* *●* ***Phase One: Start-up – to end T +1***
* *1.* ***Preparatory work in reformulating the budget classifications.***
* *\* By June/July year T, preparation by the MOF of a new classification (chart of accounts), agreed with Pilot LMs, to be used in the T+1 budget classification.*
* *\* Agreement on level of broad-banding of standard codes used in T+1 draft budget. Pre-budget circular prepared to inform LMs of this change.*
* *\* Cabinet Agreement on rules of LM flexibility in allocating within standard codes for pilot LMs, with legislative amendment agreed.*
* *\* Any required programming undertaken for the FMIS.*
* *\* Budget circular for T+2 to request program-based budget estimates for pilot LMs and their budgets presented for approval on this basis.*
* *2.* ***The MOF would initiate the development of program budgeting pilots in at most three LMs.***
* *\* Three volunteer LMs are selected. These pilot LMs should have the most well developed business plans, and preferably should have diverse functions.*
* *The selected LMs should be requested to form internal LM working groups in which MOF members of the MOF’s reform unit would participate. The task of the working groups would be to agree a LM strategic plan and to develop an appropriate matching LM program budget aligned to the main policy objectives as indicated in its strategic plan. Outputs would be specified for the appropriate levels of programs, sub-programs and activities/projects, and indicators agreed.*
* *The working groups should incorporate both operational staff of the LM, as well as policy staff responsible for the main policy areas of the LM, and important program/project managers. This is needed because program budgeting should connect the policy agenda of a LM to the costing of its activities. The working groups should present their outputs within six months.*
* *\* The financial staff of the LM (accountant and budget analyst if any) with the help of the reform unit would cost the identified programs on the basis costs indicated by the common input classification, and agree this program structure with LM management.*
* *\* In addition, the working groups should agree a basic explanatory text to clarify LM policies, programs and targeted outputs. This document should serve as a prototype LM budget document, that would present its budget on a program oriented rather than line-item oriented format.*
* *\* These pilot LM budgets should be circulated for comments to other LMs and presented for discussion to the Cabinet and legislative committees in Parliament. The submission should be accompanied by a note produced by the reform unit indicating the main lessons learned during the pilots.*
* ***● Phase 2: Expansion - Duration Two Years to end T+3***
* *This phase will entail:*
* ***1. The reform unit updating its Briefing Note and incorporating any methodological guidance learned from the previous year’s pilots.*** *A step-by-step manual should be developed to facilitate an expansion of the pilot to all LMs.*
* ***2. Expanding the budget preparation pilot with a view to moving all the LMs to new format program budgets at the same time.***
* *An approach whereby individual line LMs move to program budgeting individually places strains on overall budget management. The aim of the pilots will be to define program structures, cost programs; identify related outputs; and produce an explanatory LM budget document.*
* *The MOF should assign staff to all LM working groups, which should present their outputs and pilot findings at the end of their pilot to the reform unit. The pilot budgets should be presented to the Cabinet and legislative committee, to ensure adequate quality of the various products. Learning from the pilot phase, LMs will adapt their program structures, which are likely to evolve in the following years.*
* *3.* ***When implementing the pilot for three years the first year (T+1) is more difficult as it must follow the normal budget preparation process.*** *Also the reform unit will need to provide the working groups with special guidelines for estimating the out-year program costs. A second element of the pilots is to monitor program implementation of the ongoing budget, first on a quarterly, and then on a monthly basis.*
* *4.* ***In the second year of this phase, the MOF should provide a parallel budget circular for preparation of a program budget for all line LMs and agencies.*** *All pilot LMs should now be ready to prepare three year program budgets (for next year and two future years) in line with their business plans and start monitoring program implementation by use of agreed output indicators. The program budgets should be sent along with the annual budget for information, and conform to the regular time-table of budget preparation.*
* ***● Phase 3: Evaluation - Duration 3 months***
