

Performance Review

The Danish approach

Thomas Broeng Jørgensen, Head of Section, Danish Ministry of Finance

Presentation at the international workshop on Comparative Program
Review and Budget Analysis, Korea,

Korea Development Institute

Seoul 7th and 8th December, 2005

Agenda and structure of the presentation

1. Denmark at a glance
2. The central general system of performance management in Denmark
3. The budgetsystem in Denmark
4. The decentral evaluation system in Denmark
5. One example of a sectoral performance review system in Denmark
6. Conclusion and lessons learned:

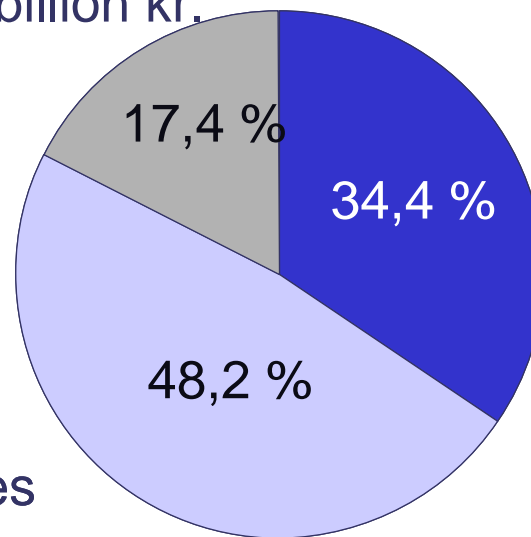


1. Denmark at a glance

Counties

106 billion kr.

Central
government
210 billion kr.



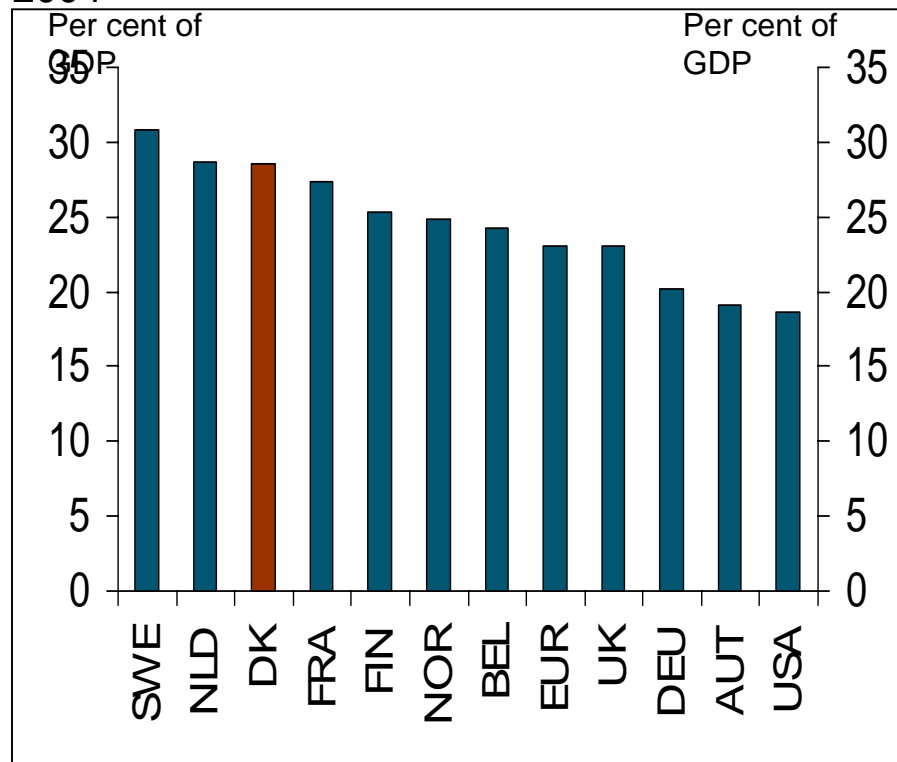
Municipalities

294 billion kr.

