Using Performance Information in the Budget Process

Challenges, Opportunities, and Best Practices

Based on August 2013 Discussion of State Budget Officers in Chicago, Illinois

Prepared by the National Association of State Budget Officers

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On August 1-2, 2013, NASBO convened budget directors and analysts from 28 states and territories to discuss key lessons learned regarding the use of performance information in budgeting, management and strategic planning. The meeting was sponsored by a generous grant from the Annie E. Casey Foundation. Below are some of the major themes and takeaways identified by meeting participants during the discussion, followed by summaries of three states' experiences, as shared at the meeting.

Sustaining Performance Budgeting over the Long Term

- A stringent, one-size-fits-all approach to performance budgeting will not work in the long run. It must be flexible and be able to adapt to different agency missions and changing statewide priorities, especially through leadership transitions.
- Top leadership must be engaged and demonstrate that information is being used.
- Having civil servant buy-in is key to sustaining initiative through leadership changes.
- "Do not oversell it." No performance budgeting system will ever tell a state how many dollars to budget for a program, so do not expect it to do so. A good performance system does not yield numbers, but rather leads staff to ask questions that then depend on sound human judgment to address.
- Actually tying performance measurement to funding decisions continues to be a major challenge for states (many states referred to this as an elusive "holy grail"). Some states have elected to take a different approach and keep focus on performance management, rather than true performance-based budgeting.
- A key to sustaining a new performance budgeting system is allocation of resources to the initiative. Those resources may be new or reallocated.
- "Do not let perfect be the enemy of the good." Establishing performance management and budgeting systems must be an evolutionary process. It will not happen overnight.

Obtaining Buy-in from Stakeholders

- People who do not understand the benefit of performance-based budgeting or the measures being implemented might resist the initiative.
- It is important to show agencies how they can use performance management system to help them improve their programs.
- Proof of concept – "Quick wins" early on in implementing a performance initiative can help generate buy-in from key stakeholders.
- Do not use as a budget cutting exercise – When agencies build capacity/achieve savings, consider giving some (or all) of this back to them.

- Having some basis in statute can be useful – without this, it can be difficult to get agencies to comply with a gubernatorial performance initiative, especially non-cabinet agencies.
- Make sure the legislature understands what the executive branch is doing to guard against misconceptions/use of this as a cutting exercise.
- Budget office can serve as middleman between legislature and agencies, where trust is sometimes lacking.
- Engaging public and getting press coverage of government management successes can help obtain buy-in from the legislature.

Selecting Performance Measures that are Meaningful and Useful

- Keep the universe of performance measures relatively small. A state cannot try to measure everything. It is counterproductive, diminishing focus and making it tough to find context to take action.
- When selecting measures, it is important to be mindful of unintended consequences, such as unmeasured activities suffering as a result. Choosing measures that are too narrow may elevate this risk.
- Recognize that selecting fewer performance measures, while this may improve focus, can lead to conflict, as it may seem to prioritize one statute over another.
- The volume of service demands is not within the direct control of state government, but the quality and efficiency of service delivery is, and both efficiency and quality measures are necessary to monitor government performance.
- For some departments, output measures may be more meaningful and instructive than outcome measures, such as a state's Department of Motor Vehicles (DMV).
- Use proxy measures in place of longitudinal measures for more timely data.
- Allow agency measures to evolve over time.
- Couple performance management with program evaluation to get a more holistic picture of a program and all factors that contribute to its effectiveness.
- Activity mapping – that is, defining activities and linking them to performance measures – can be technically challenging.

Staff Training, Resources and Capacity-building

- Build agency capacity for performance reporting by first having them learn to use data to manage their programs.
- Performance management and strategic planning practices can help give budget analysts a language to use in conversing with agencies.
- Statewide strategic planning can help agencies break down silos.
- Performance measures do not tell the whole story. Numbers and charts are no replacement for context, and going into an agency to see what is really happening.
- The value of well-trained budget office staff in the context of a performance budgeting system cannot be overstated. This includes allowing budget analysts the time to get to know their agencies.

