



# MALAYSIA

## TECHNICAL ASSISTANCE REPORT—STRENGTHENING OUTCOME BASED BUDGETING

September 2015

This Technical Assistance Report on Malaysia was prepared by a staff team of the International Monetary Fund's Fiscal Affairs Department. It is based on the information available in May 2015.

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Fiscal Affairs Department



**MALAYSIA**

## **STRENGTHENING OUTCOME BASED BUDGETING**

**Teresa Curristine, Mary Betley, Robert Clifton, and Jonathan Sell**

**May 2015**



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**ABBREVIATIONS AND ACRONYMS**

APMC	Activity Performance Management Committee
BRO	Budget Review Officer
COFOG	Classification of the Functions of Government
DE	Development Expenditures
EPU	Economic Planning Unit
ET	Expenditure Target
ETP	Economic Transformation Program
GST	Goods and Services Tax
GTP	Government's Transformation Program
ICU	Implementation Coordination Unit
KRA	Key Result Areas
KPIs	Key Performance Indicators
MBS	Modified Budgeting System
MKRAs	Ministerial Key Results Areas
MOF	Ministry of Finance
MOIC	Ministry OBB Implementation Committee
MTBF	Medium Term Budget Framework
NBO	National Budget Office
NKRAs	National Key Results Areas
OE	Operational Expenditures
PAC	Parliamentary Public Accounts Committee
PEMANDU	Prime Minister's Performance Management and Delivery Unit
PI	Performance Information
PPMC	Program Performance Management Committee
PSD	Public Service Department

## PREFACE

In response to a request from Dr. Ismail Bin Hj. Bakar, National Budget Director, National Budget Office, MOF, a technical assistance mission from the Fiscal Affairs Department (FAD) visited Malaysia during February 4–17. The mission was led by Dr. Teresa Curristine and comprised Ms. Mary Betley, Mr. Robert Clifton and Mr. Jonathan Sell (IMF experts). Dr. Nowook Park from the Korean Institute of Public Finance joined the mission for one week as did Mr. Suhas Joshi, the IMF public financial management regional adviser.

The mission met with the Deputy Secretary-General of Treasury (Policy), Y. Bhg. Dato' Mohd Nor Nawi, Y Bhg. Dato' Siti Zauyah Binti Md Desa, the National Budget Director; Mr. Koshy Thomas, Deputy National Budget Director (Performance), Dato' Zamzuri Bin Abdul Aziz, Mr. Chin Tuck Seng, and other officials from the National Budget Office; Dato' Haji Che Pee Samsudin, the Accountant General, and officials from his office; Dr. Khalid bin Abd Hamid, Mr. Lim Seng Gim, Dr. Mastura binti Abdul Karim, Mr. Mohd Esa bin Abdul Manaf and other officials from the Fiscal & Economics Division and Datuk K. Givananadam from the International Division of the Ministry of Finance.

The mission met with officials from the Prime Minister's Department, including Mr. Surendran C.K. Balan, Mrs. Nurulhuda binti Abdullah, and Mr. Hamdan bin Hj. Puteh, and officials from the Public Services Department; Datuk Chris Tan and Mr. Nishan MPR Veera Kumar, both from PEMANDU, and Mr. Boniface Edwin Manung, Mr. Noor Ihsan Che Mat, Mrs. Noraini Ahmad, and Mrs. Zakiah Jaafar and other officials from the Economic Planning Unit.

Spending ministry officials met by the team include: Datuk' Dr. Chen Chaw Min, Deputy Secretary General and Mrs. Wong Foong Lai, both from the Ministry of Health; Ms Vimala, Ms. Rita Elisha Mering and Ms. Chua Wan Ting, from the Ministry of International Trade and Industry; and Dato' Jana Santhiran Muniayan, Ms, Mazrini Mohmad, Mr. Abdul Haris Lakar, and other officials from the Ministry of Transport.

The mission also met with Mrs. Aneeza Mohamad and Mrs. Mona Othman from the National Audit Department, and with Hon. Datuk Nur Jazlan bin Mohamed, and Hon. Dr. Tan Seng Giaw, Chair and Vice Chair, respectively, and other Honourable members of the Public Accounts Committee.

The mission is grateful to the Malaysian authorities for their excellent cooperation, and would like to express its appreciation to Mr. Koshy Thomas, Ms. Genevieve Joanis, and Mr. Zulkhairil Amar Mohamad, from the Performance Management and Evaluation Sector of the National Budget Office for their invaluable assistance to the mission.

## EXECUTIVE SUMMARY

The Government of Malaysia is undertaking several reforms to promote sound fiscal management and fiscal sustainability. These include a Fiscal Policy Committee (FPC), a Medium Term Fiscal Framework (MTFF), accrual accounting, and Outcome Based Budgeting.

At the request of the authorities, this mission focused on strengthening outcome based budgeting (OBB). This reform was introduced in 2012 and full implementation is scheduled for 2016. OBB builds on the previous output based Modified Budgeting System (MBS), which was in place for over two decades. OBB aims to improve the efficiency, the performance, and the prioritization of expenditures by aligning national and ministerial outcomes with programs and budgetary resources and by integrating planning, budgeting, and evaluation.

OBB has made good progress. The National Budget Office (NBO) has assisted nine pilot ministries to redesign their program structure to link to outcomes and has plans to assist all ministries. There is an increased awareness in government of the importance of outcomes.

The annual budget circular includes requests for outcome information.

An online IT platform (MyResults) has been developed which allows ministries to submit their annual budget and performance framework together.

In implementing OBB the government has encountered challenges, including aligning programs to outcomes; using performance information (PI) in budgetary decision making; and changing planning and budgeting systems to promote greater focus on results. Despite recent progress, the underlying practices and decision making processes have not been sufficiently altered to support the reforms. The budget process remains largely annual, incremental, and input focused.

To successfully implement OBB, and to enable the government to achieve key national objectives in a challenging fiscal environment, reforms are needed to the wider budgeting and planning system. This report provides short term (2015–17) and medium term (2018–20) recommendations focused on four key areas: 1) Improving the strategic and medium term focus of budgeting and planning; 2) Improving alignment of outcomes, programs, and institutions; 3) Integrating PI into budget processes and documents and 4) Improving performance monitoring, reporting, and evaluation.

1) **Improving Strategic and Medium Term Focus:** To support the achievement of medium term national outcomes and fiscal sustainability, it is important to have a more medium term and strategic approach to budgeting and planning. A medium term budget framework (MTBF) is needed to support these improvements and would be an extension of the government's new MTFF. A first step would be to commence each budget round by producing a Fiscal Strategy Paper which would set medium term macro-fiscal policy objectives and provide high-level strategic direction for resource allocations. This paper

would be approved by the FPC and the Cabinet and form the basis of the budget circular. The MOF could set a combined ceiling for ministries' operational and development expenditures in the budget circular, with a firm ceiling for the current year and indicative ceilings for two years ahead. Ministries would be required to submit projections for two years ahead along with their budget requests.

The current separation of institutional responsibilities and processes for planning and budgeting gives rise to coordination issues and limits comprehensive and efficient resource management. Planning and budgeting should be better integrated, with a single ministry ceiling for operational and development expenditures, merged presentation in the budget, and closer coordination of processes. The NBO, the Economic Planning Unit (EPU), and the Public Service Department (PSD) should participate together in annual budget discussions with spending ministries. It is also important to improve budget credibility by limiting the introduction of new and unplanned policies during the year, which undermines ministries' efficiency.

- 2) **Improving alignment of outcomes, programs, and institutions.** This will be facilitated through strengthening the top-down process and better linkages between top-down and bottom-up planning. Developing an overall sectoral framework to guide the planning and budget processes would strengthen the top-down and strategic approach. Constraints relating to institutional boundaries and reporting hierarchies for programs need to be overcome in order to design results oriented programs and activities.
- 3) **Integrating PI into budget processes and documents:** There is currently no explicit mechanism for feeding PI back into budget discussions. For OBB to succeed it is important that PI is systematically used in budget discussions to signal to ministries that performance is taken seriously. The new program structure should be integrated into budget documents, along with outcome indicators, merged development and operational budgets, and three year budget projections. The NBO should design a spending review process and conduct initial reviews to examine: prioritization of expenditure, spending on personnel, evaluating program costs, and identify overlapping programs.
- 4) **Improving performance monitoring, reporting, and evaluation:** The first nine OBB ministries should start to report their performance in MyResults in 2015. This information can then be analyzed and feedback into budget discussions. Currently several agencies are involved in setting performance targets for ministries each requiring different information and reporting procedures. These should be streamlined and linkages improved. The existing ministerial performance agreements with the Prime Minister should include OBB program outcome indicators. In addition, performance data and systems could be included as part of the Auditor-General's star rating compliance audit. PI could be reported quarterly along with financial reports and ministries could post their results online. In addition, the MOF should submit an annual report on ministries' performance to the Public Accounts

Committee and eventually ministries could present their annual performance report to Parliament. The NBO should also develop and introduce central guidelines for agencies on program evaluations and evaluation capacities should be enhanced at central and ministry level.

Managing change requires creating incentives for key actors to participate. Incentives can be generated for ministries to pay attention to performance by incorporating PI in budget discussions and in ministerial performance agreements, and by making results public. Ministries currently have extensive flexibility to reallocate expenditures. The exception is in the personnel area, and this exception restricts their capacity to achieve results. Their flexibility to transfer staff positions and undertake ministry reorganization could be enhanced within expenditure ceilings.

To achieve the changes needed for OBB to succeed, and to have a PFM system consistent with an advanced economy by 2020, it is important to follow a reform strategy and build the capacity and capability of the NBO. This report provides recommendations and a reform plan for the next phase of OBB reform.

**Table 1: Summary of Recommendations**

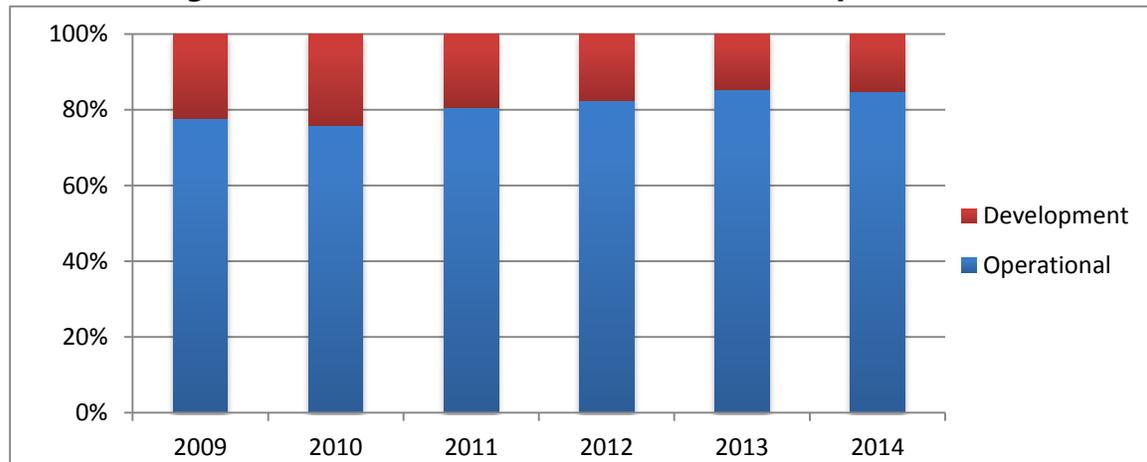
Note: Short Term is 1-2 years and Medium Term is 3-5 years

Chapter	Summary of Recommendation	Short Term	Medium Term
III.	<b>Strengthening the Building Blocks: Improving the Strategic and Medium Term Focus of Budgeting and Planning</b>		
	Introduce a medium-term focus into the budget process, building on the MTFF. Produce a Fiscal Strategy paper at the start of the budget process which is approved by the FPC and the Cabinet.	X	
	Require ministries' requests for new and one-off policies to include projections of medium-term costs, including personnel costs, and a justification of how they support national priorities and affect existing spending priorities.	X	
	Require detailed analysis of the medium term fiscal implications of spending initiatives announced in the Budget Speech and during the course of the year.	X	
	Examine approaches to containing overall personnel expenditures.	X	
	Merge operational (OE) and development budgets (DE). Have a single ceiling for operational and development budgets for each ministry, present this merged version in budget documents, and improve process co-ordination.	X	
	Establish a committee on in-year and medium term operational costs associated with development projects, including the NBO, EPU, PSD and the ICU.	X	
	Introduce a medium term budget framework. <ul style="list-style-type: none"> <li>Prepare an expanded fiscal strategy paper which incorporates budget priorities and launches the budget process.</li> <li>Establish a firm ceiling for ministries and agencies for the budget year and an indicative ceiling for two years ahead, covering OE and DE.</li> <li>Instruct ministries to submit their budgets to NBO within these ceilings for the proposed budget year and projections for two years ahead. Provide training to ministry budget staff in making medium-term estimates.</li> </ul>		X
	Strengthen budget credibility by encouraging the Auditor-General to measure adherence to the original appropriated budget. Strengthen budget planning by ensuring space in ministry budgets for all likely spending for the budget year and discourage the practice of having in-year, unfunded policy measures.		X
	Improve the planning of public investment by making more rigorous selection of development projects, focusing on cost benefit analysis and economic impact. Introduce independent evaluation of the proposed projects costs.		X
IV.	<b>Improving the Alignment of Outcomes, Programs, and Institutions</b>		
	Use a sector categorization to improve alignment of outcomes, programs, and activities. This should start with the COFOG classification but these categories should be refined where necessary.	X	
	NBO should map the outcomes of the 11 <sup>th</sup> National Plan against the sector model, working with EPU and relevant public institutions, and devising sector outcomes where those provided by the National Plan are not adequate.	X	
	Ensure that the sectoral, program, and activity structure which is developed is comprehensive of public expenditure. And that programs and activities avoid overlap and are distinct enough to allow attribution at institutional level.		X
	MOF should work with ministries, EPU, and PEMANDU to clarify the details of how performance accountability will be managed, it should be at the senior Secretary-General or Deputy Secretary-General level.		X
V.	<b>Integrating Performance Information and Analysis into the Budget Process and Budget Documents</b>		

	Ensure processes are put in place to enable the active use of PI in budget review discussions.	X	
	Require the 9 pilot ministries to start reporting on performance results along OBB lines through the MyResults portal in 2015. Other ministries should do so once they have refined their program structures along OBB lines.	X	
	Budget Review Officers in NBO should gather more information and engage in more analysis of cost and performance information.	X	
	Review the institutional capacity of NBO in light of the different and enlarged demands for performance analysis of government programs.	X	
	Establish a Spending Review function charged with analyzing spending and performance of a series of selected government programs on a rolling basis.	X	
	Redesign the format of the Budget Book as proposed in this report and present the OBB program structure in the Budget Book for the 9 pilot ministries for the 2017 budget, and then roll it out to all ministries.	x	
	Integrate Spending Reviews with the budget process.		X
VI.	<b>Improving Performance Monitoring, Reporting, and Evaluation</b>		
	Include selected OBB program KPIs in the performance agreements between the Prime Minister and ministers.	X	
	Budget review officers in the NBO should undertake a trend analysis of selected KPI results on a bi-annual basis and release the results online.	X	
	Submit an annual OBB performance report on ministries' performance to the PAC.	X	
	NBO should lead the effort to introduce guidelines for ministries, departments, and agencies on conducting program evaluations.	X	
	NBO should establish a Community of Practice for staff responsible for research, monitoring, and reporting within ministries, departments and agencies.	X	
	Annually publish a list of program evaluations that are planned, underway and completed on a rolling three-year basis on the MOF website.	X	
	The Auditor-General should include performance data and systems in its annual Star Compliance Audit.		X
	Ministries should submit an annual performance report to Parliament and the PAC.		X

## I. BACKGROUND

1. **Malaysia's economy has performed strongly since independence, with GDP growth rates averaging 6.5%.** Sustained growth and rapid development has transformed the country into a middle-income industrialized market economy.
  
2. **The government has a clear vision for Malaysia. The key national objectives for 2020 are becoming a high-income economy and balancing the budget.** The government has sought to implement its goals through a series of national development plans. In 2010 with the launch of the 10<sup>th</sup> Malaysian Five Year National Plan 2011 – 2015, the government sought to focus on achieving national outcomes, improving the efficiency and effectiveness of public spending, and promoting fiscal sustainability. To achieve these goals, the plan set out five key strategic thrust areas, and 24 key results areas. To meet the challenges ahead, the government crafted a framework which consists of four (4) national pillars as the driving force of transformation. These include 1Malaysia, People First, Performance Now philosophy; Government Transformation Program (GTP), and Economic Transformation Program (ETP). In May 2015, the government will launch its 11<sup>th</sup> Five-Year Malaysia National Plan, covering the period from 2016-2020.
  
3. **Prudent fiscal management plays an important role in the government's long-term strategy.** The government's strategy aims for optimal utilization of public funds to deliver high-quality services, a stable fiscal position which is resilient to macroeconomic shocks, and long-term fiscal sustainability. The government has also stressed the importance of improving the efficiency and effectiveness of public spending.
  
4. **As part of its strategy for prudent fiscal management, the government is undertaking a number of reform initiatives.** These include the creation of a FPC in 2013 to provide high-level strategic decision-making on public finance policies. Other initiatives include adopting outcome-based budgeting (OBB), introducing a Goods and Services Tax (GST) in April 2015; introducing accrual accounting practices, and increasing the role of the National Audit Department.
  
