



Performance-Based Budgeting: Interpretations and Best Practices

2012 PPMRN Conference



Agenda

1

- Defining performance-based budgeting (PBB)

2

- Obstacles to Implementation

3

- Best Practices: A Maturity Level Model

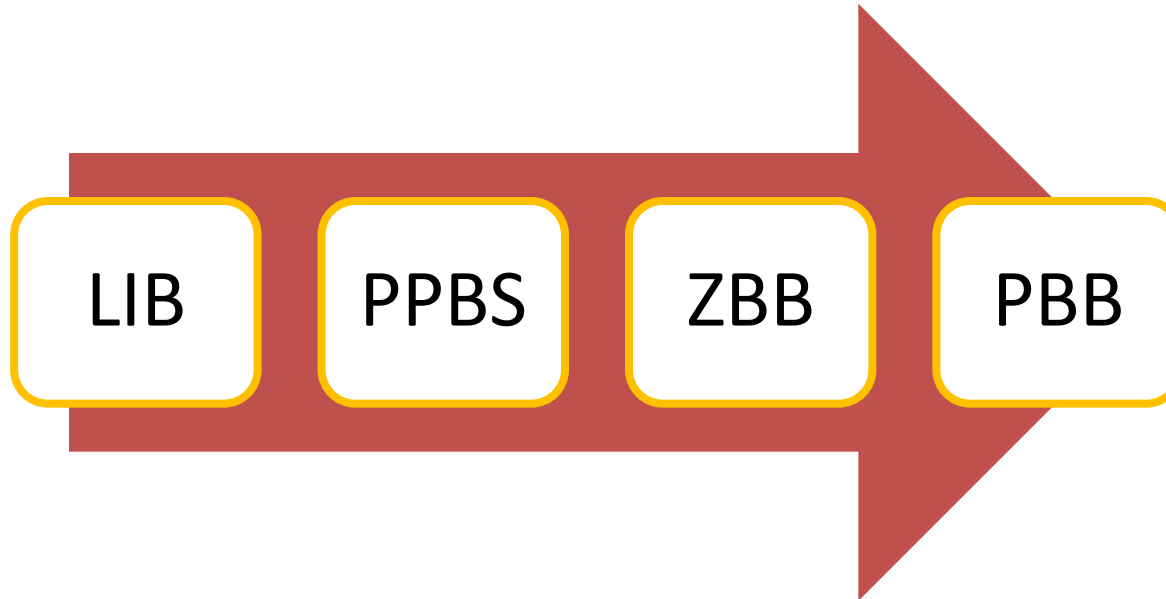
4

- Three Interpretations of PBB

5

- Takeaways

The Evolution of Budgeting in the Public Sector



- LIB: Line Item Budgeting
- PPBS: Planning, Programming, and Budgeting System
- ZBB: Zero-Based Budgeting
- PBB: Performance-Based Budgeting



Defining PBB (“Who, What, Where, When?”)

- ▶ Performance-Based Budgeting (PBB) is an effort to turn funding into results, by outlining a general chain of cause-and-effect.
 - It is a way to allocate resources to achieve specific objectives based on program goals and measured results.
- ▶ Performance-Based Budgets use statements of missions, goals and objectives to explain why money is being spent
 - By focusing on expected outcomes relative to the amounts to be expended, and then subsequently comparing the actual outcomes to those expectations, it is hoped that budgetary discipline can be imposed by the legislature and the executive branch.
- ▶ Today most federal agencies, > 25 states, and over 100 cities or counties are using a performance-based budgeting approach.
 - According to a GASB survey (2002), more than 50 percent of all respondents (state and local officials) indicated that the implementation of performance measures had increased the efficiency and the effectiveness of their various governmental programs.

The Benefits of PBB (“Why?”)

