Effective Use of Performance Budgeting

By Michael J. Mucha

In recent years, governments have experienced unprecedented fiscal stress and community pressure to reduce costs, so sizable budget cuts have been a reality for most governments. Many jurisdictions have also realized that their traditional budget process does not help managers make the types of decisions necessary to reduce costs to the required levels. A traditional budget process is suitable for small, incremental changes that are applied equally (or nearly so) across the entire organization, year after year, as revenues increase or decrease. This kind of budgeting relies on maintaining the status quo; next year, departments will be able to spend what they had this year (plus or minus the small adjustment). Because this approach does not usually re-distribute funding among departments, it contributes to departmental silos that form something like separate mini-organizations. Funding goes to a department and is used to provide programs and services, but the specific decisions related to exactly what is to be funded are often determined within the department, leaving them out of the budget process. Funding decisions are also not usually connected to public priorities and community expectations. What the department then does or accomplishes is also not very apparent, but it is consistent from year to year. Even when small cuts occur, departments are able to absorb them and still deliver the same services as in prior years.

As cuts become more severe, many governments are forced to explore...
Performance budgeting involves making more fundamental changes to the existing process. It requires governments to be able to use the information they collect to learn and improve, becoming both more efficient and effective. Performance budgeting means adding performance data to the decision-making process. The National Performance Management Advisory Commission identified the primary purpose of performance budgeting as allocating funds to activities, programs, and services in the way that is most likely to achieve desired results. A performance approach to budgeting emphasizes accountability for outcomes (that is, what constituents need and expect from their government). Because of its focus on inputs and its tactical nature, traditional line item budgeting tends to look inward, at the priorities of departments and agencies. By emphasizing the relationship between spending and results, performance budgeting practices shift attention outward, on what is relevant to the community. Also, by focusing on the allocation of the funding rather than on reporting where funding was allocated, performance data become a bigger part of the budgeting process.

**BUDGETING FOR OUTCOMES**

Budgeting for Outcomes takes performance budgeting a step further. It not only integrates performance data with budget decisions, but also changes the whole focus of the budget process. When faced with a significant shock (such as the recent recession), the traditional line item budget process breaks down and doesn’t support the type of decisions that need to be made. The traditional budget process is primarily suited for maintaining the status quo, but over the last few years, governments have clearly not been facing a status quo environment. What has been required is a complete rethinking of what governments spend money on, along with overall priorities — what should government be doing, what should government be doing much less of, and what can government no longer afford to do at all? These decisions are exactly what Budgeting for Outcomes and other priority-based budgeting methods were designed for.

Budgeting for Outcomes doesn’t just inject performance information into the budget process — it completely changes the budget process. It focuses decision makers on prioritizing the outcomes governments can provide and then goes about selecting the most efficient strategies, programs, and services for achieving those outcomes. Faced with the reality that governments can’t do everything (or at least everything they once could), some difficult decisions will need to be made. Budgeting for Outcomes provides an opportunity to abandon the status quo and reprioritize spending, aligning it with community priorities. It also features a fully transparent decision-making process that explicitly links spending with results. Understanding that funding is limited, budget decisions relate to the choice between outcome A and outcome B rather than cutting 5 percent, with the information on what was cut left a mystery to most. Ultimately, a budget is a spending plan that communicates to the community what is being purchased (programs and services) and what is being received (results).

**LINKING SERVICES AND RESULTS**

This close link between programs and services and results is the key to an effective performance budgeting process, and it requires a discussion about the service levels included in the budget. Changes in funding to a program or service should result in a change in service. Governments must be able to communicate this link through the budget process and have informed policy discussions about the most effective use for funds.

Identifying how to measure the service level is as simple as asking two related questions: What would you do differently if you were given $X more in
funding? How would service be affected if you received $Y less in funding? For many services, this is easy to articulate. For example, cutting funding for reviewing community development plans will likely increase turnaround times; cutting funding for information technology will result in greater system downtime; and cutting funding for parks and recreation will result in decreased maintenance and fewer recreation opportunities for the public. This reduction in service level then forms the link to the change in the result or outcome. For example, a lower service level in public safety (fewer patrol officers) would also correspond with an increased risk of crime. This kind of cause and effect understanding makes budget decisions transparent. It is easy to understand how the funding relates to a specific service and how that service relates to the change in outcome.

Performance management then becomes essential to tracking and monitoring levels of service. Thinking about service levels as a contracted obligation, the service level is the mechanism that makes sure the government is providing what the public purchased.

**CONCLUSIONS**

One of the greatest benefits to governments that adopt a performance budgeting approach is that policymakers (i.e., elected officials and, ultimately, the community) can decide what is an acceptable service level (or performance target) for the price. Providing policymakers with this information allows them to engage in an effective discussion that actually guides policy rather than meddling with immaterial details best left to administrative managers. Further, all of these decisions that go into the budget plan — do we fund program A or B? Should we reduce funding for program A to accomplish better service in program B? Should we increase revenues to fund better service in both program A and B? — are transparent, understood, and made consistent with community priorities. Performance management then can take on a new role: providing data to hold government accountable for promised service levels and informing future decisions as to the most effective programs and strategies for achieving results. Programs and services that fail to deliver expected results can be modified and improved to help create a responsive, performance-based organization.

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**Learn best practices in performance management**

As public-sector organizations face current challenges including dealing with pressure from unprecedented fiscal stress, increased public pressure to do more with less, and the need for transparency and accountability, performance management has become an essential tool to help improve services and ultimately create a more effective, responsive organization. Building off research that includes hundreds of examples of successful performance management systems, *The State and Local Government Performance Management Sourcebook* explains current trends and recent advances in the field of performance management, in addition to focusing on five essential dimensions of performance management:

- Citizen Participation
- Budgeting
- Operations Management
- Evaluation
- Technology

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