

Performance Based Budgeting

Phase 3 Overview

Performance Based Budgeting Steering Committee

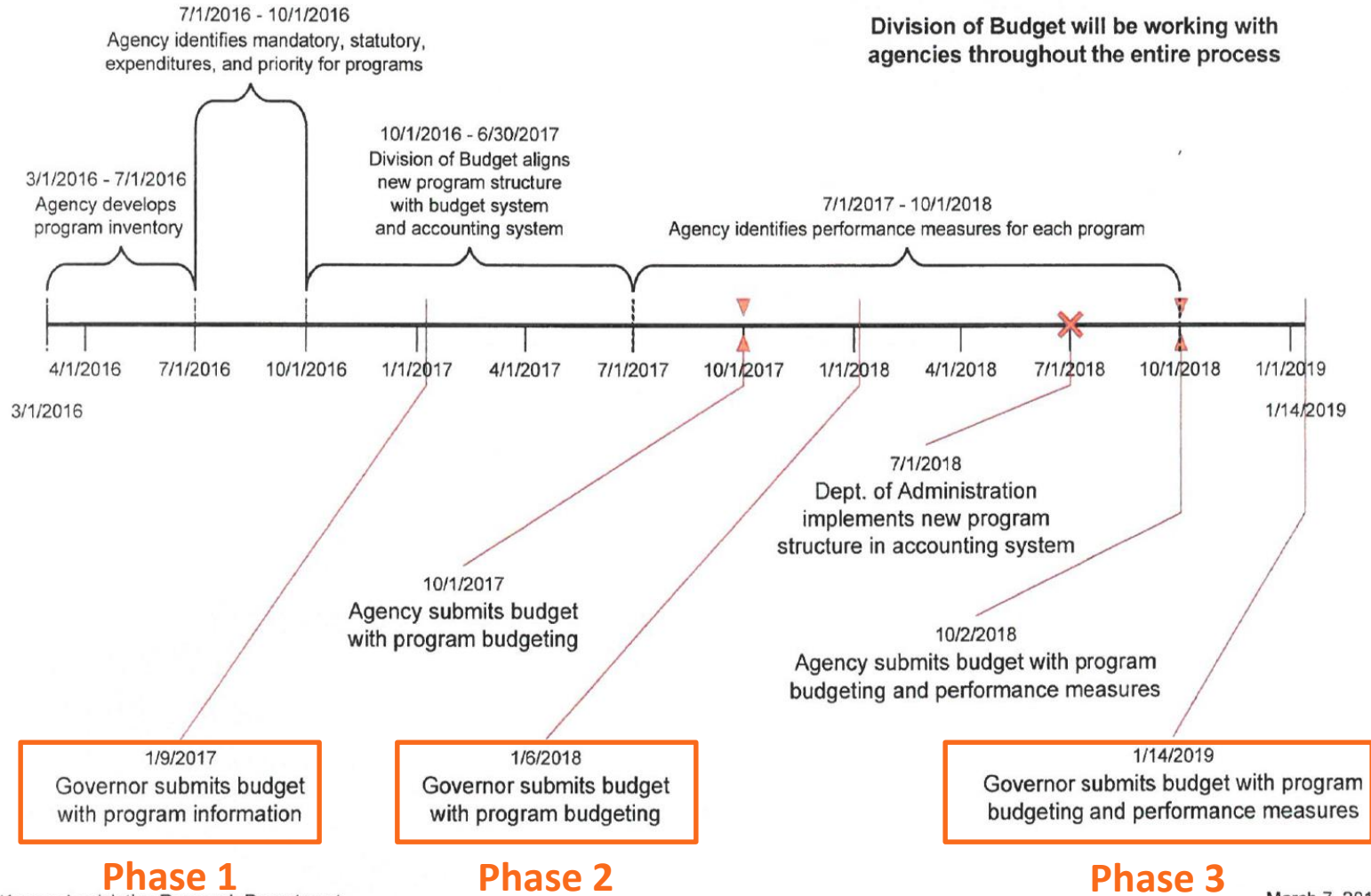
Topics

- Background
- Current Status
- Phase 3
 - Discovery: Budget Instructions
 - Discovery: Other Methodologies
 - Process
- How will PBB be used?
- Resources
- Questions & Discussion

