

Performance Based Accountability and Budgeting

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Public managers throughout the world have sought to strengthen public decision-making and performance by establishing strategic goals and performance measures as the touchstone for accountability. The shift to a results-oriented framework promises to improve program and organizational effectiveness and public transparency by systematically linking administrative activities to the performance outcomes that matter most for the organization and its publics.

Performance-based reforms have in fact had a long history in the United States, at all levels of government. Often led by state and local initiatives, public administrators have become gripped by waves of reforms intended to improve performance and enhance public confidence in government. Ushered in with great expectations, reforms such as Planning-Programming-Budgeting, Zero Based Budgeting, and Total Quality Management achieved significant improvements but are widely acknowledged to have fallen well short of their goals of institutionalizing a sustainable focus on performance within government over the longer term.

Many factors accounted for the checkered history of performance reforms in American government, but one lesson learned is that the ultimate success of performance reforms will be predicated on their integration with the most important process engaged in by public managers every year – the budget process.¹ Performance plans and metrics will be consigned to a future of irrelevance if they are not linked to the way we allocate and manage scarce resources. Most importantly, the failure to integrate performance into the budget process will continue to frustrate the ability of various publics to understand and participate in resource allocation decisions.

What is performance-based budgeting?

While the linkage of performance plans and metrics with budgeting was viewed as critical to the success of performance management, few really examined what this meant. Indeed, most simply treated performance budgeting as a proverbial “on-off switch” - you either did it or you didn’t. In reality, performance budgeting is more like a dimmer switch, with a continuum of different strategies to link budget decisions to performance data:

- **Presentations** – Budgets are infused with information discussing the performance consequences of budget decisions. The presentations can be linked at both the individual account level in the budget or at the aggregate performance plan goal level.

¹ U.S. General Accounting Office, Performance Budgeting: Past Initiatives Offer Insights for GPRA Implementation (Washington, D.C.: GAO, 1997)

- **Budget Restructuring** – The fundamental basis of budget decisions – budget accounts – are reorganized to reflect performance goals. This can reinforce the shift in focus of budgeting from inputs to performance outcomes.
- **Performance reviews and assessments** – Formal assessment processes, such as PART, evaluate how well programs and operations are meeting performance goals and outcomes.
- **Performance targets** – Agencies have targets that are set in either outcome or output terms for performance for the coming year which are integrated with the budget request and appropriation.
- **Performance linked funding** – Under this approach, resource allocation decisions are driven in some mechanical way by performance levels and comparisons. Agencies achieving greater efficiencies by producing at higher levels get higher payments, while those falling short experience budgetary reductions. This approach is what many advocates of performance budgeting envision, but is typically the most difficult to implement.
- **Outcome based budget formulation** – Several jurisdictions have sought to go beyond the confines of traditional agency-centered models of budget formulation to establish outcomes rather than agencies as the primary decision unit for the budget process. The state of Washington notably was among the first to initiate this reform, with the help of David Osborne and other consultants with Public Strategies Group.²

Regardless of the form that performance budgeting takes, it is important to have realistic expectations about what such reforms can accomplish. The integration of performance information cannot, and should not, be expected to “take politics out of budgeting” or to supplant the judgment of performance evaluators and analysts for elected officials. There are too many other important criteria that properly belong in budgetary debates, including judgments about equity, needs and the relative priorities given to competing claims.

Some argue for a mechanical model of performance budgeting -- if performance goes up, the agency or staff get rewarded with increased resources, if it goes down, they get penalized. While appealing on first glance, such a model presupposes that there is a single budgetary answer to performance trends, when in fact there are many. Thus, for instance, if the number of drug abusers goes up, it is unlikely that we would penalize drug programs with a loss of funds. In fact, we may find that increased funding is necessary to bring about performance improvements, along with other needed management and program reforms.

The goal of performance budgeting should not be to provide the **answers** to inherently political choices in the budget process but rather to provide a new set of **questions**. The shift in the agenda for the budget process could be expected to bear fruit in a more

² This reform formed the basis for David Osborne’s book with Peter Hutchinson, [The Price of Government](#) (New York: Basic Books, 2004)

informed debate that adds performance goals and results to the other important issues addressed in annual resource allocation debates.

Challenges in Linking Resources to Results

As the foregoing suggests, one could reasonably hope that the debate over resources would not only focus on dollars and inputs but on whether proposals can or have met discrete performance goals and targets. To bring this about, agencies and their stakeholders must step up their efforts to develop a credible supply of information on performance for their programs and operations. Performance can rise to become a new input to the inherently political process of resource allocation only when the performance goals and metrics are perceived to be fair, balanced, comprehensive and accurate.

