Performance-Based Budgeting in Government

Integrating Objectives and Metrics with People and Resources
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Executive summary

“Credible outcome-based performance information is absolutely critical to foster the kind of debate that is needed. Linking performance information to budgeting carries great potential to improve the budget debate by changing the kinds of questions and information available to decision makers.”

Performance Budgeting, Opportunities and Challenges Statement of David M. Walker, Comptroller General, GAO-02-1106T

Taxpayers are requiring more financial accountability from all levels of government. In addition, government has been scrutinizing itself on how it does business. In response, many agencies and departments are attempting to find ways to connect services delivered with program funding through performance-based budgeting (PBB).

For more than five decades, the federal government has recognized the need to fully integrate performance and results with decision making. Congress and the executive branch have increased their emphasis on improving management across all agencies, resulting in a series of proposals and changes to federal budgeting, which mandates that performance and results information are to be combined. The results can then be compared to the strategic plan to determine that milestones are being achieved or indicate that mid-course corrections are required.

The most notable change in legislation is the Government Performance and Results Act (GPRA), enacted in 1993 and implemented across government in fiscal year 1999. The Bush administration has made it the centerpiece of the President’s Management Agenda (PMA).

State and local governments face similar pressures to incorporate performance and results, although no national mandate exists. All states are in some phase of implementing practices that enable them to integrate their budget and planning processes. According to a recent report from the Government Accountability Office (GAO), efforts by states to examine performance and focus on their experiences in responding to recent fiscal stress can offer the states insights that may assist them obtaining federal support to address the challenges ahead.¹

All levels of government agree that the key to assessing program effectiveness is determining the right measures. This paper will discuss how performance budgeting evolved, the current efforts to apply evolving PBB concepts to meet current challenges and the benefits to implementing PBB in government.

Performance-based Budgeting in Government

Introduction: Assessing the state of affairs

In general, PBB is defined as a budgeting process that links an organization’s funding to its goals, strategies, programs, resources, services and results. Using this approach, organizations create budget requests that not only take into account the funding that agencies would like to receive, but also the outputs and outcomes they expect to produce as a result of that funding.

Whether federal or state, agencies’ performance outcomes are influenced by a number of inputs and processes – some of which are controlled by the agency, some of which are not. Agencies can draw a “line of sight” from inputs to outcomes to determine how the elements of a program contribute to the ultimate outcome. This exercise can assist agencies with “zeroing in” on the appropriate metrics. One way to create a true performance budget is to tie agency metrics to all steps of the budget planning process. (See Appendix for detailed descriptions of inputs/outputs and the budgeting structure.)

Performance budgeting solutions and services offered by reputable consulting and software firms deliver a fully customized approach to performance budgeting through the development of a suite of tools and services. These solutions seek to electronically support the links between the budget plans and performance; they then compare those links to the execution and results. They present accurate, timely information regarding funds and milestones and link these to the strategy. This unified view optimizes the decision support information for executives to evaluate and act upon.

Why are governments considering this approach? For federal leaders, new and revised mandates are requiring agencies to adopt PBB. For example, GPRA charges all federal agencies to integrate their budget and planning processes, allowing them to use performance and results to assess investments made in programs with greater accuracy. Although GPRA focuses on federal management and accountability, moving from a preoccupation with inputs and processes to a greater emphasis on achieving and tracking program outcomes and results, state governments are equally concerned with this change in methodology.

For state governments, the primary impetus is economics. Budget crises and funding shortfalls are pressuring government leaders to measure and demonstrate the results of their programs so they can justify continued or increased funding and avoid funding cuts. PBB offers an objective and credible way to evaluate, proactively improve and report on program performance by tying specific measures to the budgeting process.

