptable behaviour. To advance a performance culture, a whole-of-government approach is needed in order to understand the behavioural changes required and the incentives available, both formal and informal, to achieve these changes. Many OECD countries, including Ireland, have introduced reforms that have changed formal structures and processes, but have not resulted in the intended changes in behaviour.[40]

Despite the reforms following from the SMI, the overall political and managerial systems in Ireland, to a large extent, are still based on a compliance culture that emphasises controlling inputs and following rules. Although there have been changes in formal structure and processes, there has yet to be a shift in systems and incentives that would support a move to a performance culture that would make full use of the mechanisms in place to their intended purpose.

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This section is divided into two parts. The first examines the compatibility of traditional accountability structures with a performance approach that advocates increasing managerial flexibility. The second examines possible incentives to promote performance.

Aligning accountability and performance structures

Traditional accountability structures emphasise controlling inputs, compliance with rules and regulations, and hierarchical structures. Operational budgets detail items of expenditures (*e.g.* travel, personnel and supplies) and require *ex ante* authorisation of spending by central agencies. Internal spending units assure compliance with spending rules and each individual transaction is audited. Traditional managerial structures are hierarchical; all decisions are made at the top. *Ex ante* approval is required for many actions, and promotion is based on length of service. The incentive structures and systems emphasise controlling processes and compliance with rules. The underlying message is that managers cannot be trusted and must be controlled.

The traditional approach, while it can help to limit corruption, can also inhibit efficiency and performance in a number of ways. It creates incentives for spending Ministers to use all the resources provided to them or risk cuts in their next budget. There are also issues with information asymmetry and budget-maximising behaviour. Agencies that provide the services know more about the outputs and their cost than the ministry allocating resources. The ministry not only lacks cost information, but also independent information on performance. To obtain more funds, the agencies just need to manipulate or withhold information from their oversight bodies. These traditional structures also create rigidity. Managers have little motivation or opportunity to use their skills and programme knowledge to improve efficiency. Detailed *ex ante* controls are costly in that they slow down responsiveness. It takes time for staff to comply, and they drive out initiative and desensitise managers to results.

Most OECD countries have adopted reforms that move away from this traditional model, towards a more performance-focused approach. This involves different reform initiatives already discussed in this chapter, performance management and budgeting, performance measurement, improving financial management and tracking of public expenditure, using market type mechanisms, and giving agencies operational freedom. This model calls for a relaxation of financial and managerial input controls and an increase in managerial flexibility in areas of spending and staff. In sum, managers are trusted to improve performance, are given the freedom to manage, and are held accountable for resources and results.

In practice, OECD countries have taken different approaches to the relaxation of input controls with the introduction of formalised performance information.[41] In some countries changes were introduced prior to the introduction of performance management and budgeting in an unrelated reform initiative.[42] For example, the Nordic countries – especially Denmark and Sweden – have a long history of executive agencies, decentralisation of managerial responsibility, and relaxation of input controls. In many countries, single appropriations for operating costs have been introduced, thus enabling much greater flexibility. In contrast, countries such as Chile and Korea have introduced these reforms without a corresponding relaxation of input controls,[43] although both countries are now considering ways to increase the flexibility of line departments.

In Ireland, the *Strategic Management Initiative* and *Delivering Better Government* both supported the objectives of increasing flexibility and shifting the focus of managerial and financial systems towards performance. Despite these formal policies, however, in practice the implementation of these initiatives has been modest and slow.

Many financial and managerial inputs are still centrally controlled. The Department of Finance has the traditional approach of controlling inputs of budget and staff. The budget process is incremental with little formal discussion of performance information in the dialogue between departments and the Department of Finance. There is an effective hiring limit on overall staff numbers, and departments have limited capacity to reallocate resources internally. While the Department of Finance has a legitimate responsibility for containing aggregate public spending, a process of top-down budgeting would also support fiscal discipline while allowing more flexibility to departments.