Once this foundation has been established, however, major shifts must occur in the way that budget choices are framed and presented. Federal agency budgets have generally focused attention on the input side of the budget equation through a focus on the objects of expenditures, e.g. personnel hired, contracts issued, facilities constructed. Introducing performance as a new complementary focus entails a new unit of analysis for budgeting. Ultimately, budget presentations and budget accounts and activities will have to be restructured to highlight their implications for key performance goals.

Budget Account Structure

The account structure used to appropriate funds plays a formative influence in resource allocation. They structure the units of analysis that will form the basis for allocating scarce resources among competing purposes and form the basis for determining what activities are compared. It makes a real difference if marginal decisions focus on tradeoffs among object classes or tradeoffs among programs. If consistent in defining both the scope and costs of program activities, budget officials could compare claims on a level playing field.

Budget accounts and activities also serve as the structure for budgetary accountability and execution. Agency officials must typically ensure that they implement the budgets by being faithful to the allocations agreed to by public officials in the budget process. While agencies may attempt to track and monitor other dimensions such as performance goals, the primary emphasis in administration will be on the budget accounts and program activities in the budget.

Federal budget accounts and presentations have developed over time to reflect various orientations that are based on activities that can be defined by objects of expenditure, performance goals, and programs:

- Budgets with an orientation on objects of expenditures are referred to as line item budgets.
- Budgets with a focus on organizational units

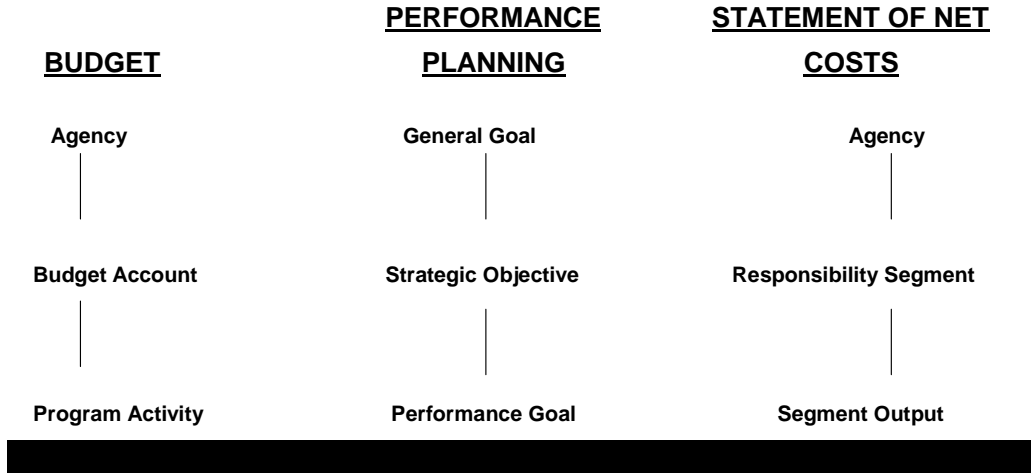
- Budgets with an orientation on programs are referred to as program budgets.
- Budgets with an orientation on performance goals are referred to as performance (or performance-based) budgets. Its primary organization feature is outputs and/or outcomes.

There are over 1,100 appropriations accounts in the federal budget and most accounts have subsidiary program activities that allocate budget authority to more specific levels of inputs, outputs, or outcomes. One informal staff estimate concluded that there were 9,000 program activities – subsidiary units under the account level. However, in many cases, even these PPAs are not “programs.” Rather programs are often subsidiary to PPAs and can number in the thousands. The most comprehensive document setting forth the program elements at the most detailed level can be found in each agency’s Justification of Estimates provided to the congressional appropriations committees after the President’s budget goes forward.

Budget account structures are highly disparate and inconsistent even within the same department. The present budget account “structure” was not created as a single integrated framework but rather developed, for the most part, as separate budget accounts over time to respond to specific needs. Viewing these individually developed accounts collectively discloses not only the variety within the current structure but also its complexity. Not only are appropriations accounts disparate, but so are the program activities within the accounts. Mirroring the disparate nature of budget structures, there is also no common definition of a “program” in the federal government.