* *The reform unit would prepare an Evaluation Document which details the progress made with the program budgeting introduction. All remaining issues and problems should be identified and solutions suggested. The report should advise the Minister of Finance whether to start full implementation in year four or wait until year five. This would depend mostly on the success in building capacity in the LMs.*
* ***● Phase 4: Full implementation – either one or two years***
* *If full implementation is not judged prudent in the fourth year, a “calibration year” will precede the year of full implementation. In the year of full implementation the old budget presentation would be discarded and the new format introduced.*
* ***That is, if this sequencing is followed, this reform will minimally take between 5-6 years.***
* ***Objective: Moving to Performance Budgeting***
* ***Key implementation stages:***
* ***● Phase One : Start Up T+2 to T+3***
* ***In the first year of this stage T+2 the reform unit should prepare a note on the payment, control, audit and reporting processes envisaged when moving towards performance budgeting.*** *This note would be sent for comments to all LMs, the Cabinet and the relevant legislative committees. The External Auditor should be asked for an opinion on the envisaged processes.*
* *This would define the benchmark levels of competence of LMs’ basic financial management capacity, covering the areas indicated above. This would also determine the degree of flexibility that will be allowed, involving such elements as discussed previously.*
* *2. The Reform Unit will rate all pilot LMs against these competence benchmarks and make a recommendation to the Minister of Finance on which LMs are to be allowed to prepare their 2012 budgets to be implemented under new flexible rules.*
* *3. The Reform Unit will then work with the LMs to agree performance targets based on their output indicators, and agree an annual reporting format for these targets that will be presented with their budget.*
* *4. In budget year T+3, the pilot LMs selected will prepare and implement their budgets under new flexible rules, of course, still within MOF guidelines and hard budget ceilings. The Reform Unit would prepare an Evaluation Document which details the progress made with the introduction of the new system of program budgeting. All remaining issues and problems should be identified and solutions suggested. The report should advise the Minister of Finance whether to continue with the system or not, any changes that need to be made, and if generally positive, which LMs will be selected for the next phase.*
* *●* ***Phase two: Progressive roll out in the next 2-3 years.***
* ***That is, the total move to a program-based performance management regime following this sequence would take minimally at least 7-9 years.***
* *It is interesting to note that Allen Schick wrote a review of the development of the concept in a symposium on the subject as early as 1966, (Schick, 1966).*
* *Also with many different names e.g. “output classes”, “requests for resources”, “business lines”, “key results areas”. Often a hierarchy in outcomes is incorporated into the program structure: high level outcomes are identified across sectors of government by key results areas, main policy areas, or high-level programs, with line ministry programs described as contributing towards these high level outcomes (see Robinson and vanEden, 2007,p.67 ).*
* *Only a few countries have attempted, usually selectively, inter-ministerial programs, e.g. Sweden and France.*
* *In this way ensuring programs contribute both to facilitating centralized decisions regarding resource allocations between programs, as well as ease in managing programs within ministries.*
* *These “administrative” or “corporate service” programs, describe activities that support the ministry in delivering services to external parties. These “are programs not focused on own outcomes, but supporting those of other programs” (Robinson and Van Eden, 2007, p. 69 ).*
* *It is important that some degree of stability in the program structure is attained to assist in such decisions. In the first years of implementation ministries should be allowed to make necessary adjustments to their program structure as they refine their strategic objectives. However, after this initial period it would be desirable that the program structure be stable and only changed to reflect important changes in strategic priorities. (Robinson and vanEden, 2007, p.73 ).*
* *In this way future policy objectives, not yet approved by Cabinet, would only be incorporated in the program structure once resources have been allocated to them.*
* *This can be viewed as a continuum (the five Ds): de-concentration, decentralization, delegation, devolution and divestment, as described in Diamond 2006, pp.75ff.*
* *Several OECD countries allow end-year carryover of operating costs, although a number of restrictions apply.*
* *However, there are usually some limitations imposed on the ability to substitute between main elements of the economic classification, for example, into personnel expenditure or away from capital.*