5. **Despite disciplined aggregate fiscal management, and prudent deficit financing, there is increased pressure on public spending.** Since the early 2000s, real GDP growth rates of around 6 percent annually (with the exception of the 2009 global crisis) have been accompanied by an expansion of the public sector. The public sector balance has been in deficit since 2008, although it has been decreasing as a percentage of GDP. Operational expenditures however have been increasing at the expense of development expenditures (Figure 1) potentially squeezing fiscal space for public investment.

**Figure 1: Structure of Federal Government Expenditures**

Source: IMF Staff

**6. Given that Malaysia is a relatively open economy, external events can have an important effect on the fiscal situation.** For example, the reduction in oil prices during the last six months of 2014 led to the announcement by the Prime Minister of a 4% reduction in the 2015 budget at the beginning of the fiscal year.

**7. Thus, it is important that budgetary resources are used in the most efficient and effective way possible.** An effective process, such as OBB, to link resource allocations to meeting national and sectoral policy objectives is a key tool in prioritizing expenditures. This process would potentially assist the government to identify areas of lower priority expenditures to reallocate to higher priority (or higher-impact) ones.

**8. As requested by the authorities this report focuses on strengthening OBB.** This report is structured into the following chapters: II) the current status of outcome based budgeting; III) strengthening the building blocks: improving the strategic and medium term focus to budgeting and planning; IV) improving alignment of outcomes, programs, and institutions; V) integrating performance information into the budget process and budget documents; VI) improving performance monitoring, reporting, and evaluations; VII) OBB—the way forward—strategy and sequencing of reforms.

## II. THE CURRENT STATUS OF OUTCOME BASED BUDGETING

### A. Current Situation

**9. The Malaysian government has a longstanding record of undertaking performance budgeting (PB) reforms dating back to the 1960s.** Malaysia was amongst the first countries in Asia to adopt PB and its approach has evolved over the decades. In 1990 the government introduced the Modified Budgeting System (MBS) an output based

performance budgeting system. Building on previous reforms, it placed a greater emphasis on performance by developing output indicators and annual targets for ministerial programs and activities. Ministries' objectives and output indicators were included in annual program agreements with the MOF and in budget documents. Significant virement authority was delegated to managers to enable them to achieve results.

**10. This system was in place for over twenty years and produced many benefits.**

These included an emphasis on greater delegated authority to ministries and improved development of performance information (PI).

**11. Over time however, a number of issues emerged with MBS.**

These included too much focus on inputs and outputs at the expense of outcomes, a lack of strategic focus resulting in weakened linkages between policies, planning, and budget resources, weak expenditure control, and poor management information systems to facilitate the use of PI. Overtime MBS began a formal compliance exercise with like impact on performance and PI was not systematically used by ministries or the MOF.<sup>1</sup>

**12. In 2010, the authorities announced that they were reforming their PB system and introducing OBB.**

This reform was announced to address the issues with MBS and to better accommodate changing governmental priorities. In order to achieve the objectives of the 10<sup>th</sup> Malaysian plan (10<sup>th</sup> MP), the government decided to shift the focus of planning and budgeting to outcomes and to better integrate planning and budgeting. OBB is designed to be compatible with the outcomes-based approach developed for the 10th MP.

**13. OBB seeks to transform the MBS output based program structure into a new program budgeting structure based on outcomes.**

OBB differs from MBS in a number of respects. It focuses on outcomes and concentrates not only on the budget process but also on strategic planning and performance management.

**14. OBB builds on the positive aspects of MBS but also seeks to address its weaknesses.**

It continues to delegate authority to spending ministries and builds on the program-activity structure used in MBS. To address MBS' weaknesses it introduces an integrated outcomes based results framework which links planning, budgeting, and management.

**15. OBB has a number of aims.** It seeks to: (1) strengthen linkages between national policies and budget programs by ensuring that national Key Result Areas (KRA) contained in the 10<sup>th</sup> MP cascade down to agency-level KRAs and outcomes are linked to budget

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<sup>1</sup> World Bank Final Report Program Budgeting in Malaysia (2010)

programs (see Table 2); (2) help eliminate waste and identify redundancies by highlighting overlapping programs and activities; (3) change budget reviewing processes to focus on program performance and results delivery; (4) provide a multi-year view of performance and budgeting data to support decision making processes at all levels and (5) integrate processes for the preparing operating and development budgets. It endeavors to be all-inclusive and comprehensive in its design. OBB's intention is to act as a tool for planning, budgeting, monitoring, evaluation and reporting for results.

**Table 2: Linking National and Ministerial Level Outcomes**

<b>National level</b>	
<ul style="list-style-type: none"> <li>• National Strategic Thrusts</li> <li>• National Key Results Area</li> <li>• National Outcome</li> <li>○ Key Performance Indicator</li> <li>• National Program</li> </ul>	National Results Framework (per 10 <sup>th</sup> MP)
<b>Ministry level</b>	
<ul style="list-style-type: none"> <li>• Ministry's Outcome</li> <li>○ Key Performance Indicator</li> <li>• Budget Program</li> </ul>	Ministry Executive Summary
<b>Program level</b>	
<ul style="list-style-type: none"> <li>• Program Outcome</li> <li>○ Key Performance Indicator</li> <li>• Budget Activity (i.e., sub-program)</li> </ul>	Program Performance Management Framework
<b>Activity level</b>	
<ul style="list-style-type: none"> <li>• Activity Outcome</li> <li>○ Key Performance Indicator</li> <li>• Activity Output</li> <li>○ Key Performance Indicator</li> </ul>	Activity Performance Management Framework

**16. The government announced OBB in the Prime Minister's 2010 Budget Speech and began implementation in 2012.** Implementation of OBB is being phased in over a number of years. There is buy-in for OBB at the highest level (both political and administrative) within the MOF including through the sponsorship of the MOF Secretary General and the National Budget Director. Supporting the NBO in this work are the Ministry's OBB Implementation Committee (MOIC), the Program Performance Management Committee (PPMC), and the Activity Performance Management Committee (APMC).

**17. To help design and implement OBB a team was established in the MOF.** It is currently based in the Performance Management and Evaluation Sector of the NBO. This team designed the comprehensive and logical OBB framework and reform plan. The team worked with the nine pilot ministries in aligning ministerial and national outcomes and in

establishing outcome based structures for their programs and activities. The team has also published formal guidance for ministries on the principles and technical parameters of OBB.<sup>2</sup> They have established the MyResults online IT system which all ministries use to submit their budget together with their performance indicators to the NBO and it also allows ministries to report performance results although they have yet to do so.

**18. To date notable progress has been made in a number of key areas in the implementation of OBB in Malaysia.** These include:

- The well informed and highly motivated OBB team, have been critical in providing advice and guidance to ministries on change their program structures. They have engaged ministries in workshops on OBB and have taken 9 pilots through the process of moving to an outcome based program structure, providing lessons which have been captured and built into the evolution of the OBB approach.<sup>3</sup>
- Where OBB has been piloted, it has led to some rationalization of outcomes, programs, and activities and increasing focus on priorities (although this has differed from ministry to ministry).
- There is a high level of awareness of OBB across ministries and within Parliament. It is notable that ministries, the National Audit Department, and the Public Accounts Committee all have a good general understanding of OBB's objectives.
- The OBB model is achieving a shift from the output based program model under MBS towards an outcome based program structure, with outcome KPIs now being identified across ministries.
- A centralized performance information system (MyResults) is in place and is compatible with the structural changes required to implement OBB across the whole of government. Pilot ministries already have an OBB program structure and KPI's embedded within MyResults.
- All ministries submit their annual budgets along with planned performance in MyResults. OBB requirements were formally issued to ministries through the MOF OBB Circular and are integrated into the annual budget circular.
- The primary outcomes of the 10<sup>th</sup> Malaysian national plan have been mapped against ministry program areas to reflect the broad fit with institutional structures.

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<sup>2</sup> MOF, OBB Circular, NT 1.1 (2013).

<sup>3</sup> In total there are 9 pilot ministries which were introduced in two phases. In the first phase, three ministries participated: the Ministry of International Trade and Industry; the Ministry of Health and the Ministry of Finance. In the second phase, six ministries participated: The Ministry for Agriculture, the Ministry of Works, the Ministry of Science Technology and Innovation; the Ministry of Energy, Green Technology and Water, the Ministry for Human Resources, and the Ministry for Federal Territories

**19. Moving ahead the authorities aim for all ministries to rationalize budget structures to adopt OBB program structures and to report results in MyResults and performance outcomes in the budget book.** The government aims for the pilot ministries to report performance in MyResults in 2015 and in 2016 to include the performance outcomes in the budget book for 2017. Following a stagger implementation plan the government aims to have the other ministries doing the same by 2018. The authorities have requested the mission examine how OBB and PI can be better integrated into the budgeting and planning processes; how to improve the strategic and medium term focus of these processes; and how to improve monitoring and reporting on performance and its presentation in the budget book.

## **B. Implementation Challenges**

**20. Implementing OBB is challenging even in advanced OECD countries.** In introducing OBB the government has encountered some common technical and implementation challenges, while other challenges relate to contextual factors and the wider system of budgeting and planning.

**21. The main implementation challenges with the introduction of OBB and its institutionalization to date have included:**

- Strengthening the performance culture in ministries and effectively linking performance to resources;
- Understanding the program-based approach and refining programs to link to sector priorities, rather than institutional structure (the basis for activities);
- Aligning outcomes, programs, and activities.
- Introduction of meaningful outcome indicators at the program level;
- Establishing clear accountability for outcomes (particularly for programs);
- Managing shared (cross-cutting) outcomes;
- Introducing OBB presentation into the Budget Book.
- Improving the quality of the performance data, particularly to ensure consistency;
- Developing evaluation processes for OBB ministries;
- Elapsed timing and the risk of reform fatigue: There is a risk that, for those early-adopters of OBB, the time it takes to bring the remaining ministries into the process, and thus to realize the full benefits of OBB, will reduce the commitment of the pilots.
- Given the phased implementation over a number of years, to maintain momentum it is important to show results quickly.

## **C. Institutional and Contextual Challenges**

**22. OBB is about more than structures and generating information.** It is about changing behavior and wider systems of planning and budgeting, with the aim of promoting a greater focus on results and use of PI in decision making. This reform recognizes the need

to take a more strategic and medium term approach to planning and budgeting and the necessity of integrating them. These changes are important to support OBB and to manage expenditure over the medium term. These challenges are discussed in greater detail in the proceeding chapters. Challenges include:

- Enhancing processes and institutions to improve integration of planning and budget
- Merging operational and development budgets
- Introducing a more medium term focus in expenditure management
- Improving institutional coordination between NBO, the Economic Policy Unit (EPU), the Prime Minister's Performance Management and Delivery Unit (PEMANDU), and the Implementation Coordination Unit (ICU) in the Prime Minister's office, in setting, monitoring, and reporting on performance targets.

**23. OBB is part of a broader process of fiscal reform and introducing results-based management.** Performance-based budgeting is a specific subset of broader performance management, which includes reforms to personnel performance, monitoring and evaluation, and related management information systems.

**24. The government has identified a number of critical success factors for sustained implementation of OBB.**

- Top management involvement and leadership (political will), which is critical;
- Performance information must be demand driven;
- Availability of appropriate skills, including data analysis and business intelligence;
- The need for extensive "Change management."

**25. The move to OBB is a very complex process, which involves multiple stakeholders throughout the PFM system.** Based on experience elsewhere, the mission would largely agree with the government's assessment. Successful introduction will require sustained political support and leadership, dedicated resources, and an extensive sensitization program for policy makers. The policy makers, in particular Cabinet, need to understand the objectives and benefits of the reform as well as its links with other reforms.

### **III. STRENGTHENING THE BUILDING BLOCKS: IMPROVING THE STRATEGIC AND MEDIUM TERM FOCUS OF BUDGETING AND PLANNING**

#### **A. Current Situation**

**26. OBB and the 10<sup>th</sup> Malaysia plan are focused on achieving outcomes over the medium term.** In order to achieve its key medium-term policy outcomes the Government recognizes that there is a need to have a medium-term strategic focus to the budget process and to improve the efficiency and effectiveness of spending. This is particularly important in the light of current fiscal consolidation measures.

**27. The Government has made progress in recent years in introducing more medium-term and strategic elements into the budget process.** Recent initiatives undertaken include the establishment of medium-term projections for fiscal aggregates, the formation of a high-level FPC chaired by the Prime Minister which aims to oversee the reduction in the fiscal deficit, and the inclusion of three-year budget parameters in NBO's on-line budget preparation system. The development budget process continues to be framed by a medium-term national plan.

## **B. Improving Strategic and Medium Term Focus**

**28. Despite this progress the current budget process remains largely annual and input-driven and is not guided by an overall sectoral strategic framework.** The government is in the process of developing its first MTFF. However to date, budgets have not been explicitly guided by a framework, which clearly set out the fiscal aggregates over the medium term, the available fiscal space for new policies during the period, as well as the government's overall fiscal strategy towards achieving its medium-term fiscal objectives, including those set out in fiscal rules.

**29. The documents guiding preparation of the budget are either not medium-term or are not produced on a rolling basis.** The parameters in the current National Plan cover a fixed five-year period. The parameters in the Call Circular are focused on the coming budget year.

**30. Institutional responsibility for macro-fiscal projections is that of EPU (responsible for medium-term projections), and the Fiscal and Economics Division (FED) in MOF (annual projections for the coming budget).** For the national plan medium term macroeconomic variables and fiscal aggregate parameters are provided by EPU, and the annual projections by MOF. EPU's macroeconomic and broad fiscal projections (estimates of overall revenues and expenditures, the targeted deficit and debt/GDP ratio) are set out for five years in the national plans, and are subsequently rolled over each year.

**31. Recently, the MOF's FED has initiated the process of preparing a Medium-Term Fiscal framework (MTFF).** MTFF aggregates come from the Fiscal Policy Office in consultation with EPU and are submitted to the Fiscal Policy Committee. The MTFF is expected to be produced for a three-year period on a rolling basis. It will be presented to the FPC but not to the Cabinet. External technical support is being provided to strengthen and operationalize the MTFF.

**32. Many high-income countries publish their medium-term fiscal assumptions, sensitivity analyses of fiscal and/or macroeconomic models, and independent reviews**

**and analyses of their macroeconomic models.** In Malaysia, neither the parameters in the MFF nor the scenarios for annual budget preparation are currently published.

**33. Inter-sectoral priorities are not clearly established at the beginning of the budget process through, for example, a budget policy paper.** The Cabinet sets broad priorities in the form of national key results areas in the national development plan but these are not translated explicitly into relative priorities for particular sectors or spending ministries over the medium term. Thus, guidance on making strategic reallocations of resources towards key priority areas is not given. This is especially important when there are fiscal constraints.

**34. Spending limits which are provided to ministries and agencies at the beginning of the budget process are not explicitly linked to the government's priorities across sectoral areas.** The expenditure targets provided to spending heads by MOF (see Section C below) are not based on inter-sectoral priorities and only cover recurrent expenditure. The lack of such strategic guiding framework for budgets potentially reduces allocative efficiency (and hence potential to achieve government's desired outcomes).

**35. Unlike in most advanced PFM systems, there is not an iterative process of interaction between the top-down strategic guidance and the bottom-up detailed process of costing existing and new policies and allocating resources within the overall ceilings.** There are limited opportunities for inter-sectoral and intra-sectoral discussions which could help guide more efficient and effective use of money to improve service outcomes and reduce overlapping programs.

**36. In contrast to practices in many countries, Cabinet does not have an active role in setting the budget's policy parameters at the beginning of the budget process.** It is not involved in approving ministry-specific ceilings, either the expenditure target for operational expenditures or the individual spending ministry ceilings for development expenditures. However, the FPC should strengthen high-level oversight of the fiscal parameters for budget preparation. One of the Committee's stated aims is to provide (somewhat) independent forecasts and assessments of government revenue, expenditure, and changes to tax policies.

**37. Although the budget process begins early in the fiscal year, ministries and departments do not use the time to undertake detailed analyses of the costs of new policies, or of the effectiveness and efficiency of existing ones.** Despite the early start (with the issuance of the Call Circular, in February, eight months before the Budget's submission to Parliament), cost estimates are not systematically produced and fed into decision-making (the budget process is described in more detail in Chapter V).

**38. The communication of fiscal policy objectives through a Fiscal Strategy Paper in the budgetary process is in many countries a key component of the medium-term**

**framework.** A clear and consistent announcement of fiscal policy goals is critical to gain credibility and prompt collaborative responses from agents and markets. The document should explain the fiscal policy goals, present the projected fiscal aggregates integrated with the saving-investment macro flows, analyze fiscal risks and scenarios, and address the issue of debt sustainability. In some countries (see Box 1), the medium-term relative budgetary priorities are set out in a different document, while in others, (e.g., South Africa) both the fiscal strategy and the setting out of medium-term budget priorities are combined in one document (“the Medium Term Budget Policy Statement”) and tabled in Cabinet for approval at the beginning of budget preparation.