Background

- A&M Recommendations
 - Conduct program service inventory
 - Implement performance budgeting
- HB 2739
 - Established dates for key benchmarks
- Steering Committee

Time Line to Implement Performance Based Budgeting in Kansas



What is Performance Based Budgeting

- “A budget preparation and adoption process that emphasizes performance management, allowing...decisions to be made **in part** on the efficiency and effectiveness of service delivery.”
 - Kelly, Janet M., and Rivenbark, William C. Performance Budgeting for State and Local Government. Florence, GB: Routledge, 2014. ProQuest ebrary. Web. 8 June 2016.
- Correlate dollars with measures?
 - How is agency achieving goals relative to committed resources?
 - Are resources adequate to achieve objectives?

Current Status

- Phase 1: Program inventories completed December 2016
 - Re-examined program structure
 - Added subprograms
- Phase 2: Incorporate program inventory changes into financial systems
 - SMART; SHARP; IBARS

Current Status: Phase 2

- Status: Ongoing
- About 50.0 percent of agencies that had program changes made them prior to FY 2018.
- The Division of Budget will work with remaining agencies to make changes prior to FY 2019.
 - Process will start in January 2018

Phase 3: Summary

- Re-examine current performance measures.
- Resources provided by Steering Committee to help agencies with review process.
- Identify key measures.

Phase 3: Summary

- Review process
 - Draft proposals to DOB and KLRD by May 2018.
- Final changes
 - Submitted in agency budget submissions in September 2018.

Discovery: Budget Instructions

Discovery: Outcome Measures

- Derived directly from the objectives.
- Indicates the **effectiveness** of agency actions.
- Quantifiable
- Indicates the degree to which an agency is achieving its objectives.
- Measures the ultimate result of a service on customers.

Discovery: Outcome Measures

- **Developing Outcome Measures: Guidelines**
 - Directly related to an agency's objectives.
 - Matched to an organizational unit responsible for achieving the measure.
 - Reliable indicators of the objective to be measured.
 - Consistent over time.

Discovery: Outcome Measures

- **Developing Outcome Measures: Guidelines**
 - Quantifiable – Something that can be measured.
 - Information can be obtained without undue expenditure of agency resources.
 - Clearly formulated and readily understood.
 - Leads to a valid conclusion about an agency's past or current actions.
 - Facilitates budget decisions for future actions.

Discovery: Output Measures

- Indicate amount of goods, activities and services produced by an agency.
- Used to evaluate agency strategies.
- Used to develop measures of **efficiency**.
 - Ratios
 - Averages
 - Cost per unit of output (if possible)

Discovery: Output Measures

- **Developing Output Measures: Guidelines**
 - Directly relate to an agency's strategies.
 - Indicators of the strategy to be measured.
 - Consistent over time.
- Quantifiable

Discovery: Output vs. Outcome

Output: number of patients treated

is not the same as

Outcome: number of discharged patients living independently

Output: number of vaccines given

is not the same as

Outcome: reduction of incidence of disease

Discovery: Output vs. Outcome

Output: number of permits issued

is not the same as

Outcome: quantity of excessive SO₂ emissions per million CF

Output: percentage of high school students who graduate

is not the same as

Outcome: percentage of individuals between 18 and 22 in college or gainfully employed

Discovery: Good Performance Measures

- Meaningful: Directly related to the mission and goal.
- Relevant: Data essential for understanding the accomplishment of goals and objectives are included.
- Comparable: Clear frame of reference for assessing performance.
- Timely: Information is available to users in time to make decisions.

Discovery: Developing Performance Measures

- Establish appropriate mission and goals.
- Make list of initial performance measures.
 - Usually established by program managers w/feedback from customers and policy-makers.
- **Most effective measures represent consensus of what is intended and expected.**
- Data for Outputs may be easier to collect; Outcomes more difficult.
 - Try to include both.