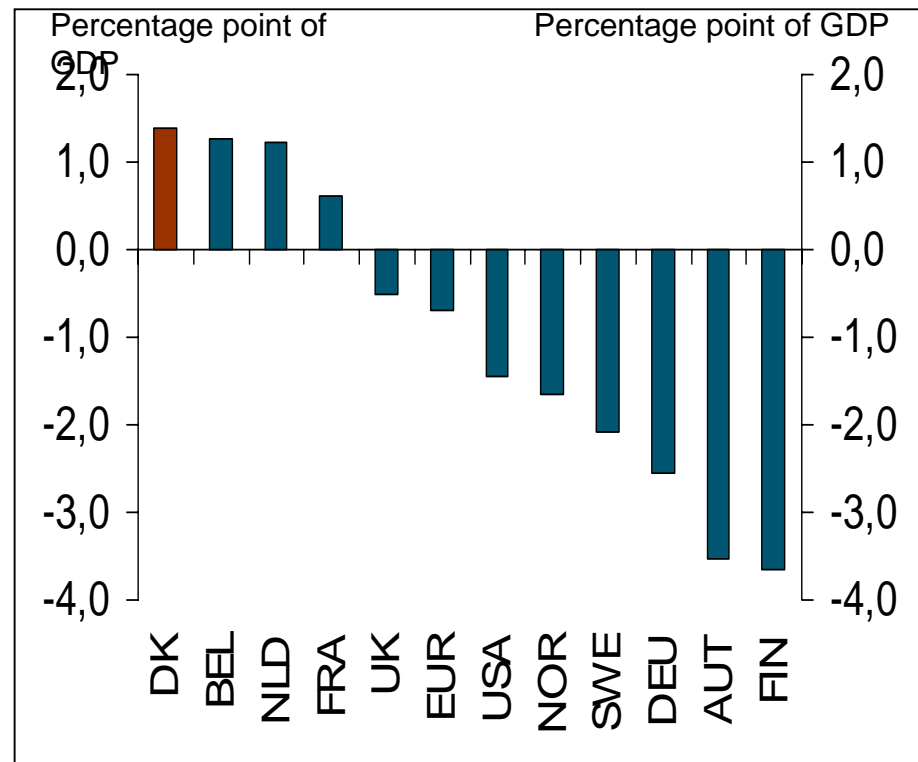


Public expenditure

The public service expenditure share of GDP in selected OECD-countries, 2004



Change in public service expenditure relative to GDP in selected OECD-countries, 1992-2004

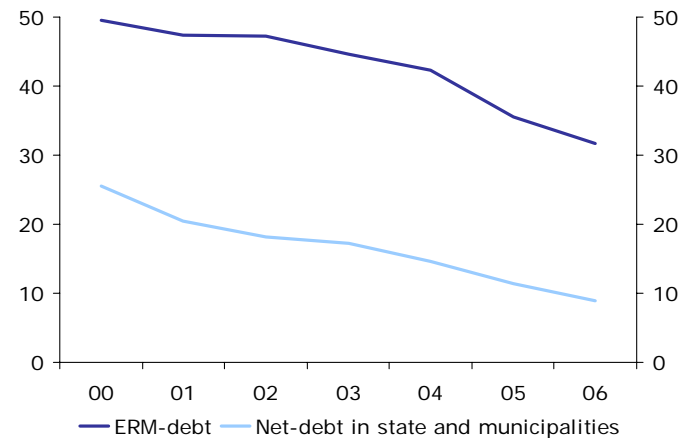


Central figures and challenges

Medium term goals

- 2010 Economic plan:
- Main goal: Reducing the public debt further in order to rise to the demographic challenge
- Average structural surplus in the range of $\frac{1}{2}$ - $1\frac{1}{2}$ per cent of GDP through 2010 reducing the public debt
- Moderate public expenditure of $\frac{1}{2}$ per cent during 2005-2010
- An increase in employment corresponding to 50-60000 persons through 2010
- Tax stop!

Debt reduction





Part conclusion

1. Denmark needs 50-60.000 more persons employed in 2010. Very serious challenge
2. Heavy pressure on public expenditure especially for the municipalities
3. In total: dire need for program review and budget analysis that can restrain and optimize public spending.
4. How is this done?



