



CORTE DEI CONTI

FISCAL POLICY AUDIT NETWORK

The indicators of the notes to the budget and the measurement of public policies

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1. Introduction

The Italian Court of Auditors has recently carried out a specific audit aimed at verifying the appropriateness and efficiency of the indicators in the state budget.

The subject of the survey were the indicators associated with the objectives included in the notes to the budget, taking as a sample three different ministries: Ministry of Justice, Ministry of Economic Development and Ministry of Education, University and Research.

The Court has deemed this analysis to be necessary as it is linked to important changes introduced in our accounting system, with immediate effects on the potential of the audits on public policies.

2. Reference framework

2.1. The notes to the budget

The notes complete the information relating to the revenues and expenditure of the budget and of the general state report.

For each ministry they illustrate, in relation to the spending programmes, the criteria for formulating the forecasts, the objectives to be achieved and the indicators suitable for their measurement.

The recent innovations introduced in the budgetary cycle of the State have, among other things, reclassified the contents of the notes, both from point of view of the representation and from a substantive point of view: elements have been introduced that contribute to greater legibility of the purposes of the expenditure better highlighting the objectives of the policies underlying the state budget.

2. Reference framework

2.2. The actions

The state budget is structured in missions, which in turn include different spending programmes.

From 2018 the "actions" have been introduced: additional balance sheet aggregates underlying the spending programs, which aim to make the purpose of the resources more evident, i.e. what should be achieved and for what purposes.

Consequently, the objectives of the notes to the budget are related to each programme, but they are also expressed with reference to each action.

Within each programme, several objectives can be formulated, but the actions must be uniquely associated with the objectives: an action for a single objective, or several actions for the same objective (not an action for more than one objective).

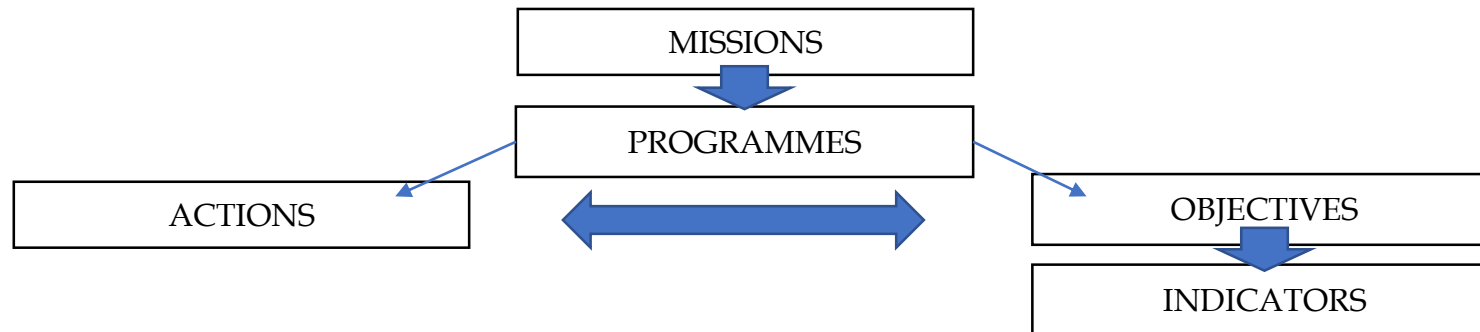
2. Reference framework

2.3. The indicators

Each objective must be assigned one or more significant indicators, up to a maximum of four.

Each of them is assigned a target value to measure, over time, the degree of achievement of results.

Therefore, there is a direct relationship between programmes and actions, programmes and objectives, objectives and actions, but solely an indirect relationship between indicators and actions.