The Irish system of financial control is relatively centralised, especially when compared with Denmark and Sweden for example, which have single appropriations and expenditure control exercised at the spending or responsible-unit level, or with the more managerial accountability approach of the UK. At the department level, changes have been made in Ireland with respect to administrative budgets (primarily the operating costs). The objective is to provide departments with some flexibility as a means to achieving greater efficiency and effectiveness in managing their administrative budget over the three-year planning cycle set out in the budget. However, progress in this area has been relatively slow. There are still strict controls on overall staff numbers and little flexibility in reallocating among inputs, *e.g.* person-years to contracting out. Many managerial aspects of recruitment, promotion, pay and mobility in practice lack flexibility and remain centrally controlled when compared with other OECD countries (see chapter on Capacity).

There are a number of possible explanations for the general reluctance to relax input controls and increase flexibility. The very high budget deficits in the 1980s left a cultural and systematic legacy, which continuously stressed controlling inputs and overspending. The Department of Finance's lack of enthusiasm for increasing flexibilities may also stem from concerns over the capacity of departments to manage new responsibilities.

In addition, many of the mechanisms needed to support increased flexibilities, such as delegated financial and performance management systems, as well as systems to develop and gather performance information, have only recently been put in place. These initiatives to support delegation, such as Management Information Framework (MIF), and the Performance Management and Development System (PMDS), have been implemented at a very slow pace and in an uneven manner. Without proper performance information, performance management systems lose much of their meaning. This can undermine the seriousness and credibility of performance initiatives. Without performance information upfront, for example, it is not possible to establish baselines to determine how well a government body was doing prior to a performance reform, and therefore there is no way of measuring the extent of the improvement. In addition, the Management Information Framework (MIF) has become over-complicated and unwieldy by trying to be all things to all people. Producing usable information, however, even on a limited scale, would have helped strengthen the PMDS, as well as made it more useful as a management tool.

With the implementation of the MIF, a structure is now in place to provide departmental managers with the information required for better and informed decision-making and resource allocation. This should allow the greater delegation of financial responsibility and control by the Department of Finance to the departments and agencies and allow each line department to be his/her own ministry of finance. If properly implemented, this would permit "managers to manage" and be more accountable for their actions. The price for this increased flexibility is a greater reliance on performance information.

There have been some increases in flexibility with carrying over a set percentage of unspent capital funds into the next year, and moving to a system of internal financial audit at the department level with more *ex post* controls. The creation of agencies was related to an administrative and political drive to separate service delivery functions from central departments, although it did create opportunities to improve systems to monitor and improve performance. In the absence of any overarching strategic vision or guidance on how best to achieve improved performance, or on how to effectively encourage agencies, there is significant variability in the quality and effectiveness of control and reporting procedures across public service agencies.

To improve performance, it is insufficient to only give financial and managerial flexibilities; departments and agencies have to actually use them. Some departments and agencies have taken advantage of flexibilities to transform their organisation and improve performance, but many have not. In Ireland, earlier performance initiatives were implemented with the aim of strengthening budget discipline. Many departments therefore still associate the effort to improve performance with fiscal discipline. In other OECD countries, failure to take advantage of flexibilities stems from many sources, including the overall governmental or individual department's incentive structures, and a culture which continues to emphasise controlling inputs, despite reforms. In addition, change requires leadership, but fear of punishment or lack of positive incentives can prevent leaders from taking action.

By analysing the impacts of the US "Reinventing Government" initiative, it becomes clear that central agencies can increase flexibility and relax input controls, but this does not necessarily result in departments reducing controls over their agencies. In the Irish case, a more important issue is the lack of departmental capacity and insufficient or inappropriate governance mechanisms to control and manage agencies. There is little performance dialogue between departments and agencies. The dialogue that does exist is very input- and process-focused. The flexibility given to agencies in terms of how they achieve service delivery has not been matched by a corresponding structure that effectively measures and reports on performance gains (see case study on Managing Agencies).

In any system of controls, there are issues about balancing accountability and flexibility. The need for compliance with regulations should be balanced against the freedom managers require to do their jobs. There are obvious dangers in relaxing input controls without having adequate financial and managerial systems in place. However, there are also dangers in failing to relax these controls sufficiently. Too many restrictions create conditions under which managers do not have enough freedom to improve performance.[44]

Countries have a continuous struggle in achieving this balance. The approach taken can vary from sector to sector. In Ireland, the system has focused on control, but the balance needs to be shifted more towards performance. With the implementation of MIF, PMDS, and Output Statements, departments should now have the capacity to manage delegated financial and managerial control. Implementing these initiatives opens the door for greater delegation of centralised input controls. Although, it needs to be made clearer how these systems will link up and support each other, for example, the relationships between the PMDS and departmental Output Statements.