2. The system of performance management in Denmark

- A. Efficiency strategies
- B. Various performance contracts
- C. Accrual accounting and budgeting and annual reports

A. Context – Efficiency strategies in 2003

The Efficiency Strategies Framework entails a number of policies

Mandatory:

- Performance management
- Tendering policy
- Public procurement policy
- Performance measures for citizens oriented services

Voluntary:

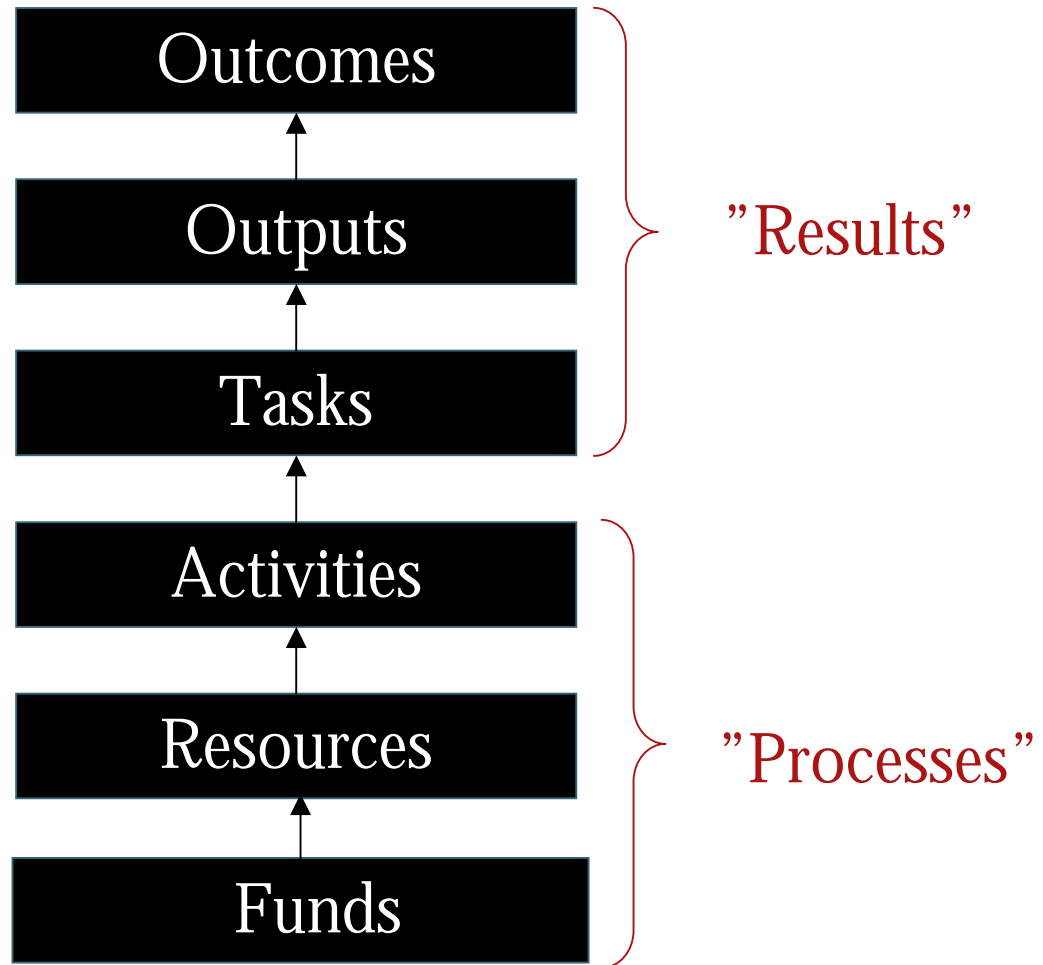
- Mission and vision
- Structure of the departmental area
- Other Areas of action

B. Challenges concerning Performance Contracts

- Performance Contracts introduced in the early 1990's
- After a 10-year period a number of weaknesses were identified:
- Too many targets and objectives, few measurable
- Targets directed internally at the organization (IT-system development, work-processes, competence development)
- Targets and objectives were not prioritized
- Lack of linkage between directors contracts and performance contracts