Discovery: Developing Performance Measures

- **Select key performance measures.**
 - **Most important** based upon mission and goals.
 - Identify the vital few measures from a policy-maker's perspective.
- Define the performance measure.
 - What is being measured?

Discovery: Developing Performance Measures

- Determine data requirements.
 - What information do we currently gather?
 - What new information will be collected?
 - What resources will be needed to manage performance data?
- What are the constraints to changing data collections?
 - Money, technology, tradition, politics, privacy, etc.

Discovery: Developing Performance Measures

- Data collected at the source of service is preferred because:
 - Those closest to program service know the program best.
 - Those who deliver the service can identify collection problems quickly.
 - They often have the best solutions to solving collection problems.

Discovery: Developing Performance Measures

- Determine baseline performance.
 - Historical or recent one-year period?
- Use benchmarks to establish performance targets.
 - Professional, national or accreditation standards.
 - Gap analysis: actual vs. target

Discovery: Developing Performance Measures

- Measure actual performance and report results.
- Review and update performance measures.
 - Main purpose of Phase 3

Discovery: Other Methodologies

Discovery: Developing Performance Measures Techniques

- Step 1 – Write a Logic Model
- Step 2 - Narrow the List of Performance Measures
- Step 3 – Determine how you wish to write the performance Measure
- Step 4 – Set Meaningful Targets

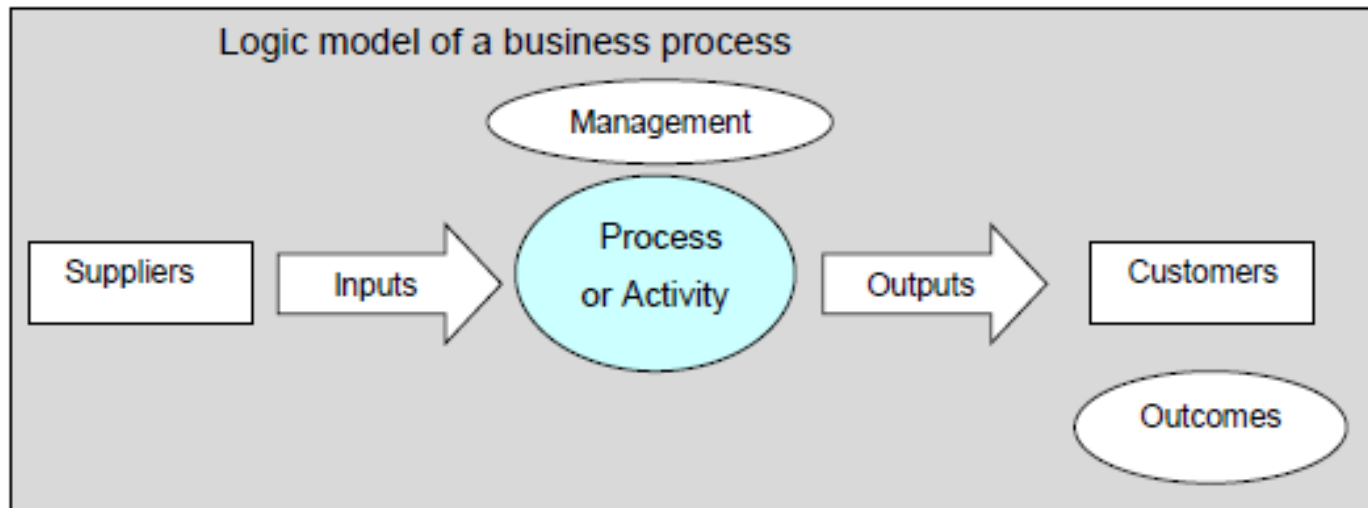
NOTE – The techniques described below are from the State of Washington Office of Financial Management, Performance Management Guide. More information and additional references can be found in that document.