### **Box 1. New Zealand: Medium-term Fiscal Strategy Documents**

The New Zealand Government publishes its Fiscal Policy Report (FPR) in May and its Budget Policy Statement (BPS) in December of each year (the financial year runs from 1 July-30 June). The FPR announces the government’s goals, communicates the fiscal parameters, explains the economic context and the fiscal priorities, presents past fiscal performance, and provides fiscal forecasts and projections. The BPS announces the government’s plans and the budget goals and priorities. It also includes fiscal forecasts and projections. Both reports share an analysis of the short-term fiscal intentions and the long-run fiscal objectives. The short-term fiscal intentions included in the FPR are compared with the ones addressed by the previous BPS. In the same way, the BPS analyzes the short-term fiscal intentions and provides a comparison with the ones included in the previous FPR. This communication strategy allows for a firmer anchoring during the year of the fiscal announcements and provides continuity and underlines government commitment.

**Source: IMF Staff**

**39. Improving the strategic and medium-term focus of the budget process would facilitate the greater alignment of budget allocations with government priorities.** This, in turn, would facilitate the achievement of the national outcomes being developed as part of the new 11<sup>th</sup> National Plan. At the same time, fiscal consolidation measures will require more attention to be paid to how efficiently budget resources are spent and ensure they are targeted at the highest priority policy areas.

## **C. Integrating Planning and Budgeting and Improving Co-ordination**

**40. The government has made recent progress in strengthening the co-ordination of planning and budgeting processes.** While, previously, separate call circulars for operational expenditures (OE) and development expenditure (DE) were circulated at the beginning of the budget process, now the Circular covers both. In addition, an IT system used by MOF for budget preparation and execution includes budget information for both OE and DE.

**41. The planning process is formally driven by the 5-year national development plan, currently the 10<sup>th</sup> Malaysian Plan.** As discussed in Chapter I, the national plan sets broad strategic policy objectives, key national results area, and national outcomes for the 5-year period under a particular theme (e.g., economic and social transformation for the current plan). In practice, however, there are multiple development plans, including the Government Transformation Program (GTP) and the Economic Transformation Program (ETP). While the national plan is prepared and managed by the Economic Planning Unit (EPU) under the Prime Minister’s Department, the GTP and ETP are prepared and managed by the Prime Minister’s Performance Management and Delivery Unit (PEMANDU), which is a separate section of the PM’s Department. While these multiple plans are intended to support the National Plan, they potentially make co-ordination more difficult.

**42. Institutionally, budget preparation is split into largely separate processes covering OE and DE initiatives.** Operational expenditures are prepared by the budget sections of line ministries and departments and mediated by the NBO. The development budget is prepared by the planning sections of line ministries and departments and mediated by EPU. There are also other initiatives in the Prime Minister’s Budget Speech that are prepared by the Budget Team in the MOF.

**43. In practice, there is another process for high priority projects overseen by PEMANDU.** These projects were selected as part of stakeholder “labs” which involved detailed analyses of the root causes of development issues across a number of key subject areas, such as innovation. In practice, these projects, which are largely development projects, have priority for resource allocation.

**44. The processes for planning and budgeting for development and operational expenditures are, to all intents and purposes completely separate.** While there is a single Call Circular which covers both OE and DE, this is largely presentational. The section on DE prepared by the EPU is combined with the rest of the Circular (covering OE) prepared by the NBO. The process of presenting OE and DE for each ministry or department is one of compilation by the NBO, not integration. While the Call Circular talks about an integrated approach, with integrated review of budgets amongst NBO, EPU, and PSD, this does not appear to take place in practice. Even Parliamentary approval for OE and DE is separate, with the Appropriations Bill (known as the Supply Bill) legislatively approved only for OE. DE, which is funded from a Trust Fund, a sub-fund of the Consolidated Fund, is approved by a “Motion” passed by the lower House.

**45. The annual budget process begins in February, with the distribution of the call circular to spending ministries and agencies by MOF.** This is largely a technical and process document, which sets out broad priorities, fiscal targets (e.g., for the deficit) for the

budget year and includes the tables and forms which the ministries should use in their submission.

**46. Following the distribution of the general call circular, each spending head is given its expenditure target (ET) for the coming budget year.** Each spending head's ET covers operational spending on existing policies, new policies approved in the previous year's budget, a percentage increase for personal emoluments, and deducting a factor representing efficiency savings.

**47. The expenditure target is based on a formula, which used to be set out explicitly in the Call Circular.** In the most recent Circulars, the formula is not included explicitly as the MOF wished to promote a less-mechanistic approach. However, in practice, this approach continues to guide budget preparation.

**48. The calculation for the amount for new and one-off policies is not based on detailed costings of programs planned to be implemented by line ministries** (e.g., as part of a strategic or ministerial plan). While some line ministries prepare such plans, these do not seem to drive policies. In practice, the ET is driven by the personal emoluments increment.<sup>4</sup>

**49. Ministries and spending agencies prepare their operational budget submissions on the basis of line items for each activity.** In practice, given the importance of personal emoluments, the process appears to be largely mechanistic, adding an increment to the previous year's budget for each activity and plugging these into a spreadsheet. The effect of the formula-based ET appears to encourage some gaming, with some ministries under-budgeting their personal emolument requirements, thereby boosting their spending space for new and one-off policies.

**50. Despite OBB, budget presentation continues to be based on the MBS structure which has been in place since the early 1990s.** Ministry budgets in the Budget Book are presented according to the existing MBS programs and activities. And little has changed in the way that they prepare their budgets.

**51. The top-down process for the development budget is the responsibility of EPU and begins with the setting of a baseline ceiling for DE for each ministry and agency.** These ceilings are based on the aggregate medium-term ceiling for DE and very broad government priorities as given in the National Plan. In the past (e.g., under the 9<sup>th</sup> National Plan), the ceilings were fixed for the entire five-year period. The 10<sup>th</sup> MP, did towards the end,

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<sup>4</sup> Requests for new policies have to be justified by the activity and requests for additional budgets.

adopt the rolling plan method. For the 11<sup>th</sup> National Plan, soon to be launched, the ceilings will be rolling and cover two years. The ceilings for ministries are intended to take into account current on-going projects and previous project requests from ministries.

**52. As part of their annual planning process, ministries prepare a pipeline of development projects to EPU for approval.** While the total submission of project proposals is supposed to fit within their ministry ceiling, ministry submissions are often well above the estimate. One estimate suggested that some were as high as three times their ceiling amount. EPU sees its role as matching the ministry-level projects with the overall national plans.

**53. Projects are considered for selection and approval by EPU.** The selection of new projects is based on readiness of the project (e.g., if land has been acquired), the consistency with the overall objectives of national policies (i.e., in line with the national plan), the urgency of the project, its financial viability and implementation capacity. Once a project has been approved, it is expected to be funded. EPU will set a ceiling for each development project based on an estimate of the project cost. Ministries may move funds across projects within their ceilings and even above their ceiling with the approval of EPU.

**54. However, the technical screening and appraisal of projects appears to be limited and this is likely to affect spending efficiency.** Some small cost-benefit analyses may be carried out, but these are not carried out systematically and they are not used as the basis for selecting projects. The cost estimates have not been subject to external review, and the economic benefits of projects are not calculated.

**55. In response to this issue a process of assessing projects for their value-for-money was established.** The National Development Planning Committee decides on the application and implementation of this process. A Value Management Section was established in EPU with the mandate to examine all projects over RM50 million to ensure their proposed functionality, quality, and costs provide value for money. However, the effectiveness of this process is limited as there are many projects below RM50 which are not mandated to have a value for money assessment. Ministries are encouraged to do their own assessments. For the 11<sup>th</sup> National Plan, a new score-based index for selecting development projects for funding is being prepared.

**56. Given the emphasis on fitting with the National Plan, the process may constrain a balanced approach to capital spending to support all public services.** This may potentially crowd out resources for routine public service provision not explicitly linked to the national plan (e.g., border control services or state department activities).

**57. This complete separation of processes and institutional responsibility for planning and budgeting prevents the efficient planning of resources to meet key**

**national and sectoral policy objectives and achieve desired results.** Conflicting and/or inconsistent processes for planning and budgeting serve to constrain improvements in national and strategic performance. There are several agencies, including NBO, EPU, PEMANDU, as well as PSD, involved in setting requirements for plans and budgets for spending ministries and there is a need for improved co-ordination.

#### **D. Integrating Development and Operational Budgets**

**58. The dual budget structure serves to undermine efficient resource allocation and effective spending on public services.** Budget systems in high-income countries rarely operate dual budgets. An integrated approach leads to more balanced allocations between recurrent (operational) and capital and the improved management of resources. A decision to build infrastructure (such as schools) which is not matched by the required operating costs (teachers and textbooks) as well as maintenance of the infrastructure may lead to wasteful capital spending. The definition of what should be classified as development spending is often not always clear. In Malaysia, development expenditures include training costs, for example, but there are differing estimates of the extent of non-capital items included. For the preparation of the 11<sup>th</sup> Malaysia plan projects, ministries have been given DE/OE classification guidelines by EPU.

**59. The costing of new policies, which should be considered from the point of view of both operational and development expenditures, is carried out for OE and DE separately without regard for their interaction.** This is true for ministry-initiated policies, as well as the Prime Minister's initiatives contained in the Budget Speech. Since new policies (with the exception of one-off policies) in one year become existing policies in the next, this separation becomes systematized in future budget allocations. The quality of the policy costings produced by spending ministries is variable.

**60. Neither operational nor development expenditures for existing policies are reviewed systemically from one year to the next.** This is partly the result of the lack of spending reviews or systematic project evaluations as part of the overall budget process (see Chapter V). For development projects, ex post evaluations are either not carried out systematically or the results are not fed back into improve future projects. The impact of not reviewing spending is that inefficiencies in spending policies tend to be carried forward.

**61. Weak management of government development projects can potentially have an important negative effect on the efficiency of public investment spending and thereby on development outcomes.** In order to improve the system, recently the Auditor-General (AG) has begun to undertake reviews of large impact projects to identify during the course of project implementation improvements needed in public investment management. In addition the AG conducts a number of performance and value-for-money reviews (see

Chapter VI). However, according to PAC, there is a risk that these performance reviews do not highlight the material issues that exist, focusing instead on minor issues.

**62. The preparation and management of development projects could be made more robust through a more rigorous appraisal and screening process and improved selection criteria.** This would include the more systematic use of cost-benefit and economic and possibly environmental impact analyses. Guidelines for how to carry out these assessments could be produced.

**63. Future recurrent costs associated with development projects are not systematically factored into budget plans, nor systematically discussed with ministries or NBO staff as part of the budget discussions.** This applies both to ministries' development projects based on the national development plan, as well as the proposals included in the Prime Minister's Budget Speech. There appears to be no mechanism for incorporating such costs into future budgets. While the Call Circular requests that ministries and agencies estimate the on-going operational expenditures associated with proposed development projects, these either do not appear to be reviewed or taken into account by EPU or MOF. While the Budget Speech proposals are funded from a designated (non-ministerial) fund for the coming budget year, any on-going funds required to continue the policy (e.g., for an increase in police numbers) in future years requires accommodating these costs in the relevant ministry's budgets. This may in practice displace resources from funding its on-going services.

## **E. Improving Financial Performance and Budget Credibility**

**64. Actual expenditures of line ministries exceed their original appropriated budgets, in some cases significantly.** This applies to operational expenditures and most notably primarily to personal emoluments. The development budget tends to be underspent. In recent years, the main sources of higher-than-planned operational expenditures have been those in the social sectors (health and education) as well as central agencies (Treasury and PSD) and Statutory Funds.<sup>5</sup> In 2013, supplementary authorizations resulted in increases in approved operational expenditures compared to the original budget of 10.1%.

**65. The execution of appropriated budgets as planned is undermined by weaknesses in budget planning, as well as the practice of introducing new policies within the budget year.** In particular, weaknesses in expenditure controls on PE are likely to contribute to the practice of under-budgeting of personal emoluments by line ministries. In addition, the introduction of new policies during the budget year without the identification

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<sup>5</sup> Additional requests for emoluments arise when requests for new posts take place outside of the budget cycle. For this year Ministries are being asked to create new posts through trade-offs and redeployments.

of how the costs of these policies will be met can lead to the inappropriate use of the contingency provision. In many countries, there are explicit (and often legislated) rules for the use of contingency provision (true emergencies only, such as natural disasters), as well as a limit for their overall amount, and use of such funds must be accompanied by written, auditable justification.

**66. Line ministries adjust to unplanned requirements by either requesting additional funds from MOF or additional posts from PSD or reallocating resources within their existing budgets.** This potentially affects the efficiency or effectiveness of planned spending on programs or activities.

**67. In order to sanction this over spending, it has become common practice in recent years for Parliament to pass two supplementary budgets each year (see Appendix 2).** This is an improvement from previous years when the number of supplementary budgets was higher. The first of these occurs in either June or September in the budget year to which it refers. The supplementary amounts are primarily for bonuses announced during the Budget Speech and fuel subsidies, and in-year changes to policy. The fuel price increases may have been unexpected and thereby difficult to plan in the budget. A financial provision for annual bonuses, which would be expected, could have been made (even if the exact amount is not known during budget preparation). Policy changes for the coming year should be explicitly factored in as part of the budget process.

**68. The second supplementary budget takes place during the first six months (e.g., March or May) after the end of the budget year and represents ex post authority provision for spending that happened during the previous budget year,** which should have been approved ex ante. This supplementary budget is approved after the Accountant-General has prepared the annual financial statement and submitted it to the Auditor-General for audit, usually by the end of February. The explanation in the Supplementary Supply Bill is given as “for expenditure on the services not provided for or not fully provided for” in the appropriated Budget. The majority of these expenditures tend to be for personal emoluments and are explained by the lack of personnel spending caps. While the practice of *ex post* regularization of spending occurs in many countries, it does not represent good practice because it undermines both accountability for budget expenditures and spending efficiency.

**69. The increasing trend in OE potentially crowds out funding of development projects and makes it more difficult for the government to achievement its development goals and targets for economic growth.** The rise in PE, which is driving the increase in OE, is the result of the ever-increasing size of the public service. Since staff costs are relatively fixed in the short-term, this trend also potentially affects the government’s ability to meet its fiscal consolidation targets.

**70. Budgets which are not implemented as originally planned undermine the efficiency of spending and ministries' accountability for achieving results.** In particular, the introduction of new and unplanned policies during the year, whose fiscal implications displace planned spending, reduces ministries' authority and ability to achieve planned performance.

**71. Budget credibility will likely be improved only through a high-level focus on adherence to appropriated budgets and consequences for over-spending.** This involves changing the underlying incentives to budget discipline. Such incentives include high-level (e.g., Cabinet) endorsement of spending limits at the beginning of the budget process, a change in the Auditor-General's focus on scrutiny of expenditure control relative to the appropriated budget (instead of as now to the revised budgets), as well as a more explicit policy of controlling payroll costs. Curtailing the practice of introducing unfunded mandates through in-year policy changes would also make planned budgets more credible.

## **F. Recommendations**

**72. Below is listed short and medium term recommendations for improving the strategic and medium term focus of planning and better integration of operational and development expenditures.**

### *Short term*

- A medium-term focus should be introduced into the budget process, building on the MTFF, and presented in a Fiscal Strategy paper, which should be approved by the FPC and Cabinet at the beginning of the budget preparation process. Once the MTFF is more developed it should be published.
- Require ministries' requests for new and one-off policies to be accompanied by projections of medium-term costs, including personnel costs. Each proposal should be justified in terms of how it supports the achievement of national priorities and affects existing spending priorities. In addition, require ministries to provide information on planned performance.
- Require detailed analysis of the medium term fiscal implications of spending initiatives announced in the Budget Speech and during the course of the year.
- Consideration should be given to examining approaches to contain overall personnel expenditures.
- Merge operational and development budgets. This can be done by having a single ceiling covering both OE and DE, presenting merged version in the budget documents (see Chapter V), and by improving process co-ordination. Ministries should submit their budget proposals for both operational and development budgets to MOF. Budget discussions should take place with MOF, EPU, and PSD, together with spending ministries.

- Establish a committee on operational costs associated with development projects. This committee could comprise representatives from the NBO, EPU, PSD and the Implementation Co-ordination Unit (ICU). Discuss the operational costs for development projects and the implications for the current year budget and over the medium term.

#### *Medium term*

- Introduce a medium term budget framework.
  - Prepare an expanded fiscal strategy paper which incorporates budget priorities and launches the budget process. It should be used to guide the setting of inter-sectoral priorities in line with national and sectoral objectives.
  - On this basis, the MOF should establish a firm ceiling for ministries and agencies for the proposed budget year and an indicative ceiling for two years ahead, covering both OE and DE.
  - Ministries should be instructed to submit their budgets to NBO within these ceilings for the proposed budget year and projections for two years ahead, and training should be provided to ministry budget staff in making meaningful medium-term estimates.
- Strengthen budget credibility by encouraging the Auditor-General to measure adherence to the original appropriated budget.
- Introduce measures to strengthen budget planning, such as ensuring adequate space in ministry budgets for all likely spending for the budget year and discouraging the practice of in-year introducing unfunded policy measures.
- Improve the planning of public investment by making more rigorous the selection of development projects focusing on cost benefit analysis and economic impact. Introduce independent evaluation of the proposed projects cost. Make more explicit the relative weights for the scoring criteria for project selection, and make the scoring sheets for individual projects available for external scrutiny.

## **IV. IMPROVING THE ALIGNMENT OF OUTCOMES, PROGRAMS, AND INSTITUTIONS**

### **A. Current Situation**

**73. OBB seeks to reform the MBS output based program structure to a new program budgeting structure based on outcomes.** As discussed in Chapter II, the adoption of OBB has already achieved notable impact on improving the focus on outcome led programs across government.