- ▶ Links dollars to results
- ▶ Emphasis on results and outcomes
- ▶ Decision makers can specify outcomes and quality levels and then objectively evaluate performance
- ▶ Increased collaboration and knowledge of operations
- ▶ The organization is better and more holistically managed
- ▶ Improved credibility and stakeholder awareness

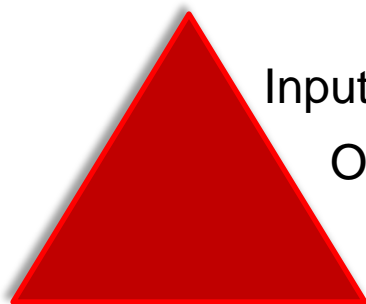
- ☑ **Compliance**
- ☑ **Decision-Making**
- ☑ **Accountability**
- ☑ **Transparency**
- ☑ **Efficiency Savings**
- ☑ **Service Delivery**





PBB Core Concepts and Terminology

- Inputs – Resources or funding consumed to achieve a given output.
- Outputs – Quantify the goods/services delivered to customers. There are 3 Main Types of Outputs:
 - Quantity (Volume of Service Provided, ex. # of calls handled)
 - Effectiveness (Extent to which Service achieves intended outcomes, ex. Customer Satisfaction score)
 - Efficiency (How much output was achieved per unit of input, ex. Cost per call handled)
- Effectiveness + Efficiency Outputs = Performance Measures



Inputs produce Outputs through Activities

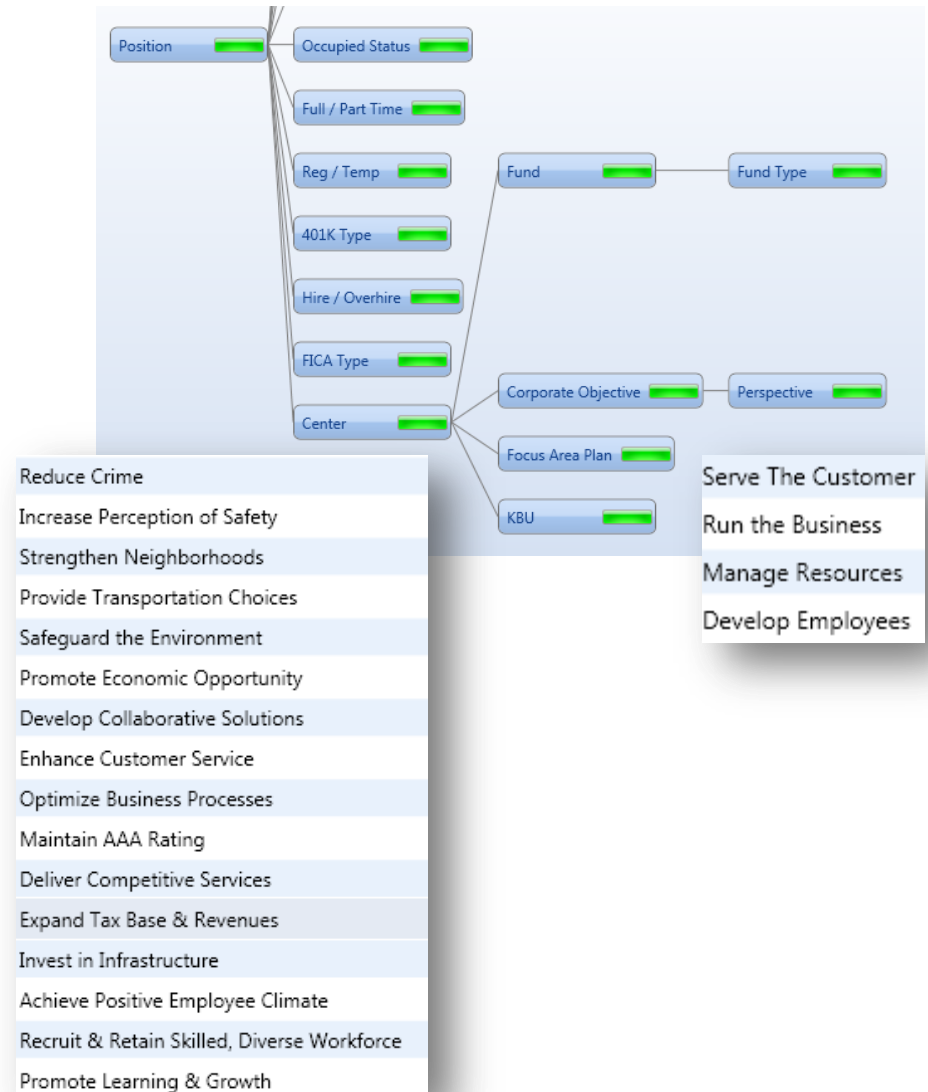
Outputs are allocated to Outcomes

Outcomes aggregate to Goals



Developing the PBB Competency (“How?”)