Logic Models – Step 1

- A logic model ties together, in a logical chain, the inputs, activities, outputs and outcomes relevant to the program for which you are developing a performance framework.
- A logic model forces you to think through, in a systematic way, what your program is trying to accomplish and the steps by which you believe your program will achieve its objectives. *If a logic model is well done, a set of appropriate performance measures emerges from it almost automatically.*

SIPOC Logic Model

- Supplier-input-process-output-customer (“SIPOC”) model used to describe parts of a business process and develop possible performance measures.



SIPOC Logic Model

- To use this model, write down details for each element.
 - Analysis usually starts with the business process or activity, which creates products or services. Any process has several stages or steps that add value by transforming inputs to products or services.
 - Suppliers are the groups and organizations that provide materials, equipment, and information needed to do the work.
 - Inputs are things used by the business process to create products. Examples of inputs are people, buildings, tools, data and computer systems. Another input to a process is customers or clients, sometimes called workload or caseload.
 - Outputs, or “widgets,” are tangible, specific products produced by the business process or activity.
 - Customers are people who receive the products.

SIPOC Logic Model

- Outcomes are, in general, the purpose or result that customers want from the product or service. We can distinguish several types of outcomes. Immediate outcomes are what the customer wants the product or service to do (e.g., customers don't want electricity; they want light or heat).
 - Intermediate outcomes describe longer-term changes as a result of the work.
 - Ultimate outcomes, or results, are broad social goals that the work is supposed to affect or accomplish (e.g., improved health, lower crime rates, reliable transportation, or improved public safety).
 - Indicators are high-level measures of progress toward a goal.

