

# Performance Based Budgeting in the Public Sector

David Thornburgh, Executive Director  
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- Penn's graduate program in public policy and public management since 1937
- Our 1,800 living alumni work in leadership roles across the US and around the world.
- The Fels program promotes leadership for results.
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  - An active research and consulting arm
  - Extensive internship programs
  - A curriculum geared to how, not what
- PA public official alumni
  - Sen. Rob Wonderling
  - Former Secretary of Administration Fritz Bittenbender
  - Former Budget Secretary Mike Masch
  - Governor's Policy Director Donna Cooper

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# Agenda

- 1. Concepts-** What is performance-based budgeting?
- 2. Challenges-** What are the challenges associated with performance-based budgeting?
- 3. Benefits-** Why is performance-based budgeting worth it?



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# What is a budget?

Budgets are expressions of  
priorities.

On what basis shall we decide to  
allocate X dollars to activity A  
instead of activity B?

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# Types of budgets



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<b>Format</b>	<b>Characteristics</b>	<b>Primary Organization Feature</b>	<b>Orientation</b>
<b>Line item</b>	Expenditure by commodity or resource purchased	Resources purchased	Control
<b>Zero Based</b>	Expenditure by commodity or resource purchased, but unlike line item budgets which are generally incremental, these budgets start over each year at zero with no guarantee of the same amount of funding as the previous year	Resources purchased	Strategizing
<b>Program</b>	Expenditure by activities serving common public purpose; Not limited to single government organization	Achievements, final product, outcome, or consumer output	Planning
<b>Performance</b>	Expenditure by workload or activity; Presentation of unit cost by activity	Tasks, activities, or direct output performed	Management

Source: John L. Mikesell. Fiscal Administration. 7th Edition

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# Types of budgets

In reality, most budgets are hybrids of these four types so that they can serve all four functions: control, strategy, planning and management.

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# How to measure performance?

1. Define desired outcomes
2. Determine how to measure them
3. Collect data



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# How to measure performance?

- 1. Inputs:** Resources (i.e., money spent or hours worked) used to produce outputs and outcomes.
- 2. Outputs:** Products and services delivered. Refers to the completed products of internal activity, such as the number of miles of road repaired or speeding tickets issued.
- 3. Outcomes:** The events, occurrences, or changes in conditions, behavior or attitudes that indicate progress toward achievement of the mission and objectives of the program, such as safe neighborhoods.
- 4. Performance Indicator:** A specific numerical measurement for each aspect of performance (e.g., output or outcome) under consideration, such as the percentage of students on target for reading levels.

Adapted from: Harry P. Hatry, *Performance Measurement: Getting Results*. 1999.

# Performance-based budgeting process

1. Identify agency objectives in strategic plan
2. Develop performance indicators
3. Measure performance
4. Include results in budget request
5. Make funding decisions using performance data when possible



# Challenges

1. Need time and leadership buy-in to identify performance measures
  - a) Organizational change is difficult
  - b) Requires consistent leadership
  - c) You can't measure what we do!
2. IT systems and human resources needed to collect and analyze data
  - a) Costs money
  - b) Diverts staff time from other responsibilities
  - c) Requires training in performance measurement
3. Potential for gaming the system
  - a) Important to have auditing procedures in place



# Challenges

4. Requires systems-change for submitting budget proposals
  - a) This means new process, new forms, and new training
5. Potential information overload (DRIP)
  - a) Many states have started with too many measures
  - b) Makes it difficult for legislators to know what is most important
  - c) But stakeholders will each want certain measures included
6. Political and legislative realities
  - a) Some programs have to be funded
  - b) Some programs don't lend themselves to measurement in the short-term



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# Benefits

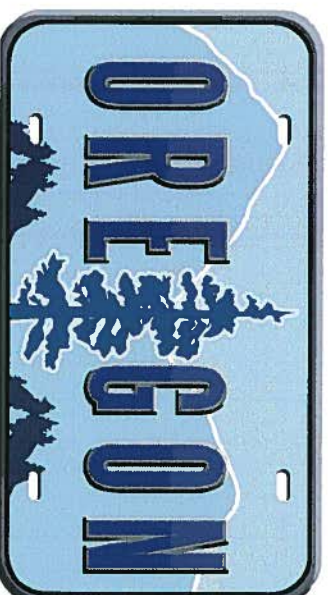
1. Helps generate useful comparative information, especially during times of fiscal stress, that can lead to more informed budgetary trade-offs
2. Helps identify and provide services citizens value
3. Helps justify requests by linking inputs (how much money we want) to outcomes (what we will achieve by spending this money)
4. Provides a strong incentive to find innovative ways to cut costs and achieve better outcomes as programs compete for funding

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# A Promising Practice



1. Statewide strategic plan “Oregon Shines”
2. Plan drove benchmark indicators for the state as a whole
3. Agency performance indicators tied to benchmarks
4. Performance tied to budget process

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## Useful Sources on the Practice of Performance-Based Budgeting January 2009

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