PERFORMANCE MANAGEMENT IN THE PUBLIC SECTOR

Performance Based Budgeting

Case Studies
Case Studies

- State of South Carolina
- Snohomish County
- City of San Jose, California
- State of Washington
PBB is called many things:

Performance Based Budgeting

or

Budgeting for Outcomes

or

Managing for Results

or

Investing in Results

or

Priority Based Budgeting

- Many names, methodologies, capabilities
- Similarities: Use performance information to make resource allocation decisions.
Governor Sanford introduced in 2005 new budget process called “Budgeting for Results” (BFR)

Discouraged with traditional or incremental budget method of examining new or expanded programs ignoring the base budget, Governor Sanford initiated a budget process that examined the entire budget, virtually every activity provided by South Carolina government.
Goal Areas – Eight broad result or priority areas that the governor believes South Carolinians most want from their government.

Indicators – Key measures or indices that provide the best evidence to the citizen that a statewide goal area is being achieved.

Strategies – Proven or promising approaches, influences or factors for achieving goals or results.

Activities – Individual or discrete actions taken by state government to accomplish goals and objectives. For the citizen, “What is the state doing, for whom, and does this accomplish something that is both valuable and needed?” “Precisely, why are we doing it?” “And at what cost?”
1500 government activities scrutinized and prioritized.

67 activities eliminated

Savings $162 million

Charleston’s Post End Courier

… Notably the Governor’s budget states that the approach he is taking is “free from the old fashioned bureaucracy driven emphasis on self preservation”.
Traditional line item budget is built on the proceeding years appropriations base. Programs found within the appropriations base are generally not examined and are automatically funded. New programs are given critical analysis.
<table>
<thead>
<tr>
<th><strong>Incremental or Traditional Budgeting</strong></th>
<th><strong>Results-based Budgeting</strong></th>
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<tbody>
<tr>
<td>Focus is on the allocation of “new monies” only (5% of budget total)</td>
<td>Focus is on nearly all monies or the entire budget amount (excepting certain obligations such as debt service, reserve fund requirements, etc).</td>
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<td>Concentration is on inputs (what you buy), i.e., “objects of expenditure”</td>
<td>Concentration is on outputs (what results are expected)</td>
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<tr>
<td>Narrow or marginal decision making</td>
<td>Comprehensive or enterprise-wide decision making</td>
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<tr>
<td>Subjective based</td>
<td>Objective based</td>
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<tr>
<td>Preserving the status quo</td>
<td>Determining new, creative approaches to problems and needs</td>
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<tr>
<td>Agency or bureaucracy driven</td>
<td>Outcome driven</td>
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<tr>
<td>Promotes restraints, restrictions, and red-tape</td>
<td>Encourages flexibility and ingenuity</td>
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<tr>
<td>Control orientation</td>
<td>Planning and management orientation</td>
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<tr>
<td>Emphasizes compliance and preserving legality</td>
<td>Emphasizes performance and innovation</td>
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<tr>
<td>Stresses audit trails and conformity</td>
<td>Stresses program evaluation and improvement</td>
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<td>Involves agency heads, elected officials and advocacy groups</td>
<td>Involves everyone wanting to participate, especially those wearing a “citizen’s hat”</td>
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<td>Encourages and perpetuates single agency programs</td>
<td>Encourages intra- and inter-agency cooperation among programs and activities</td>
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“Our aim was straightforward: to build a FY 2005-06 Executive Budget for South Carolina based on clearly articulated statewide goals, effective strategies, creative and insightful thinking. We wanted to focus on the “keeps,” not the cuts. Through emphasizing outcomes, we attempted first and foremost to make sure citizens – not agencies, special interest groups, or lobbyists-get their money’s worth from state government.”
BFR Main Components

- Created Guidance (GT) Team:
  Governor’s Deputy Chief of Staff and Budget Director and Office of State Budget.

- University of South Carolina (USC) Institute of Public Service and Policy assisted as consultants.

