Using Performance Information in the Budget Process: The Quest for the "Holy Grail"

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The use of performance information to inform the allocation of state resources through the budget process is an important topic for state officials. State finance and budget officers are working to determine the best ways in which they can gather and use performance information as part of the budget process. NASBO recently convened budget officers for a discussion about 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. This issue brief describes the key takeaways identified by budget officers during the discussion.

Introduction

Performance budgeting, broadly defined, can refer to any budget approach where performance information is somehow incorporated into budgetary decision-making. States have experimented with and implemented various forms of performance budgeting, especially since interest in the practice began to grow in the public sector in the early 1990s. In a recent survey of NASBO members, 44 percent of respondents said that their state uses the term "performance budgeting" to describe its budgeting approach – often in conjunction with another type of budgeting method.[1]

Despite the widespread interest in and use of performance budgeting, actually tying performance information to funding decisions in an effective, meaningful, and practical way continues to be a major challenge for all levels of government for a variety of reasons. During NASBO's convening, participants often referred to mastering this task as the elusive "holy grail" for state budget offices. Some states have elected to take a different approach altogether and focus on using performance data for other purposes besides budgeting, such as to inform internal program management and cost-efficiency initiatives. For this reason, the scope of the discussions – and this issue brief – goes beyond just performance budgeting and looks more broadly at considerations and lessons learned that apply to any state government performance initiative, from the perspective of state budget officers.

This issue brief organizes the insights and commentary shared by meeting participants into six areas critical to the success of any effort to begin using or increase the use of performance information in state government. These critical areas include:

- Building Capacity to Use Performance Data
- Selecting Performance Measures that are Meaningful and Useful
- Obtaining Buy-in from Stakeholders
- Using Performance Information for Strategic Planning
- Increasing Transparency and Engaging the Public with Performance Data
- Designing a System that is Flexible and Sustainable over the Long Term

Building Capacity to Use Performance Data

Adequate staff resources and technical capacity are essential to making any performance management or budgeting system work. The value of well-trained budget office staff in the context of a performance budgeting system cannot be overstated. This includes not only formal training on the system and process, but also allowing budget analysts the time to get to know their agencies. As one budget director observed, performance measures do

[1] NASBO conducted a member survey at NASBO's 2013 Annual Meeting. The survey asked "What term(s) does your state use to describe its budgeting approach?" States were given multiple choices and asked to check all that apply (that is, states could select more than one choice). Out of 39 responses collected, 17 states (44 percent) said that their state uses the term "performance budgeting" to describe its budgeting approach. Eighteen states said they use a program budgeting approach, 27 states said they use an incremental budgeting approach, and nine states said they use a zero-based budgeting (ZBB) or modified ZBB approach.

not tell the whole story, and numbers and charts will never replace the value of context and understanding as to what is really happening within an agency. It is also critical that state agency staff are sufficiently trained on how to collect, interpret and use performance data. To achieve this, one state partnered with a local university to train state agencies on strategic planning and performance measurement. Also, teaching agencies how to use their own data to manage their programs before implementing new reporting requirements can help build capacity for performance reporting and make the use of performance data more real and meaningful for agency staff.

The use of performance information in budgeting, management and strategic planning also presents great opportunities to enhance staff and agency capacity. When a state shifts its focus towards budgeting for outcomes rather than for line items, this strategy can be used to encourage agencies to break down silos and collaborate to achieve common objectives. It can also facilitate better, more effective communication between the central budget office and state agencies. One budget officer noted that performance management and strategic planning efforts offer budget office analysts a common language to use to converse with agencies about their programs.

Implementing a performance budgeting initiative in certain cases might require some technological upgrades or a complete budget system overhaul to enable the collection, accessibility, and integration of performance and/or financial data. While this can present challenges for resource-constrained budget offices, it also offers opportunities to streamline processes and improve efficiency over the long term.

Selecting Performance Measures that are Meaningful and Useful

Selecting and developing performance measures can be challenging both technically and politically, as well as time-consuming. Consensus seems to be building around the idea that the number of performance measures used in any performance management system should be somewhat limited. Too many measures can be counterproductive and overly burdensome, resulting in a lack of focus and making it difficult to find context to take action. At the same time, selecting fewer measures also carries risks and challenges. It can lead to conflict within agencies as well as with the legislature, as the exercise may seem to prioritize one program or statute over another. In addition, it is important to be mindful of and try to guard against unintended consequences, such as unmeasured activities suffering as a result. Choosing measures that are too narrow may elevate this risk. One participant observed that while the volume of service demands is not within the direct control of state government, the quality and efficiency of service delivery is. Using an appropriate combination of efficiency and quality measures to monitor government performance can help ensure that quality does not suffer at the expense of efficiency – or vice versa. Performance measures should also be allowed to evolve over time as conditions and strategic priorities change.

One of the greatest and most common difficulties associated with developing performance measures is choosing indicators that are measurable and able to be linked to program activities, as well as matter to the public and connect to strategic objectives. Outcome measures (e.g., graduation rates, traffic fatality rates) are generally considered the most desirable type of measure because they represent the result a program is intended to achieve and can be linked to statewide priorities. However, outcomes often present challenges in that they are hard to measure, often requiring extensive, complicated data collection, and they can be affected by a variety of public services and external forces outside the control of state government. Output measures (e.g., student enrollment, number of speeding tickets) are more closely and easily linked to program activities but are not as effective at measuring the intended results of a program. It should also be pointed out that for some departments in particular, such as a state's Department of Motor Vehicles (DMV), output measures may be more meaningful and instructive than outcome measures. For these reasons, using a combination of output and outcome measures, along with other types of measures, may be a good approach. In some cases, proxy measures that are closely correlated with outcome measures can also be used for more timely data. One state suggested coupling performance management (that may rely more on output and proxy measures) with program evaluation (designed to measure the long-term impact of a program, often using longitudinal data) to get a more holistic picture of a program and all the factors that contribute to its effectiveness. Collecting the same data over time in a consistent manner can also yield valuable time series data that can be helpful in measuring long-term program performance.