Five Tips for Integrating Budget into the Planning Process:

- Develop a strategic plan that clearly links an agency’s mission to each activity and program.
- Create a performance plan with objectives that support the strategic goals.
- Make budget decisions that support the performance plan to the extent that resources can be made available, and, in the process, program priorities set.
- Construct budgets and related justifications that address the strategic context and support the performance plan.
- Periodically assess progress against the plan, analyzing how various inputs influenced performance.
PBB solutions are designed to support an organization's development, presentation, and execution of future year budget and performance requests to managers, legislators, Congress and constituents. Decision makers need a road map that first defines how successful performance budgeting models are built and then identifies the key elements and potential pitfalls on the critical path to success. More specifically, they need a road map that uses performance budgeting tools and approaches that:

- Contemplate all facets of the budget process and performance management.
- Present an integrated, multidimensional approach to budget and performance integration.
- Rely on a suite of services and technologies to automate processes and capture changes.

The evolution of performance-based budgeting efforts

The term "performance budgeting" was first widely used in the federal government 50 years ago when the Hoover Commission recommended that the federal government develop a budget that reflected program accomplishments and costs. Specifically, the Hoover Commission requested that the federal government adopt a "performance budget," which was defined as "... one which presents the purposes and objectives for which funds are required, the costs of the programs proposed for achieving these objectives, and quantitative data measuring the accomplishments and work performed under each program." \(^2\)

Since that time, there have been several efforts to reform the federal budget in ways that would establish clearer links between outcomes and funding. Those main initiatives are as follows:

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- **Planning, Programming and Budgeting System (PPBS), 1965:** Initiated more than 40 years ago in the Department of Defense, PPBS was intended to shift the focus on decision making within the department from inputs to outputs. The executive branch required agencies to critically review both their goals and possible strategies for achieving these goals. Using techniques such as cost-benefit analysis, PPBS represented a massive effort to emphasize rational analysis, rather than political consensus, in the budget process.

- **Management by Objectives (MBO), 1972 and early 1990s:** As a government reform, MBO appeared twice: first, more than 30 years ago during the administrations of Presidents Nixon and Ford, and subsequently in 1990-1991 when it was briefly used during the first Bush administration. In the early 1970s, Nixon introduced a more limited budget reform, management by objectives in 21 of the largest federal agencies. The key components of MBO were to define quantifiable objectives, develop annual operating plans that specified how objectives would be achieved and measure actual performance.

- **Zero-Based Budgeting (ZBB), 1977:** President Jimmy Carter required federal agencies to implement zero-based budgeting. Historically, budget discussions had focused on proposed increases or decreases in spending, with less attention to the "base," and greater concentration on historical revenues or spending. However, ZBB required agencies to develop "decision packages" for each budget activity. Those packages necessitated that agencies start from zero and build the budget without considering the past.

Although these budget reforms were different in scope and approach, each was concerned with showing the linkage between the use of resources and consequent outcomes.

### Risk Factors for Financial Managers:

**Manual inputs/data calls**
- Increased risk of error and lack of timely reporting.

**Transparency**
- Taxpayers do not accept lack of visibility over how money is spent.

**Accountability**
- Managers are accountable for performance and timeliness.

**Standardization**
- Multiple, disparate data sources combined with multiple points of entry make it difficult to track changes and audit performance.

**Early lessons learned: Limited success with past initiatives**

**Successful implementations of major budget reforms take time.** The budget proposal process is vast and complicated. The existing level of spending, also known as the base budget, reflects a long history of policy decisions by the executive and legislative branches. There is a considerable amount of power and money at stake in the budget process, so agency and legislative participants see the importance of balance budget reforms and the long-term impact they will have.

**Emphasis on performance information has had little direct impact on budget allocations.** While budget reforms have helped bring more systematic analysis to the budget process, they failed because they did not prove to be relevant to budget decision makers in the executive branch. For the most part, these reforms did not outlive the administrations that proposed them. Their failures demonstrated that for budget reforms to succeed, there must be a shared commitment to the objectives of budget reform within the executive branch, as well as between the executive and legislative branches. Overall, these reform efforts show the difficulty of implementing major budget changes in a short period of time.³

Experience suggests that budget reforms should not overburden agency staff or legislators. Creating a budget from “scratch” is more difficult than making incremental changes. PPBS and ZBB generated enormous amounts of paperwork because they required agencies to justify their entire budgets, something they may not have been required to do previously. In some cases, it was difficult for agencies to conduct all the required analyses within the limited budget timeframe and present the results in a concise format.