- Result Teams (RT) “Workhorses of the process”
  Subject Matter Experts: Asked to “think like citizens”
  RT’s identified activities, measures, strategies and purchase plans.
Enterprise Wide Team (EWT)

- Charged with looking at best practices, systems, organizational structures of government, non-profit, and business. Make recommendations on how they could improve State government in South Carolina.

- Comprised of staff from the Governor’s office, OSB and USC staff.
Governor identified eight wide varying goals or results he wanted accomplished which offered a vision for the future.

- Improve the conditions for economic growth in the state.
- Improve the health of South Carolina’s citizens.
- Improve protections for South Carolina’s children and adults.
- Improve the safety of people and property.
- Improve the quality of South Carolina’s natural resources.
- Improve D-12 student performance.
- Improve the state’s post-secondary education system and cultural resources.
- Strengthen government’s ability to achieve results efficiently and effectively.
BFR Process

Developed inventory of state services/activities

- Description
- Expected Outcome
- Cost

Questioned: What is done; for whom; why; at what cost; what is expected to be accomplished?

1500 activities identified that answered the above questions.
BFR Process

- RT’s developed chief indicators of progress and key strategies for achieving results.
- Indicators would be based on criteria to review, analyze and prioritize activities.

Budget Hearings

No longer hearings for each department but hearings on the eight goal areas.
## Executive Budget Hearings by Goal Areas with Appropriate Agency Participants for FY 2005-06

<table>
<thead>
<tr>
<th>Goal Areas</th>
<th>Primary Agencies</th>
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<tbody>
<tr>
<td>Improve the conditions for economic growth</td>
<td>Commerce, Dept of Insurance, PRT, Labor, License, and Review</td>
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<tr>
<td>Improve the health of South Carolina citizens</td>
<td>Health &amp; Human Services, Mental Health, DAODAS, Disabilities &amp; Special Needs</td>
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<tr>
<td>Improved protections for South Carolina’s vulnerable children and adults</td>
<td>Dept of Social Services, Vocational Rehabilitation, Commission for the Blind</td>
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<tr>
<td>Strengthen government’s ability to achieve its results efficiently and effectively</td>
<td>Department of Revenue, Lottery, Budget and Control Board</td>
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<tr>
<td>Improve the safety of people and property</td>
<td>Corrections, Juvenile Justice, SLED, Public Safety, PPP, DMV, Department of Transportation</td>
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<tr>
<td>Improve the quality of South Carolina’s Natural Resources</td>
<td>Dept. of Natural Resources, DHEC-Environmental, Dept of Agriculture, Forestry Commission, Clemson PSA</td>
</tr>
<tr>
<td>Enterprise Agencies</td>
<td>Santee Cooper, Ports Authority</td>
</tr>
<tr>
<td>Improve K-12 student performance</td>
<td>Department of Education, First Steps, ETV, Ed. Oversight Commission</td>
</tr>
<tr>
<td>Improve the state’s post-secondary education system and cultural resources</td>
<td>Commission on Higher Ed, Tech Board, Tuition Grants, Museum Commission, Arts Commission, Library, Archives and History</td>
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Note: There were additional meetings or hearings with enterprise agencies, including, for example, the state’s Research Authority and DOT.
RT’s sorting and prioritizing of activities and identification of savings.

Involved ranking or “purchasing” government activities. The project was to develop a preliminary purchase plan of prioritized activities for each goal area.

Ranked activities considered to be:

- “Essential”
- “Important”
- “Non-Essential”

Prioritization or Ranking Scale

<table>
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<tr>
<th>Ranking Values and Definitions</th>
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<tr>
<td>3 = Activity is critical and is best and/or most effective way to accomplish the strategy.</td>
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<tr>
<td>2 = Activity is important to accomplishing the strategy.</td>
<td></td>
</tr>
<tr>
<td>1 = Activity, while it may be important in and of itself, is not vital or perhaps not the best way to accomplish this strategy.</td>
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BFR Process

- Each RT ranked or prioritized its share of the 1500 activities to complete a goal specific purchase plan.

- Each RT asked: “As a citizen of South Carolina are these activities the most cost-efficient and effective way to achieve our goal?”

- Can those activities that appear to be duplicated, in and across agency structures be eliminated or merged?