- Agency staff must also be sufficiently trained on performance management. One state partnered with a local university to train state agencies on strategic planning and performance measurement.
- When implementing a new budget system, spend adequate time evaluating your processes and think through how the system can improve them.

Using Performance Information for Strategic Planning

- Must ask two separate questions: What are the right things to be doing (strategic planning) and how can we do things better (performance management)?
- Governor must show that information is being used to get agencies to engage in priority-setting exercise.
- Use performance data to inform priority-setting process - Can use data to make the argument that an investment now will save money in the long term (e.g., criminal justice investments to reduce recidivism).
- General Fund programs tend to get the most attention from stakeholders in a priority-setting exercise, even when all state fund sources are included in the exercise.
- Term limits/high turnover in some states can make long-term planning especially difficult.
- In general, states have less budgetary flexibility than they used to, which makes it all the more important to make the best use of resources that are within states' direct control.

Making Performance Information More Transparent

- Keep strategic plans and other public documents short; avoid binders of information that no one will read.
- There are risks to public transparency and engagement – be prepared for newspapers to criticize and/or draw negative attention to certain decisions, outcomes.
- Better, more accessible data on program outcomes in some cases may call into question the mindset that "more spending is always better," which some interest groups may fight.

Social Impact Bonds: A Special Case of Budgeting for Results

- Social Impact Bonds (SIBs) offer one opportunity to shift towards a new way of thinking about government and budgeting for outcomes.
- SIBs tend to be used to fund interventions that are evidence-based and when there is reasonable confidence that the intervention will be effective, but there is not enough taxpayer money to do programs at scale.
- Advocates say that a provider that is being overseen by SIB investors will have more incentive than government has alone to manage a program efficiently.
- Critics say that with SIBs, private investors reap benefits that should be gained by taxpayers.
- In the case of SIBs, "Bond" is meant to refer to "contract." A more appropriate term would be "Social Impact Financing" or "Pay for Success Contracts."

Session One: Implementing and Sustaining Performance Budgeting

Utah

Presenters: Juliette Tennert, Deputy Director, and Steve Cuthbert, Director of Operational Excellence, Utah Governor's Office of Management & Budget

Utah has incorporated some aspects of performance-based budgeting and balanced scorecard metrics into its budget process for a number of years. However, the state took a major step forward in this area after the Governor's 2013 State of the State address, when he challenged state employees to achieve 25 percent improvement in operational efficiency over his four-year term. This challenge has made performance management and budgeting more "real" for state agencies. To put this into action, the state reorganized the Governor's Office of Management and Budget (formerly the Office of Planning and Budget) into three teams: Budget and Policy Analysis, Financial Operations, and Operational Excellence. Resources were reallocated to expand capacity within the Operational Excellence team to provide ongoing support and training for agencies to improve operational performance. Active outreach to the legislature to keep them informed of what the executive branch is doing has also been crucial.

Utah reassessed its balance scorecard process, aiming to get management to focus attention on the most important performance measures that provide useful feedback– metrics that will indicate when intervention is necessary to improve an agency's operations and also show whether state taxpayers are getting a return on their investment. Measures also need to be able to be validated and audited. The budget office and Operational Excellence office have also tried to demonstrate to agency managers how they can use these metrics to help them add value to their operation to promote buy-in, and have developed performance measures in partnership with agencies. All agencies have been asked to boil down their programs and services into 4-5 systems across the agency, and to develop a one-page strategic plan. The measures selected should answer three questions: 1) How much work is the system producing?; 2) What is the quality of the work (speed, accuracy, and effectiveness)?; and 3) How does that relate to operating expenses? These three factors are then combined to calculate a ratio. The mission of the system influences what measures are emphasized. For example, in a system that processes applications, speed may be especially important, whereas in a crime lab, accuracy may be the top priority.

Utah does not bill this as a budget-cutting exercise, but rather a capacity-building effort. While building more capacity in agencies' systems will inevitably save money over time, the emphasis is on improving agency operations and the quality of government services, and positioning state government to be able to respond to increasing service demands.

