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Performance-Based Budgeting in the United States

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1. Strategic Planning: Aligning Policy Goals, Program Structures and Budgets



Government Performance and Results Act

- Over 14 years have passed since Congress passed and President Clinton signed the Government Performance and Results Act.
- Collectively, GPRA's strategic plans, performance plans and performance reports establish a comprehensive system of accountability through which articulate what they are trying to accomplish, how they will accomplish it, and how Congress and the public will know whether they are succeeding
- The emphasis of GPRA is on shifting performance measures from inputs and process (e.g., numbers of regulations issued) to results (e.g., safer workplaces).

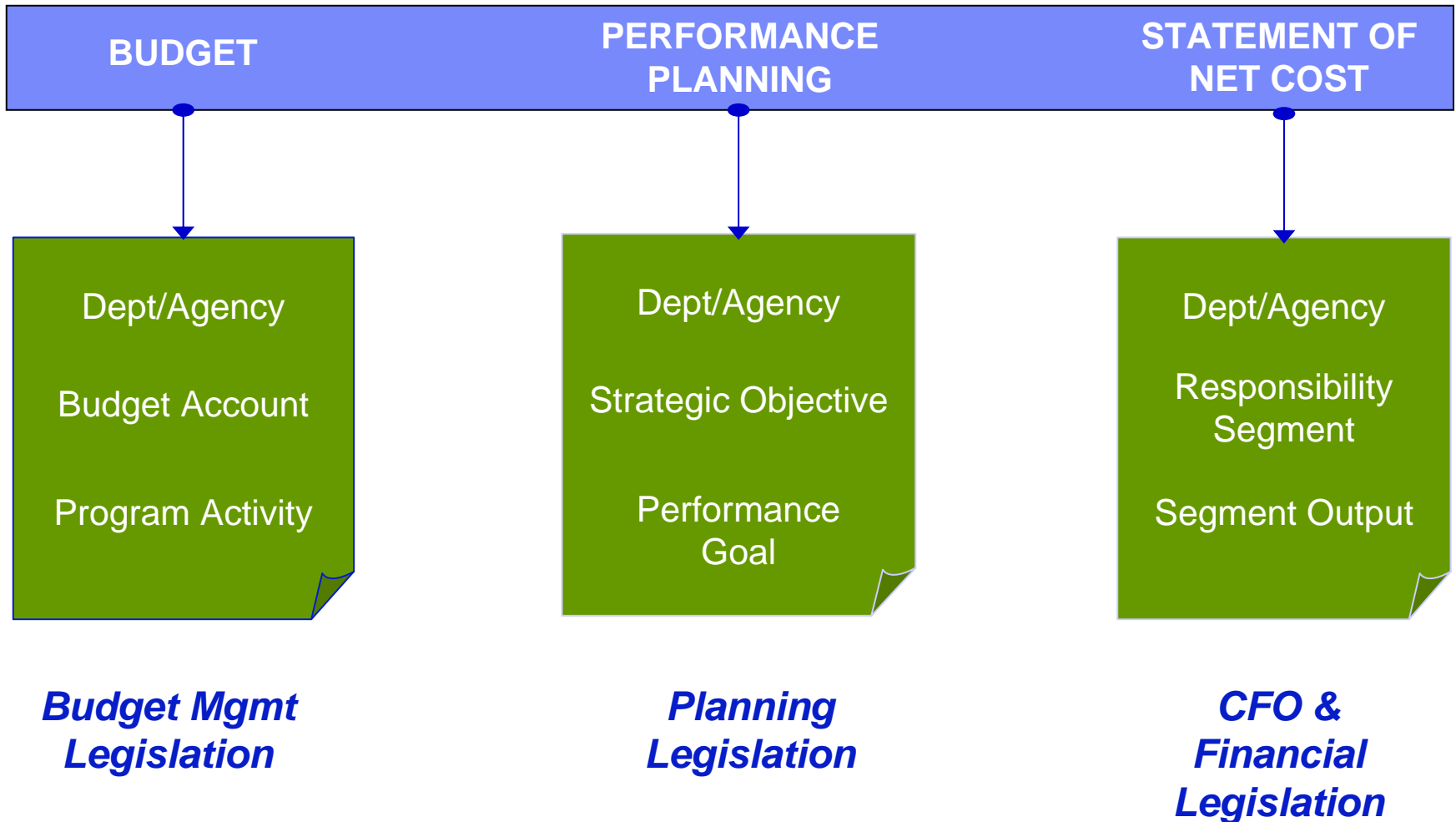
Three cornerstones of GPRA

- *Strategic plans* that contain a comprehensive mission statement for the agency, and long-term results-oriented goals covering each of the major functions.
- *Annual performance plans* that must establish goals for the application fiscal year, which must generally be expressed in objective, quantifiable and measurable form; briefly describe the means and strategies need to meet the goals; and describe the means to verify and validate performance.
- *Annual performance reports* that review the agency's success in achieving the performance goals in the applicable fiscal year and explain and describe where performance goals have not been met.

Performance budgeting

- Integrating performance and results with decision making for budget resources has long been a goal of the U.S. federal government
- Nevertheless, integration of performance and budgeting remains deceptively difficult.
- Most federal agencies have not yet linked all three components - of performance planning, costs and budgets – to form a complete picture.
- One important reason is that performance planning,, budgeting and cost accounting systems often operate in separate, parallel “silos.”

Performance, budget and net cost “silos”



Cost structures

- The cost accounting standard describes a common but generalized structure applicable to all federal agency to capture the cost of operations, at three levels:
 - On an *entity wide* (agency) basis;
 - By *responsibility segment*, defined as a component of the reporting entity that is responsible for carrying out a mission, conducting a major line of activity, or producing one or a group of related products or services, and
 - By *segment outputs*, that is the cost centers associated with the separate types of outputs produced within each responsibility segment.