**74. However, while progress has been made barriers to the effective alignment of outcomes, programs, and institutions remain.** This is an important part of OBB implementation. These barriers are discussed in greater detail in this section.

**75. There are currently multiple sets of priorities for government which have been designed for different purposes and at different times.** This makes it difficult to arrive at a single, coherent set of outcome priorities for OBB. Existing sets of priorities include the 10<sup>th</sup> Malaysian Development Plan with its National Key Results Areas, National Outcomes and National Programs, Ministerial Key Results Areas, and PEMANDU initiatives as well as outcome and output objectives already contained within MBS and OBB. This challenge of integrating various sets of priorities is reinforced by difficulties coordinating the key actors in the center of government such as EPU, PEMANDU and the MOF.

**76. Existing national outcome priorities are not comprehensive of public expenditure and include significant overlap, limiting their usefulness as an organizing structure for OBB.** Although it is commendable that MOF has sought to minimize duplication by using the existing outcomes of the National Development Plan and National Key Results Areas, neither of these sets of priorities are comprehensive enough to support outcome based programming for government as a whole. Nor, because they are overlapping, do they provide a distinct set of sectoral objectives around which program priorities and public funding can be managed.

**77. OBB has initially allowed ministries to maintain their existing MBS activity structures which are explicitly tied to ministry administrative structures.** Under OBB the existing activities will be remapped to the refined OBB programs. While this compromise is understandable given the transitional roll-out approach that has been adopted, it will be important for ministries to be able to delink their budget and administrative structures over time to ensure that the budget structure is more results-based to the greatest extent.

**78. Constraints related to institutional boundaries and reporting hierarchies need to be overcome in order to design effective program and activity level structures.** The bottom-up planning approach has been useful in the early stages of OBB reform, helping institutions to make incremental change towards an outcome based approach while not attempting to move too quickly towards challenging the existing reporting structures and hierarchies. In some cases, such as Ministry of International Trade and Industry this approach has produced good activity and program level structures.

**79. However, an over reliance on bottom up planning risks creating a structure that is bound by institutional reach, rather than shaped by outcome or output groups.** This is a particular risk where a number of bodies contribute to the same output group (such as the 17 bodies responsible for investment promotion) or where units within single institutions contribute to multiple programs. OBB does not yet provide a means for identifying overlap, duplication or clarifying attribution amongst public institutions.

**80. There are multiple performance reporting systems, meaning the performance environment for OBB is complex and potentially duplicative.** Malaysia has made significant progress in developing and embedding performance reporting systems across government. In addition to the MyResults information collected by MOF under MBS, a

reporting structure exists for Ministerial Key Results Areas (MKRAs), managed by ministry delivery units. PEMANDU monitors National Key Results Areas (NKRAs) and monitors progress on key initiatives, bringing these together with MKRAs to create progress reports to the Cabinet.

**81. ICU monitors progress on implementation of capital projects agreed through the budget process.** In addition, departments such as the Ministry of Health have advanced systems of tracking and reporting performance information internally and to external bodies such as the World Health Organization.

**82. However, these systems have been designed for different purposes and audiences and so at present it is difficult for MOF to align OBB with them.** The creation of a strengthened, distinct set of reporting requirements for OBB also risks adding to monitoring requirements on departments, a number of which are still in the early stages of developing performance management behaviors and systems.

**83. The current focus on outcomes at all levels of the OBB structure is a limitation to finding the most effective and workable structure at the activity level (sub-program level).** While it is clearly critical to ensure that outcomes are embedded in the OBB approach at *sectoral* and at the *program* level, in most *activity* areas, outcomes will be too broad to provide an effective means of prioritizing and measuring the impact of public bodies and input groupings would provide a more useful model.

**84. There is as yet no clearly defined process for identifying priorities and budgeting in a coordinated way across the institutions that contribute to common outcomes.** One of the primary advantages of OBB is that it allows analysis, prioritization, and increased efficiency and effectiveness across a group of actors contributing to common outcomes or outputs. There is not yet a process in place to allow MOF to realize these benefits, bringing together relevant actors to review common priorities and medium term cost projections, in order to agree future funding and reform priorities.

**85. There have also been specific challenges in implementing OBB in aligning institutions with activities.** This has resulted in activity definitions in some ministries (such as the Ministry of Transport) that remain constrained by institutional boundaries and reporting structures, rather than being grouped around common performance objectives.

## **B. International Experience of Program Budgeting**

**86. Program based budgeting (PBB) models are widely used in advanced economies.** In 2012, 22 out of 34 OECD countries had a standard performance budgeting framework in place which was applied uniformly across all ministries. Countries that have made such reforms have experienced some of the challenges discussed in Chapter II, but they have also reported benefits.

**87. There are a number of differences across countries in the detailed design and application of their respective PBB systems.** These include:

- The extent to which the performance frameworks in place provide a comprehensive set of outcomes for public expenditure (as in the French case), or focus on relatively few, broad outcomes that are not clearly assigned to program expenditure (as in the U.K.).
- The level of appropriation. For some countries it is at the program level for others the ministry level.
- The inclusion of spending reviews to evaluate expenditure, future cost pressures, effectiveness and efficiency in cross cutting themes, sectors or common groupings of outputs.
- The extent to which performance information is systematically presented in the Budget book.
- The governance, monitoring and reporting systems used to provide ongoing performance management.

**88. Table 3 illustrates the approach of five PBB systems and provides a comparison with the current Malaysian model.** Central or split budget authority in the table below refers to if there is only one central authority responsible for the budget process or if there are more than one for example in Canada there is the Treasury Board and the Department of Finance.

**Table 3: Overview of PBB Systems and Comparison with Malaysian System**

	Malaysia	France	U.K.	South Africa	South Korea	Canada
<b>Comprehensive Outcomes</b>	No.	Yes.	No.	Yes.	Yes.	Yes.
<b>Central or split Budget Authority</b>	Central but decision making split in practice.	Central	Central.	Central.	Central.	Split.
<b>Level of Appropriation</b>	Ministry.	Program.	Ministry.	Program.	Program.	Ministry.
<b>Inclusion of spending reviews as part of budget process</b>	No.	Yes.	Yes, across all public expenditure once every 3 years.	Yes.	No.	Yes.
<b>Inclusion of PI in Budget book</b>	Limited to selected activities and KPIs.	Yes.	Limited to new initiatives.	Yes.	Yes.	Yes.

Source: OECD Budget Practices and Processes Survey 2014 and IMF Staff

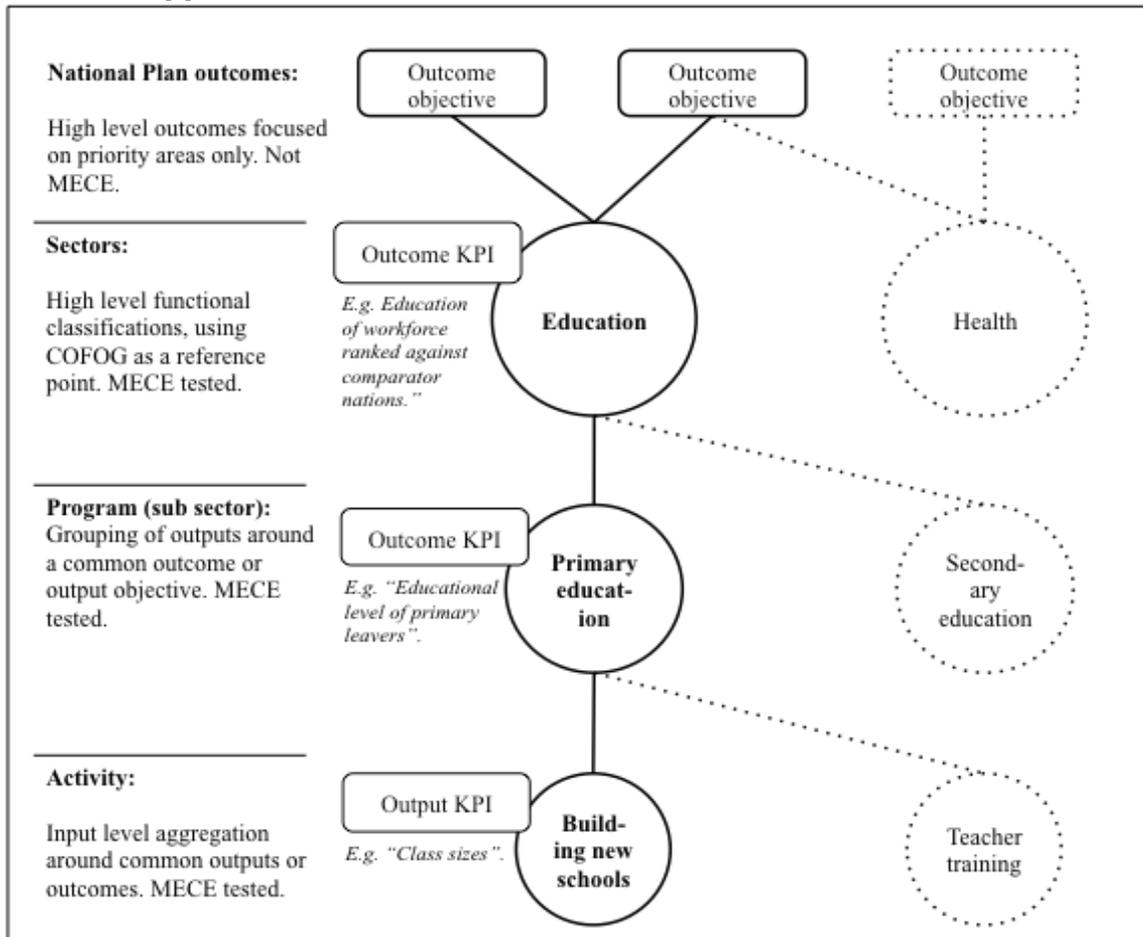
**89. Section C sets out an approach that would allow Malaysia to address gaps in its current model, within the broad direction already set by the OBB reform program.**

### **C. Improving Alignment of Programs and Outcomes**

**90. To deploy an effective OBB system it is critical that an effective planning structure is in place, allowing clear articulation of high level outcomes and their relationship to program and activity level outputs and investment.** The publication of the 11<sup>th</sup> Malaysian National Plan in 2015 will provide a set of outcomes and objectives at the national level which can be used to inform the OBB system. However, the outcomes and objectives it identifies are unlikely to provide a coherent means of categorizing public expenditure since they are not designed to be comprehensive of public expenditure. At the same time, bottom up planning risks replicating institutional boundaries rather than bringing institutions together around outputs and outcomes.

**91. A sector based approach can be an extremely effective solution for reconciling top down and bottom up approaches – allowing links to be made between programs and outcomes (see Figure 2).** Sector level aggregation allows the creation of a rational organizing structure for management of public finances. The Classification of Functions of Government (COFOG) is a useful place to start, though Malaysia should not be constrained by these categories and should refine them where required.

**Figure 2: Aligning National Outcomes, Programs, and Activities Through a Sectoral Approach**



**92. Once sectors have been identified, it will be possible to map National Plan outcomes 'downwards' against them.** This mapping is likely to show that national outcomes do not align neatly with sectors; however sectors will provide a means for 'sorting' the outcomes by allocating them to the single or multiple sectors which contribute to them. It is then possible to identify which programs and activities (i.e., subprograms) relate to which National Plan outcomes. Where there is not an adequate outcome for a sector contained within the National Plan, then this should be created in order to give each sector a clear outcome objective.

**93. This sector based approach creates an organizing principle for program design, allowing identification of the attribution between each program and sectoral outcome.**

Each sector should have a single leading outcome that is used to group the sub-outcomes or outputs which contribute to program level (subsectors). The definition of a program is a "results-based program and is therefore defined as a group of different types of output and/or transfer payments that have a common intended outcomes together, possibly, with other common characteristics such as a single target group."<sup>6</sup>

**94. Spending reviews should bring together the key role players in order to map the contributing programs, activities, and institutional units.**

This will include identification of spending within each sector, program and activity, evaluation of future spending commitments, cost pressures, and MOF review of efficiency and effectiveness. (See section on spending reviews in Chapter V).

**95. There should be a clear link at the activity (i.e., sub-program) level with institutional units to show attribution.**

The structuring of activities should be based on groupings of inputs and outputs that relate to a common program objective. In many cases these will be coterminous with institutional units (either a single unit within a ministry or a single agency of government). However it may be that there are cases where numerous institutional units contribute to a single activity (e.g., multiple investment promotion agencies united around a common activity). In these cases the exercise of mapping the multiple contributing agencies is an important step towards identifying overlap and attribution. In other cases, an institutional unit may contribute to more than one activity and program (e.g., if the schools transport unit's purchase of low emission school vehicles contributes to *educational access* and *carbon emissions reductions*). Once again, the mapping of these multiple contributions is an important exercise in identifying the attribution of program outcomes and outputs to relevant institutions.

**96. Accountability for performance and accountability for institutional management may have different structures in some cases.**

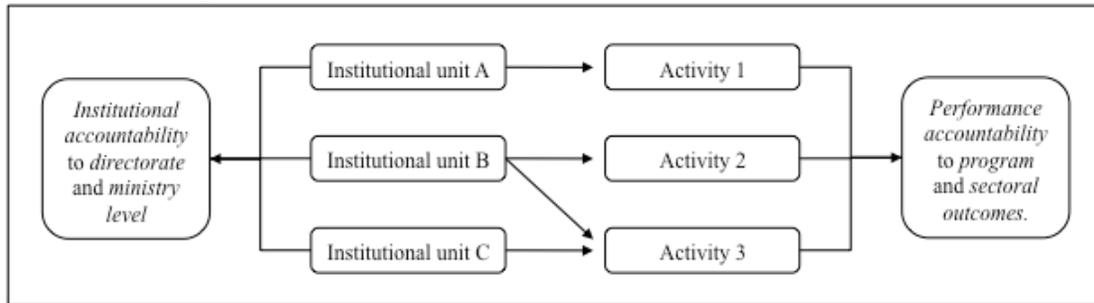
Because institutional accountabilities follow institutional hierarchies rather than outcomes, performance and institutional accountability structures are likely to be different in many cases. This gives rise to complexity in accountability. Few governments have gone as far as to reorganize their institutions in order to directly align outcomes and institutions and, in any case, this would not overcome the fact that single institutional units may contribute to multiple programs across multiple sectors. Once institutional units have been mapped within the program and activity structure, then it will be possible to clearly identify to which program areas there is

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<sup>6</sup> Marc Robinson, Programme Classification for Performance Based Budgeting, World Bank, (2013), p. 7

performance accountability. In most cases a single senior ministry official will be chiefly accountable for both the programs over which that ministry has a lead and the institutions which are within its institutional reporting structure. In cases where performance accountability crosses ministry boundaries, performance accountability is to the senior official in the lead ministry. This is a common challenge in advanced countries and necessitates a high level of collaboration across ministry boundaries, but it is the best solution short of institutional reorganization.

**Figure 3: The Relationship of Organizational Units: Alignment and Accountability**



Source: IMF Staff

97. **In designing the sectoral and program structure it is useful to apply the principles of exclusivity and comprehensiveness.** The “Mutually Exclusive, Collectively Exhaustive” (MECE) principle will ensure comprehensive coverage of public expenditure but avoid duplication between distinct sectoral and program areas. This is essential if fiscal allocations are to be made on the basis of clear attribution to outcomes and if the OBB system is to support decision making across the entirety of supply heads.

**Table 4: The “MECE” Methodology for Category Analysis**

MECE dimensions	Rule	Benefits for OBB
<b><i>Mutually Exclusive</i></b>	Each category must be distinct from another, without overlaps.	Clear separation of public expenditure according to the outcomes or outputs it contributes to. This allows analysis of discrete program and activity groups and more accurate attribution of their contributions.
<b><i>Collectively Exhaustive</i></b>	Taken together, categories must cover the totality of the issue being addressed.	Ensures all areas of public expenditure fit within the OBB structure.

Source: IMF Staff

**98. The process for designing the sectoral structure and mapping programs, activities, and institutional units should be led by the MOF working with EPU and relevant public institutions within each sector.** This process should be embedded within the sectoral spending reviews as discussed in Chapter V. Many countries undertake such sector reviews, led by the MOF, and have produced online guidance on their processes. It would make sense to start this program of reviews with sectors that are already some way towards an OBB structure, such as the Ministry of Health.

#### **D. Recommendations**

**99.** To realize the benefits of OBB, the government will need to address the obstacles to reform highlighted above. There are a number of specific actions that can be taken to do this:

##### *Short term*

- MOF should use a sector categorization to improve alignment of outcomes, programs, and activities. This should start with the COFOG classification but these categories should be refined where necessary.
- Working with EPU and relevant public institutions within each sector, MOF should map the outcomes of the 11<sup>th</sup> National Plan against the sector model, devising sector outcomes where those provided by the National Plan are not adequate. This exercise will provide the framework for spending reviews covered in Chapter V.

##### *Medium term*

- MOF should ensure that the sectoral, program, and activity structure which is developed is comprehensive of public expenditure but that programs and activities avoid overlap and are distinct enough to allow attribution at institutional level. The MECE methodology could be applied to support this.
- MOF should work with ministries, EPU, and PEMANDU to clarify how performance accountability will be managed. Performance accountability should be at the senior Secretary-General or Deputy Secretary-General level. This program leader should sit within the ministry with primary responsibility for this area.