B. New outline and focus of Performance Contracts

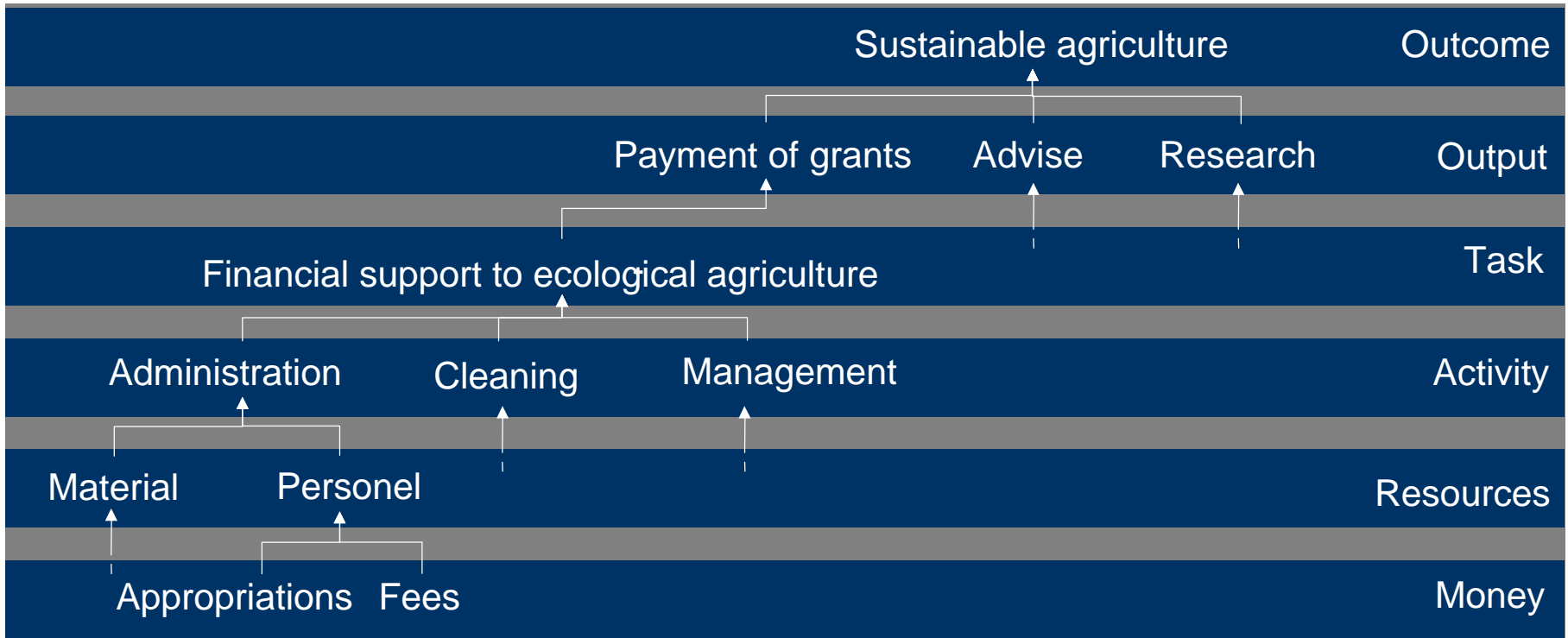
- Focus on outputs and outcomes (external targets and objectives)
- Merging performance contracts with director contracts
- Performance related part of the Directors General's salary should be related to the performance of the agency
- A limited number of output targets (5-10) but many measures
- An analysis of the "hierarchy of tasks and activities" as a condition
- Focus on distribution of costs (re. ABC, ABM)
- Review of targets and objectives in yearly reports





Performance contracts

An example of a hierarchy of tasks and activities





B. Review on use of performance contracts in the Danish central government (2004)

Table showing aggregate measures of the performance contracts

Total number of contracts	Total number of objectives	Total number of targets	Total number of measurable targets	Total number of quantitative targets	No. of external and internal targets	
					Internal targets	External targets
119	853	3701	3508	1472	1060	2641
			94,8 %*	39,8 %*	28,6 %*	71,4 %*

* percentage of all targets

C. Accrual accounting and budgeting

- Applying private sector accounting principles to the public sector
- From cash to accruals: focus on the use of resources (depreciation) rather than payments
- All departments and agencies must prepare financial statements with balance sheet, income statement etc.
- More focus on cost distribution
- A better basis for substitution of factors of production
- A precondition for performance based budgeting

C. Annual accounts

- Annual accounts
 - Mission
 - Statement of output performance
 - Statement of general financial performance
- Revised financial account
 - Profit and loss account
 - Balance sheet
 - Cash flow statement
- Both departments and agencies will prepare annual reports



3. The budget process

January	Appropriations are set
February	Budget analyses
March	Preparing of the Budget proposal
↓	
August	Presentation of the Budget proposal
October	Budget negotiations
November	Amendments
December	The Parliament adopts the budget



The state operational frame

The budget proposal

The government

- Priority discussions
- New initiatives
 - Budget improvements
 - Budget analyses
 - Fixing expenditure frames

