RESULTS based BUDGETING

Breaking the trade-off between price and performance through public sector innovation.
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SUMMARY

Alberta Premier Alison Redford is leading implementation of a results-based budgeting model across the Government of Alberta.

Results-based budgeting is a process of evaluating all resource allocations annually to ensure funding can be directed to programs that achieve the best results. It is also philosophy about wise use of resources in a rapidly evolving global context. One underlying principle of results-based budgeting is the need to constantly adapt spending priorities as needs and information change. Another is the principle of value for spending.

In the private sector, a results-based budgeting approach may simply underline the importance of return on investment. In the public sector, it requires balance between the efficiency of process (doing things right) and the benefits citizens receive (doing the right things).

Because results-based budgeting is both about getting better control of spending and improving performance, successfully moving to this model in the Government of Alberta cannot amount to replacing one accounting process with another: innovation is imperative.

The classic price-versus-performance trade-off must be broken through the design and implementation of the budget system. Another design consideration is the need to maximize feasibility.

To keep the philosophical integrity of a results-based budgeting approach intact and address these design considerations, the following should inform the planning and continuous adaptation of the implementation process:

1. Integrate budgeting with the policy process.

2. Accelerate implementation of outcomes-focused policy evaluation.

3. Tailor communication about implementation to public sector staff.

4. Emphasize learning and staff development.

5. Develop digital applications to drastically improve feasibility of reporting.

Introduction

The Government of Alberta is implementing results-based budgeting. In contrast to typical budgeting processes, which require justification only of year-by-year changes and new expenditures, results-based budgets are built from scratch each year through a process of justification for each line item.

Alberta Human Services will be the first to prototype the new budget system within the Government of Alberta, but all departments are expected to adopt the system over the next four years.

The purpose of this discussion paper is to propose a frame of reference for designing a results-based budgeting system for the Government of Alberta that will be both manageable and innovative.

Results-based budgeting principles

More than a process, results-based budgeting is a philosophy about wise use of resources in a rapidly evolving global context. Traditional budgeting approaches are based on the principle that previous years' expenditures are reflective enough of today's priorities to warrant automatic approval of baseline figures. In many cases previous years' work does remain a priority, and requires sustained funding to meet its goals. However, the inertia of past decisions can often make it more difficult to stop doing work as priorities shift; and reduces the imperative for regular and rigorous policy evaluation.

The underlying principle of results-based budgeting, particularly in a public sector context, is the need to constantly adapt spending priorities as needs and information change. Results-based budgeting allows for real-time learning from policy evaluation, encouraging programs to continuously improve performance and strategic alignment with government priorities.

Results-based budgeting is also underpinned by the principle of value for spending. In the private sector, this may simply underline the importance of return on investment. In the public sector, this requires balance between the efficiency of process (doing things right) and the benefits citizens receive (doing the right things).

The classic trade-off of price versus performance

While enhancing budgetary controls and accountability for spending, the Government of Alberta is working to improve policy outcomes in a number of areas. Emergency room wait times reductions, the development of a new social policy framework, abolishing child poverty, and the transformation of Alberta's education system to a student-centered model are only

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three examples of the efforts underway to enhance the performance of government programs.

However, price and performance are often considered direct trade-offs. The health care system is a one example of a policy area in which spending controls are seen – whether fairly or not – as direct threats to system performance. This has contributed to the difficulty in designing a health system model that is financially sustainable and high performing. Another example is the issue of school over-crowding, in which the costs of new school construction and staffing are considered the main impediments to reducing classroom sizes and providing local education options to students in new neighborhoods.

Because results-based budgeting is both about getting better control of spending and improving performance, the classic price-versus-performance trade-off threatens the successful implementation of this new way of doing business. This is especially troubling given efforts like those described above to improve the performance of government programs.

Management trade-offs

In addition to the price versus performance paradox, there are business trade-offs within government departments that will need to be explored and overcome through innovation.