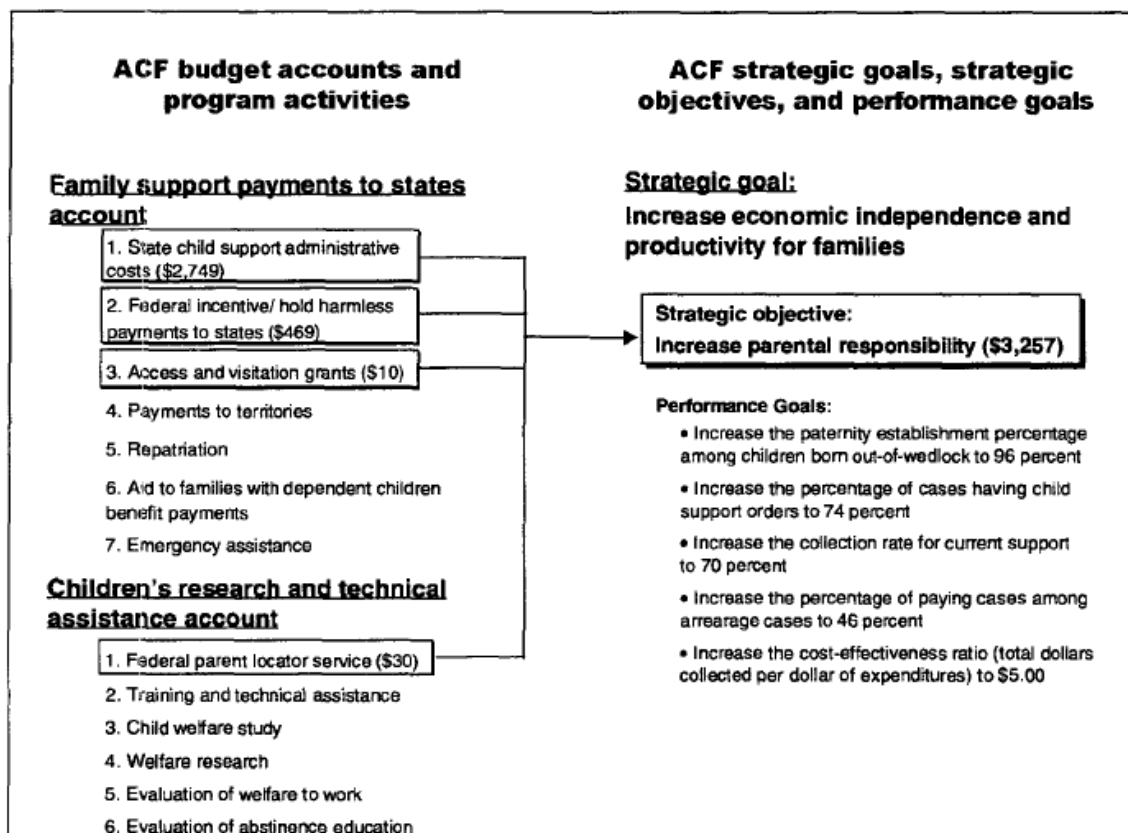
Importantly, the orientation of budget accounts typically differs substantially from the unit of analysis used in both performance plans and in financial statements in federal agencies. As the chart suggests, the focus, unit of analysis and purpose of each of these systems is necessarily different.

Budget, Performance & Cost Integration Model



Source: GAO.

Performance budgeting principles are difficult to operationalize in our current budget accounting structure. Agencies preparing strategic plans with outcome oriented performance goals face profound obstacles in translating these visions to the budget when the account structure is oriented to line items or organizations. Agencies have had to undertake complex crosswalks that make it difficult to use the performance goals as the basis for resource allocation decisions. The following chart from the Agency for Children and Families in HHS provided a crosswalk showing how programs from several budget accounts contributed to the strategic goals of this bureau.



Note: Dollars in millions. Numbers may not add due to rounding.

Source: GAO analysis based on the Administration for Children and Families' fiscal year 1999 performance plan and Budget of the United States Government Fiscal Year 1999—Appendix.

Along these lines, the federal budget already includes one overarching crosscutting unit of analysis which can serve as the unit of analysis for a reinvigorated performance based budgeting process. These are 19 budget functions and 80 subfunctions in the budget which group programs and agencies around common missions and purposes. Examples include

- Energy function
 - Energy supply subfunction
 - Energy conservation subfunction
 - Emergency energy preparedness
 - Energy information, policy and regulation
- Natural resources and environment function
 - Water resources
 - Conservation and land management
 - Recreational resources
 - Pollution control and abatement
 - Other natural resources

The subfunctions come close to providing a common mission based unit of analysis to capture the many activities of the federal government across a consistent policy frame. It has the advantage of being tied to all of the budget accounts so that the data is directly derived from the budget rather than through a standalone, supplemental analysis. And it has been in use for many years so that trends can be tracked over time.

What has been missing is the use of subfunctions as a unit of analysis by OMB and Congress to make resource allocation decisions. It has largely served as an analytic supplement but could play a more central role in the future should policymakers be convinced that such a crosscutting focus is important.

Consequences

The failure to develop a consistent framework for defining budget choices in performance terms has significant consequences for the public debate. The current system frustrates public oversight and transparency.