- What activities appear to be no longer relevant to the citizens?
BFR Process

Distribution of resources among goal areas.

- Review and finalization by Governor and executive staff of the RT’s preliminary purchase plan.

- Governor used the information provided by RT’s to “purchase” activities of the highest priority until the funds were exhausted.

- Result: Government activities of greatest importance, or moderately so, were funded. Those activities that fell below the line of available funds were not.
Distribution of resources by the Governor was based on zero-based budgeting principles.

New and old activities were on equal ground.

Purchasing principles were based on anticipated outcomes rather than historical precedent.

“Emphasis on what programs “to keep” and not on what programs to cut.”
Snohomish County, Washington

Located on Puget Sound
Population 686,000
Budget $662 Million

New County Executive Aaron Reardon took office 2004.

Challenges

- Faced with $13.4 million “budget gap”
- Sluggish economy
- Unfunded mandates costing $1 million/month
- New county jail to operate
Created a Prioritized-Based Budget Process (PBB)

- Developed comprehensive business plan
- Created performance management system called Sno Stat – accountable to citizens

Why do it?

- Need to restore public confidence
- Budget Shortfall
- Need to focus, deliver quality services and long term solvency
PBB Process

- Set the “price of government”
- Determine key results citizens want.
- Choose indicators to monitor progress toward the results
- Identify strategies the county could use to achieve these results
- Ask for “offers” to purchase each result
- Allocate resources across results
- Prioritize the purchase of activities
PBB Process

- Created a Citizen Cabinet made up of public and private leaders.
- Hold 50 public meetings called “Community Conversations” - asking citizens what services do they want the county to provide.
- How much do they want to pay for these services.
- Ideas on how government could be more efficient with their tax dollars.
Based on Community Conversations

Priority results were drafted:

- Transportation: I want reasonable and predictable travel times.
- Safety: I want to feel safe where I live, work and play.
- Education: I want kids in my community to pass the State school achievement tests.
- Health and Vulnerability: I want to improve the health of people in the community and reduce the vulnerability of those at risk.
- Community: I want to live in a thriving community, one with infrastructure sufficient to support planned growth.
- Security: I want my community to be prepared to respond to emergencies.
- Effective, Efficient, Trustworthy Government: I want to get the level of service I need at an affordable price and see that my dollars are spent wisely.
PBB Process

Create Results Teams (RTS) to do the following:

- Create indicators for success.
- Identify key factors that contribute to the intended result.
- Build a strategy map showing the pathway to the result.
- Create a Purchasing Strategy to produce your results.
Key Players in PBB Process

- County Executive
- County Council
- Guidance Team
- Result Team
- Staff Steering Team
- Consultant
Results of Process 2005

- Closed 13.5 million funding gap
- 2005 Budget < $3 mill from 2004
- Established a liquidity reserve of 8.5%
- No new taxes – live within means
- Personnel cuts – 14 out of 21 agencies
- “Thinking out of the box”
  - Signed deal with State to house 200 prisoners generating $13,000/day
  - Raised new revenues solid waste fees increased for first time in 12 years.
- Developed Economic Development Team to work on attracting new industry.
City of San Jose, California

Investing in Results (IiR)

2003 Budget $3,341,145,059

7417 Employees

Populations 900,000

“City Invests time, energy and resources to produce services and results that customers want.”
San Jose (IIIR)

IIIR =

- Performance Based Budgeting
- Managed Public/Private competition
- Organizational Development
- IIIR focused on:
  - Budgeting
  - How we work
  - How we deliver services
  - How we engage the community & customers
  - How we involve employees
  - How they support effective council policy making
San Jose (LiR)

Challenges

- Taxpayers unwillingness to pay for Government services.
- Meeting rapidly changing needs
- Organizational Silos and lack of collaboration
- Maintaining employee involvement and pride
- Implementing change

San Jose’s 4 principles to guide and facilitate change

- Employee involvement and partnership
- Commitment, Capacity, Communication
- Meaningful, Useful, Sustainable
- Learning before Scorekeeping
IiR Implementation Plan Timeline:

- 1999 City Council approves investing in results
- Defined core services 12/99
- Developed core services measures 4/2000
- Baseline reasons data completed 11/2000
- Goal setting – 1 year data completed 11/2000
- Performance based Budget completed 5/2002
San Jose (IiR)

- Prepare the organization:
  * Communicate need for the IiR to “all”.
  * Ensure capacity, demonstrate commitment.