For example, at an operational level, implementors must address the trade-off between time spent participating in the budget process and time spent on core work such as policy development. Use of results-based budget models In other jurisdictions and the private sector substantial administrative effort has been required to complete the day-to-day requirements, such as developing business cases and comparing programs' results. In a government setting, this could potentially divert significant resources from delivering core responsibilities. In many cases, program managers will argue that they must choose between providing quality input to the budget process, and delivering their program-related responsibilities.

At the system level, implementors will need to address the trade-off between evaluating program outputs, which is relatively feasible and familiar to program auditors, and measuring outcomes, which is an abstract and long-term process considerably more complex than quantitative measurement. The risk in not addressing this challenge up front is an over-reliance on quantitative performance measures, which may be difficult to change down the road.

Designing for success

Done right, results-based budgeting has the potential to facilitate significant positive change in the way government operates in Alberta and break the old trade-off between price and performance. However, it will require creativity and innovation. A January 2012 Deloitte report, titled **Public sector, disrupted**, describes how "disruptive" innovation can eliminate policy trade-offs – particularly trade-offs between price and performance.[1]

Disruptive innovation, characterized specifically as an innovation that eliminates a trade-off, is not necessarily as chaotic as its name suggests. One example, included in the Deloitte report, is Netflix, a service which provides customers with movie rentals online or through the mail. Few of us would describe our experiences with Netflix as disruptive, but Deloitte argues that Netflix eliminated the trade-off between convenience (staying at home watching movies available on cable), and choice. The recent closure of Blockbuster Video stores across Edmonton demonstrates how innovations like Netflix successfully redefined the movie rental industry. Another example of a disruptive innovation from the Deloitte report, this time from the public sector, is the use of online education to personalize the experience of K-12 students without increasing the number of teachers.

The following design considerations are proposed to inform the planning and continuous adaptation of the results-based budgeting implementation process. It is hoped that these considerations offer opportunities for creativity and innovation within the resource allocation system, while offering pragmatic and manageable scopes of focus.

1. Integrate budgeting with the policy process.

In describing the intent of moving to a results-based budgeting model, the Premier has made it clear that she envisions a budget system that is better integrated with the policy process. Specifically, resource allocation will be informed by regular, comprehensive policy evaluation and continuous refinement of government's policy goals in response to changing conditions and Albertans' values.

While in some ways the current budget system is meant to reflect government priorities and be based on rigorous evaluation of results, in practice budget administrators have been largely isolated from the policy development process. Program managers, in turn, have been isolated from the budget process (much, in many cases, to their relief).

Framing budget processes as a natural and value-added part of the policy development process, falling in the policy evaluation phase, will strengthen government policy processes and help communicate that budgeting is not an "add-on" to core work.

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2. Accelerate implementation of outcomes-focused policy evaluation.

The slow, meandering journey to embedding an outcomes-focus across the Government of Alberta may need to become a sprint to the finish. To date, building understanding of the difference between outcomes and outputs has been a complicated and frustrating experience for many public servants faced with program auditors' demand for quantifiable results. Those leading the transition to outcomes-based operations may feel doubly frustrated under greater pressure from results-based budgeting to articulate the value of their work.

Increased priority may need to be placed on moving to an outcomes-based policy evaluation paradigm to ensure implementation readiness for the new budgeting system. Part of this should include assessing emerging methodologies, such as social return on investment, for their appropriateness as tools that can provide policy and program managers with an outcomes-based approach for articulating the value of work that may be difficult to quantify. A social return on investment approach has already achieved promising results through the Alberta Safe Communities initiative, and was recently tested for feasibility by Alberta Works.

3. Tailor communication about implementation to public sector staff.

While the public will need to be kept apprised of changes to the way government operates, and the resulting changes, communication specifically targeted to staff will have a direct bearing on the success of the new budget system.

Budget staff that will support implementation of results-based budgeting are not currently trained to understand and successfully innovate within the policy context in which they must develop a new, outcomes-based budget system. In addition, program staff will be reluctant to buy into processes they do not understand, feel threatened by, and/or see as a cumbersome distraction from core responsibilities.