2. Reference framework

2.3. The indicators

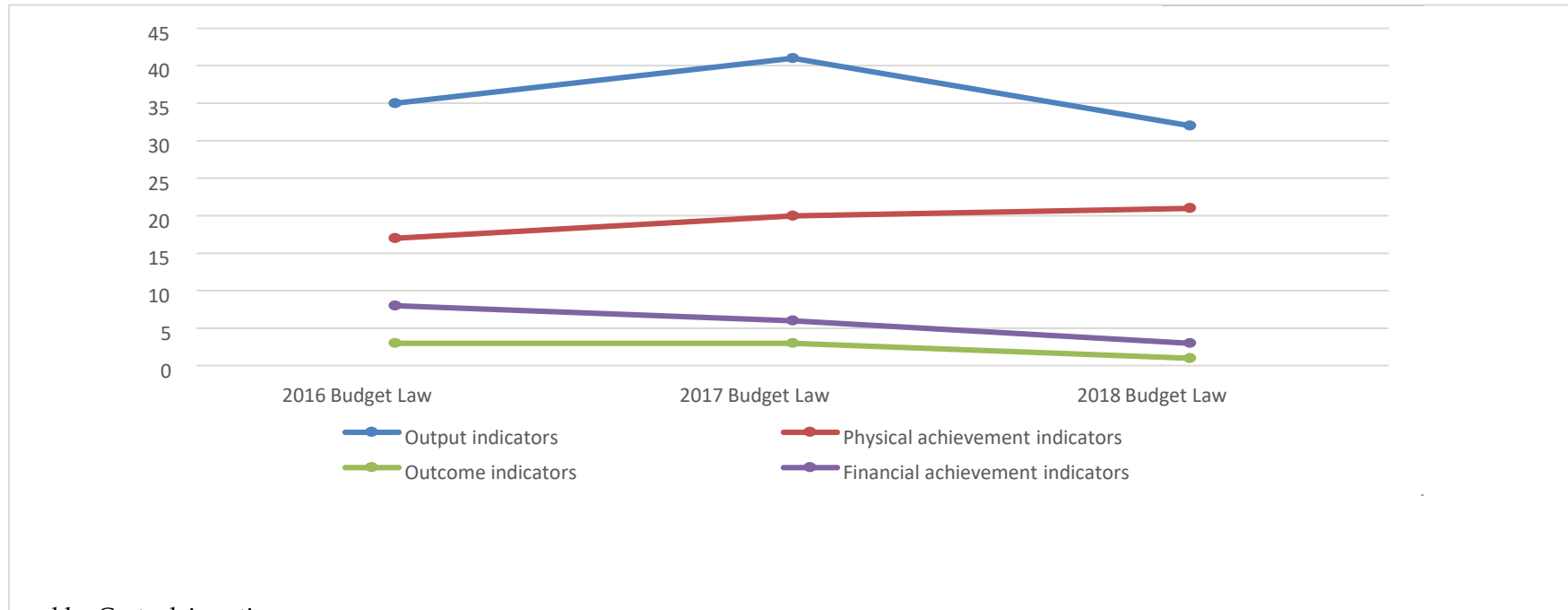
The indicators can be classified into four main types:

Types of indicators	
Physical achievement	They express the measure of the products and services provided or the progress of their achievement
Financial achievement	They indicate the progress of the expenditure planned for the achievement of the objective or intervention. They can be associated with a target only in combination with other indicators
Result (output)	They express the most immediate result of the spending program, or the ability of the products and services provided to be suitable for the purposes pursued (including the measurement of the results of the actions to make the administration more efficient), in terms of quality achieved, beneficiaries reached and usability of the service
Impact (outcome)	They express the impact that the spending programme, together with other entities and external factors, produces on the community and on the environment. These indicators are characterized by strong interdependencies with exogenous factors to the action of the administration
Other indicators	Other indicators that, in relation to the peculiarities of the administrations, express the degree of achievement of the objective

The characteristics that these indicators must possess have been identified by the law, namely: specificity, measurability, feasibility and relevance; these characteristics have been verified in a survey carried out on the three ministries.