Executive support is critical to an organization's successful adoption of PBB. A strategic vision and direction must be provided and clearly communicated from top down so that managers and personnel at all levels can align and meet the objectives set by executives. Leaders such as New Mexico Gov. Bill Richardson are taking a hands-on approach to establishing clear priorities for six major areas – health, human resources, information/telecommunications management, transportation, corrections and contract management – that the state aims to improve. Performance in these areas is tracked with Gov. Richardson’s Executive Accountability Tracking (GREAT) system. Much like the scorecard system at the federal level set by the President’s Management Agenda (PMA), the GREAT system monitors agency progress toward goals based on defined performance measures.

Setting the foundation: Recent government performance initiatives

The passage of new federal laws in the 1990s laid a statutory and management framework for strengthening government performance and accountability. These laws created a substantial, governmentwide foundation for performance-based management.

The first of these was the Chief Financial Officers Act of 1990 (CFO Act). This legislation was the most significant financial management reform passed by Congress in 40 years; it mandated changes in planning and reporting by federal agencies. The law requires 23 major agencies to have a chief financial officer who, among other duties, must provide for "the systematic measurement of performance." Also, the agencies are required to prepare annual audited financial statements, including a report on "results of operation."

On the heels of the CFO Act were the Government Performance Results Act (GPRA), the Federal Acquisition Streamlining Act of 1994 (FASA) and the Clinger-Cohen Act of 1996.

GPRA became the centerpiece of this new performance-oriented framework as it established the basic concepts and fundamental structure for the federal government's approach to performance-based management. In addition, GPRA specifies a congressional role in performance-based management; it also dictates that agency performance-related plans and reports be publicly available. Unlike previous initiatives, GPRA explicitly sought to promote a connection between performance plans and budgets.

The PBB framework consists of strategic plans, annual performance plans and performance reports. It requires agencies to develop and deliver:
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- Multiyear strategic planning.
- Annual performance planning and goals.
- Annual performance reporting, results, validation and verification.
- Linkage of performance results to budgets.

Strategic plans define an agency’s mission and a set of long-range goals and objectives for the agency’s major programs and functions. Performance plans include measurable performance goals with target levels for a particular fiscal year. The performance plans cover all programs and functions of an agency. Performance plans usually display past, current and future year data for the performance goals. Then, by linking performance results to the budget planning process, agencies can attribute activities by their true costs so that a comprehensive financial picture can be created. At this point, the financial summary of the budget can be linked back to performance goals.

Although GPRA is the most prominent act, it is also important to note the ramifications of FASA and Clinger-Cohen. FASA includes requirements that agencies establish cost, performance and schedule goals for major acquisitions. FASA dictates that agencies must achieve 90 percent of these goals, take certain steps if the 90 percent target is not met, and justify employee pay levels based on this performance. Clinger-Cohen requires agencies to develop performance measures for information technology that is currently being used or will be acquired by an agency.

In a recent study released by the IBM Center for the Business of Government, Julia Melkers and Katherine Willoughby highlighted the states’ significant investments in performance-based budgeting. They observed that the “focus on performance-based systems in the states has withstood the test of changing leadership,” while “most systems are still far from comprehensive in terms of applicability.” They found that the types of measures that were most useful were still those that are more easily calculated. Melkers and Willoughby also revealed that while states have been successful in integrating performance-related systems with other management initiatives, many indicated that they used performance measurement most frequently for strategic planning, for performance reporting and for program assessment. Performance management initiatives are not widely used for personnel decisions “for benchmarking across agencies, states, or with professional standards, or for holding local governments or other entities accountable.”

On the other hand, while it seemed that states had a long way to go in applying performance measurement to their budget and management activities, Melkers and Willoughby did find that current efforts for reform appeared to be more adaptable than past reforms. States appeared to be more amenable to developing and redeveloping measurement to support greater relevancy to the decision at hand, that is, to find out what works best. Melkers and Willoughby also noted that states in the midst of new efforts regarding performance measurement and performance-based budgeting seemed to show a greater patience with reform than has been exhibited in the past. States seem prepared to stay the course and keep redeveloping their performance systems for broader and better applicability.