### **V. INTEGRATING PERFORMANCE INFORMATION AND ANALYSIS INTO THE BUDGET PROCESS AND BUDGET DOCUMENTS**

#### **A. Current Situation**

**100. The current budget process does not facilitate the use of PI to guide resource allocations.** There is no explicit mechanism for feeding PI back into budget review at the MOF or ministry level despite the availability of performance outputs from MBS for many

years. This appears to be the result of a number of factors. Firstly, MBS' PI is not often utilized by ministries for management purposes. It is viewed primarily as a top-down initiative to present output-oriented PI in the Budget Book. As a result incentives for management to utilize the MBS approach to guide internal performance management processes has been lacking. Secondly, the program-activity structure of MBS is designed to match the administrative structure of ministries. This may depart from a logical results-based structure based on the programmatic delivery chain. Finally MBS' PI relates to the operational budget of ministries excluding the development budget. For the development budget information on project performance is gathered at ICU in the Prime Minister's Department in a system called SPP2. As a result the MBS' PI that features in the Budget Book is limited and generally not useful for oversight purposes.

**101. OBB attempts to address the key design limitations of MBS.** In particular OBB applies a much more holistic approach, designed to integrate planning, budgeting, monitoring and reporting for all ministries on a single IT platform MyResults. Under OBB and in the MyResult system ministries link ministry outcomes to NKRA's as well as to program outcomes and activity outputs.

**102. Since 2013 all ministries have been preparing their budgets using MyResults; however only 9 out of a total of 24 ministries have refined their programs and the related PI.** Therefore ministries continue to submit PI that relates to MBS system, and it is this, that is used in the budget book. The nine pilot ministries will start to enter their performance result into the system within the next few months. When OBB is fully developed it should enable comprehensive quarterly reporting, including on program PI as well as actual spending on both operational and development budgets. This consolidated reporting will be enabled through a backward data integration with government's GFMAS accounting system and EPU's SPP2 development project reporting system.

**103. OBB is not currently used to produce the Budget Book.** The format and content of the Budget Book tabled in Parliament is based on the old MBS approach. However because MBS is also a PBB approach some pertinent performance and spending information is presented in the Budget Book. There are 50 supply heads in the budget, which includes ministries, department, agencies, commissions and charge heads (e.g., debt service). The Heads for ministries include totals for development and operational budgets, with actual spending trends for the past three years, high-level objectives and strategies, and brief beneficiary information. Below this there are output based programs with specific objectives and activities (i.e., sub-programs). For the activities there are selected output KPIs and targets but there are none for programs.

**104. However in the budget book there is also extensive detailed line-item information which is presented by object code.** The budget documents include six volumes detailing all the staff posts in government which is required by law. While the

current structure includes some PI, it is not compatible with the presentation of OBB which places a stronger focus on outcomes and program results. In addition MBS is purely a presentation form of PBB and does not influence the decision making processes of government.

## **B. Integrating and Utilizing Performance Information in the Budget Process**

**105. MOF should ensure processes are put in place to enable the active use of PI in the budget review discussions.** Budget review officers (BRO) in NBO could require ministries to prepare and present simple trend analyses of selected KPIs that provide useful insight about the efficiency and effectiveness of policy measures for review during budget deliberations.

**106. This will have the effect of raising the profile of PI.** The MOF demonstrating interest in this type of analysis will facilitate a review of the quality of KPIs put forward by ministries in either MBS or OBB. International experience has shown that improvements in PBB systems are achieved iteratively over time through the application of PI to guide and inform allocative and operational budgetary decision-making.

**107. The nine pilot ministries should start reporting on performance results along OBB lines through the MyResults portal this year.** Other ministries should do so once they have refined their program structures along OBB lines. Within the MOF, NBO should use these indicators, along with those from MBS, for analyzing service delivery of ministries. The benchmarking of similar programs for comparison internationally could provide a useful tool to facilitate the improvement of program efficiency and highlight wasteful spending and actions for improving performance. Ministries may equally find these indicators as useful tools to improve performance in their areas of responsibility and to oversee their subordinate departments and spending units.

**108. Throughout the year budget review officers in NBO should engage in more analysis of cost and performance information.** As a small step to changing the role of budget review officers they could work with the OBB unit to identify a diverse set of KPIs that would be useful in understanding performance of a particular program. According to the Center for Learning on Evaluation and Results (CLEAR) high-value KPIs for performance budgeting purposes include effectiveness (i.e., outcomes) indicators as well as output indicators for quality, efficiency and quantity.

**109. MOF should review the institutional capacity of NBO in light of the different and enlarged demands for performance analysis of government programs (see Chapter VII).** The NBO within MOF has a relatively small group of analysts for monitoring of budget preparation and execution of ministries, departments and government companies. The NBO

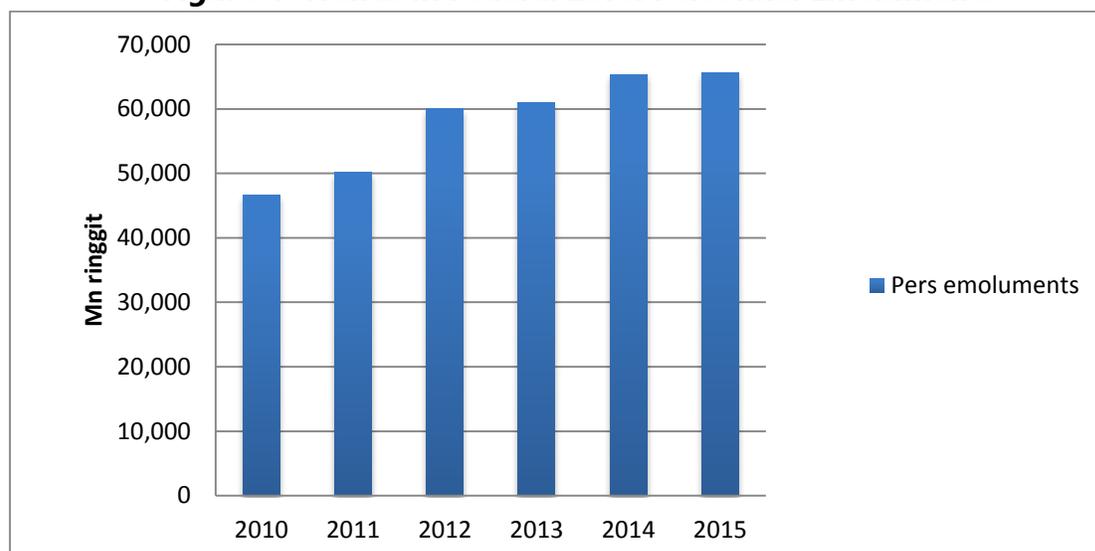
employs 60-70 staff members. Groups of two to three specialists focus on one to two ministries. However this ratio may be inadequate for program performance monitoring and evaluation purposes as there are 50 budget entities including 24 ministries, which are large entities and oversee over 1000 government companies.

### **C. Introducing Spending Reviews**

**110. Improved expenditure prioritization and increased performance pressure on ministries are the two channels by which the MOF can improve fiscal performance and service delivery.** The MOF is relatively strong at guiding ministries to produce PI which could be used to improve prioritization and ensure greater transparency and accountability for program efficiency and achievement of results. It has not, however integrated formal routines into the budget process for the reconsideration of spending priorities, especially within baseline and operational spending.

**111. The personnel budget (i.e., emoluments) has shown an increasing trend over recent years, as the size of the public service has expanded and automatic pay rises take effect.** As discussed in Chapter I and III personnel as a proportion of total spending has continued to increase as investment spending has fallen. Under the 11<sup>th</sup> MP the PSD has plans to address these issues and employ a demand driven human resource forecasting model to better project personnel costs and to provide line ministries with better flexibility in managing their resources.

**112. There appears to be significant risk of duplication, overlap and redundancy between public sector institutions especially the 1169 government companies that have been established over time.** For example, according to the MOF there are 23 different agencies responsible for innovation and research in government. If the activities of these agencies are not carefully coordinated there is a real risk of inefficiency. All of these factors create a strong imperative for MOF to institute formal routines in the budget process that facilitate detailed analysis of baseline spending with the aim of identifying sources of inefficiency, ineffective and low priority programs and risks to sustainable public finances.

**Figure 4: Trends in Federal Level Personnel Emoluments**

Source: IMF Staff

**113. During budget preparation the key point of contact between PBB systems such as OBB and expenditure prioritization processes is formal spending review procedures.**

Spending review refers to the systematic scrutiny of existing expenditure to identify, in particular, options for reprioritization and spending reductions. Spending review draws on both program evaluations (the review of specific services provided by government) and efficiency reviews (which focus on reducing the cost of delivering services). However, spending review also goes beyond evaluation to include systematic priority analysis – in other words, the systematic identification of programs or elements of programs which could be cut because they are low priority. This is a different matter from the evaluation of effectiveness or efficiency. A program might be highly effective and efficient, but still be very low priority because the outcomes which it aims to achieve are not very important to the community, or are not rated as such by government. Without spending reviews, the risk is that programs which are ineffective or low priority have outlived their usefulness will continue to command public resources.

**114. Spending reviews is an area where the budgeting systems of many countries are weak.**

In such countries, the budget process is overwhelmingly about new spending, and ongoing expenditure is not seriously scrutinized. "Incrementalism" is a term to describe this tendency of budgeting to take spending on existing programs for granted. Spending review is critical to good aggregate fiscal outcomes and to the capacity of the government to respond to new spending needs. If substantial room is to be created for important new spending initiatives, it will usually be necessary to reduce existing spending. This is important for aggregate fiscal discipline, because if such reductions are not identified, the danger is that new spending will simply be added on to the budget, pushing up aggregate spending at a higher rate than is consistent with keeping the budget deficit at sustainable levels.

**115. A good spending review puts increased pressure to perform on spending ministries because it greatly increases the probability that poorly-performing programs or areas of inefficiency will be identified.** Ministries wishing to protect their budgets will as a result be motivated to lift their performance. In this context, a spending review should also be linked with processes for management improvement and program redesign. This is because, if a program is identified as ineffective, it will not necessarily follow that its funding should be cut: a change in program design or management may be more appropriate.

**116. Spending reviews are typically integrated with the budget process.** This could mean that a spending review is undertaken every year as part of the annual budget process. In countries such as the U.K. where fixed medium-term expenditure ceilings are set for spending ministries, comprehensive spending review process is carried out only every three or four years.

**117. A key question is what approach to take when doing spending reviews.** One approach is the discretionary targeting approach, in which a spending review is focused on programs which officials and ministers believe to be most likely to yield savings. The alternative is a regular program review cycle in which all programs are reviewed over a regular multi-year cycle of three to five years. Canada is one example of a country with such a system.

**118. A spending review function should be established and charged with analyzing spending and performance of a series of selected government programs or sectors on a rolling basis.** This new capacity within the NBO will support its medium-term strategic role and also build on the sectoral approach discussed in Chapter IV. In selected programs or sectors, the reviews should firstly provide a detailed understanding of the main program or sector elements, expenditure drivers, and historical expenditure patterns. Secondly budget allocations across ministries, departments and government companies (where applicable) should clearly be delineated (see Box 2). International experience (see Appendix 3) has shown that once the program is clearly understood in terms of the delivery chain, proposals for improved budget allocation over the medium-term as well as improvements on linking policy intent and programmatic design become more feasible. This kind of detailed analysis of the implementation logic of policy initiatives also supports the development of critical PI that can be utilized for more effective oversight and budget transparency.

**119. A spending review should be integrated with the budget process.** The key question in planning this reform is whether the existing expenditure management system provides the access points for negotiating which area of the existing base should be reviewed and to what end, and whether there are points where the findings of spending reviews are presented to decision-makers. If not, the system of resource allocation needs to be reconsidered to build access points at which review information feeds into budget negotiations. International practices indicate that most spending review exercises are

managed around three discrete yet connected stages and the entire process should be overseen by a coordinating team within MOF and by the political leadership.<sup>7</sup> The results of these reviews should be present to the Director of the NBO and the Secretary General of the Ministry of Finance and if involving cross cutting or sectoral issues to Cabinet.

### **Box 2: Steps in Implementing a Spending Review**

During the first stage, the overall aims and focus of the review exercise is decided and the specific reviews are initiated. Center of government departments and other ministries and departments should be involved in identifying appropriate subjects for review. In some countries the final decision is negotiated in cabinet to ensure collective agreement and the political relevance of the topics selected, but this is optional of the nature of the review process that a country chooses to deploy.

The second stage focuses on the planning and conduct of the reviews and is likely to occur over an extended period. The specifics of each review will inform who conducts the review, the methodologies used and the types of findings and recommendations developed. That being said, it is crucial that center of government departments and the responsible ministries remain engaged throughout the process, perhaps through a steering committee.

Finally the findings and recommendations of each review need to be shaped into advice on resource allocation. This will be presented in both written form and verbally to the NBO and the Secretary General of the Ministry of Finance; the focus of the review will dictate whether findings are built into budget submissions before being presented to cabinet, used as evidence for internal resource allocation proposals, or whether findings presented in their entirety as the basis for substantive reallocation or policy redesign.

**Source: IMF Staff**

**120. The spending review function would need to interact with the standard work of NBO.** In addition, this change may require structural adjustments within the NBO over time in line with the shifting the emphasis from line-item analysis to fiscal and economic analysis and performance and priority appraisal.

## **D. Proposed Structure to Incorporate Performance Information into Budget Documents**

**121. As mentioned before the format and content of the main budget document, the Budget Book, is based on MBS.** MOF decided in 2012 to continue to use the MBS structure for the Budget Book as an interim step while OBB is being rolled-out. In order to maintain ministries' interest in OBB, it is important that it starts to show visible results. To this end pilot ministries should proceed to report their performance results in MyResults this year and they should start to use the OBB structure in the budget presentation.

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<sup>7</sup> Kelly, Joanne, *Slaughtering Sacred Cows: Reallocation and Review* (2007)

**122. MOF should begin the transition process by presenting the OBB program detail in the Budget Book for the nine pilot ministries for the 2017 budget.** This is to allay the concerns of some pilot ministries and will act as an incentive to other ministries to adapt their structures as well. This will also allow MOF for the first time to reflect their reform efforts. In addition once published, the information will be more widely utilized. This should lead to improvements over time in the quality and relevance of this information. International experience indicates that it takes a number of years of iterative evolution to establish useful PI in budget documents.

**123. MOF should redesign the format of the Budget Book to ensure that relevant and reliable PI is presented with budget allocations based on OBB structure in a coherent manner.** MOF may wish to consider a few examples of other country budget book formats to find the best fit for Malaysia. A useful source for selecting possible examples is the Open Budget Index produced by the International Budget Partnership. South Africa which like Malaysia is a high middle income country, is ranked 2<sup>nd</sup> in the Index and the only such country ranked in the Top 10 (see 2012 Open Budget Index, International Budget Partnership.) Appendix 4 provides a snapshot of the format presented in each Vote chapter (aligned to national ministries/departments) of the South Africa's Estimates of National Expenditure (i.e., Budget Book). The mission has proposed a model format for the Budget Book. Table 5 sets out the proposed structure based on the OBB approach. In addition, Appendix 5 provides an illustrative example.

**Table 5: Proposed Budget Book Format Using OBB****SECTION 1: MALAYSIA DEVELOPMENT PLAN***(Note: This should only appear once in the Budget Book in the introduction section)*

<b>National Strategic Thrusts</b>	• ...
<b>National Key Results Areas</b>	• ...
<b>National Outcomes</b>	• ...

**SECTION 2: MINISTRY**

<b>Vision and mission</b>	• ...
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**Key Performance Indicators Trends**

<b>Selected Outcomes KPIs</b>	2014	2015	2015	2015	2016	2017	2018
	Planned	Actual	Planned	Est.	Target	Proj.	Proj.
<b>Outcome 1: Name</b>							
KPI 1.1: Name							
KPI 1.2: Name							

**Budget Summary**

RM'000	2014	2015	2015	2015	2016
<b>Outcomes-based Budget</b>	Actual	Original Budget	Revised Budget	Revised Estimate	Proposed Budget
<b>Total</b>					
Programme 1: Name					
Programme 2: Name					
<b>Economic Class</b>					
<b>Total</b>					
<b>Operational Budget Total</b>					
Emoluments					
Goods and Services					
<i>Of which</i>	<i>(Note: Customized to reflect major cost drivers or spending of interest)</i>				
...					
...					
...					
Capital Payments					
Transfers					
<b>Development Budget Total</b>					
Emoluments					
Goods and Services					
<i>Of which</i>					
...					
...					
Capital Payments					
Transfers					

**Expenditure Analysis**

<b>Programs</b>	...
<b>Operational</b>	...
<b>Development</b>	...

**SECTION 3: PROGRAMS**

<b>Program 1: Name</b>	...
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**Key Performance Indicators Trends**

Selected Outcomes & Output KPIs	2014	2015	2015	2015	2016	2017	2018
	Planned	Actual	Planned	Est.	Target	Proj.	Proj.
KPI 1.1: Name							
KPI 1.2: Name							

**Budget Summary**

RM'000	2014	2015	2015	2015	2016
Outcomes-based Budget	Actual	Original Budget	Revised Budget	Revised Estimate	Proposed Budget
<b>Total</b>					
Activity 1: Name					
Activity 2: Name					
<b>Economic Class</b>					
<b>Total</b>					
<b>Operational Budget Total</b>					
Emoluments					
Goods and Services					
<i>Of which</i>					
...					
...					
Capital Payments					
Transfers					
<b>Development Budget Total</b>					
Emoluments					
Goods and Services					
<i>Of which</i>					
...					
...					
Capital Payments					
Transfers					

**Expenditure Analysis**

<b>Activity</b>	...
<b>Operational</b>	...
<b>Development</b>	...