Incentives, both formal and informal, are needed for departments to use new flexibilities to facilitate and improve performance. It is important that performance information is integrated into the decision-making processes both internally in departments, and overall by Cabinet. Greater attention should be given by the Public Service, particularly by the Department of Finance, departments and Cabinet, to performance results. This sends a message that performance is monitored and taken seriously.

Changing incentives to improve performance

There are many different incentives that governments can use to motivate organisations and individuals to improve performance. These incentives can be financial or non-financial, formal or informal. This section concentrates on incentives divided into three broad categories: 1) financial rewards or sanctions; and 2) increasing or decreasing financial and/or managerial flexibility. A third type of incentive, making the results public – that is, naming and shaming poor performers and recognising good performers – is addressed in the chapter on a Citizen-centred approach. Table 5.5 summarises these mechanisms, each of which will be examined in turn.

Table 5.5. **Potential mechanisms to motivate performance**

Mechanism	Rewards	Sanctions
Funding	Increase funding to the agency.	Reduce or restrict agency funding.
	Maintain status quo on agency funding.	Eliminate agency funding.
	Provide management and/or employee bonuses.	Cut the salary of management and/or employees.
	Increase the staff budget.	Cut the staff budget.
Flexibility	Allow the agency to retain and carry over efficiency gains.	Return all funding to the Centre.
	Allow flexibility to transfer funds between different programmes and/or operating expenditures.	Restrict the ability to transfer funds.
	Exempt the agency from certain reporting requirements.	Increase the reporting requirements.
		Order a management audit of the agency.
Transparency	Publicly recognise the agency's achievements.	Publicly criticise the agency's performance.

Source: OECD (2007).

Financial rewards or sanctions

In order to motivate agencies and individuals to improve performance, mechanisms can be put in place that link performance results to agencies' budget and/or staff pay.

For the reasons discussed earlier, automatically linking funding to performance results on a systematic government-wide scale is not recommended. Despite the fears of spending, Ministries of Finance do not tend to financially punish or reward agencies for their performance. Instead, information on poor performance serves as a trigger to more closely monitor or review agencies and programmes. Nonetheless, performance information should have a clearer role in budget decision-making.

Governments can use performance results to improve organisational performance by rewarding and punishing individuals who have overall responsibility for the performance of a government body. In 20% of OECD countries, failure to meet organisational performance targets has a negative consequence on the pay of the agency head. For example, in Denmark, Korea and the United Kingdom, the chief executive of an agency's bonus is partially determined by the agency's success in achieving its performance targets. Ireland does have a system of performance-related pay for senior managers in the Public Service. Chief executives of agencies may receive an annual bonus to a limit of 25% of their annual basic salary. Ministers must be consulted regarding the performance criteria against which such decisions will be made. However, there is little public transparency with regards to the criteria used or the actual performance achieved. Careful consideration needs to be given on how to introduce greater transparency to such processes. Would help to make targets output- as opposed to process-based, and they should be balanced to ensure they do not lead to goal distortion.

The issue of performance impacts on staff pay is multifaceted. In the Irish case, the collective pay negotiations and agreements make the introduction of an individual performance pay element more complex. The current system does emphasise improving performance with sanctions for underperformance, as opposed to rewards or incentives for exceptional performance, but concentrates on meeting process goals as opposed to outputs or outcomes.

While organisational performance may not be directly linked to staff pay, it can form a part of the appraisal system which influences the performance and future career prospects of individual or groups of employees. Linking individual objectives to the organisational mission and objectives can help reinforce a performance culture and creates incentives for high performance. In OECD countries, there are increased efforts to link organisational performance goals with individual performance objectives, through the use of individual performance agreements and appraisal systems. Possible linkages between performance targets and the performance of organisations and individuals include having performance targets cascade down from the Ministry of Finance and/or Parliament to the line Ministry and programme, and from there to individual or team performance-based arrangements.