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Building upon the widely adopted GPRA framework, the Bush administration has made further attempts to capitalize on performance management initiatives that integrate cost and performance information during the annual budget review process. Using complementary approaches to strengthen the link between budget and performance, the administration introduced the President’s Management Agenda (PMA) and Office of Management and Budget’s (OMB) Program Assessment Rating Tool (PART).

The budget and performance integration initiative represents the most challenging aspect of the PMA. In conjunction, the PART tool explicitly infuses performance information into the budget formulation process at a funding-decision level, taking the role of a diagnostic questionnaire used to rate selected programs. The PART explores the following areas:

- Program purpose and design.
- Strategic planning.
- Program management.
- Program results, including whether or not a program is achieving its long-term and annual goals.

In the 2004 budget cycle, OMB applied this tool to approximately 234 programs. This review sought to assess and gather information on a program’s purpose, performance measures, alignment with budget and results, and planning and management to determine its overall effectiveness. The review evaluates an additional 20 percent of agency programs each year over a five year period. By the 2007 budget, the evaluation will be applied to 80 percent of federal government programs. Together, the PMA and PART represent a commitment of the present administration to measure performance and to integrate performance more specifically in the budget process.

The next logical step beyond PMA and PART is truly integrated performance and budgeting because it removes the political elements from the process. In fact, it modifies and informs policy decisions and resource allocation by shifting the focus of debates from inputs to outcomes and results. Pursuing a systematic use of strategy, performance planning, budgeting, and financial information is essential to achieving a more result-oriented and accountable government. However, many agencies and departments have been working on portions of this practice prior to and throughout the initiation of PMA.

Although states are not directly affected by the federal mandates, including GPRA and PMA, they must consider the indirect flow that will have an impact on the allocation of resources. For instance, state and local governments need to evaluate functional expenditure patterns for programs and services such as education, welfare, transportation and healthcare. The state’s assessment will determine the extent and speed with which they implement a performance-based budgeting initiative.
Implementing PBB will lead to significant improvements, but without access to performance information, leaders, managers and citizens will not see the full picture. The state of Washington is embracing this concept by making information and results about high-priority areas easily available to everyone – citizens and government employees alike. Gov. Christine Gregoire’s initiative, Government Management, Accountability and Performance (GMAP), focuses on communicating the relationship between the cost and value of public services in terms that are meaningful and measurable to citizens.

As states implement PBB initiatives, some are struggling to overcome varying levels of manual input. The challenge, now, is to fully automate the process of integrating the disparate financial systems, linking the program and service costs at an individual agency level, and then consolidating the information from all departments and agencies for a 360-degree view of performance.

The ‘new’ era of performance management

While resources have never been unlimited, government leaders now find themselves in a new era where financial constraints are more widely felt and tighter than before. This new era represents a critical juncture where leaders are challenged to provide results that matter by improving service delivery and performance. This focus requires better allocation of resources and an understanding of how dollars are spent and attention to key performance metrics.

Today’s philosophy of performance-based management starts with a systematic approach to performance improvement. It requires an ongoing process of establishing strategic performance objectives; measuring performance; collecting, analyzing, reviewing and reporting performance data; and using that data to drive performance improvement.

In the performance-based management process shown in Figure 2 the first step is to identify an organization’s strategic goals and performance objectives. This step also involves the establishment of performance measures based on and linked to the outcomes of the strategic planning phase. Following that, the next steps are to do the work, collect performance data (i.e., measurements), and then analyze, review, and use that data to spur performance improvement (i.e., make changes and corrections and/or fine-tune organizational operations). Lastly, management reports the data and makes necessary changes and adjustments. Then, the process starts over again.
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1. Identify Goals
2. Measure Performance
3. Use Results
4. Report Results

Figure 2. Performance-based management process

An agency regularly collects timely and credible performance information – including information from its program partners and contractors – and uses that information to manage the programs and improve its performance. For instance, this process could include adjusting program priorities, making resource allocations or taking other appropriate management actions. It is key that the process involves constant fine tuning to validate the relevance of the program over time and highlight adjustments needed to ensure success at each milestone.