- Align Mission – Clarify purpose

- Map service delivery

- Determine functional responsibilities to achieve agreed upon results.

**Questions**

- Are we doing the right work?
- Are we delivering the services our customers want?
- Are we doing the work right?
- What gaps exist between provided services and customer needs?
Developing Measures – Involve functional players to create meaningful, useful and sustainable results measures.

Measures that focus on:

- Quality
- Cycle Time
- Customer Satisfaction
- Cost

- Identified opportunities to improve managed competition
  - Can the private sector do it better
Managing for Results

* Align all systems
* Use performance information to make resource allocation decisions.
* Ensure accountability
* Continuous improvement
San Jose (IiR)

City Service Areas (CSA):

* Aviation
* Economic and Neighborhood Development
* Environmental and Utility Services
* Public Safety
* Recreation and Cultural Services
* Transportation
* Strategic Support
CSA Service Groups Developed:

* 5 year business plan
* 1 year action plan

Cross Cutting CSAs

* Include several department activities
* Common set of performance measures
San Jose (IiR)

- Budget system restructured from organizational focus to a functional, service delivery focus (CSAs).
- Improves linkage between resources and results.
- Budget hearings, done by CSAs, not department.
2003 Governor Locke adopted new approach to government budgeting.

- Faced with $2.4 billion budget shortfall realized change was necessary and the state could not fund everything.

- Created a budget that shows “what we will do, and not what we can no long afford to do.”
POG creates framework for investment decisions.

Starts with several basic questions:

- What are the results citizens expect from government?
- What strategies are most effective in achieving those results?
- How should we prioritize spending to buy the activities that are most critical to implementing these strategies?
- How will we measure progress?
POG Process

Identify priorities of government.

10 Key results that citizens expect: Statewide Results List

1. Improve student achievement in elementary, middle and high school.
2. Improve the value of postsecondary learning.
3. Improve the health of Washingtonians.
4. Improve the security of Washington’s vulnerable children and adults.
5. Improve the economic vitality of business and individuals.
6. Improve statewide mobility of people, goods, and services.
7. Improve the safety of people and property.
8. Improve the quality of Washington’s natural resources.
9. Improve cultural and recreational opportunities throughout the state.
10. Strengthen government’s ability to achieve results efficiently and effectively.
POG

- Guidance Team – Team of subject matter experts from different agencies, government offices, private and non-profit organizations.
  - Assignment – Ensure work of result team stays result and citizen focused.
  - Result team – Identify key measures of success.
  - Identify proven or promising strategies for achieving results.
  - Determine: What do we do? Why? At what cost? What do we expect to accomplish?
POG

- Result team receive dollar allocation.
  * Prioritize activity inventory
  * Encourages creativity
  * Grounded in financial reality
  * Focus team to make choices.

- RT’s – develop results based prioritization of activities.
  * Focus on maximizing results for citizens.
  * Ignore fund source.
  * When fund allocation is exhausted, RT’s should list in order of priority what they would buy next.
Result Team (RTS)

- Prioritize list of activities with purchases above the line and potential buy back below the line.

Key benefits of this POG Framework

- Helps keep focus on contribution to results – lets us escape agency “silos” and consider statewide strategies.
- Makes performance information more relevant to budget choices.
- Facilitates thinking about trade-offs above and below the line and across the results areas. Does the budget make sense as a whole?
- Helps frame the questions, “Why does the line have to be drawn here? Can we make things above the line cost less? Are we sure we’re buying things at the best price?”
- Shows the “keeps” as well as the “cuts.”
Similarities between

Austin, Texas
Franklin County, Ohio
State of Washington
State of South Carolina
Snohomish County, Washington
San Jose, California

Differences of above
Several ways to do Performance Based Budgeting.

All use Performance information to make resource allocation decisions.