In Ireland, the Performance Management Development System (PMDS) is used on an annual basis to review the performance of individual staff concerning salary increments and promotion. Challenges exist, however, in ensuring at the Public Service level, particularly within agencies, that annual objectives, outputs and targets continue to relate to the overarching vision and strategic programmes of their parent department.

The PMDS uses a cascade design to drill down inputs, outputs, objectives, and outcomes from the overarching strategic business plan of a department, to the divisions, team and individual level. Ensuring that it is a meaningful process rather than a rubber-stamp for salary increases and promotions will depend on how well the individual performance objectives identified actually do tie-back into and cascade down from overall organisational objectives in the strategy documents. It will also depend on whether objectives are measurable and backed up by operational data. Finally, it needs to be used as a basis for a performance dialogue that includes discussion about outcomes – even if they are not yet measurable – and links them back into processes and outputs. If these preconditions are met, confidence in the system will, in turn, develop over time. Each time personnel decisions are made that are consistent with, rather than going around, the criteria laid out in PMDS, it becomes further embedded in the organisational culture of a public body.

It is important to note that motivating individuals is not just about pay. Informal internalised incentives such as professional standards or vocation are also important. While wages are significant for staff, non-monetary incentives such as employee satisfaction and morale are the most important drivers of performance.[45] OECD research indicates that having a good work environment, a challenging job, and recognition for achievements, is more likely than money to motivate good performance.[46] Wages are, however, important for attracting and retaining qualified staff, especially in the case of skill-shortages. If an organisation can reorganise processes and match individuals to the right position within a mission-based organisation, the chances of high performance are increased.[47]

Increasing and/or decreasing managerial flexibility

Increasing flexibility can act as a direct incentive to improve performance. For example, achieving a certain percentage of performance targets could be rewarded with greater spending flexibility during the year and the ability to carry over a higher percentage of unspent funds, or it could be linked to exemptions from regulations or reporting requirements. Failure to achieve results or poor evaluations could be linked to an increase in reporting requirements and less flexibility. However, it is unusual that the reforms are designed with the idea of using flexibility as an incentive. The exception is the pilot phase of the *Government Performance and Results Act* (GPRA) in the United States, which did link increased managerial flexibility and a reduction in reporting requirements to improved performance. However, this was not included in the full implementation of the Act, in part because the United States Office of Management and Budget did not have the capacity to free agencies from reporting requirements and rules set by other parts of government or by the legislature.[48] In addition, many regulations were actually internal departmental rules.

In practice, decisions to grant increased flexibilities will also depend on the relationship between the agency and department and central Ministers. This relationship is at least partially based on the history of performance within the agency or programme, and on compliance with regulations, and avoidance of corruption, waste and mismanagement.

While flexibility may not be given as a reward, taking it away is a common response to poor performance. Increased control and reporting requirements are often imposed on underperforming agencies. If programmes have received critical evaluations and failed to follow up on recommendations, one of the most common courses of action is that more control is imposed on the programme and the failure is made public.[49]

Whatever the mechanism or combination of mechanisms adopted, it is important to create incentives to motivate agencies and individuals to improve performance, and to ensure these mechanisms are compatible with the wider whole-of-governance structure and help to promote a performance culture.

Conclusion

Over the last decade, Ireland has been extremely successful in its fiscal performance. This places it in the unique position of having the financial resources and backing to improve public sector performance. To achieve this, coherent reform is needed to ensure that the current fiscal performance is maintained over the long term and that citizens' expectations for higher quality public services are met.

Both the Stability and Growth Pact and the Lisbon Strategy for growth and jobs highlight the need for public funds to be used to improve longer-term growth perspectives, while ensuring the sustainability of public finances. Although the Irish government adheres to the fiscal rules set out in the Stability and Growth Pact, this has not been difficult considering the economic growth of recent years. The Irish government does not have top-down budgeting within a medium-term expenditure framework. Such an approach would improve efficiency and manage spending. A medium-term fiscal anchor/target would clarify policy directions while taking into account the economic environment. Better communication of long-term fiscal and economic projections would assist with Ireland's ability to cope with demographic change and help avoid the pitfalls of short-term political decisions.