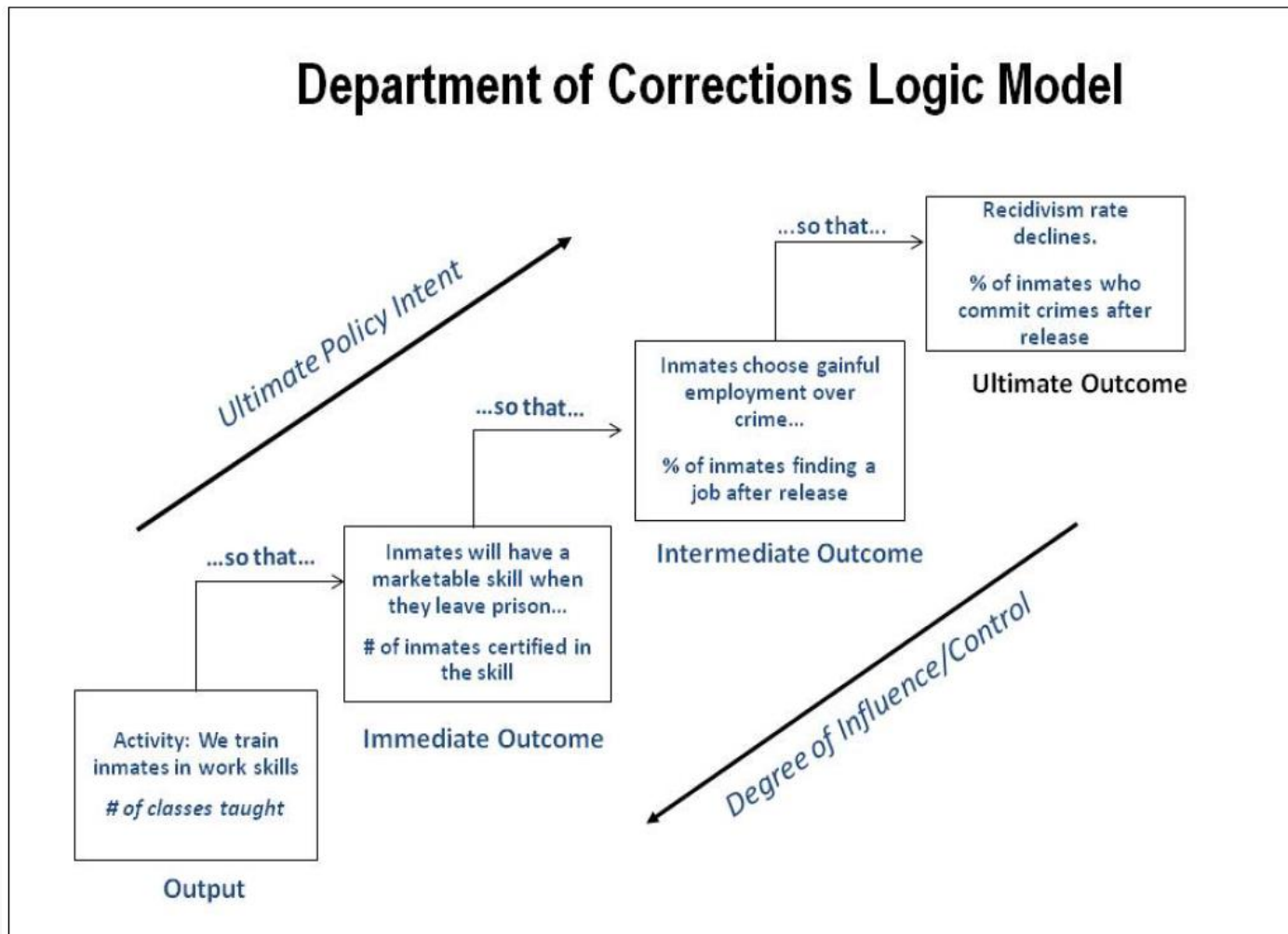
SIPOC Logic Model

Major Performance Measure Types	Description	Example
Input measures	A measure of resources used by an activity or process. Some inputs relate to workload. Others relate to the amount of resources used in a process.	Applications received Dollars spent Staff hours used
Output measures	The number of units of a product or service produced or delivered.	Eligibility interviews conducted Children immunized Number of non-compliant woodstoves replaced
Process measures	Describe aspects of the business process, such as completion rate, processing time, backlog, error rates, and so on.	Days to issue a permit
Outcome measures	Measures of ultimate benefits associated with a program or service. Also known as Results.	Reduction in deaths Improvement in air quality in areas with wood-stove compliance program

So-That Logic Model

- The basic model consists of a set of boxes connected by “so that” arrows. The analysis starts by writing part of the business process (outputs, process or inputs) in the first box, then asking, “Why do we do that? Why do we care about that? What do we want to happen because of that?”
 - The answer to these questions should be something along the lines of, “We do this thing **so that** something else happens.” Write the “something else” in the next box in the series, and ask the question again.
 - Repeat this cycle – asking “Why do we care?” and getting “So that . . .” answers – until the final box is a statewide result or ultimate outcome.