Performance management essentially uses information to manage and improve performance and to demonstrate what has been accomplished. Performance measurement, in simplest terms, is the comparison of actual levels of performance to predetermined target levels. Moreover, performance measurement is a critical component of performance-based management.
Linking strategy, programs, budgets and performance results

The next logical step in PBB is connecting the dots of performance with budgeting. A systematic use of performance planning, budgeting and financial information is essential to achieving a more results-oriented and accountable government.

The existing federal legislation requires agencies to identify high-quality outcome measures, accurately monitor the performance of programs and begin integrating this effort with associated costs. To do so, an agency must regularly collect timely and credible performance information. It must begin to use performance information to manage its programs and improve performance, and to institute a performance-based management framework. By taking these steps, agencies will be able to accelerate their services and programs to the next level when they apply the “new” performance management.

At the state level, a number of governors and legislatures are pursuing performance-based programs to help ensure that their agencies deliver better government-to-government and government-to-citizen services. Like the federal government, these state initiatives rely on the ability to integrate performance-related data with financial information. At all levels, a key to success is aligning executive goals and priorities with those of legislators and citizens.

A critical element in PBB involves linking strategic plans to actual costs (step 3 in Figure 2). This section will address the approaches and techniques being used currently.

![Figure 3. Linkages at multiple levels of planning and budget](image-url)
Approaches

Figure 3 illustrates how the agencies link budget information with performance goals and objectives. Looking at the bottom portion of the illustration (with general goal on the left and agency on the right), one can see how agencies move from connecting performance goals to managing agency accounts. For instance, a general goal may be broad and large in scope, comprised of smaller strategic objectives. These more focused objectives rely on the accomplishment of even more specific performance goals. As one moves to the budget side of the illustration, the tactical program activities, are tied to larger agency accounts. This is the structure that needs to be in place prior to beginning a performance-based budgeting initiative.

However, no federal agency surveyed by the GAO has linked all the components to form a complete PBB picture. Some agencies only have links for performance goals to program activities, while others are linking performance goals to budget accounts. According to the GAO report, most agencies are connecting their performance plans with lower or more specific levels of their budget structures, such as their accounts.

Techniques

Departments and agencies use multiple approaches to link plans and net cost – the techniques can vary across the organization. However, no matter your specific approach, a number of best practices are available to help yield the best results:

- Limit the number of measures.
- Focus on the basics: results and outcomes.
- Benchmark with other departments, agencies and states.
- Plan for capacity and resources required to manage your initiatives.
- Focus on what you want to achieve in the long term, despite short-term hurdles.

Many of these best practice recommendations, if implemented, will help to reinforce the performance-based budgeting process despite changes in administration. They also emphasize the importance of manageability so that the manual burdens of past attempts like zero-based budgeting are not repeated. In all, agencies must scale to the level of complexity that they can manage. This could mean that, initially, cost groups are linked to general goals. As the model and process matures and gains recognition, agencies will assess the relationship between specific costs and program performance indicators.

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5 Performance Budgeting: Efforts to Restructure Budgets to Better Align Resources with Performance, Staff Study, GAO-05-117SP.
Most agencies link costs to the highest levels of their goal structure. Many state and federal agencies do not relate costs to any detailed objectives or program goals. Instead, they link them to general agency goals. No single approach of relating performance and financial reporting will fit an entire organization's missions, performance planning and financial management structures. However, the concept of performance budgeting will continue to evolve and the range of needs and changing interests of government decision makers will influence the level of detail provided when linking goals and costs.

Agencies will continue to develop their own approaches to linking resources and results within their unique environments to meet their performance management challenges. Ultimately, the need to translate the planned and actual use of resources into concrete and measurable results remains an essential step in achieving a more results-oriented government. Moreover, the heterogeneity of the government suggests that sustained efforts and attention on managing results will be the hallmark of long-term success.

