The PFM Performance Measurement Framework

Session 6: Case Study on Summarizing the Assessment

Required

1 Comment on the impact of strengths and weaknesses revealed in the indicator assessment on (i) aggregate fiscal discipline, (ii) strategic allocation of resources, and (iii) efficient service delivery.

2 What is (or should be) the story line?

Suggested matters for inclusion in group comments

1 Aggregate Fiscal Discipline

The A rating on PI-1 indicates close adherence to the total expenditure budget, and the same high rating on PI-3 shows that revenue targets are generally being reached: while there are weaknesses in the tax systems (PI-13 to 15), the revenue forecasting system seems capable of judging the associated losses. Arrears are low and declining (PI-4), so reporting of actual expenditure incurred is not artificially reduced by delays in payments.

However, the D rating on PI-7 dim (i) shows that there are major expenditure omissions: extra-budgetary funds are reported ex post, but they are omitted from the budget. In addition, there is a major risk to the Government arising from the liabilities of state-owned enterprises SOE (PI-9 (i)). There is good debt management (PI-17 (i)) and annual debt sustainability analysis (PI-12 dim (ii)), but the absence of a comprehensive budget and information on the SOE sector, and lack of an overall MTEF integrating capital and recurrent expenditures (PI-12 (iv)), means that it is not possible to say if the budget is within a fiscally sustainable framework.

The B rating on PI-20 (i) means that commitment controls generally limit commitments to actual cash availability and approved budgets, but the summary says that there is no computerised commitment registration and reporting system: this reduces the rating on in-year budget execution reports (PI-24 (i)) to a C.

However, it is potentially misleading to say that budgeting and reporting are quite comprehensive as pension fund reporting is a major gap. There are also weaknesses in internal audit, external audit and legislative oversight (PI-21, 26 and 28) and these throw doubt on the integrity of financial information and could increase the risk of a fiscal crisis.

In summary: while the overall revenue budgets have been achieved in recent years and expenditure out-turns have been close to budget, nevertheless the fiscal balance is under threat, as shown by the low ratings on tax administration, lack of reporting of commitments, and lack of central oversight of state-owned enterprises.

2 Strategic Allocation of Resources

The summary has a generally positive message on the strategic allocation of resources ('A' and 'B+' rating on PI-2, 5, 8 and 11). But there are also weaknesses (PI-7, 9 and 12).

The composition of annual expenditure is in accordance with the budget at least for the main budget headings (PI-2), the fiscal envelope is determined by regular debt sustainability analyses (PI-12 (ii)), and the budget process is orderly (PI-11) and MDAs are informed of their budget ceilings and get enough time to prepare their detailed estimates (which promotes rational allocation of resources according to national priorities) but the low ratings on multi-year planning, costing of sector strategies and integration of investment planning and recurrent cost budgeting within sector strategies (PI-12 dims (i), (iii) and (iv)) show that resource allocation can be improved. The budget is becoming more policy-based. Allocations are clearly shown in a functional and program classification, which is used for both budgeting and reporting (PI-5).

The government keeps closely to the planned allocation of resources (PI-2). Similarly, the A rating of PI-8 dimension (iii) (consolidated sectoral data for general government) shows that the central government is including the expenditure of sub-national governments in its fiscal reporting.

The weaknesses in tax administration could be mentioned as a strategic issue, as they mean that the gross compliance ratio in tax collection is likely to be low i.e. taxes are not effectively collected in line with tax policy.

An MTEF comprising a full set of sectoral strategies and costed programmes of capital and recurrent expenditure would enable the MoF to ensure that resources are allocated in accordance with politically determined priorities, within the fiscal envelope.

3 Efficient Service Delivery

Though MDAs are given expenditure allocations six months at a time (PI-16 (i)), cash flow planning is very poor and there are frequent budget adjustments during the year (D ratings on PI-16 (i) and (iii)). This effectively rescinds the six-month allocations and prevents programme managers planning ahead, delays contracting and reduces efficient service delivery. MDAs get fairly reliable quarterly budget execution reports (PI-24).

Low ratings on payroll and procurement (PI-18 (i) and (ii) and PI-19 (all dimensions)) indicate that value for money is not being achieved. Other controls and internal audit are poor (PI-20 and PI-21): if these were stronger, they would create pressure to increase efficiency.

Timely information on budgets to sub-national governments allows time for planning and delivering efficient services in devolved functions (PI-8 dim (ii)). At the service delivery level, the B rating on PI-23 shows that information is available on the resources expended in primary schools and health clinics. If performance data is also available (not assessed by the Framework but implied by the adoption of program and performance budgeting), it is then possible to measure and control operational efficiencies.

Efficiency is also affected by poor links between capital and recurrent budgeting (PI-12 (iii) and (iv)) and this could usefully have been mentioned in the summary.

Main Message

One main message appears to be the lack of a medium-term budget framework within fiscally sustainable limits since this is a contributor to all three budget outcomes. The budget credibility appears to be the result of either good luck or informally functioning systems, since many of the necessarily budget execution systems are not fully in place. There is a clear lack of tools to ensure efficiency in use of funds; not least a major problem with the procurement system. Better reporting of the pension fund and oversight of SOEs may be other important issues to raise.

The story line should be succinct, normally a single line. Groups may differ on their choice of story line. A possible story line is as follows:

Major weaknesses in tax administration, procurement, expenditure commitment reporting and oversight of state-owned enterprises are imperilling fiscal control and *harmonization with EU practices, and could delay entry into the EU. However, there is strong interest in reform in the executive and machinery for implementation, which allows rapid progress by the new government.*

Analogy provided by a course participant:

“This reminds me of a flight I once was on from New York to Chicago. The plane took off on time and landed on time; the flight was pleasant and comfortable (for the passengers). It later turned out, however, that the plane was leaking fuel, had problems with the navigation system and had a malfunctioning wing flap. Nevertheless, due to hard work by the pilot- who had extensive experience with both the particular type of plane and with the route and with Chicago airport – and the calm and clear weather on this daylight, nothing went wrong. But just imagine what could have happened if we had had an inexperienced pilot and bad weather on a night flight” (added by FR on Feb 17, 2010)

Indicator Relevance to budgetary outcomes – possible answers

Aggregate Fiscal Discipline	Strategic Allocation of resources	Efficient use of resources in service delivery	All influenced by integrity of fiscal information
PI-1			
	PI-2		
PI-3			
PI-4			
	PI-5		
	PI-6		
PI-7 (i)	PI-7 (ii)		
	PI-8 (iii)	PI-8 (i) (ii)	
PI-9			
	PI-11		
PI-12	PI-12	12 (iii) (iv)	
	PI-13	PI-13	
	PI-14	PI-14	
	PI-15	PI-15	
		PI-16	
PI-17 (i), (ii)			
		PI-18	
		PI-19	
PI-20 (i)		PI-20	PI-20
		PI-21	PI-21
		PI-22	PI-22
		PI-23	
PI-24	PI-24	PI-24	
			PI-25
		PI-26	PI-26
	PI-27		
		PI-28	PI-28
D-1			
	D-2		
		D-3	

PI-13 to PI-15: an efficient tax administration leads to an efficient revenue collection and reduction of administrative costs and tax burden for tax-payers. An efficient tax administration encourages a better allocation of resources in the economy.