There is little evidence of detailed performance dialogue in Ireland. Performance measures are not linked up to the planning or budget preparation process: Value for Money and Policy reviews are not systematically taken into account when making decisions about additional spending, and it is not made clear in what sense public expenditures help to achieve departmental output targets, nor to what extent budget increments lead to additional outputs. The political process at cabinet level is not institutionalised on the basis of performance of the Public Service, for example, there are no inter-ministerial performance committees. Parliamentary debates are hardly ever focused on performance of the Public Service, despite the efforts of the Public Accounts Committee.

Performance management and budgeting require a fundamental transformation in organisational behaviour. It requires a shift in culture away from inputs towards results. Much of the Public Service in Ireland is, however, focused on inputs rather than outputs. Even the performance measures that have been introduced in many cases refer to inputs or intermediate outputs rather than outputs. This difficulty in moving to a performance culture is due to a number of factors including a history of overspending, no presence of fiscal targets, and relatively limited local government autonomy.

The Irish government has, however, made progress in the development of performance information, especially in evaluations. This is the first step in a shift towards a performance approach. The development of performance measures (outputs and outcomes) is still at an early stage. While there is considerable room for improvement, these reforms have the opportunity to benefit from the experience of other OECD countries in this area. For both evaluations and performance measures, it is important to improve the quality of the information produced. In developing and introducing performance information into decision-making, the Irish government has encountered challenges similar to those of many other OECD countries, although some of these challenges are particularly potent in the Irish situation.

In the Irish case, it is not an issue of introducing new performance initiatives but rather of improving the coherence between existing reforms and systems, and stating reform objectives clearly. While most of the building blocks are in place, such as an extensive planning system, there needs to be a clearer link between planning and performance information. To ensure this information is used in actual decision-making, a method to integrate it into performance, budget and management processes is needed so that this information forms part of the dialogue between the Department of Finance, line departments and their agencies. The system should build on what currently exists, but it needs to be more transparent and explicit, and incentives need to be developed to ensure this information is used in decision-making in order to clarify performance links between inputs and processes, on the one hand, and outputs and outcomes, on the other.

Box 5.1. **Key recommendations**

Reinforce a performance culture by linking performance information and decision-making processes

A performance culture is needed that is based on achieving outputs and outcomes rather than compliance with process. More linkages between performance initiatives and decision-making can be achieved, for example, by linking a medium-term expenditure framework and Output Statements (see below). Value for Money and Policy reviews should systematically be taken into account during the budget preparation process when deciding on additional spending and reallocation of budgets. In order to more closely tie Output Statements and Strategic Plans with performance levers, individual and divisional goals – as expressed, for example, in the PMDS – should link back into departmental objectives as mentioned in departmental Strategic Plans and Output Statements. This could strengthen the focus on policy results and help to develop a performance culture based on common language and expectations.

Establish a performance dialogue between departments and agencies

A performance dialogue is strongly needed between departments and agencies, such as those created after reforms aimed at more performance focus in the United Kingdom and the Netherlands. The traditional input-focused dialogue between agencies, departments and the Department of Finance should be replaced by a formal long-term performance dialogue, which entails a process of setting different types of targets and evaluation, and making links between inputs, processes, outputs and outcomes. Internally, this dialogue between departments and agencies should have linkages with individual staff performance management systems, and most importantly, with senior management. The criteria used for granting performance bonuses to heads of agencies could be more transparent. These criteria should be output focused. The government should also extend the departmental Output Statement framework to include agencies.

The potential value added by agencies is less a result of their policy autonomy and more a result of their performance focus. In order to fully achieve this performance focus, *they will need additional managerial flexibilities*, for example: flexible budgeting between years; the removal of more *ex ante* controls on spending; and flexibility in allocating funds between different types of spending and, most importantly, between personnel and other expenses (or at the very least, within personnel expenses, staff numbers, and pay levels). Good management in agencies should be rewarded with additional managerial flexibility.