Obtaining Buy-in from Stakeholders

One of the most critical factors for the success of a performance-based initiative is the level of buy-in from key stakeholders, including state agency managers and staff, the legislature, and the governor. People who do not understand the benefit of performance-based budgeting or the measures being implemented might resist the initiative. Thus, it is important to show agencies how they can use performance management to help them improve their programs. "Quick wins" early on in implementing the initiative can also help generate buy-in from key stakeholders, such as state lawmakers, especially when these successes get a lot of press coverage.

There seems to also be widespread consensus that any performance initiative should not be viewed or used as primarily a budget-cutting exercise; doing so can undermine the value of the initiative and seriously jeopardize agency buy-in. Yes, a successful initiative will lead to resources being spent more wisely and efficiently, which should result in net savings. But the main focus should be on enhancing the efficiency and effectiveness of programs to build agencies' capacity. To this point, states may consider returning some (or all) of the savings an agency achieves to that agency. Also, when the executive branch is taking the lead on implementing the initiative, the budget office should ensure that the legislature understands the goals and methodology of the initiative to guard against lawmakers perceiving this as a cutting exercise. Another important role of the state budget office is sometimes serving as a mediator between the legislature and agencies, since trust is sometimes lacking between these two groups.

Using Performance Information for Strategic Planning

Besides using performance data for program management and budgeting decisions, states also discussed the role that performance information can play in long-term strategic planning. As one state budget director said, a state must ask two separate questions: What are the right things to be doing (strategic planning) and how can we do things better (performance management)? 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. One way in which performance data can inform a priority-setting process is when it can be used to support the argument that an investment now will save money over the long term. One state program area in which this case is often made is corrections (e.g., when investments in reentry programs can be shown to reduce recidivism rates).

In any exercise when agencies are asked to use evidence to rank priorities, the governor's office must show that this information collected from agencies is actually being used, for example, to inform the governor's budget recommendations. However, obstacles remain to long-term strategic planning, such as term limits and/or high turnover rates in some states. Also, even when there is evidence to support investment in a program or activity, states do not always have the resources readily available or the political will to make that investment. One relatively new alternative financing method, commonly known as "Social Impact Bonds" or "Pay for Success Contracts," may step in to fund an intervention when there is reasonable confidence that it will be effective, but there is not enough taxpayer money to do the program at scale.[2] Thought is divided on the merits of this financing method, which is essentially a particular form of a public-private partnership. Advocates for this method say that a provider overseen by private investors will have greater incentive than government has alone to manage a program efficiently, while critics argue that private investors end up reaping the benefits that should be enjoyed by taxpayers. Nonetheless, the pay-for-success model offers one opportunity to shift towards a new way of thinking about the role of government and budgeting for outcomes.

Increasing Transparency and Engaging the Public with Performance Data

With the growing movement towards more transparency in government, state-level performance-based initiatives often treat increasing public transparency as a fundamental goal. Along these lines, states should strive to keep strategic plans and other public documents short, and avoid binders of information that neither state decision-makers nor citizens will read. It is also important to remember that there are

[2] It was pointed out in discussions that the term "social impact bond," which originated overseas, is misleading in the context of U.S. public finance. The term "bond" here is meant to refer to a "contract." Thus, "social impact financing" or "pay for success contracts" may be more appropriate terms for this approach in the U.S..

risks to public transparency and engagement. States must be prepared for newspapers to criticize and draw negative attention to certain decisions or outcomes. One state raised the point that better, more accessible data on program outcomes in some instances may call into question the mindset that "more spending is always better," which some interest groups may resist.

Designing a System that is Flexible and Sustainable over the Long Term

In developing and implementing any performance initiative, the considerations discussed above are all critical to the success and sustainability of that initiative. Perhaps the most important takeaway from the discussion is that 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. Because elected and politically appointed officials come and go, having civil servant buy-in is key to sustaining any initiative through leadership changes. Allocation of resources to any new performance budgeting system is also critical to sustaining the effort. Moreover, establishing performance management and budget systems must be approached as an evolutionary process and should not be expected to happen overnight. It is also important not to "oversell" the power of a performance budgeting system. No system will ever be so specific that it can directly determine how many dollars state officials should budget for a program. In our democratic political system, a good performance system does not yield numbers, but rather helps staff ask the right questions that then depend on sound human judgment to address.

Conclusion

States continue their quest for the "holy grail" – a performance budgeting system where data on the effectiveness and efficiency of programs play a useful and meaningful role in funding decisions. Any state government performance initiative is built on the premise that there is always room for improvement in how a state plans, budgets and manages its programs. Applying this principle to performance budgeting, states will always be able to identify ways in which the system can be improved upon and strengthened. As such, a "perfect" performance budgeting approach may be virtually unattainable, making the phrase "holy grail" in this context especially apropos. Perfection cannot necessarily be implemented, but the use of performance data to inform and improve the allocation of resources in the budgeting process can definitely be an effective and worthwhile endeavor.

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