These conditions create the risk that one budgeting process will replace another with no net gain in results.

Effective communication to staff about the imperative and process for change is essential. Messages will need to avoid rhetoric, address real concerns, and reiterate the public policy rational for moving to a new system. In addition, staff should be invited to participate in developing creative ideas for breaking the tough trade-offs described above.

4. Emphasize learning and staff development.

Given the short timeframe for implementing results-based budgeting, top-down direction is likely to dominate the transition stage. However, the long-term success of implementation will depend on fostering cultural change and buy-in to the new system at the staff level.

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The Alberta Public Service already places high importance on respect for people as a resource and asset, and strives to foster a culture of learning and capacity building. Building on this history by placing significant emphasis on staff development throughout the implementation and change management process will equip public servants to understand, accept, embrace, and use the new system.

Particularly at the management level (team leaders, Managers, and Senior Managers), public servants' trust in the new budget system will depend on their understanding of its benefits and their competency to participate in it. Focusing on this group as the audience for early training and learning opportunities will enable a strong internal communication approach, effective change management at the business-unit level, and establish a foundation of skills required for successful participation in the budgeting process.

In addition to staff learning, a feedback loop to enable system learning will be essential. System designers and implementors should work under the assumption that the early versions of the new budget system will not be perfect, and proactively seek input from staff on how to improve the system. This approach would treat the next four years as a prototyping period, with the aim of achieving a high-functioning system by the next provincial election - when public representatives will need to describe the performance of the new system to Albertans.

5. Develop digital applications to drastically improve feasibility of reporting.
Computer software to aid budgeting and planning processes has been used to limited consequence in the Government of Alberta. Previous attempts to digitize budget and business plan reporting have led to costly, cumbersome and confusing programs that are difficult to use and of low utility to decision makers. Most programs have been abandoned, leaving funders feeling burned by the experience.

Given the explosion of online digital applications developed since the introduction of iPhones and iPads in particular, there is substantial untapped potential to use information technology in the areas of policy evaluation, business case development, and process participation. This could drastically reduce the feasibility constraints of using a results-based budgeting model, and significantly improve the quality of policy evaluation processes.

To fully assess the potential of digital applications in a results-based budgeting context, project design and procurement must take into consideration the fact that many of the best applications available today have not been developed by the large corporations with whom government is accustomed to working. Some applications have been developed by IT corporations, but many have been developed by individuals and companies with an interest in solving a particular consumer problem. For example, an application called "Card Star" allows users to digitize membership and rewards cards, such as grocery store loyalty cards, Starbucks gift cards, and others.

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The application development market includes many small players, and is based on open sourcing - or the idea that good ideas can come from anywhere. In fact, there are likely to be a number of individuals in Alberta, including students and public servants, that would be ideally suited to developing creative and effective digital applications to support the new budget system.

Implementors of results-based budgeting would be well served to consider how to solicit ideas for the use of digital applications, keeping in mind that a traditional RFP process is not likely to yield the innovation and low-cost elegance that sets the standard for today's digital experience. A contest or challenge, possibly with cash prizes, could be more appropriate and fruitful given the nature of the market, and would also support the Premier's vision of more open and transparent government.

Conclusion

Results-based budgeting is an incredible opportunity to advance positive changes in the way government operates, and build innovative capacity within the Alberta Public Service.

Because results-based budgeting is both about getting better control of spending and improving performance, successfully moving to this model in the Government of Alberta cannot amount to replacing one accounting process with another. It must engender change that fundamentally alters and enhances government's performance.

Achieving the potential of results-based budgeting will require strong leadership and willingness to consider new - sometimes risky - ideas. This paper suggests several considerations for the design and roll-out of the new budgeting system, with the goal of providing manageable points of focus for innovation and constructive change.

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References

[1] Deloitte. Public sector, disrupted: How disruptive innovation can help government achieve more for less, Executive summary. Page 4.