### Implementing performance-based budgeting

What does a successful performance-based budgeting look like? There are four approaches, which are recognized by GAO, used by government agencies when implementing PBB into their operations and decision making.

- **Mechanical** – This is the most fundamental and basic approach as it ensures that an agency budget illustrates the direct link between the dollars invested and the performance desired. It is referred to as “mechanical” because it does not integrate performance management, strategic planning, or decision making. Following this approach, the implementation of PBB will merely be a mechanical tool that does little to leverage improvement. In many ways, this approach is the most difficult to achieve completely due to its requirement that all costs and their performance relationships be understood. However, the mechanical approach is the baseline for PBB, whereas other approaches that center around strategic planning, decision making, management or impact on outcomes will not be successful without due diligence in this process. Previous references in Figures 3 show various levels of agency effectiveness in this area, but agencies need to do more. GAO notes that beyond the core requirements of directly linking costs and performance, there are broader approaches (noted below) that complement the mechanical approach to ensure a total integration into decision making and management operations.

- **Managerial** – This approach uses a means of achieving broad consensus on high-level goals, which are defined as critical. It affords little oversight of specific operations, because it lacks specific details of costs and performance. Some agencies try to approach PBB using this approach alone, but they then have no effective means to evaluate results without the detail on costs and performance that are available through the mechanical approach. Figure 3 demonstrates cases where some agencies connect initial funding to high–level, general goals, but then have no further detail for performance assessment.
• **Incentives** – This approach is also useful for evaluating incremental programmatic improvements in performance by rewarding those who make improvements over current operations with incremental investments. To be effective, this approach must also be complemented by the mechanical approach on costs and performance in order to benchmark areas for evaluation and to note incremental improvements.

• **Agenda** – The most valuable approach, the agenda method can only be effective in concert with core information on costs and performance. It also requires solid business intelligence tools to ask “what if” questions; analyze results, tradeoffs or redeployment options; view alternative scenarios, etc. The mechanical approach provides direct budgetary answers to dollar costs and related performance, but the agenda approach goes further, allowing organizations to ask the right questions and leverage mission, strategies and outcomes.

For the greatest success, agencies should start with the mechanical approach to first capture and use detailed information on costs and performance and then tie that information to the budget account structure used for decision making. This process can be complemented by one or all of the other structures (managerial, incentive, agenda) as the performance and cost information becomes more available to the organization and as the management culture finds certain structures to be most valuable. The parameters of approaches used to implement and incorporate performance-based information in budgets and for management oversight need to be clearly communicated both internally and externally.

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**Benefits of performance-based budgeting**

According to David Walker, comptroller general, “Credible outcome-based performance information is absolutely critical to foster the kind of debate that is needed. Linking performance information to budgeting can greatly improve the budget debate by changing the kinds of questions asked and information made available to decision makers. However, performance information will not provide the mechanism for considered judgment and political choice. If budget decisions are to be based in part on performance data, the integrity, credibility and quality of these data and related analyses become more important. Moreover in seeking to link resources to results, it will be necessary to improve the government’s capacity to account for and measure the total costs of federal programs and activities.”

The benefits of performance budgeting are numerous. Foremost, it increases the organizational focus on mission and goals and shifts attention away from scrutinizing revenues and expenditures. This approach also improves the efficiency and effectiveness of government operations by allocating resources toward the most critical outcomes. More importantly, PBB enables decision making to zero-in on the most effective way to use the limited resources because it encourages agencies and departments to work together to optimize and best use resources. The collaboration will require dialogue between the owners of the planning, budgeting and costing processes.

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6 Performance Budgeting, Opportunities and Challenges Statement of David M. Walker, Comptroller General,
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Over time, PBB can improve operations by linking budget and program performance and enabling increased communication about critical issues and priorities relative to budget requests and the use of resources. The tangible measurements help to eliminate some of the tension that exists between and within departments on how money is spent and allocated. These measurements are an organization’s proof of performance and give merit to rewarding top-performing departments and management.