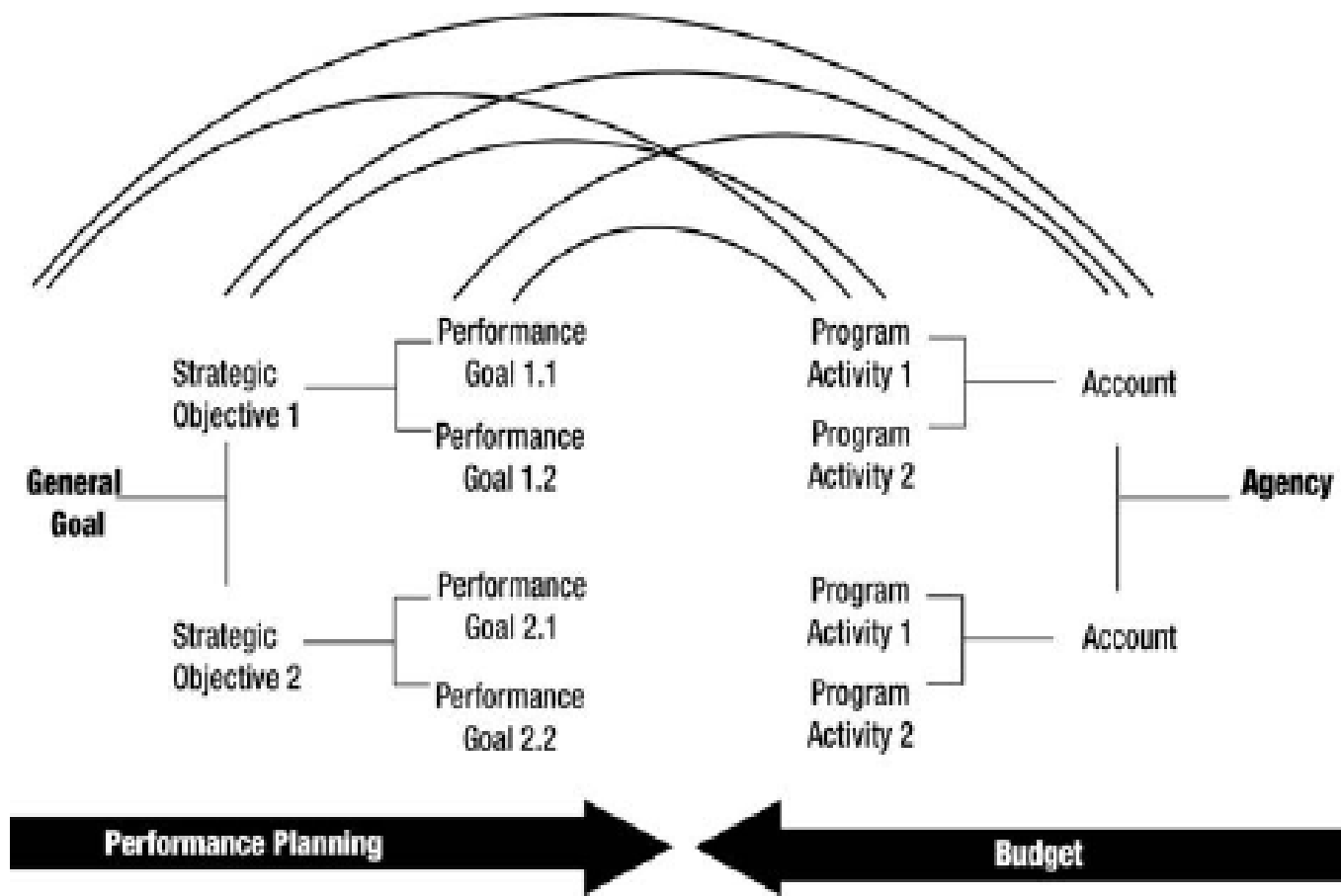
Budget structures

- The federal budget structure is similarly diverse, with 13 appropriations bills
- The current account structure was not created as a single integrated framework, but rather developed over time to reflect the many roles it has been asked to play and to address the diverse needs of its many users.
- However, annual budget presentations can be generally described as providing information:
 - On an *agency* basis,
 - By *budget account* within the agency, and
 - For *separate program activities* funded within a specific budget account.

Performance planning structures

- The Government Performance and Results Act does not require a standard format or establish expectations or limitations on an agency's number of performance goals and objectives.
- An agency's strategic and annual performance plans are expected to include:
 - *General* goals, which define, typically in outcome form, how an agency will carry out its mission over an extended period of time;
 - *Strategic* (or general) objectives, which describe a more specific level of accomplishment within a specific general goal to help assess whether a general goal was or is being achieved; and
 - *Annual* performance goals, which define a target level of performance expressed as a tangible, measurable objective, in outcome or output terms.

Linking performance planning and budget



Program evaluation

- GPRA has prompted a renewed interest in program evaluation.
- Despite efforts to place a premium on evaluation, both the supply and demand for it remains weak
- In the long-run, sustaining a credible performance-based focus will require significant improvements in evaluation capacities and information across federal agencies as well as third parties that implement federal programs.