Such increased managerial flexibility for Irish agencies should be provided only after agencies acquire confirmed capacity in strategic management, financial management, auditing, and accounting. The criteria such as those laid out by the Dutch government for the creation of new agencies in the Netherlands might be used as an example (see Box CS2.1 in the case study on Managing Agencies).

In many cases, departments and agencies will have to build up the expertise to develop performance measures and monitor performance as part of this dialogue process. Guidance should be provided on how departments can move away from input and process controls and towards better monitoring of performance. Parent departments should enhance their performance monitoring capacity by creating an internal department-wide agency performance review process. Departments also need to make a significant effort to better analyse the linkages between costs (including personnel) and the actual outputs and outcomes of agencies.

Create a more coherent performance approach

The whole-of-government-strategy on performance should be made explicit and clarified in order to communicate what is meant by improving performance, why information is requested, and how it will be used.

Increase coherence between departmental Strategic Plans and Output Statements. Links should also be created between performance initiatives at the departmental level and at the level of divisions and individuals. Individual and division goals, as expressed, for example, in the PMDS, should add up to departmental goals as mentioned in departmental Strategic Plans and Output Statements. The integrated performance strategy should also include a government-wide planning and reporting framework.

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Box 5.1. **Key recommendations** *(cont.)*

Improve quality of performance indicators and information

Improve departmental Output Statements by creating 1) more relevant and measurable performance indicators; 2) real-time operational data; 3) baseline performance information; 4) clearly defined targets; and 5) more quantifiable targets which measures outputs and outcomes as opposed to processes.

The Public Service should pilot some projects which co-ordinate the development of data needs between the MIF, the expenditure control units within the Department of Finance and some select departments in the development of their Output Statements and strategic plans. Supporting databases may also be necessary on a sectoral basis.

Enhance capacity for performance measures. The capacity to develop performance measures in departments and agencies monitor performance, conduct policy evaluations and should be strengthened by investing more manpower, by using private sector consultancies, and by increasing public servants' awareness of performance issues through training, and a significant expansion of technical assistance role.

The quality of departmental Value for Money and Policy Reviews could be improved with a requirement for the Office of the Comptroller and Auditor General to review 10% of departmental VfM Reviews at random. Unless there are specific issues that need to be addressed, it is also important that the scope of evaluations is kept broad in order to cover significant expenditure areas. This can be achieved by attaching statutory monitoring requirements as part of the authorisation for new expenditure areas.

Improving performance through competition

Competition can be used as a tool to improve service delivery, but only when the Public Sector ensures that the right conditions are in place. It is crucial that the market actors can do so under the same conditions, that there are no barriers to market entry, that there is transparency over the results of the competition, and that there is a regulatory framework that ensures that these conditions are respected (see case study on Waste Management).

The government's guidelines on the use of PPPs recognises the potential benefits and risks associated with this type of financing mechanism. It is important to ensure that these guidelines are adhered to in practice.

Create/remandate a new unit to provide guidance on use of policy tools and contracting out: A unit similar to the PPP unit within the Department of Finance should be created in order to assist departments and agencies with contracting out and with the use of other market-type mechanisms. Such a unit could provide guidelines for the selection of contractors and drafting terms of reference, technical assistance, tools such as template contracts, and comparative information on good practices in other bodies. It is important that managers have a guide on how to engage in competitive tendering and how to compare the costs of delivering a specific service in-house.

Move from micro to macro spending controls and increase budget flexibility and transparency

Moving away from *ex ante* controls should be accompanied by overall budget limits under which additional flexibility is allowed. The government should consider a more top-down budgeting framework with aggregate expenditure totals driving the process instead of the current medium-term fiscal target within the existing three-year medium-term expenditure framework.

Budget transparency could be further improved if the Government's financial statements were to encompass all the entities over which the Government has control, and be prepared on an accrual basis of accounting in keeping with the generally accepted accounting principles (GAAP), endorsed by independent national or international accounting boards. The end of year final accounts could also be presented to the Dáil within six months of the end of the fiscal year. The Government could also further benefit from following the examples of the Netherlands, Austria, Germany and Chile by having economic assumptions produced by an independent body or panel, or undergo independent review.

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