The government budget proposal

Ministry

Expenditure frames

The ministries budget proposal

Institution

Part of expenditure frames

The institutions budget proposal

Division

Part of part of expenditure frame

The divisions budget proposal





3. Instruments to control the expenditures

- Analyses – a continuously process of different publications
 - Budget analyses on concrete policy areas
 - Analyses of the financial situation
 - Financial projections – sets out objectives for the economical policy
- Priority memorandum – starts out the budget process
- Fixed expenditure frames – structures the budget process



3. Budget follow-up in agencies and ministries

- Standard operating procedures
 - Clear responsibilities: Who can authorize what
 - Purchasing procedures, accounting practises etc.
- Monitoring spending throughout the year
 - Spending this year to date compared to budget
 - Risk of budget overruns
 - Proposals for solving or alleviating budget problems, including informing superiors
- “Controlling” units
 - Making sure procedures are followed
 - Ideas for cost cutting and efficiencies
 - Maintaining the overall picture

3. Budget follow-up in the Ministry of Finance

- Three annual budget reports from the ministries
 - Spending to date compared to the budget
 - Estimates for spending the rest of the year
 - Initiatives to solve or alleviate problems
 - Needs for informing the Finance Committee of parliament with requests for supplementary appropriations (such requests has to be authorized by the Ministry of Finance)
- Three annual Budget Outlook reports to parliament

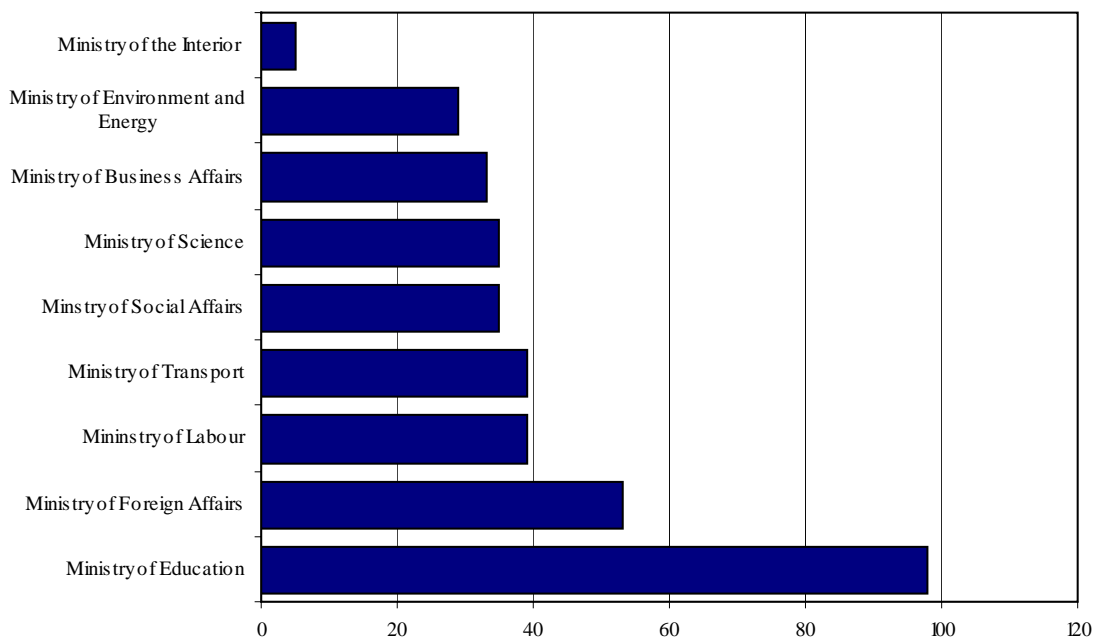
4. The Danish decentral evaluation system

1. Denmark was a late starter (1980ies and onwards)
2. Evaluations within each policy sector
3. Dependence on consultants
4. Evaluation clauses integrated in reforms and legislation
5. International co-operation is a driver
6. No national evaluation policy
7. Evaluation publication being prepared, but:
8. No link to a formal performance evaluation system envisaged
9. No link to the budgetary proces

4. Sector specific evaluations and analysis by GAO in DK

Analysis by the General Accounting Office in DK 2004:

- Considerable amounts spend on program evaluation
- 2001-2003: 258 evaluations in 7 ministries with an average price of 200.000 dollars each
- Quality ok but followup not clear
- Some of them too expensive (for example survey examination of a population of 150.000 people!)