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2. Performance Information and Decision-Making



Program Assessment Rating Tool (PART)

The purpose of the PART is to:

- Measure and diagnose program performance,
- Evaluate programs in a systematic, consistent, and transparent manner,
- Inform agency and OMB decisions for management, legislative or regulatory improvements, and budget decisions,
- Focus program improvements and measure progress (compare with prior year ratings).

How does the PART work?

- Asks basic questions about programs in a relatively simple format to maximize consistency in application.
- Allows flexibility in weighting of individual questions, as well as skipping questions deemed not relevant, to tailor tool to specific programs
- Requires a yes/no answer with an explanation and evidence (Results section allows 4 choices).
- Measures program performance relative to a high standard of clear purpose, solid planning, strong management, and demonstrable results
- Reflects the framework established in GPRA: Long-term outcome goals supported by annual performance goals

Examples of PART questions

PROGRAM PURPOSE & DESIGN

- Is the program purpose clear?
- Does the program address a specific interest, problem or need?
- Is the program designed to have a significant impact in addressing the interest, problem or need?

STRATEGIC PLANNING

- Does the program have a limited number of specific, ambitious long-term performance goals that focus on outcomes and meaningfully reflect the purpose of the program?
- Do all partners (grantees, sub-grantees, contractors, etc.) support program planning efforts by committing to the annual and/or long-term goals of the program?
- Does the program collaborate and coordinate effectively with related programs that share similar goals and objectives?