- Develop a logical model
 - Define Inputs, Outputs, Outcomes, Goals and Performance Measures
 - Assign attributes and weights
 - Determine how to capture PPB elements using your current GL/HR/Purchasing structures
 - Develop allocation strategies and methods
- Define organizational framework: people, processes and change management needs (example: Program Evaluation Process)
- Determine decision packages and reporting needs
- Identify automation needs





A Sample Performance-Based Budget Approach

➤ Budget build:

- Expenses are allocated to Outcomes, which roll up to Goals. Headcount expenses are allocated by position, while other expenses are allocated by Department.
- Each Outcome has specific Performance Measures that are collected and tracked. The Outcome costs are allocated to the Performance Measures, allowing the ability to calculate the expense for 1 unit of each Performance Measure.

➤ Execution tracking:

- Headcount expenses are allocated to Outcomes by position via timesheet information, while other expenses use Budget allocations.
- Performance Measures are tracked and projected, and then compared to the Budget on a dollar basis via the Outcome allocations.
- Within each Goal, a weighting can be applied for each Outcome, and the overall performance by Goal can be calculated.
- Additionally, the projected efficiency (Dollars saved or lost) by Outcome and Goal can be calculated.

Selected KPI Performance by Program	KPI Outcome	CY Projection	CY Budget	% of Budget	KPI CY Status	CY Expense Forecast	CY Expense Budget	% of Budget	Forecasted \$ / KPI	Budgeted \$ / KPI	% of Budget	\$/KPI Status	Forecasted Efficiency Gain / (Loss)
Number of Police Events Received by DES (911)	Positive	16,468	17,950	91.7	Near Target	44,093,741	50,459,801	87.4	2,678	2,811	95.2	On Target	2,199,963
Number of Significant Fire/EMS Events	Negative	799	771	103.6	On Target	9,464,140	11,767,167	80.4	11,845	15,262	77.6	On Target	2,730,369
Number of Working Fires	Positive	156	304	51.3	Off Target	4,416,599	5,491,344	80.4	28,312	18,064	156.7	Off Target	-1,598,672
Total Phone Calls Received/Made	Positive	292,988	322,758	90.8	Near Target	5,678,484	7,060,300	80.4	19	22	88.6	On Target	730,600
Frequency of All Phone Calls(min)	Negative	2	2	100.0	On Target	8,585,191	10,727,537	80.0	4,292.59	5,363,768	80.0	On Target	2,142,346
Emergency Medical Dispatch-Lives Saved	Positive	2	2	100.0	On Target	3,154,713	3,922,389	80.4	1,577.35	1,961,194	80.4	On Target	767,676