5. Programme review (ex ante) of large infrastructure projects

- MoF developed a new programme review model in 2003 due to the following:
 - Projects inherently risky due to long time planning and complex interfaces
 - Often the project scope or ambition will change over time (however no surprise given history)
 - Prudent planning should allow budget contingencies to accommodate this
 - However statistical evidence proves otherwise
 - Cost overruns the result!



Evidence from first statistically significant study conducted by Prof. Bent Flyvberg

Type of project	No. of cases (N)	Avg. cost overrun %	Standard deviation
Rail	58	44.7	38.4
Bridges & tunnels	33	33.8	62.4
Road	167	20.4	29.9



New programme review model on large road projects

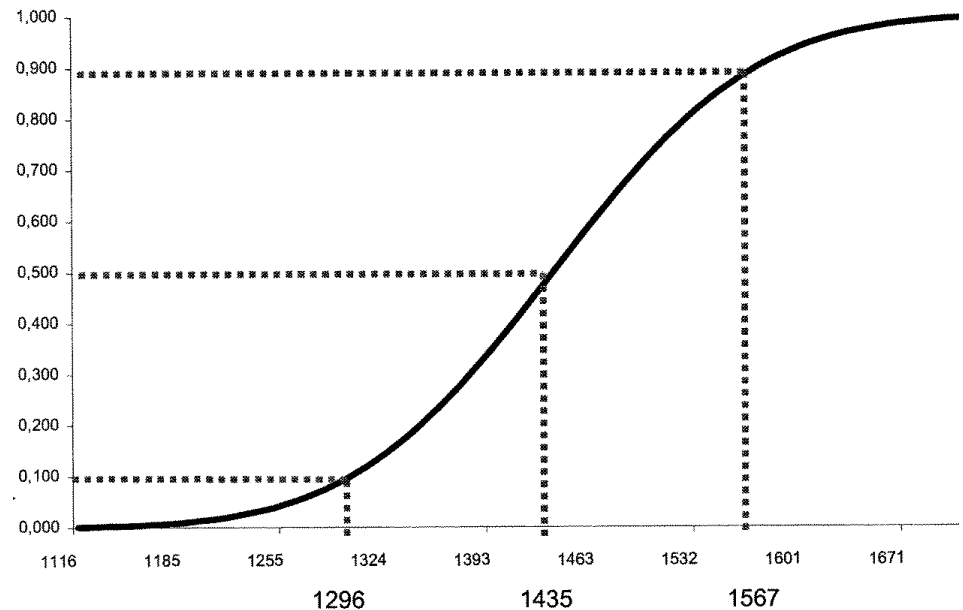
Phase 0: Strategical roadplanning – ideas for solutions – cost estimates based on similiar projects

Phase 1: Preproject phase – analysis of basic inputs to the project, profile of uncertainty, alternative transport, traffic development, security, planning, environment, expropriation, cultural sites etc.



Profile of uncertainty

- Old way: budget + reserve (10 per cent) – several problems with this approach
- New way: Budget now expressed by an average with a variation
- Every major post in the budget is examined three times by various experts: most likely, max, min
- Conclusion a profile of uncertainty with average value being the final budget



Phases continued....

Phase 2:

- VVM examination based on EU-regulation: Environment analysis, road technical analysis and a concluding report.
- All reports are public
- the act setting the budget is based of the VVM examination

Phase 3 to 6:

- Linieexamination and analysis regarding expropriations
- New input goes through uncertainty analysis

Phases 7:

- Tendering, contracts

Phase 8:

- Monthly budget follow up procedure

Phase 9:

- Project finished



Problems with the new system...

- Political will determined very early in the process (before VVM) or as a part of a political deal for a number of years
- As a result cost overruns are accepted
- Still a reserve (budget security) and problem with reserves is that they tend to get spent!
- Average value on 50 per cent too low
- Lack of incentives in the project organisation
- Project takes a long time thus difficult to aim in performance contracts
- Lack of external quality assurance



6. Conclusion

- No formalised system of performance review in DK
- BUT informal system that triangulates and reviews performance in various ways
- Advantages: informal, pragmatic, no heavy costs of transaction (evaluation cost)
- Disadvantages: No systematic M&E information with no possibility of serious benchmarking, no direct and formal linkages to budget.