(Note: A section detailing Activity level information including Budget Summary and Expenditure Analysis may be included here by exception (Max. 3) for large functions budgeted at Activity level (e.g., Inland Revenue with MOF budget)

**ADDITIONAL TABLES**

- **Infrastructure:** Summary of expenditure per major project funded through the development budget (including Public Private Partnerships)
- **Personnel:** Summary of expenditure with numbers of personnel at Activity level
- **Government Company Financials:** Summary of budgets of government companies (and any other type of agency) receiving transfers or for which the Ministry has oversight responsibility.

## E. Recommendations

**124.** Below are the recommendations for integrating PI into the budget process and documents.

### *Short term*

- MOF should ensure processes are put in place to enable the active use of PI in the budget review discussions.
- The nine pilot ministries should start reporting on performance results along OBB lines through the MyResults portal this year. Other ministries should do so once they have refined their program structures along OBB lines.
- Throughout the year BROs in NBO should gather in more information and engage in more analysis of cost and performance information.
- MOF should review the institutional capacity of NBO in light of the different and enlarged demands for performance analysis of government programs.
- A spending review function should be established and charged with analyzing spending and performance of a series of selected government programs on a rolling basis.
- MOF should redesign the format of the Budget Book as proposed in this report and present the OBB program structure in the Budget Book for the nine pilot ministries in the 2017 budget and roll it out to all ministries.

### *Medium Term*

- Spending review should be integrated with the budget process.

## VI. IMPROVING PERFORMANCE MONITORING, REPORTING, AND EVALUATION

### A. Current situation

**125. There are a number of performance management frameworks in use in Malaysia, both competing and complementary.** However there is a lack of consistent monitoring and reporting. As shown in Table 6, monitoring and reporting is only consistently undertaken for Economic Transformation Plan, Government Transformation Plan and Strategic Reform Initiatives lead by PEMANDU.

**126. The lack of monitoring and reporting diminishes the impact of the various frameworks that aim to promote increased accountability for results.** The value of planning is questionable when plans are not monitored because information concerning progress is lacking or at least not widely available beyond the view of direct implementing agents. Planning, monitoring, reporting and evaluation are part of a cycle of feedback on programs and projects that facilitate assessment, learning and program adaptation. While

there is a widespread practice planning in the Malaysian context, outside of PEMANDU which leads key transformation programs, there is limited information available and therefore limited transparency and public accountability for program and project delivery.

**127. The Auditor-General performs a valuable monitoring and evaluation service by undertaking up to 200 performance audits annually of government programs and capital projects.** The Auditor-General's performance audit focuses on evaluating whether government activities have been carried out efficiently and economically in order to achieve desired objectives and goals. The audit reviews activities such as procurement practices, contract administration, asset management, infrastructure project management as well as program management of service delivery programs. Transparency and accountability is significantly supported through this process.

**Table 6: Monitoring and Reporting of Performance Management Frameworks**

<b>Performance Management Framework</b>	<b>Main Components</b>	<b>Custodian</b>	<b>Monitoring and Reporting</b>
10 <sup>th</sup> Malaysia National Development Plan (to be replaced by RMK 11 in 2015)	<ul style="list-style-type: none"> <li>• Strategic Thrusts</li> <li>• National Key Results Areas</li> <li>• National Outcomes</li> <li>• National Program</li> </ul>	Economic Planning Unit (Office of the Prime Minister)	No systematic monitoring or reporting of NKRA in the 10 <sup>th</sup> has been undertaken.
Modified Budgeting System (replaced by Outcomes-Based Budgeting although still in use for the Budget Book)	<ul style="list-style-type: none"> <li>• Objectives</li> <li>• Strategies</li> <li>• Program</li> <li>• Activities</li> <li>• Outputs</li> </ul>	Ministry of Finance	Reporting takes place in the Myresults system and selected information is included in the budget book.
Outcomes-Based Budgeting	<ul style="list-style-type: none"> <li>• Ministry Outcomes <ul style="list-style-type: none"> <li>○ KPIs</li> </ul> </li> <li>• Program Outcomes <ul style="list-style-type: none"> <li>○ KPIs</li> </ul> </li> <li>• <i>Activity Outcomes</i> <ul style="list-style-type: none"> <li>○ <i>KPIs</i></li> </ul> </li> <li>• <i>Activity Outputs</i> <ul style="list-style-type: none"> <li>○ <i>KPIs</i></li> </ul> </li> </ul>	Ministry of Finance	Reporting will commence in 2016 for pilot ministries
<ul style="list-style-type: none"> <li>• Economic Transformation Plan</li> <li>• Government Transformation Plan</li> <li>• Strategic Reform Initiatives</li> </ul>	<ul style="list-style-type: none"> <li>• National Key Economic Areas</li> <li>• National Key Result Areas</li> <li>• Ministerial Key Result Areas</li> </ul>	PEMANDU (Office of the Prime Minister)	Extensive monitoring and reporting (357 KPIs reported on a weekly basis). Selected KPIs included in performance agreements. Annual report audited by independent firm.
Department Strategic Plans	<ul style="list-style-type: none"> <li>• No specific requirements</li> </ul>	Ministries & Departments	No requirement for annual reporting

**Source: IMF Staff**

**128. The Auditor-General tables a series of three performance audit reports before Parliament's Public Accounts Committee.** While the PAC has found these reports helpful it has also been noted that they focus on detailed compliance as opposed to big picture issues. In addition in May 2013, the Auditor-General's Dashboard was launched and is accessible through the National Audit Department website. The Dashboard serves as an information portal for the public to track the status of actions taken on recommendations raised by the Auditor-General's in performance reports. At the end of 2013 there were a total of 9 audit findings not addressed, 205 in process of being addressed and 188 addressed according to the Dashboard.<sup>8</sup>

**129. Performance information in government is heavily focused on performance measures and indicators.** There is not a strong practice of conducting program evaluations. The evaluations which are conducted focus on the implementation of infrastructure projects as opposed to evaluating programs. While it is not common, ministries such as Health do undertake evaluations from time-to-time. This is often instigated through international conventions and other commitments such as the Millennium Development Goals. As a general rule programs are not subject to periodic or regular evaluations. In addition, the MOF has not issued any central guidance to promote demand for and use of evaluations and to improve internal capacity, although this is a stated intention of OBB.

## **B. Improving the Quality of Performance Indicators**

**130. It is not sufficient to just generate PI it is also necessary to ensure that quality of this information. Improving the quality of PI is a key challenge facing countries implementing PBB.** The Auditor-General should include an audit of OBB performance data and systems in its annual Compliance Audit. To strengthen the OBB initiative and ensure that it is credible, the National Audit Department (NAD) should support the MOF's effort to improve the reliability of KPI information. The NAD already performs a number of different audit functions including the Attestation Audit of financial statements, Performance Audit of selected programs and projects, and Government Companies Audits and Compliance Audit. For the Compliance Audit the NAD produces an Accountability Index that results in a Star Rating. Currently the Accountability Index reflects the results of an evaluation of ten elements namely:

1. Organizational management control
2. Budgetary control
3. Revenue control
4. Procurement control
5. Expenditure control

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<sup>8</sup>Auditor-General's Dashboard Website, <https://arts.audit.gov.my/main/index2?year=2013>, Accessed on 15 February 2015

6. Management of trust funds
7. Management of assets and inventories
8. Management of vehicles
9. Management of investments and loans
10. Financial statement

**131. Adding to the Accountably Index assessing data management controls for selected KPIs based on risk and materiality is not likely to add significantly to the current level of effort or complexity of the audit.** The NAD is already performing aspects of management of PI audit through its Performance Audits.

**132. The Star Rating of the Accountability Index summarizing the findings of the Compliance Audit has already demonstrated it is incentivizing ministries.** Since it was introduced a few years ago ministries have ensured improvement in their ratings. In recent ratings 98% of those audited receive the highest 4-star "Excellent" rating however, this was not the case initially. When the Accountability Index first debuted many of those audited only received a two to three-star "Satisfactory to Good" rating. The main initial compliance challenges involved controls over expenditures and assets. Due to the high visibility of the Index "peer pressure" amongst Controlling Officers was significant. There was a subsequent rapid improvement in compliance levels with a rise in the number of 4-star performers. See Box 3 for examples of how the Auditor of the State of Texas performs similar functions.

### **Box 3: Role of the State Auditor of Texas in the Strategic Planning and Performance Budgeting System**

The State Auditor Office's (SAO) involvement in the SPPB System is to examine the accuracy of reported performance measures and assess the related internal controls. The SAO will assess the accuracy of reported performance measures so that the Governor and the Legislature can determine to what extent they can rely on the reported performance measures when making decisions or evaluating state agencies. The SAO also verifies that the performance measures are produced by management systems that have adequate internal controls. Adequate safeguards over the collection, calculation, and reporting of performance measurement data increases the probability that reported measures will be accurate over time.

The certification of performance measures consists of two audit objectives. One objective is to determine whether the agency is accurately reporting its performance measures to the Automated Budget and Evaluation System of Texas (ABEST). The second objective is to determine whether the agency has adequate control systems over the collection, calculation, and reporting of its performance measures. After a specific agency is selected for audit, auditors will follow certain steps, which are described below. It should be noted that some of the steps will be conducted simultaneously.

Step 1 - Determine which of the agency's measures to audit.

Step 2 - Determine the method the agency used to collect, calculate, and report the performance measurement data.

Step 3 - Determine whether the agency retained adequate support to re-create the number reported in ABEST and whether the agency followed the measurement definition.

Step 4 - Determine whether adequate controls exist over performance measurement data to ensure consistent reporting of reliable information produced from manual processes.

Step 5 - Determine whether adequate controls exist over performance measurement data to ensure consistent reporting of reliable information for automated systems.

Step 6 - Obtain a list of items to be sampled from the agency.

Step 7 - Choose a sample.

Step 8 - Test the agency's source documentation for accuracy.

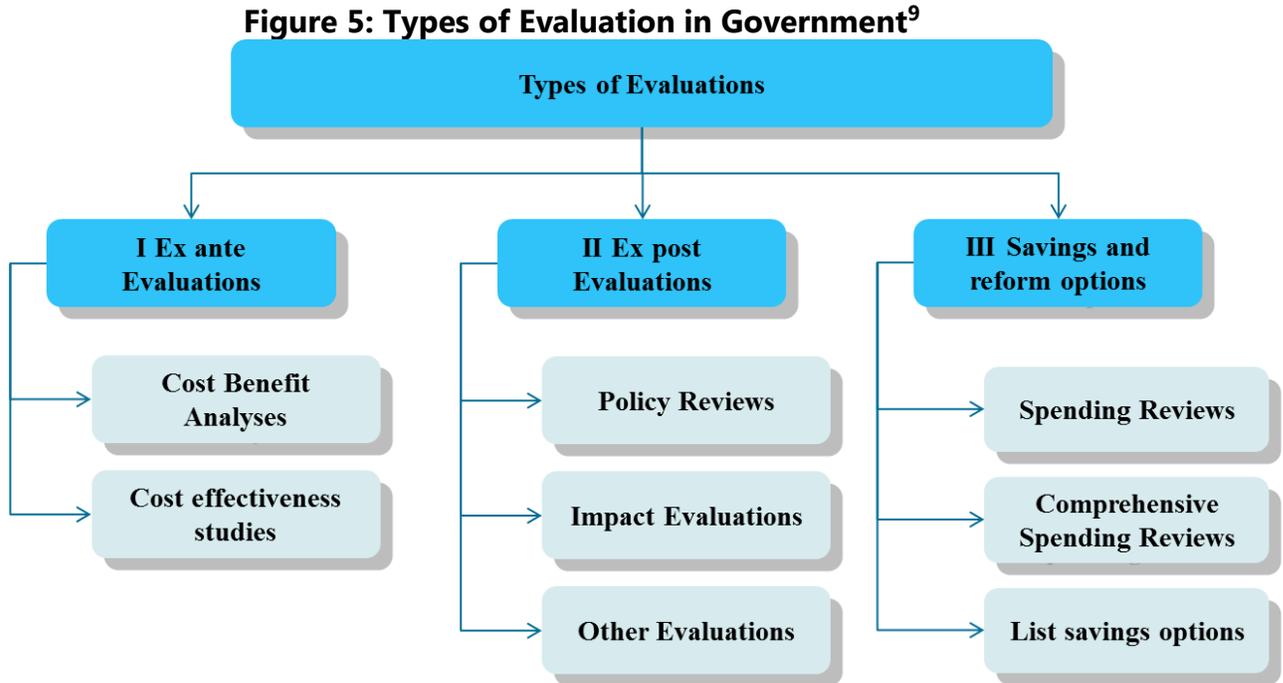
Step 9 - Determine each performance measure's certification category.

**Source: Guide to Performance Measure Management, State Auditor Office, March 2012, Report No.12-133**

## **C. Developing Capacity for Evaluation of Programs**

**133. The Performance and Evaluation Sector should lead the effort to introduce guidance for ministries, departments, and agencies on conducting program evaluations.** Evaluation is applied sporadically in government and therefore does not adequately inform planning, policy-making, and budgeting. As a result there are often missed opportunities to improve the relevance, effectiveness, efficiency, impact, and sustainability of government programs. Evaluation is a type of applied research that attempts to identify cause-effect relationships within a specific context. In this report evaluation is defined as the systematic collection and objective analysis of evidence on public policies, programs, projects, functions and organizations to assess issues such as performance, value for money, impact and sustainability, and recommend opportunities for improvements.

**134. Evaluations in this context are distinct from the spending reviews discussed in Chapter V.** The spending reviews which will be conducted by NBO will generally go beyond evaluation to include systematic priority analysis whereby programs or elements of programs will be assessed for inefficient duplication, overlap and relevance in terms of government's priorities.



**135. Figure 5 depicts the different type of evaluations that may be applied in government evaluation practice.** The evaluation types categorized under “III Savings and reform options” would generally fall within the purview of spending reviews.

**136. The main role of NBO is to provide guidelines for conducting ex post program evaluations and to motivate ministries to conduct regular evaluations of their programs.** In addition their role involves ensuring the involvement of independent expertise and maintaining and promoting close contact with and between the evaluation community within and outside government.

**137. The Performance and Evaluation Sector in the NBO should establish a community of practice (CoP). This should bring together the staff responsible for the research, monitoring, and reporting within ministries, departments, and agencies.** The CoP could support the NBO's effort to develop government-wide guidance on performing ex

<sup>9</sup> Peter Van Den Berg, Experience and Lessons from the Netherlands, 2 September 2013

ante and ex post evaluations. The main objective of this and other types of performance management reforms in government is to promote dialogue about performance and results with the aim of improving the effectiveness and impact of government programs.

**138. MOF should annually publish a list of program evaluations that are planned, underway, and completed on a rolling three-year basis on its website.** In order to ensure demand and utilization of program evaluations, information about the availability and timing of completed evaluation results should be made known publically. Thus interested stakeholders may be aware of evaluations not only after completion but as they are planned and executed. This will facilitate the broader involvement of different stakeholders in the processes of program evaluation.

#### **D. Improving the Use of Performance Information**

**139. It is important to ensure that performance information, be it performance indicators or evaluations, are used in decision making.** There are several ways in which PI could be more integrated into decision making processes to motivate ministries to improve results. This includes having selected OBB program outcome indicators in the Prime Ministerial performance agreements with ministers, having the Budget Officers use PI in their discussion with ministries and undertaking a trend analysis of selected KPIs. In addition, ministries should make their results public by reporting quarterly on performance and financial information and publishing results online.

**140. Improve the link between OBB and PEMANDU's transformation programs by including selected OBB program outcome KPIs in the performance agreements between the Prime Minister and Ministers.** There is a risk that these two highly progress initiatives of the Malaysia government proceed along parallel lines and compete with each other for visibility and attention. It is vital that instead they are perceived as mutually reinforcing in the effort to promote transparency and accountability.

**141. PEMANDU produces a biannual report for the Prime Minister on each minister's performance against his/her agreement.** The Prime Minister meets and discusses with each minister individually at his/her biannual performance results. The results are then shared with all of the Cabinet. Ministers are rated and compared on their performance. This has proven to be a powerful tool in focusing attention on the results areas in these agreements.

**142. Budget review officers in the NBO, in addition to discussing PI during budget discussions should undertake a trend analysis of selected KPIs.** As part of a range of initiatives to strengthen NBO's role as a gatekeeper of program performance information it could undertake this analysis on a bi-annual basis and release the results on MOF's website. Not only will this add another layer of transparency and accountability for results, but it will

ensure active engagement with the information by budget review officers which can promote iterative improvement in the quality and accuracy of the information over time.

**143. Ministries should report on performance against OBB indicators along with their quarterly financial reports and in addition publish performance results online.** This should be done for all ministries when OBB is fully implemented. However the pilot ministries could consider doing this as soon as the information is available. This will help reinforce MOF's commitment to enhance transparency and accountability, a stated objective of OBB. Furthermore it will act as a strong incentive for producers of the information to ensure the quality and accuracy of the KPIs and related underlying data.

**144. MOF should submit an annual OBB performance report on ministries' performance to the Public Accounts Committee (PAC).** This summary report in addition to reviewing Ministries annual performance would include performance trends on ministries based on OBB outcome and output KPIs information.