3. Analysis of the indicators in the 2016 - 2018 three-year period

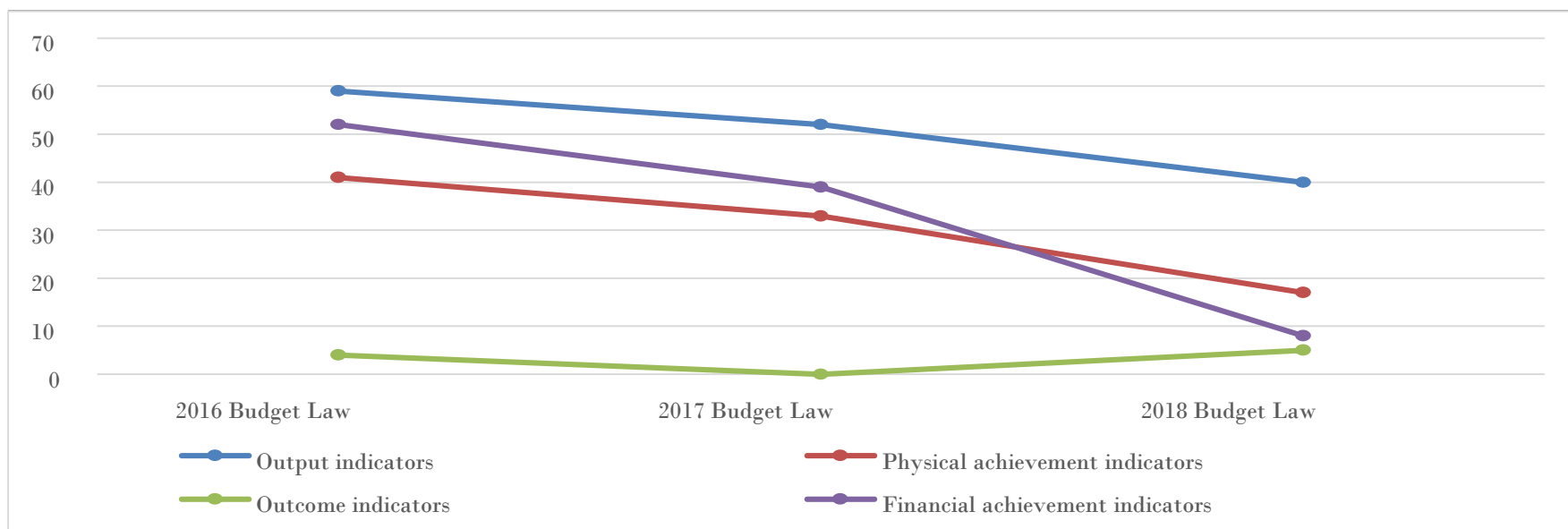
Development of indicators - Ministry of Justice



Source: data processed by Corte dei conti

3. Analysis of the indicators in the 2016 – 2018 three-year period

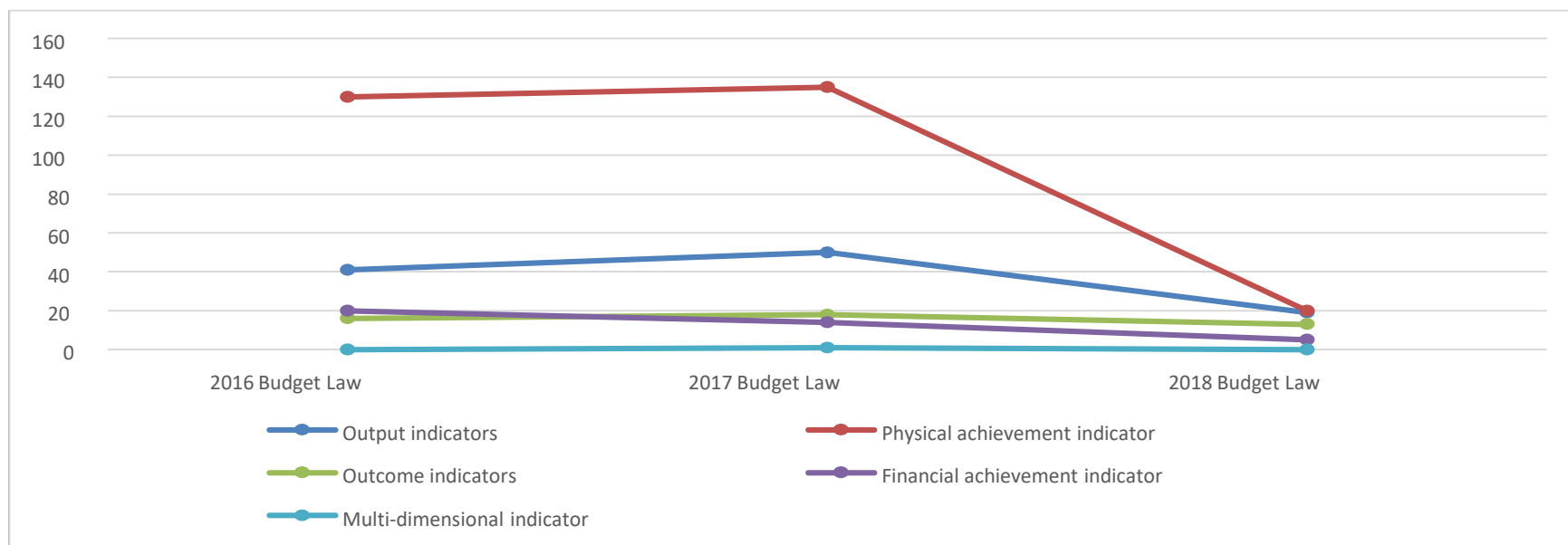
Development of indicators – Ministry of Education, University and Research