- **Transparency** - It is difficult for the public to readily understand how resources are allocated among related programs when structures differ so widely. Food safety, for instance, is split among 15 different federal agencies, all with different budget structures and accountability measures. The lack of a consistent definition of program across the federal establishment as the building block for budgeting is among the most significant barriers to better understanding and tracking.
- **Comparisons** - It is difficult to make comparisons among related programs across different bureaus and agencies without a single consistent unit of analysis cutting across the entire federal program universe. The costs of a single program can sometimes be split among multiple accounts, such as accounts for salaries and expenses and accounts for other expenditure items such as capital or construction. For example, the budget resources used to achieve VA's burial program performance goals are funded by six appropriations accounts spread across separate volumes of its congressional budget justification. Conversely, in other agencies, multiple programs are often included in a single account or program activity.
- **Crosscutting emphasis** - important goals and objectives of policy cut across the narrow confines of budget accounts, bureaus, and departments at the federal level. For instance, nearly one half of FY 2009 budget authority for homeland security is provided by numerous agencies outside the Department of Homeland Security. Indeed, most of the major missions of government transcend the boundaries of federal departments and agencies. The federal budget has a standard set of budget functions and subfunctions that can be used to organize reviews of common programs and missions across agencies, but the budget process remains largely stove-piped by agency.

- **Monitoring implementation** – It is difficult to track implementation of programs without a consistent unit of analysis that flows from budget formulation to execution. Federal agencies and their state, local, nonprofit and private partners will of necessity have to primarily focus on the unit of analysis that governs their budgets and appropriations. Reporting systems and supplemental analyses can be superimposed on the agencies to create a post hoc unit of analysis, but this creates numerous and burdensome adjustments and costs in a fragmented system. Moreover, the accuracy of the crosswalks between the budget unit of analysis and supplemental programmatic displays can be questioned, as agencies struggle to apportion and allocate costs across disparate reporting systems.
- **Accountability** – It is difficult to hold agencies accountable for performance outcomes and results when budget structures don't emphasize performance goals. While supplemental analyses and crosswalks can provide some useful information, agencies must focus primarily on those units of analysis that form the basis for their appropriations.

Remedies

There is a need for a consistent unit of analysis to form the backbone of federal budget formulation and execution. Ideally, the federal budget should be restructured along performance-oriented lines to enable agencies and Congress alike to have greater incentives to consider performance in resource allocation. One GAO study found that those federal agencies which restructured their budgets were able to more easily understand how disparate programs, projects and activities contributed to common goals, even when those programs were in different organizational locations throughout the agency.³

As the building blocks for resource allocation, a more cohesive, consistent and performance-oriented account structure is critical to enable both Congress and the executive to consider competing claims on the same terms. A consistent program structure will also facilitate the tracking and monitoring of federal spending across disparate agencies and programs. It will also enable comparisons to be more easily made across related programs focusing on common recipients and goals.

Achieving this vision is complicated and will take years to bring about in our system. Congress and the executive are co-owners of the federal budget and previous efforts at budget account restructuring have foundered when appropriations committees were not engaged as partners. Moreover, establishing common units of analysis across the many departments, agencies and programs is a long-term project as well. Care must be taken to ensure that new program structures and definitions appropriately reflect the purpose of the underlying activities they encompass - apples should be grouped with apples and not

³ U.S. Government Accountability Office, Performance Budgeting: Efforts to Restructure Budgets to Better Align Resources With Performance (Washington, D.C.: GAO, 2005) GAO-05-117SP

pears, so to speak. And it is critical that these program structures and definitions are in fact tied to the budget itself.

The budget subfunctions discussed above provide a good starting point for such a common unit of analysis. The subfunctions could become the spine of a budget decision-making process that cuts across disparate agencies and programs to focus on common outcomes and missions in budget formulation and budget execution. They have the advantage of being linked to the budget accounts themselves and having trends on spending over many years.

The adoption of a subfunction as a central unit of analysis does not mean that the job is finished. Beneath this high-level mission focus, there would still be the need to develop more consistent definitions of budget accounts and program activities that can be used at the micro level as well.

In sum, the following agenda is presented:

- Congress and OMB should engage in a joint initiative to undertake comprehensive reform of the budget account structure
- The reformed structure should permit and encourage performance-informed budgeting and tradeoffs among related programs
- The reformed structure should add to and not subtract from the information currently provided to Congress for appropriations decisions. Accordingly, even while changing account orientations, agencies should be required to continue to provide other information needed by appropriators to effectively perform their formative role in holding agencies accountable in a democracy
- The budget subfunctions constitute an appropriate unit of analysis which is already tied to the budget accounts and can be readily used to summarize and compare programs across agencies sharing common purposes. Consideration should be given to using the subfunctions as the basis for budgetary tradeoffs within the President's budget formulation process