**145. The PAC has expressed an interest in receiving information on outcomes.** The Standing Orders of Parliament give significant authority to PAC to review and comment on activities of government beyond the standard functions of scrutinizing reports tabled by the Auditor-General.<sup>10</sup> PAC may then call upon ministries and agencies' Controlling Officers to explain the performance results and trends reflected in the report. MOF should facilitate this process by tabling the report but this should not displace the onus upon Controlling Officers to account for the performance of their ministries, department or agencies. When the quality of performance information has improved the Ministries should submit and present an annual performance report to Parliament and the PAC.

## E. Recommendations

### *Short term*

- Include selected OBB program KPIs in the performance agreements between the Prime Minister and ministers.
- Budget review officers in the NBO, should undertake a trend analysis of selected KPIs results on a bi-annual basis and release the results online.
- MOF should submit an annual OBB performance report on ministries' performance to the PAC.
- NBO should lead the effort to introduce guidelines for ministries, departments and agencies on conducting program evaluations.

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<sup>10</sup> Section 77(5) of the Standing Order of the Dewan Rakyat (i.e., Parliament) provides authority to PAC to comment on ministry, department or agency programs and activities aimed at achieving objectives set by government and can comment on wastage in spending of public funds.

- NBO should establish a community of practice (CoP) focusing on the staff responsible for the research, monitoring, and reporting related functions within ministries, departments, and agencies.
- MOF should annually publish a list of program evaluations that are planned, underway and completed on a rolling three-year basis on its website.

*Medium term*

- The Auditor-General should include an audit of OBB performance data and systems in its' annual Compliance Audit.
- Ministries should submit an annual performance report to Parliament and the PAC.

## **VII. OBB - THE WAY FORWARD: STRATEGY AND SEQUENCING OF REFORMS**

### **A. Building Incentives for Line Ministries to Engage: Improving Flexibility and Accountability for Results**

**146. Implementation of OBB needs to be carried out in partnership between MOF, EPU, PSD and ministries.** Although OBB will be driven by MOF, the reform process needs to be managed collaboratively to ensure that ministries are able to contribute and are ready to implement changes within their own organizations. Implementing OBB will entail significant behavioral change within ministries.

**147. Chapter VI discusses mechanisms to encourage ministries to use PI.** These include incorporating the information in performance agreements; making the performance results public and using PI in the budget review process. Until OBB becomes material to decision making in the Budget it is unlikely that incentives will be strong enough to ensure ministries truly engage with the reform.

**148. The potential for increased internal flexibility over medium term resource planning is a strong incentive for ministries to embrace the reforms entailed within OBB.** Ministries already have extensive internal financial flexibility as appropriations are made at the ministry level and they have extensive freedom to reallocate in-year. However, this is based on the annual budget whereas outcomes are achieved over the medium term. A key resource in achieving outcome is personnel. Personnel planning is centrally controlled and there is a significant gap in current ministerial delegations in this areas.

**149. The management of the civil service workforce is not sufficiently agile or focused on the localized skills needed by ministries to deliver OBB and achieve governmental outcome priorities.** Action is needed to reform the current heavily centralized system of personnel planning. Although there is a good case for central management of cross cutting civil service policy and some aspects of civil service management (pensions, employment terms and conditions, in service training programs etc.),

Malaysia would benefit from a significant rebalancing of responsibility for recruitment and resource planning from the central civil service planning ministries towards the institutions responsible for delivery. PSD has noted this and it plans to examine these issues as part of the 11<sup>th</sup> MP.

**150. Embedding OBB and a performance culture within ministries will require them to develop stronger capacity to carry out strategic planning, performance management, and implementation.** Building this capacity will involve strengthening workforce skills and it is likely that ministries will need to revisit the allocations of staff and skill types across their organizations as they increase focus on outcome priorities. The capability areas set out in Box 4 are often critical within organizational development plans as ministries make the transition to outcome based performance budgeting:

**151. To develop these strengths and to plan for resource priorities under OBB, departments will need flexibility to implement their own human resource plans**

**Box 4: Capacity Building to Transition to Outcome Based Budgeting**

1. Strategic planning – focusing on the delivery of sectoral and program priorities by evaluating long- and medium-term fiscal allocations and investment requirements, and ensuring that organizational skills and capacity are built at the right time and in the right places to secure delivery. For some institutions this will be a marked shift from their current, year-by-year, financial and human resource planning.
2. Cross-boundary working and multi-stakeholder implementation – using evidence to build consensus and negotiate across government in support of common goals, with ministries becoming less constrained by institutional boundaries in their work.
3. Evidence gathering, analysis, and performance management – targeted strengthening of data flows, increased emphasis on gathering evidence, and analytical capability to analyze implementation and assess delivery system effectiveness and efficiency.
4. Designing policy reform – using performance evidence and medium term financial plans to identify, plan and implement policy reform priorities that can deliver outcome objectives.
5. Program and project management – securing implementation in delivery environments that reach across traditional institutional boundaries, and using performance evidence to actively manage implementation.

**Source: IMF Staff**

**152. There is also currently a disconnect between the rewards structure and performance.** Key aspects of personnel incentive schemes, such as annual bonuses which are important in developing and incentivizing improvement of the workforce, are not in the control of ministries. For example civil service wide bonuses are awarded centrally without regard to specific performance of ministries or staff.

**153. The *quid pro quo* for this increase in flexibility should be the expectation for ministries to develop clearer, evidence based medium term manpower plans, including ceilings on personnel cost.** These plans will need to be negotiated and agreed with NBO and PSD as part of the budget process.

## **B. Improving Capacity of the National Budget Office**

**154. At present the National Budget Office (NBO) is focused on day to day operational concerns and has a limited strategic role in spending policy across government.** This is a result of the fragmentation of budget responsibilities with decision making over development and personnel planning held outside MOF.

**155. NBO must be enabled to be the primary role player in budget reform across the Malaysian government.** The shift to OBB and the adoption of a MTBF entails a central role for the NBO in leading strategic planning. This includes ensuring that operational and development expenditure is allocated in accordance with medium term spending priorities, challenging efficiency and effectiveness across government.

**156. Although the small, Performance Management and Evaluation team operating within the NBO, has had some notable successes to date, the next phase of the OBB reform requires mainstreaming within the sector budget teams.** They will be critical to the implementation of reforms across sectors and programs.

**157. Table 7 shows the features that often characterize a reactive, process focused budget office versus those that characterize strategic budget functions.** The Malaysian NBO is likely to be somewhere on the spectrum between these two poles, depending on the sector, but implementation of OBB will require a significant further shift towards the characteristics in column B. This should be an early enabling reform for the success of the broader OBB reform plan.

**158. More broadly, a Strategic Review of NBO would be beneficial in clarifying its role, functions, and capabilities in driving government wide planning and spending.** The changes described above will require a change management program for the NBO within the wider context of the Treasury. This review should start with clarification of the role NBO wishes to play across government and the organizational objectives that would support this. Existing skills and capabilities should be assessed against these objectives and the steps needed for transformation identified.

**159. A number of other countries have experience of undertaking strategic reviews of MOF or budget office functions and much can be learned from their processes and conclusions.** For example, the U.K.'s Strategic Review and Capability Review Action Plan

assessed the Treasury's capability to deliver a challenging new phase of spending re-prioritization in the U.K. It is a good illustration of a capability evaluation process.

**160. The review of the NBO should include plans to increased headcount.** The Malaysian NBO is relatively small compared to international comparators. Additional technical capacity would free senior Budget Deputy Directors to engage in strategic planning and evaluation. The number of sector leaders in the NBO should also be reviewed following agreement on the OBB sector and program structure. The current wide coverage of program areas and institutions within each deputy director's remit is a constraint on their capacity to lead the change required across government.

**Table 7: Moving From a Process Focused to a Strategic National Budget Office**

	<b>A. Characteristics of operationally focused Budget Office</b>	<b>B. Characteristics of a strategically focused Budget Office</b>
<b>Management of budget process</b>	Annual Budget allocations managed reactively, aiming to meet year by year departmental pressures and commitments.	Annual Budget allocations managed in context of medium term plans that reconcile outcome priorities, future cost pressures, fiscal constraints and evidence on effectiveness and efficiency.
<b>Engagement with ministries</b>	Transactional engagement with ministries focused on completing specific budgeting tasks.	Engagement with ministries aimed at achieving strategic priorities, reviewing impact as well as financial performance.
<b>Role in developing fiscal strategy</b>	Budget Office performs a coordinating function, responsive to spending priorities and decisions taken elsewhere in government and ensuring these are accounted for in budget allocations.	Budget Office is the central leadership function within government on fiscal strategy, setting the direction for operational and investment expenditure by analyzing and planning the coordination of expenditure over time.
<b>Role of senior budget officials</b>	Senior officials are primarily engaged in reactive problem solving with ministries, managing Budget processes, and in resolving technical difficulties.	Senior officials are sector leaders across government, challenging ministries on future plans, contributing direction to reform priorities and normally delegating resolution of technical concerns to staff in their sector teams.
<b>Performance management</b>	Budget office is marginal to ministry performance management concerns, using performance evidence in a limited way in determining and managing ministry Budgets.	Budget Office is a key user of PI in government and a contributor to performance management systems and culture across government by increasing demand for robust monitoring and evaluation in reaching decisions on expenditure.

Source: IMF Staff

**161. The place of the NBO within the Treasury structure places less emphasis on it than would ideally be the case.** It is uncommon for Budget Offices not to have a dedicated

deputy secretary general level leader with direct accountability for its work. This seniority ensures the budget office can have presence at the right level across government as it seeks to lead strategic planning processes and negotiate with ministries' leading officials.

### **C. Reform Strategy – Technical and Enabling reforms**

**162. Fully implementing the next phase of OBB and achieving the technical reforms set out in this report will be complex and require clear planning.** As stated in the executive summary this report suggests the reforms focus on four key areas over the short to medium term. The Action Plan on page 60 shows the technical reforms within each of these four areas mapped over time.

**163. However, reform also involves a learning and action planning process that attempts to match the reform process to the evolving capacity of the institutions and their commitment to reform.** For this reason it is useful to plan implementation in terms of key reform phases and the enabling reforms that will support implementation. This approach also allows the MOF to build on successes and utilize the momentum of some high performing ministries while developing strategies to support increased capability in ministries that are further behind on their reform journey.

**164. The following key reform phases capture the primary enabling reforms that are needed to deliver OBB.** This may provide a template for the more detailed reform plan that the NBO will need to develop for the next phase of OBB. In developing these plans accounts should be taken of existing reform plans including the Fiscal Transformation Program which incorporates both structural and institutional reforms.

**165. In almost all cases, these enabling reforms will involve cross institutional work and strong leadership from the MOF at all levels.**

#### **1. Reviewing central capability and processes, particularly in NBO**

The NBO will be the leader of Budget reform across government and will be responsible for designing and implementing the key processes that will be used to support ministries to adopt new practices. It is therefore essential that NBO builds its capacity to carry this out.

##### **a. Increasing Budget NBO capacity and capability:**

We recommend a strategic review of the NBO to assess the functions and resources required to drive Budget reform and to adopt a more strategic function in delivering spending reviews across government.

##### **b. Clarifying NBO role and objectives:**

As well as entailing changes in the specific role of NBO, the Budget reforms set out in this report require a change in the overall decision making processes of government as they

relate to financial planning and priority setting. These processes reach beyond the NBO and relate to the way the Treasury works across government.

**c. Securing high level agreement to the principle of conducting spending reviews:**

The adoption of the sector model and implementation of spending reviews is a significant reform and will require the support and participation of the government as a whole. It will be essential to gain senior officials and then Cabinet level approval.

**2. Agreeing sector structure and reviewing integration between OBB and wider government reporting and monitoring processes**

The sector structure is an important building block of the next phase of OBB reform and it will provide a framework for mapping national outcomes, programs, and institutions in preparation for sector spending reviews.

**a. Agree sector structure and map National Plan outcomes and other outcome priorities against them**

After agreement of the sectoral structure, it will be possible to map the relationship between existing national outcomes and the agreed sectors, as well as the programs and activities that sit under each sector.

**b. Review reporting and monitoring processes**

Once the sector classification is complete, and before reporting and monitoring begins across the system as a whole, work will be needed to ensure that OBB can integrate with the multiple existing reporting and monitoring systems without creating unnecessary duplication.

**3. Review integration of financial decision making across government**

To support implementation of OBB and the proposed spending review ensure coordinating of fiscal policy across central government's key budget actors.

**a. Improve coordination of budgeting across MOF, EPU, ICU and PSD.**

A 'whole of spending' approach is necessary to ensure that resources are allocated in line with outcome priorities. Discussion across the center of government is needed to identify how the existing separate systems can be better aligned around a single Treasury led budget planning process and embedded within spending reviews.

**b. Initiate review of personnel delegations to ministries.**

Increased flexibility for ministries to recruit, reallocate, and reward civil servants will be important in ensuring they have the capability to match resources and outcome and to incentivize performance.

**4. Initiating spending reviews and embedding Budget reform**

Much of the above enabling reform will be utilized in delivery of effective, priority led spending reviews that evaluate existing expenditure and provide medium term plans for spending and reform.

**a. Initial spending reviews with advanced sectors**

Initial spending reviews will be best taken forward with sectors that involve ministries who are relatively more advanced in their program evaluation, evidence, and performance management cultures. These spending reviews will test the methodology for spending review delivery and produce important learning for the ongoing reviews.

**b. Roll out to the rest of government**

The final implementation phase will be the deployment of spending reviews within the OBB structure and the rest of government over time.

**160. In addition to the specific enabling measures outlined above, there are other complementary cross cutting changes which will also be required to implement OBB.** In some cases progress has already been made but further action will be required to realize OBB across government. These changes include:

- Development of a stronger level of engagement with the reform agenda across government and externally;
- A stronger focus on achieving results, including the use of incentives and disincentives to affect behavior;
- Higher levels of data collection and strengthened analytical capability to support improved forecasting, planning and decision making and to integrate financial and non financial performance data;
- Strengthened capability to undertake analysis at all levels and greater ability to present and communicate results;
- Strengthened coordination and cooperation between involved government ministers, ministries and agencies;
- Increased flexibility for managers at all levels to determine the most appropriate mix of resources to achieve objectives;
- Improved management capacity at all levels;
- Greater transparency in the production of and commentary on performance data.

## **D. Reform Action Plan**

**161. As outlined above, careful planning will be important in ensure that the plan can be delivered.** It needs to focus on the right sequencing of actions, embedding both technical and enabling reforms in the right places at the right times. The action plan in Table 8 sets out a timeline for the implementation of actions made in this report. They are timed to be consistent with the budget process and also indicate where further technical assistance may be beneficial.

**Table 8. Action Plan  
Implementing the Next Phase of OBB Reform in Malaysia**

Chapter	2015	2016	2017
<p><b>III. Strengthening the Building Blocks: Improving the Strategic and Medium Term Focus of Budgeting and Planning</b></p>	<p>Introduce a medium-term focus into the budget process, building on the MTFF, and presented in a Fiscal Strategy paper, approved by the FPC and Cabinet at the beginning of the budget process.</p> <p>Examine approaches to containing overall personnel expenditures.</p> <p>Merge operational and development budgets by having a single ceiling covering both OE and DE, by presenting a merged version in the budget documents, and by improving process co-ordination.</p> <p>Establish a committee on the in-year and medium term operational costs associated with development projects, including the NBO, EPU, PSD and the ICU.</p>	<p>Require ministries' requests for new and one-off policies to include projections of medium-term costs, including personnel costs, and a justification of how they support national priorities and affect existing spending priorities.</p> <p>Require detailed analysis of the medium term fiscal implications of spending initiatives announced in the Budget Speech and during the course of the year.</p>	<p>Introduce a medium term budget framework.</p> <ul style="list-style-type: none"> <li>• Prepare an expanded fiscal strategy paper which incorporates budget priorities and launches the budget process.</li> <li>• Establish a firm ceiling for ministries and agencies for the budget year and an indicative ceiling for two years ahead, covering OE and DE.</li> <li>• Instruct ministries to submit their budgets to NBO within these ceilings for the proposed budget year and projections for two years ahead. Provide training to ministry budget staff in making medium-term estimates.</li> </ul> <p>Strengthen budget credibility by encouraging the Auditor-General to measure adherence to the original appropriated budget, and strengthen budget planning by ensuring space in ministry budgets for all likely spending for the budget year and discouraging the practice of in-year unfunded policy measures.</p> <p>Improve the planning of public investment by making more rigorous the selection of development projects, focusing on cost benefit analysis and economic impact. Introduce independent evaluation of the proposed projects cost.</p>