Source: data processed by Corte dei conti

3. Analysis of the indicators in the 2016 – 2018 three-year period

Development of indicators – Ministry of Economic Development



Source: data processed by Corte dei conti

3. Analysis of the indicators in the 2016 – 2018 three-year period

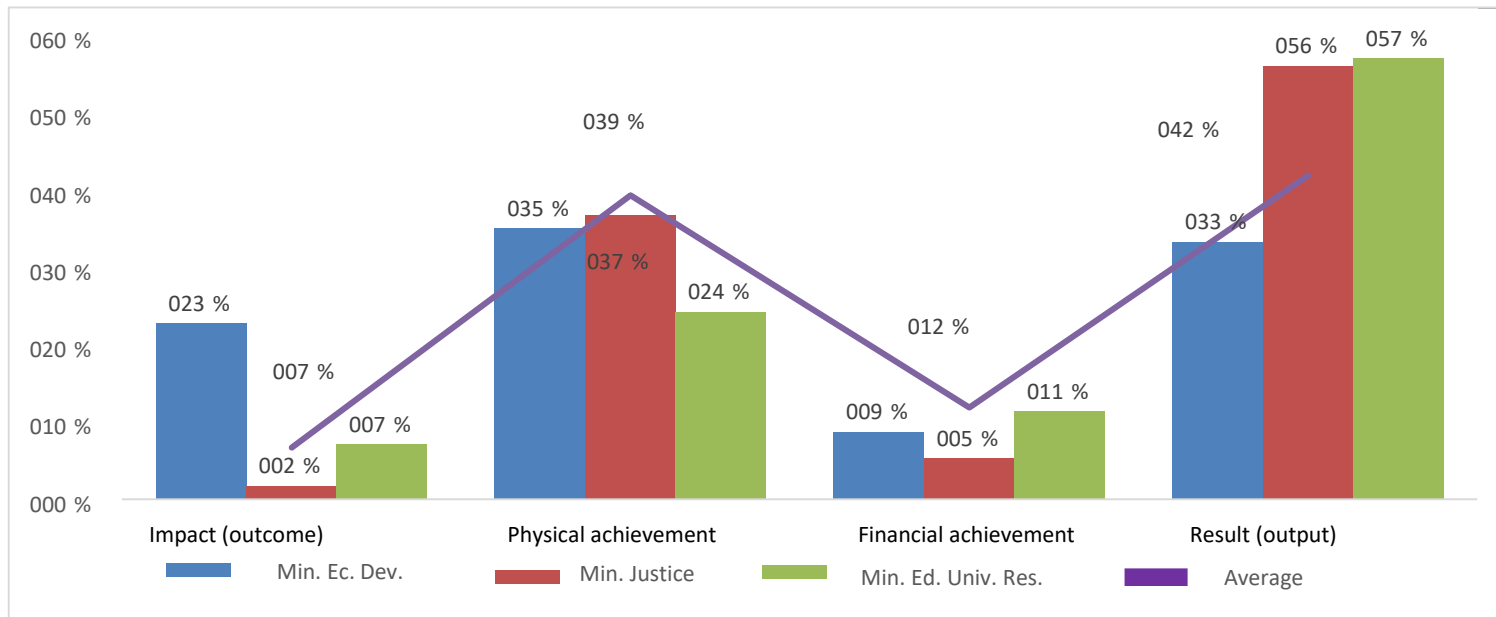
There has been a general decrease in the number of indicators in 2018 compared to 2017, but also a not always relevant use of those of impact, the most representative of the effects on the recipients of public policies.

Nevertheless, currently, the Italian system is characterized by a greater detail in measurements, compared to other systems, however, precisely the high number of indexes used makes it difficult to build impact indicators for all the measurements made.

3. Analysis of the indicators in the 2016 – 2018 three-year period

The following graph relates the indicators of the three ministries examined with the average of the others.

Average and effective value of the type of indicator



Source: data processed by Corte dei conti

The Ministry of Education, University and Research and the Ministry of Justice use indicators of result for more than half of the total number of indicators used, while for the Ministry of Economic Development they represent one third of the indicators used.

As regards the indicators of physical achievement, all three ministries use physical achievement indicators below the average percentage. The same for financial achievement indicators.

3. Analysis of the indicators in the 2016 – 2018 three-year period

3.1. Remarks

It has been pointed out:

- a lower number of indicators;
- a greater number in terms of percentage of result indicators (stable in the three - year period only for the Ministry of Justice);
- among the ministries examined, the Ministry of Economic Development only partially uses impact indicators, despite the efforts made.

