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Budgeting that Really Works

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The fiscal mess facing government is spawning a slew of alternative approaches to budgeting: performance-based budgeting, budgeting for results, outcome budgeting, and others.

While the need for improved budgeting is clear, how these various approaches work is anything but clear. Not only is the nomenclature confusing, but the same name may mean different things in different places.

What you find most often under any of these labels are performance measures and sometimes data pasted into a line-item budgeting system. The budget may be reorganized around programs, policy areas, or maybe high-level results, but it's still a line-item budget.

These budgets seldom accomplish much. The "new" approach works only as long as a dedicated champion makes it work. When the champion rides off, so does the discipline.

Even with a new name, budgeting usually still starts with last year's numbers. Departments and line items remain its core. New ideas and better ways of doing things struggle to overcome inertia. The incentives in the budget game remain. On the department side, the game is hide and pad. On the executive side, it's cut, cut, cut. The bottom line is that budgeting is still all about the dollars and who's up or down by what percent. Performance is left by the wayside.

In tough times, this "new" budgeting still degenerates into "finding cuts" or "finding savings." This approach assumes the priorities of last year's budget and makes incremental changes from that starting point, or anchor. It assumes the work will be done using current methods. Budgeteers "find" money by trimming fat and more, if necessary. "Let's cut where it does the least damage and pray for more revenue—soon."

The fundamental flaw is that no intrinsic, action-forcing mechanism makes outcomes and performance more consequential. Nothing systematically challenges the status quo. The basic budgeting dynamic, its DNA, remains intact.

As a result, today's budgets crash and burn, under whatever name. Our moment in history demands better. We can no longer afford the old way or "new" ways that apply a superficial veneer of data on top of the old way.

We need to yank budgets off autopilot -- way off. We need to generate measurable value from every dollar. We need to jettison lower-value activities, regardless of how painful. We need a self-executing dynamic that rewards effectiveness and innovation, not special interest pull or longevity.

The budget's primary criterion should be value, defined as outcomes per dollar, not just dollars.

It can be done. Begin by flipping the question from negative to positive. Instead of "How can we cut projected spending to meet revenues?," ask "What's the best way to produce the most value with the dollars we have?" Ask this question without consideration of what you're spending the money on now.

It's about smart spending, not smart cutting.

Over the last decade, pioneering state and local government leaders, with the assistance of the Public Strategies Group, have developed a budgeting model that addresses this issue. We call this model "budgeting for outcomes" but the name doesn't matter. Maybe we need a name that's less confusing, such as "budgeting that actually works."

The model is still evolving, and each jurisdiction has unique challenges. The experience from twenty-plus different governments to date, however, proves the value of this approach.

Here's how "budgeting for outcomes" works:

- 1. Set the price of government:** Decide up front how much citizens are willing to spend. Get political agreement on a revenue forecast and any tax or fee changes, or just go with the revenue forecast. Most jurisdictions do the latter. Quit wasting so much energy on how much will be spent.
- 2. Set the priorities of government:** Define the outcomes that matter most to citizens, with citizen input, and identify indicators to measure progress. Allocate the funds available among the priority outcomes.
- 3. Develop a purchasing plan for each priority:** Create a team to act as a purchasing agent for citizens, including citizens, for each priority. Ask each team to research and identify the strategies that will best produce the desired outcome.
- 4. Solicit "offers" to deliver the desired outcomes:** Have the teams issue "requests for outcomes" to all comers, public and potentially private: "tell us what outcomes you can deliver for what price." Critique initial offers and negotiate better deals.

5. Prioritize the offers: For each outcome, fund the best offers, those that will provide the best results within the money available. Do not fund the other offers.

6. Negotiate performance agreements with the chosen providers: Spell out the expected outputs and outcomes, how they will be measured, the consequences for performance, and the flexibilities and support needed to maximize provider performance.

There's more to it than this high-level outline, of course. It should be clear, however, that different DNA drives this process; this is not the same-old budgeting under a new banner. Fundamentally, higher-value activities force out lower-value activities in a strategic, zero-based, competitive arena.

Because offers compete on the basis of value, innovative and entrepreneurial offers have a better chance against the status quo.

The Iowa Department of Revenue collections unit had no luck getting the legislature to sign off on purchasing new software and granting authority to better integrate and co-locate operations with a private-sector partner. So they "offered" a deal they hoped could not be refused: Let us do what we think needs to be done, and we'll promise you \$42 million in additional, already owed but uncollected revenue over the next three years. The legislature bought the deal and Revenue delivered: \$120 million in additional revenue and counting.

In aggressive jurisdictions, requests for offers could reach beyond government, to the non-profit and for-profit sectors. The power of internal and perhaps external competition to spur creativity and efficiency – within parameters that accord with our values and the public interest – busts the old budget DNA. Why wouldn't citizens and taxpayers want the budget offers that produce the greatest value, regardless of who provides the service? We owe our citizens and taxpayers no less. If, through this process, we fund what we currently do because it delivers best value, great. If we choose other ideas over what we currently do to get more value, that's great too.

In the State of Washington, where this approach debuted during the last big fiscal downturn, the *Seattle Times* [editorialized](#), "The usual, political way to handle a projected deficit is to take last year's budget and cut. It is like taking last year's family car and reducing its weight with a blowtorch and shears. But cutting \$2 billion from this vehicle does not make it a compact; it makes it a wreck. What is wanted is a budget designed from the ground up."

This approach also gives the facts a better chance against politics and special interests. Based on the evidence of value to student achievement, bi-partisan supermajorities in both houses of the Washington State legislature in 2003 temporarily suspended citizen-initiated initiatives backed by teachers' unions to lower class sizes and raise teacher salaries.

Tough choices, but the money was better spent elsewhere.

A micro-example: Ft. Collins, Colorado identified nighttime “dial-a-ride” service as low-value, primarily because of its more than \$90/ride cost. Rather than just cut the service, they negotiated less-than-\$20 evening rides with a local taxi company.

Other jurisdictions with experience using this approach include the cities of Baltimore, Dallas, Redmond, and Savannah; the Louisiana Department of Culture, Recreation & Tourism; and the following counties: Mesa, Colo.; Multnomah, Ore.; Polk, Fla.; and Snohomish, Wash.

Make no mistake, budgeting this way is hard work, especially the first time through. There is no magic wand. It does not eliminate hard decisions; it does present better questions in a framework that incents better answers. Politics may still often prevail. It does make performance data matter. When programs with no or sketchy data go away or are cut dramatically, all of a sudden there’s genuine interest in data.

The budget offers us the most powerful leverage to achieve more focus, performance, innovation, and value. In times like these, we would be crazy not to use it.

WHAT KIND OF BUDGETING DO WE WANT?		
Key Questions	Today's Budgeting	Tomorrow's Budgeting
What's the basic task?	Fund departments, fund programs, fund costs	Purchase outcomes
Where does the process focus energy?	At the margins, where there are cuts and adds from last year's numbers	Across all the outcomes and all the money
What is the system's basic dynamic?	Inertia maintains current spending	Competition generates better options; prioritization forces better choices
What's the incentive for government departments? How do you "win" the budget game?	Hide, pad, and threaten dire consequences if there are cuts	Offer the most outcomes per dollar
What's the bottom line?	Dollars	Value

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