<p><b>IV. Improving the alignment of outcomes, Programs and Institutions</b></p>	<p>Use a sector categorization to improve alignment of outcomes, programs, and activities. This should start with the COFOG classification but these categories should be refined where necessary.</p> <p>NBO should map the outcomes of the 11<sup>th</sup> National Plan against the sector model, working with EPU and relevant public institutions, devising sector outcomes where those provided by the National Plan are not adequate.</p>		<p>Ensure that the sectoral, program, and activity structure which is developed is comprehensive of public expenditure but that programs and activities avoid overlap and are distinct enough to allow attribution at institutional level.</p> <p>NBO should work with ministries, EPU and PEMANDU to clarify how performance accountability will be managed.</p>
<p><b>V. Integrating Performance Information and Analysis into the Budget Process and Budget Documents</b></p>	<p>Ensure processes are put in place to enable the active use of PI in the budget review discussions.</p> <p>BROs in NBO should gather in more information and engage in more analysis of cost and performance information.</p> <p>Review the institutional capacity of NBO in light of the different and enlarged demands for performance analysis of government programs.</p> <p>This year require the 9 nine pilot ministries to report on performance results along OBB lines through the MyResults portal. Other ministries should do so once they have refined their program structures along OBB lines.</p>	<p>Establish a Spending Review function charged with analyzing spending and performance of a series of selected government programs on a rolling basis.</p> <p>Redesign the format of the Budget Book as proposed in this report and present the OBB program structure in the Budget Book for the 9 pilot ministries for the 2017 budget, and then start rolling it out to all ministries.</p>	<p>Integrate Spending Reviews with the budget process.</p>

<p><b>VI. Improving performance monitoring, reporting and evaluation</b></p>	<p>NBO should lead the effort to introduce guidelines for ministries, departments and agencies on conducting program evaluations.</p> <p>NBO should establish a Community of Practice for staff responsible for research, monitoring and reporting within ministries, departments and agencies.</p>	<p>Include selected OBB program KPIs in the performance agreements between the Prime Minister and ministers.</p> <p>Budget review officers in the NBO should undertake a trend analysis of selected KPI results on a bi-annual basis and release the results online.</p> <p>Submit an annual OBB performance report on ministries' performance to the PAC.</p> <p>Annually publish a list of program evaluations that are planned, underway and completed on a rolling three-year basis on the MOF website.</p>	<p>The Auditor-General should include an audit of OBB performance data and systems in its' annual Compliance Audit.</p> <p>Ministries should submit an annual performance report to Parliament and the PAC.</p>
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**APPENDIX 1: MINISTRY OF TRADE LINKING THE NATIONAL THRUSTS, KRAs, OUTCOMES & PROGRAMS**

**Table1. Creating a Conducive Environment to Generate Economic Growth**

T1	Mewujudkan Persekitaran Kondusif Bagi Mengerakkan Pertumbuhan Ekonomi																					
	MP10 KEY RESULTS AREA	No	MP10 NATIONAL OUTCOMES	No	MP 10 NATIONAL PROGRAMS	PROPOSED MINISTRY OUTCOMES					PROPOSED MINISTRY PROGRAMME											
						1	2	3	4	5	1	2	3	4	5	6	7					
<b>KRA1</b>	Increased competitiveness in the global environment															D	D	D		I		
		ON1	Strengthening the resilience of the economy and the expansion of global market shares for products and services			D		D	I			D	D	D		I						
			PN1	National Competitiveness Enhancement Program				D				D	D	D		I						
<b>KRA2</b>	Increasing contribution from high value added new sources of growth															D	D	D		I		
		ON2	Diversified economy with increasing shares of high value-added and knowledge intensive activities to GDP					D				D	D	D		I						
			PN2	High Value Added New Sources of Growth Ecosystem Enhancement Program				D				D	D	D		I						
<b>KRA3</b>	Absorption and wide dissemination of innovations and technologies															I	I	D	D	D		I
		ON3	Increased productivity, efficiency and quality and production of products, services and new business models / processes					I	I			D	D	D		I						
			PN3	Creativity and Innovation Stimulus Program				I	I			D	D	D		I						
<b>KRA4</b>	Intensive involvement of the private sector										I					D		D	D	D		I
		ON4	Growth led by private sector, with the Government as facilitator			I			D			D	D	D		I						
			PN4	Market Oriented and Business Friendly Environment Strengthening Program		I			D			D	D	D		I						
<b>KRA5</b>	Strengthening the capability and entrepreneurial culture										D					D	D	D		I		
		ON5	Increased availability of high net worth business venture			D		D	I			D	D	D		I						
			PN5	Support System for Business and Entrepreneurial Enculturation Program		D			D			D	D	D		I						

**D: Direct Linkage and I: Indirect Linkage**

**APPENDIX 2: SUPPLY ACTS AND SUPPLEMENTARY SUPPLY ACTS FISCAL YEARS 2011-2015**

<b>Budget</b>	<b>Date of publication in Gazette (after Royal assent)</b>
<b>2011 budget – original A1388: Supply (2011) Act</b>	<b>December 2010</b>
2011 budget – supplementary 1 A1396: Supplementary Supply (2011) Act 2011	21 July 2011
2011 budget – supplementary 2 A1426: Supplementary Supply (2011) Act, 2012	18 May 2012
<b>2012 budget – original A1408: Supply (2012) Act</b>	<b>30 December 2011</b>
2012 budget – supplementary 1 A1438: Supplementary Supply (2012) Act 2012	16 August 2012
2012 budget – supplementary 2 A1453: Supplementary Supply (2012) Act 2013	6 September 2013
<b>2013 budget – original A1446: Supply (2013) Act</b>	<b>26 December 2012</b>
2013 budget – supplementary 1 A1454: Supplementary Supply (2013) Act 2013	1 November 2013
2013 budget – supplementary 2 A1461: Supplementary Supply (2013) Act 2014	12 June 2014
<b>2014 budget – original A1458: Supply (2014) Act</b>	<b>31 December 2013</b>
2014 budget – supplementary 1 A1466: Supplementary Supply (2014) Act 2014	24 July 2014
<b>2015 budget – original A1469: Supply (2015) Act</b>	<b>30 December 2014</b>

## APPENDIX 3: COUNTRY EXAMPLES OF SPENDING AND PERFORMANCE REVIEW METHODOLOGIES

### A. South Africa's Spending Review Methodology

**Step 1: Assemble team:** Each review is coordinated by a central unit that supports the Budget Office in the National Treasury. This unit is responsible for establishing a steering committee comprised of relevant stakeholders such as implementing agents (government departments and/or public entities) and center of government institutions such as National Treasury, Department of Planning, Monitoring and Evaluation, and the Department of Public Service and Administration. The unit is also responsible for contracting consulting experts to undertake the research and analysis required.

**Step 2: Program elements:** In this step the program is clearly articulated including the policy environment, the situational analysis in terms of program implementation, the theory of change from inputs, processes, outputs and outcomes, underlying assumptions about the consequences of certain actions and most importantly delineation of all the program elements.

**Step 3: Performance analysis:** This step involves outlining the chain of delivery for every program element including a log frame with inputs, activities, intermediate outputs, and outcomes, work breakdown structure and assumptions about causal mechanisms. In addition performance indicators need to be identified to determine how to measure successful delivery. Using the chain of delivery indicators are developed. Ideally indicators focus on key leverage areas. Preferably quantitative indicators are identified with data sources, baselines, and targets.

**Step 4: Expenditure analysis:** For each program element a detailed understanding of the existing expenditure patterns is developed including a clear understanding of the flow of funds. Information is typically sourced from government accounting systems at the program, sub-program and sub-sub-program detail, economic classification detail, project financial data detail, item level detail or objective and responsibility detail. Expenditure data may be needed across multiple departments and public entities at different levels of government depending on the program under review. Costs are also benchmarked for outputs in the non-government sectors.

**Step 5: Costing model:** In this penultimate steps the consultant expert team are expected to produce a costing model that takes account of delivery requirements, baseline needs and delivery standards, main cost drivers, distinguishing between capital, personnel and other operational costs. The model is then used to provide costings and performance based on different scenarios.

**Step 6: Final report:** The final report is limited to 25 pages including a one page ministerial memo, three to four page executive summary and 20 page detailed report.

## B. United Kingdom's Spending Review Methodology<sup>11</sup>

### Step 1: Set out scope and process of Spending Review including MOF expectations of ministries

Each review is coordinated within Treasury between the teams responsible for Budget Coordination and General Expenditure Policy. The process is begun with the establishment of the macro-economic and fiscal medium term forecasts that set the frame for expenditure over the Spending Review (SR) period.

At the beginning the SR governance, scope (what spending is included), timescales and primary evaluation questions to be considered. In the 2010 Spending Review the following questions were set out for the whole of government expenditure (the context was one of looking for substantial savings across programs):

- Is the activity essential to meet Government priorities?
- Does the Government need to fund this activity?
- Does the activity provide substantial economic value?
- Can the activity be targeted to those most in need?
- How can the activity be provided at lower cost?
- How can the activity be provided more effectively?
- Can the activity be provided by a non-state provider or by citizens, wholly or in partnership?
- Can non-state providers be paid to carry out the activity according to the results they achieve?
- Can local bodies as opposed to central government provide the activity?

The process is governed by a ministerial committee (Public Expenditure Committee) Chaired by the Chancellor to the Exchequer (Finance Minister) and including up to six other senior Cabinet Ministers. Other Cabinet Ministers are called to Committee as and when required. In 2010 the Committee focused in particular on:

- the Government's approach to cross-cutting issues, including public sector pay and pensions and local government expenditure;
- the key objectives for each department to ensure that sufficient prioritisation has been taken in line with spending challenges and that the quality of key frontline services will be protected; and
- the strategic issues, for example, reform of the welfare state.

A Committee and Permanent Secretaries (Secretary Generals) reported to and supported PEX, with specific responsibility for ensuring the operational aspects of the process were delivered.

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<sup>11</sup> The United Kingdom's guidance on its 2010 Spending Review process is available at: [http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/spending\\_review\\_framework\\_080610.pdf](http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/spending_review_framework_080610.pdf)

**Step 2: Performance and expenditure analysis:** In this step Ministries analyze the programs they accountable for, how objectives (including outcomes) can be met with initial proposal for the medium term expenditure, reform and responses to the questions set out above. This analysis includes assessment of the policy environment, the situational analysis in terms of program implementation, the theory of change from inputs, processes, outputs and outcomes, underlying assumptions about the consequences of certain actions and delineation of all the program elements.

For each program element a detailed understanding of the existing expenditure patterns is developed including a clear understanding of the flow of funds. HM Treasury sector leads play an integral role in support this process: providing quality assurance, advice and challenge to ensure the submissions will be as strong and comprehensive as possible.

The process of compiling these submissions is intensive and complex and is led by ministries engaging with relevant internal and external stakeholders, drawing in expert external technical assistance where necessary. A one month external engagement phase is included to draw in views and expertise on specific and cross cutting Spending Review issues.

**Step 3: Submissions to HM Treasury and Review:** For every program element including inputs, activities, intermediate outputs, and outcomes, work breakdown structure and assumptions about causal mechanisms, HM Treasury review proposals and work across spending areas to manage the allocation of ceilings that fits the cost benefit analysis. This includes a phase of challenge to ministry submissions and evidence, where supplementary evidence is requested and the assumptions and options contained in the submissions debated.

**Step 4: Finalisation:** For each program element a final proposal is agreed and put to PEX, with contentious or unresolved spending and reform issues highlighted for PEX decision. Sector by sector agreements take place between the Chancellor and leading ministers, with the conclusion of cross cutting reviews (such as on public sector pay) also built into each agreement. Reconciling final sector agreements and the overall public spending ceiling is one of the most challenging phases of the Spending Review.

**Step 6: Final report:** The final report is put to Parliament, setting the fiscal and reform path across sectors and key programs for the coming 4 years. Each following Budget of the Spending Review period will clearly set out progress against the fiscal and macroeconomic policy and reforms of the Spending Review.

## **APPENDIX 4: FORMAT OF THE ESTIMATES OF THE NATIONAL EXPENDITURE BOOK IN SOUTH AFRICA**

1. **Department title**
2. **Budget Summary** - Over the medium-term per program including a breakdown of current payment, transfer, payment for capital assets for the first year of the medium-term expenditure framework
3. **Aim** - The aim should be identical to the 2015 Appropriation Bill and linked to the mandate as reflected in the strategic plan of the department.
4. **Mandate** - The mandate as contained in the relevant act(s) that govern the department
5. **Selected Performance Indicators** - Selection of key performance indicators (and relevant program) agreed with the National Treasury. May include outcome, output, activity, and efficiency indicators.
6. **Expenditure Analysis** for the department as whole - Detail that clearly indicates how expenditure, personnel and other inputs contribute to the achievement of outputs and outcomes.
7. **Expenditure Trends** - Detail of program as well as line-item spending over the previous 3 years
8. **Expenditure Estimates** - Detail of program as well as line-item spending for current and future 3 years
9. **Personnel information** – Number of personnel at different salary levels and per program for past, current and future years
10. **Departmental Receipts** detail for past, current and future years
11. **Program** number and name
  - a. Purpose
  - b. Objectives
  - c. Sub-programs list
  - d. Expenditure estimates for past, current and future years
  - e. Public entities list
  - f. Details for selected public entities including mandate, selected performance indicators, expenditure analysis, personnel information
12. **Additional tables**
  - a. Summary of expenditure on infrastructure
  - b. Summary of conditional grants to provinces and municipalities
  - c. Summary of departmental public private partnership projects
  - d. Summary of donor funding
  - e. Summary of department specific expenditure information

## APPENDIX 5: EXAMPLE OF THE PROPOSED STRUCTURE FOR ILLUSTRATIVE PURPOSES

### SECTION 2: MINISTRY OF HEALTH

<b>Vision and mission</b>	<ul style="list-style-type: none"> <li>• <i>To be a world class Health sector</i></li> <li>• <i>To serve the health needs of the people of Malaysia</i></li> </ul>
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#### Key Performance Indicators Trends

Selected Outcomes KPIs	2014	2015	2015	2015	2016	2017	2018
	Planned	Actual	Planned	Est.	Target	Proj.	Proj.
<b>Outcome 1: Name</b>							
<i>KPI 1.1: TB infection rate</i>	<i>5%</i>						
KPI 1.2: Name							
<b>Outcomes 2: Name</b>							
KPI 2.1: Name							
KPI 2.2: Name							

#### Budget Summary

RM'000	2014	2015	2015	2015	2016
Outcomes-based Budget	Actual	Original Budget	Revised Budget	Revised Estimate	Proposed Budget
<i>Programme 1: Hospital Services</i>	<i>120</i>	<i>130</i>	<i>140</i>	<i>150</i>	<i>160</i>
Programme 2: Name					
<b>Total</b>					
<b>Economic Class</b>					
<b>Total</b>	<i>250</i>				
<b>Operational Budget Total</b>	<i>100</i>				
Emoluments	<i>20</i>				
Goods and Services	<i>50</i>				
<i>Of which</i>					
<i>Consulting Services</i>	<i>10</i>				
<i>Telecommunications</i>	<i>20</i>				
<i>Travel</i>	<i>20</i>				
Capital Payments	<i>20</i>				
Transfers	<i>10</i>				
<b>Development Budget Total</b>	<i>150</i>				
Emoluments	<i>10</i>				
Goods and Services	<i>20</i>				

<i>Of which</i>					
<i>Engineering Services</i>	5				
<i>Architectural Services</i>	5				
<i>Travel</i>	10				
Capital Payments	110				
Transfers	10				

### Expenditure Analysis

<b>Programs</b>	...
<b>Operational</b>	<i>The comprehensive TB and infectious diseases prevention grant is set to continue growing at an average annual rate of 14.2 per cent over the medium term to strengthen testing and prevention programs and increase the number of people on treatment. In support of the program treatment and prevention strategy, the program receives an additional 15 million in 2015/16 and 15.8 million in 2016/17 to support the implementation of the 2012-2016 national strategic plan on prevention of infectious disease. In addition, expenditure on medical supplies is projected to increase at an average annual rate of 15.9 per cent over the medium term.</i>
<b>Development</b>	...

### SECTION 3: PROGRAMS

<b>Programme 1: Name</b>	<i>Hospital Services</i>
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### Key Performance Indicators Trends

<b>Selected Outcomes &amp; Output KPIs</b>	2014	2015	2015	2015	2016	2017	2018
	Planned	Actual	Planned	Est.	Target	Proj.	Proj.
<i>KPI 1.1: TB cure rate</i>	90%	90%	90%	90%	90%	90%	90%
<i>KPI 1.2: MMR inoculation rate</i>	60%	60%	60%	60%	60%	60%	60%

### Budget Summary

	2014	2015	2015	2015	2016
<b>Outcomes-based Budget</b>	Actual	Original Budget	Revised Budget	Revised Estimate	Proposed Budget
<i>Activity 1: Nuclear Medicine</i>	120	130	140	150	160
Activity 2: Name					
<b>Total</b>					

<b>Economic Class</b>					
<b>Total</b>	250				
<b>Operational Budget Total</b>	100				
Emoluments	20				
Goods and Services	50				
<i>Of which</i>					
...	10				
...	20				
...	20				
Capital Payments	20				
Transfers	10				
<b>Development Budget Total</b>	150				
Emoluments	10				
Goods and Services	20				
<i>Of which</i>					
...	5				
...	5				
...	10				
Capital Payments	110				
Transfers	10				

### Expenditure Analysis

<b>Activity</b>	<i>The spending focus over the medium term will be on working towards attaining universal health care coverage by overseeing 10 national health insurance pilot projects, and conducting health economic research particularly on the rollout of national health care and alternative health care financing mechanisms. These activities will be carried out through the Health Financing and National Health Insurance activity, in which expenditure grew significantly in 2012/13 and 2013/14. The pilot projects began in 2012/13 and were funded through transfer payments. However, in 2013/14, the national health conditional grant was established to provide funding for the pilot projects and funds were shifted accordingly, from spending on transfers to spending on contractors to provide for general medical practitioners contracted to the projects.</i>
<b>Operational</b>	...
<b>Development</b>	...