Taking into account these data, the Italian Court of Auditors expects a greater use of impact indicators leading the administrations to measure the changes generated in the life of the recipients of a policy, rather than focusing attention on the measurement of resources and activities .

Furthermore, apart from the activities carried out directly by the central administrations offices, with respect to financial transfers, an effort is required from the administrations to highlight as much as possible the results of the policies and of the interventions financed.

4. Building the indicators

The main aspects of the new conformation of the indicators and objectives derive from the link with the budget actions and are summarized below:

- the objectives of the notes must be expressed also with reference to each action;
- consequently, the objectives should focus mainly on the purposes of the expenditure and of the interventions, rather than on the activities carried out by the administration offices;
- the objective to be associated with each action must represent the most relevant aims that the administration intends to achieve;
- the financial resources are directly associated with the actions of the budget;
- it was recommended to prefer the use of outcome indicators and to limit the use of financial achievement indicators, moreover, only associated with other types of indicators;
- the administrations must provide the criteria for formulating the forecasts of expenditure also with respect to all the actions of the State budget.

4. Building the indicators

4.1. Remarks

These new forecasts as a whole have led to a contraction in the number of instruments for measuring public policies. There is only an indirect link between actions and budget indicators, so that some goals may turn out to be devoid of measurement.

The analysis of the indicators by the Italian Court of Auditors made it possible to identify a series of possible improvements in their construction, and in particular:

- upstream, the usefulness of a better description of the connection between objectives and programmes;
- the opportunity for greater clarity in the description of the indicators;
- a widespread absence of the reference values of the indicators, which is also an obstacle to understanding the adequacy of the targets envisaged;
- a widespread use of indicators to measure the activity of the office, rather than measuring the impact of policies;
- the absence of measurement of some objectives pursued;
- the prevailing resource transfer function, which limits the possibility of measurement.

5. Analysis of the 2017 budget indicators and of the results deriving from the use of the indicators in the related financial statement

In the audit carried out, the estimated values were checked comparing them with the results achieved for each indicator used in 2017, which is the last year available.

The indicators that have not been implemented are only 3.7 percent (8 out of 218) for the Ministry of Economic Development and 7.26 percent (9 out of 124) for the Ministry of Education, University and Research.

On the contrary, for the Ministry of Justice a substantial number of budget indicators (42.85 percent, that is 30 out of 70) includes a final balance value that is not consistent with the forecast value.

Often the identified indicator refers to quantities that cannot be calculated a priori, since they are influenced by events beyond administration's control.

Such a wide margin of achievement leads us to question the greater or lesser feasibility and significance of the indicators, especially if they are indicators of physical achievement concerning the number of acts referring to the internal activity of the administration issued, and indicators related to performance evaluation.

5. Conclusions

There is room for improvement in the construction of existing indicators aimed at measuring and making public the impacts of public policies, as well as for the introduction of other significant indicators.

Therefore, on the basis of these remarks, the Italian Court of Auditors addressed to the controlled administrations the following recommendations:

- in general, to further encourage greater use of impact indicators;
- to integrate the number of indicators when the measurement activity is excessively compressed based on the principle of selection and significance;
- to evaluate for this purpose the usefulness of a possible increase in the number of actions, also in order to overcome the limit to the audit activity deriving from the indirect connection between actions and budget indicators;
- to disregard the cases in which certain indicators appeared to be of little relevance for the evaluation of the specific policy to be adopted, or the cases in which doubts emerged regarding their significance;

5. Conclusions

- to guarantee the maximum comprehensibility of the indicators through an adequate description and a limited use of acronyms;
- to guarantee the evaluability of the adequacy of the indicators by identifying the reference values;
- in relation to the Ministry of Economic Development, to further detail the political priorities in order to enhance the connection with the corresponding strategic objectives;
- in relation to the Ministry of Education, University and Research and to the Ministry of Economic Development to question the degree of feasibility and significance of the indicators used;
- in relation to the Ministry of Justice, on the contrary, carefully check the reasons for which such a high number of indicators has not been reached in order to implement the necessary corrective actions;



5. Conclusions

- the usefulness of measuring instruments characterized by a lower number of impact indicators, however, more significant, by grouping more offices, where applicable;
- the advisability, with respect to the current system of measuring, to use different types of indicators for each objective, in order to be able to evaluate the causal connection between public intervention, budget resources, services provided and impact on the community;
- the advisability to foresee interventions for strengthening the sharing and approval of single objectives, indicators and targets envisaged in budget, and not only in the financial statement.



I warmly thank you for your attention

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