Examples of PART questions

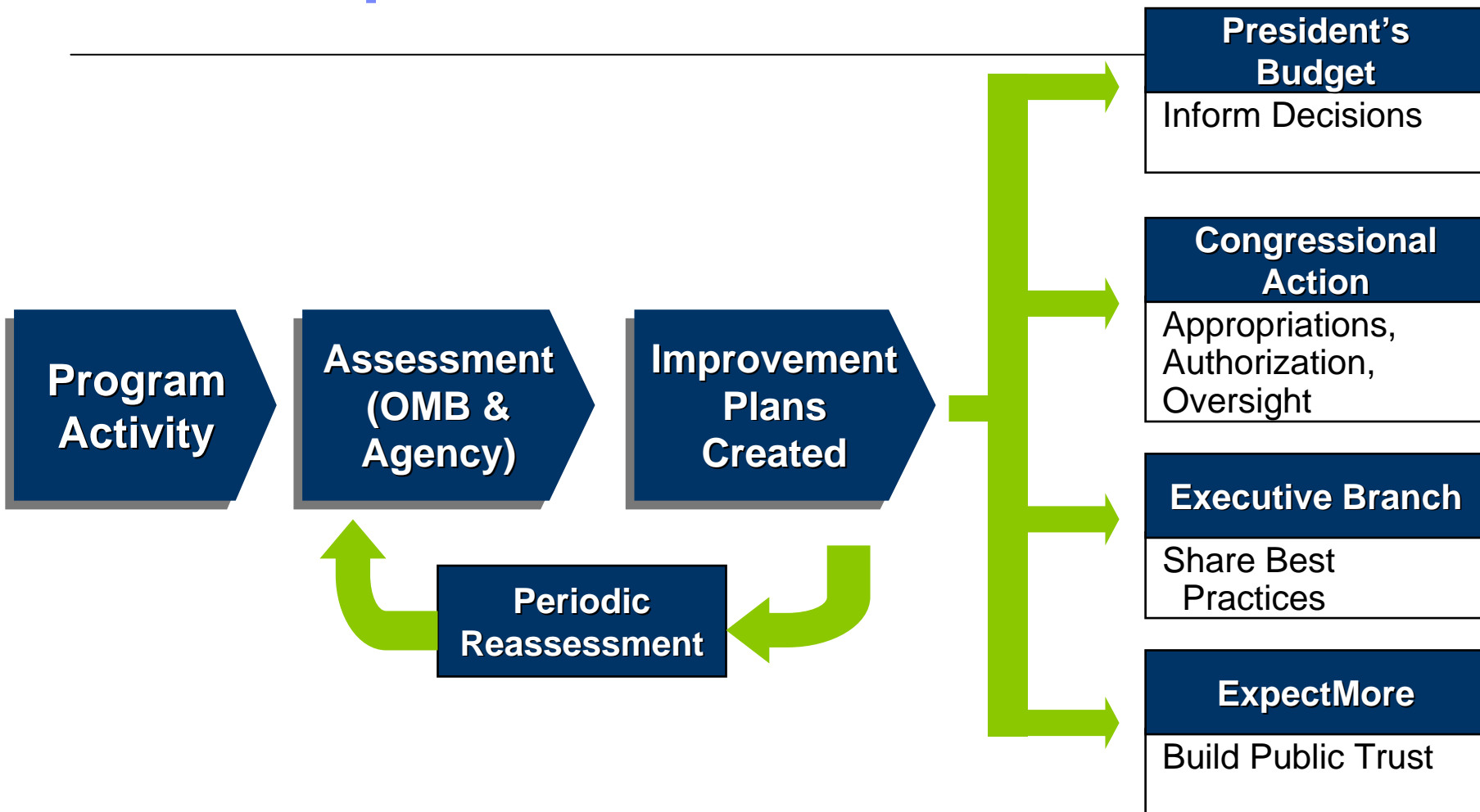
PROGRAM MANAGEMENT

- Does the agency regularly collect timely and credible performance information, including information from key program partners, and use it to manage the program and improve performance?
- Are Federal managers and program partners held accountable for cost, schedule and performance results?
- Does the program have incentives and procedures to measure and achieve efficiencies and cost effectiveness in program execution?

PROGRAM RESULTS

- Has the program demonstrated adequate progress in achieving its long-term outcome goal(s)?
- Were program goals achieved within budgeted costs and established schedules?
- Do comprehensive, independent, quality evaluations of this program indicate that the program is effective and achieving results?