Session Two: Performance Budgeting and Long-Term Strategic Planning

Washington

Presenter: Jim Crawford, Assistant Budget Director, Washington Office of Financial Management

Washington State has been doing various iterations of performance management and performance-informed strategic planning for many years. The state has had statutory requirements for strategic planning in place for several decades. Agencies must define their mission and establish goals linked to performance measures. For eight years, the state's performance management system was known as Government Management Accountability and Performance, or "GMAP." Earlier this year, newly elected Governor Inslee transitioned the state from GMAP to a new tool referred to as "Results Washington." Results Washington builds upon the GMAP performance management system, increasing the frequency of performance reviews, providing greater public transparency of performance data and extending performance management beyond Cabinet agencies to include all state government services and functions.

Agencies are also required as part of the Priorities of Government (POG) budget approach to define all of their activities, assess their costs, and provide activity-level performance measures. The POG process uses results teams for major state strategic goal areas (education, human services, health care, transportation, etc) to rank agency activities in terms of priority to improve outcomes for each goal area, a process informed but not dictated by the performance data collected under GMAP (now "Results Washington"). At various points in time, the Governor's Office has created internal and external teams to oversee this process and ensure agencies and results teams could explain why they ranked their activities as they did and how those priorities will help the state be successful in the long term. This exercise allows the Governor's Office to build a narrative that can be explained to the public. Essentially, GMAP and Results Washington are intended to tell state officials and the public how government activities are performing (how can we do things better?), while the POG budget process helps set the government's strategic priorities (what are the right things to be doing?).

Washington State explained that GMAP and POG have been used primarily to help government set priorities and become more efficient, in order to improve outcomes. They are not budget cutting tools, per se. Both tools inform the budget development process, but neither produces a budget proposal without substantial additional analysis, debate and decision-making within the Office of Financial Management (OFM) and the Governor's office. Both processes have helped OFM concentrate budget debates on priorities and performance more consistently over time and with greater focus on outcomes rather than on inputs and outputs. Major challenges have included managing ever-increasing quantities of data and freshening the processes to avoid process fatigue while maintaining long-term planning and longitudinal data enhancement. A further challenge is to learn to more effectively use both tools to help policy-makers weigh budget choices across disparate goal areas (how does the state consider the relative importance of transportation improvements against better services for vulnerable populations against stronger strategies to improve student learning?).

Session Three: How to Make Performance Budgeting Work in Practice

Virginia

Presenter: Dan Timberlake, Director, Virginia Department of Planning & Budget

Virginia's effort to use performance information in its strategic planning, management, and budgeting activities has been an evolutionary process. The state conducts program budgeting by law, but until the 1990s, did not link its strategic planning efforts with its budgeting activities in any meaningful way. In the 1990s, Virginia began to break down programs into activities that were then linked to performance measures. The state has also made an effort to track societal outcome measures to monitor progress towards improving the quality of life of Virginia residents over the long term. Currently, Virginia is working on developing a crosswalk between its performance measures, societal measures and budget and planning processes. Additionally, with a greater focus on transparency, Virginia has worked to show how performance measures tie to objectives and strategic plans with its "Virginia Performs" website.

Performance measurement is used as one of many decision-making tools in the budget process. It is not viewed as an absolute management style or a philosophy but instead as one of many approaches to examine data. Virginia has learned that staff training is crucial. Budget analysts must know what tools to use in various circumstances and how to interpret performance information, which relies on sound judgment and sufficient knowledge of the state agencies and their portfolios. A performance budgeting system will never tell a state policy maker the level at which a program should be funded. What it will do is offer insight into an agency's capacity to spend resources wisely and lead staff to ask better questions. In building a new performance budgeting system, Virginia also learned the importance of dedicating time and staff resources to the development phase and of listening to vendors about ways to improve the state's processes.

The business community has often pushed for government to use a performance budgeting approach similar to tactics used in the private sector. However, Virginia found that taking one performance management model and applying it to approximately 140 agencies, all with different missions and goals, was simply unrealistic. Virginia, like many states, also has much less budgetary flexibility than it used to, as program areas that the state does not have direct control over, such as Medicaid, now make up a greater percentage of the state's total budget. The state has thus tried not to get mired in a one-size-fits-all approach and instead promote flexibility in the system as much as possible, in particular so that it can be sustained in a state where the governor changes every four years.