Another significant benefit of PBB can be realized at the program-management level. The automation of processes enables day-to-day operational efficiencies. For instance, PBB allows program managers to make immediate decisions based on quantitative information and also predict how the adjustments will impact the program’s effectiveness in meeting its goals. Not only can program managers look at how well Activity A is performing, but, with PBB, they can also evaluate how Activities B and C are doing in comparison to A. Armed with this information, program managers can proactively monitor the effectiveness and mitigate problems before they escalate, thus ensuring that constituents receive optimal service.

Ultimately, constituents benefit from government applying PBB to its business operations. Because PBB is rooted in cost effectiveness, taxpayers can be assured that their money is being wisely spent. Cost savings are inherent with PBB because agencies are applying their resources to the most effective programs and services. A government with a renewed focus on delivering effective programs is able to provide the highest quality of services to citizens and new levels of transparency.

With PBB, the well-known cliché of “promises made, promises kept” can now be embraced as governments move beyond traditional ways of doing business and assume new standards of accountability.
Structure of budgeting and performance data for federal agencies

Resources and inputs:

(1) Inputs – Inputs are the resources, often measured in dollars, used to produce outputs and outcomes. When a budget is constructed, financial inputs are displayed in different ways for different purposes.

(2) Appropriation – As the basic unit of control for budgeting and resource management within the federal budget process, the appropriation account:

- Creates the manner in which resources are provided to federal agencies via the Congressional Appropriation Act.
- Provides the standard by which agencies are held accountable statutorily on their management within funds authorized.
- Determines how funds are distributed by OMB and the Treasury Department to apportion and record obligational activity of federal agencies.
- Provides unique appropriation fund accounts to all federal agencies following the enactment of their respective Appropriation Acts (according to the initial Appropriation Act providing the funds).
- Provides an appropriation code that tracks all funding separately if it is provided by Congress, complete with special and unique rules that apply directly to that funding:
  - One-year (annual) funding authority.
  - Multiyear funding control and management of unlimited year authority (no-year).
  - Type of funding – i.e., grant, trust fund, permanent and indefinite appropriation authority, legislative proposals.

(3) Budget/program activity – Federal agencies manage funding further within the agency at levels below the specific appropriation account identified in the enacted Appropriation Act. Beyond legislated earmarks enacted by Congress, the next level of detail below the appropriation is usually made to the budget or program activities.

Budget/program activities, although not statutory in law, are part of the legislative history supporting the appropriation – they are a key part of the justification materials presented to Congress by agencies in support of their funding proposals. Most reprogramming flexibility authorized by Congress on the use of the appropriated funds centers around distribution of funding among these budget/program activities. OMB and the agency budget documentation tracks funding below the appropriation via these categories.
The goal is that these breakouts reflect the representative distribution of funding among core programs of the agencies. To this end, these budget/program activity breakouts are generally used as core performance measures platform.

In reality, the tracking of these budget/program activities to the actual program work of the agency is not always that accurate and needs to be significantly improved. Accounting information supporting expenditures is often captured on an organizational or geographic location basis, rather than a programmatic basis, for several important reasons related to the challenges of allocating costs in a consistent, multiyear basis:

- Since the same employees often participate in the performance of more than one programmatic function (even simultaneously), accounting accurately for their time expended in each can be quite subjective.

- Major capital systems, representing significant development and operational costs, often support more than one programmatic function, meaning their value to each can be quantified in various ways.

- Ordinary overhead costs (both personnel and logistics) are often the subject of debate within an organization, with each function seeking to avoid the appearance that it disproportionately relies on centrally provided overhead.