How the process unfolds



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3. Managing Change, Building Capacity and Engaging Stakeholders



Office of Management and Budget (OMB)

- The Office of Management and Budget (OMB) is part of the Executive Office of the President.
- Its role is part of a comprehensive whole from policy development through program implementation.
- Performance budgeting, like other management reforms, is seen not as an end in itself, but rather one aspect of government strategy that is designed to support sound fiscal policy, improve service to the public, rationalize the distribution of tasks between the private and public sectors and lower the costs of government.

Three sets of pilots

- GPRA provided for a series of pilot projects so that federal agencies could gain experience with the Act's provisions and provide lessons before government-wide implementation had to start in the fall of 1997.
- The first were devoted to *performance measurement*.
- The second focused on *managerial accountability and flexibility*
- The third set were designed to test *performance budgeting* – linking anticipated results to alternative spending levels.

Performance measurement pilots

- OMB approved pilot projects in all 14 Cabinet departments and an equal number of independent agencies.
- The 28 designations included over 70 individual pilot (covering a quarter of the entire federal workforce).
- The sizes ranged from complete agencies to small component organizations.

Managerial flexibility pilots

- The experiences of other OECD countries led the drafters to test whether expanded flexibility over spending, human resources and other management functions would yield improvements in program performance.

- Proposals were to:
 - identify the constraining requirements to be waived,
 - quantify how relief would affect performance, and
 - compare the anticipated performance improvements with current performance levels versus levels that could be expected without the waiver.

- OMB did not approve any of the 61 waiver proposals.

Several factors contributed to the failure

- Changes in federal management practices and laws that occurred after GPRA was enacted (for example, OPM eliminated the bulk of the Federal Personnel Manual).
- GPRA was not the only way agencies could seek relief (in addition to pre-existing authorities, Vice President Gore's National Performance Review had launched 185 "reinvention labs" to provide managers added operational authority).

An important lesson

- Even though the managerial flexibility pilots process did not result in any approved waiver – the process provided important lessons for government-wide implementation.
- OMB and the agencies learned that the burdens and constraints that confronted managers were often *self-imposed* by the agency itself or its parent department – not as a result of central management agency requirements.

Performance budgeting pilots

- Statute called for a set of two-year pilot projects.
- OMB concluded that agencies were devoting nearly all of their time and effort to ensuring that strategic and annual plans would be useful documents that met the requirements of the law.
- Instead of pilot testing linking anticipated results to alternative spending levels, OMB prepared five case studies – documenting and analyzing the use of performance information in the budget process.
- OMB submitted a report to the Congress just prior to the end of the Clinton Administration in January 2001.

Pilots – positive considerations

- Gave us the opportunity to postpone costs, implementation headaches, and political fallout.
- Avoided “wall-to-wall” or “immediate” implementation.
- Gave agencies opportunity to learn the language and technology of measurement (outputs, outcomes, impacts).
- Gave early adopters a “risk-free” opportunity to try out a new approach.
- Gave slow starters an opportunity to “go to school” on the others.

Pilots - downside

- Some mistakenly assumed that the term “*pilot*” meant this was an elective, or simply a test – not something they would each inevitably have to do.
- Most agencies “*squandered*” the opportunity.
- Top leadership did not take it seriously until an actionable event (i.e. the first strategic plan) came due on their watch.



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Concluding Observations



Keys to success

- Sensible, bipartisan, statutory framework.
- Phased, iterative implementation.
- Foundation of strategic planning.
- A focus on performance management – not simply performance measurement.

Performance budgeting lessons

- Start where you are; use what you have.
- Don't let the perfect be the enemy of the good.
- The goals should rely on measures that are *useful* and *used*.

Remaining challenges

- Efforts need to be made to understand how the Congress can be more supportive of performance budgeting – rather than focusing overly on their use of performance information to allocate resources.
- More attention needs to be focused on understanding how performance budgeting can work at different stages of the budget process – budget formulation and execution, for example.
- More attention to understanding how performance budgeting can operate at different levels of government – national, departmental, bureau, program and front-line.
- Finally, explore the wisdom and methods of setting “stretch goals” and targets.

Concluding observations

- Performance budgeting has proved to be *deceptively difficult*.
- No one correct way or best model.
- There is little point in engaging in a major reform effort of this kind unless it is going to be used
- A mechanistic link in the budget process between resources and results is neither *possible* nor *desirable*.
- Performance data can inform, but they do not drive budgetary decision-making.

Contact information . . .

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