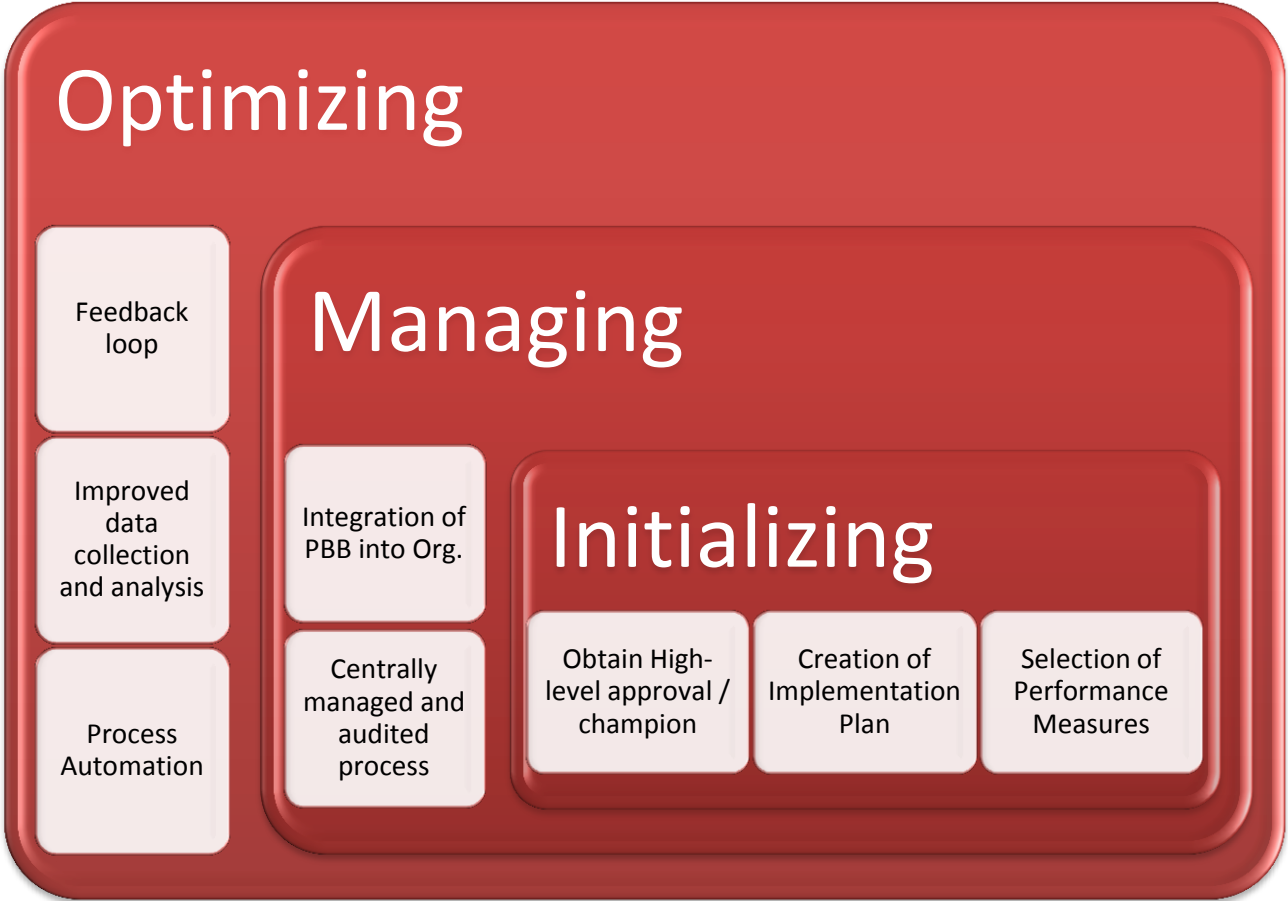
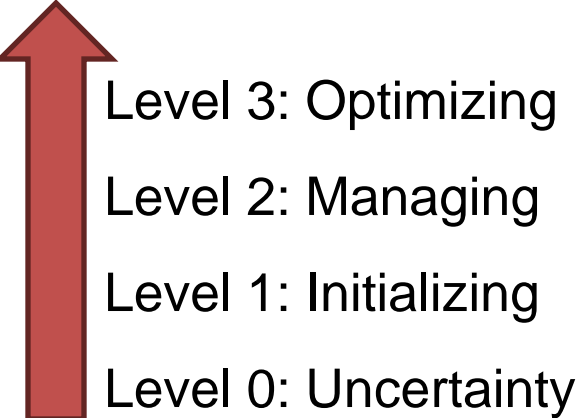


Obstacles and Challenges to a Successful PBB Implementation

- Requires changes in culture and policies
- Requires everyone to become a performance manager
- Defining SMART Performance Measures is difficult
- Requires enterprise-wide collaboration & commitment
 - Fragmented approaches will fail
- Lack of integrated data
- Technology hype and confusion
- Requires extensive training



A Maturity Level Approach to PBB



Small City



ALLOCATE BY DEPT &
POSITION (MANUAL)

RESULTS TEAM

PRIORITIZE FUNDING

LIB TRACKING

BI-ANNUAL REVIEW OF
PERF. MEASURES

Large City



CODING BY DEPT &
POSITION

MULTI-PHASE
APPROACH

REVIEW BOARD

PBB TRACKING
(RESOURCES FIXED)

ANNUAL REVIEW OF
PERF. MEASURES

Federal Agency



ALLOCATE BY DEPT &
POSITION (AUTO)

MULTIPLE ALLOCATION
STRATEGIES

2-LEVEL ALLOCATION TO
PROGRAMS

PBB TRACKING
(RESOURCES VARY)

CONSTANT REVIEW OF
PERF. MEASURES



- There is no 'one-size fits all' PBB.
- Some PBB frameworks are organizational-wide; others are intended to only apply to particular sectors of expense.
- The PBB process is never 'complete' – there is always room for improvement.
- Before implementing PBB, confer with similar organizations where PBB has been effective.
- Always ensure there is an executive 'champion' for PBB.
- Remember to create SMART Performance Measures.



Questions/Feedback?

Jeremy Carter, CPM Practice Lead

<http://www.neubrain.com>

+1 (301) 296 4477