(4) **Object class detail** – Object classifications are the basic financial cost categories used across the federal budget by OMB and all agencies. It is the most comprehensive data collected across government below the appropriation account code. The object classes are identified in the budget by a prefix 11.x, 12.x, 13.x, 21.x, etc. – for example:

- 11 – Personnel compensation
- 12 – Personnel benefits
- 13 – Benefits of former personnel
- 21 – Travel and transportation of persons
- 22 – Transportation of things
- 23 – Rent, communications and materials
- 24 – Printing
- 25 – Other services
- 26 – Supplies and materials
- 31 – Equipment purchases

OMB and Treasury have historically used two-digit prefixes. Recently, OMB has asked agencies to adopt three-digit prefixes, which provide more detail on items such as personnel benefits, rent, communications and other services. Although “object classification” is the uniform budget presentation standard across all agencies, most agencies do not actually use its format within their agencies. In the extreme, some agencies have developed alternative object classifications for their internal use, while maintaining elaborate crosswalks to track back to the governmentwide standard.
Likewise, this classification detail, although uniform, is not, by and large, the detail of choice used by appropriation committees in making funding decisions for agencies. Regardless, it is a core data requirement for the agencies' budgets, accounting, Treasury and OMB reports, and financial statement audits. **Object class detail is not the agency's core tool for performance budgeting decisions and presentations.** Nonetheless, appropriators are reluctant to part with the “black-and-white” appearance of object class presentations, even though, in a performance budget context, they are relatively uninformative and can actually be misleading in terms of efficient program operation.

**(5) Staffing data** – An important element for decision making and data capture is the staffing levels of programs within federal agencies. This information is usually reflected in the form of full-time equivalents (FTEs) or staff years. FTEs are calculated as the cumulative time (in 2087-hour work years) of all filled positions over the course of the year. For example, 100 positions, each occupied for 90 percent of the work year (i.e., at a 10 percent vacancy rate) would translate to 90 FTE. FTE data is a major key to the formulation of labor-intensive agency programs and initiatives, and to making an accurate presentation of costing justification to OMB and Congress.

**(6) Outlays** – The agency must have the ability to capture outlays against appropriated funds. It is part of the core financial data reporting to Treasury, OMB and Congress, and for other analyses. It often forms the basis for calculating the spend-out rate.

**(7) Tracking multiyear obligations** – An important element for decision making is tracking available funds from prior year authority, when such funds were given more than one-year’s availability at the time they were initially appropriated. Many times, decisions by OMB and Congress on new funding are made based on level of funding remaining from prior years. Tracking across years of some appropriation accounts and budget activities to determine availability is vital to ensuring that full information is available to the formulation process.

**Work processes and outputs**

**(1) Outputs** – Outputs are the goods and services produced by a program or organization that are provided to the public or others. Managers are more likely to manage against outputs rather than outcomes, since output data is collected and reported more frequently. Outputs also more typically correspond to activities and functions being directly controlled, as opposed to focusing on results. Moreover, where an output can be unambiguously quantified, an outcome is open to more subjective interpretation.

Outputs can help track a program's progress toward reaching its outcomes by including process measures (e.g., paper flow, adjudication), attribute measures (e.g., timeliness, accuracy, customer satisfaction), and measures of efficiency. Outputs may be measured either as the total quantity of a good or service produced, or may be limited to those goods or services having certain attributes (e.g., number of timely and accurate benefit payments). Typically, outputs are measured at least annually.
(2) **Performance measures** – Performance measures are the indicators or metrics that are used to gauge program performance. Performance measures can be either outcome or output measures, and may include consideration of inputs, particularly in the context of cost-efficiency or unit costs.

An agency must be able to cascade performance measures against its appropriation fund account and/or its budget/program activity, as well as line up those measures with strategic goals and objectives. The objective of performance budgeting is to be able to **track these outputs back** to resources and inputs (appropriation accounts, staffing, key object class detail) and then **track them forward** to outcomes and strategic objectives/goals.

**Moving to outcomes**

**Outcomes** – The following describes the intended result or consequence that will occur from carrying out a program or activity. Outcomes are of direct importance to beneficiaries and the public generally.

An agency must be able to cascade performance measures against its appropriation fund account and/or its budget/program activity, as well as line up with strategic goals and objectives.

The objective of performance budgeting is, as it is for performance measures, to be able to **track these outcomes back** to outputs, resources and inputs (appropriation accounts, staffing, key object class detail) and then **track them forward** to strategic objectives/goals. While performance measures distinguish between outcomes and outputs, there should be a logical connection between them, with outputs supporting outcomes in a logical fashion.

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