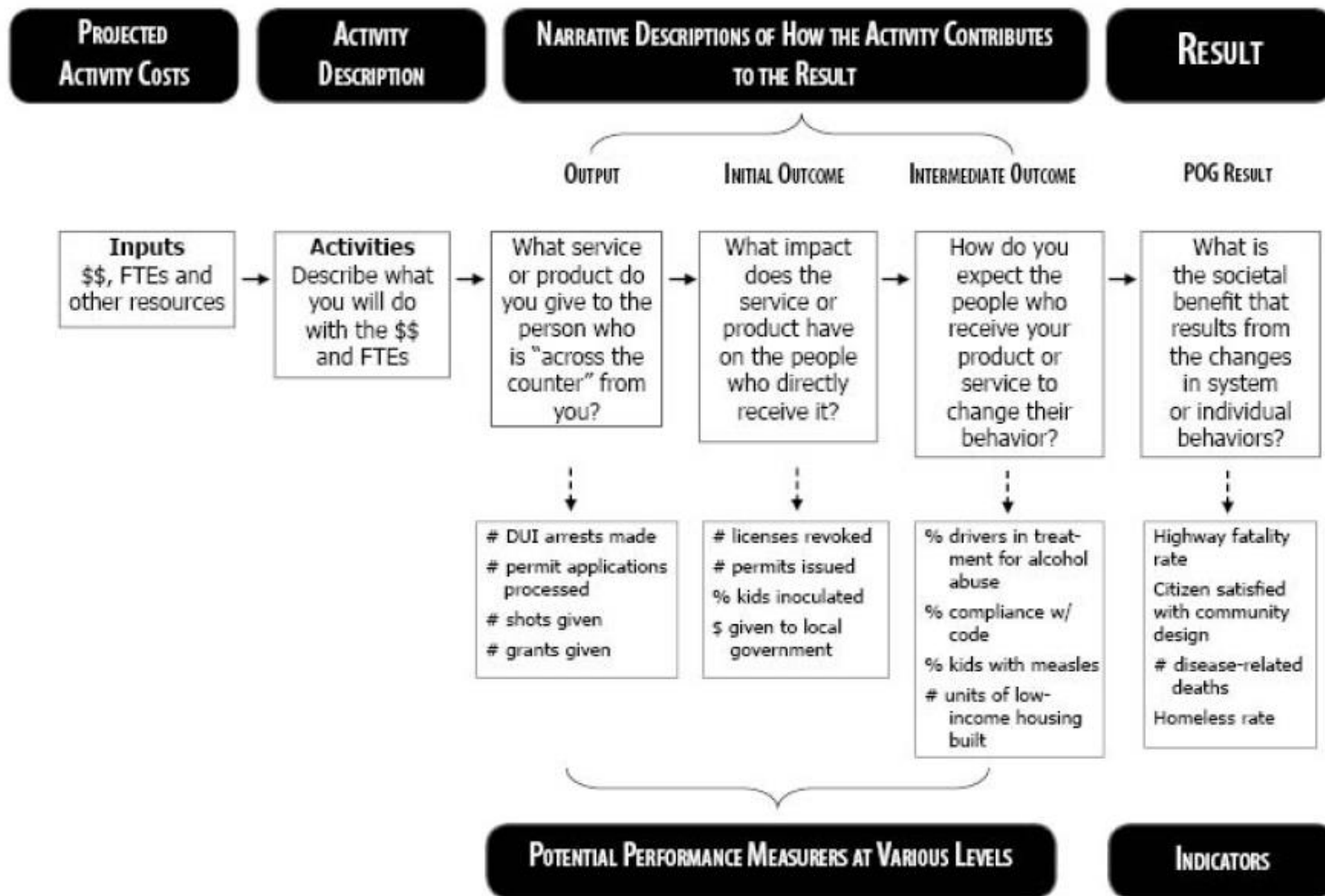
So-That Logic Model –Example Corrections



Value Chain Logic Model

- The value chain is a model that shows linkages between budgeted inputs to an agency's activity and desired results. Agencies may find it useful in illustrating how the output or the immediate outcome of an activity contributes to higher-level outcomes.
- The value chain is very helpful in differentiating between the various levels of performance measures, and demonstrating how they are related. It is also useful in showing the degree of control that the agency has at each level, and the impact of other factors on the outcomes.

Value Chain Logic Model – Horizontal



Logic Model – Alternative

- Maricopa County, Arizona, uses a simple logic model. Each major activity in the County fills in four blanks in a sentence, known as a “Result Statement,” to describe the activity, its product and customers, and the results that customers want.
- The output of this model creates a So-That Logic Model

❶ The purpose of the _____ activity
(activity name)

❷ is to provide _____
(summary of services provided)

❸ to _____
(specific customer or customer group)

❹ so they can _____.
(results/benefits experienced by customers)

Logic Model – Alternative

- Managers in charge of the activity then develop four standard measures, related to the four elements in the Results Statement:
 - **Result** = performance that specific customers want from the product or service (from the Purpose/Results statement above)
 - **Output** = number of things delivered to customers this period
 - **Demand** = “input” measure, the number of units requested by customers during a period
 - **Efficiency** = unit cost per thing completed.

Narrowing the List – Step 2

- Reduce the list of performance measures to a vital few that really mean something to the intended audience. (Relevance) Keep in mind that the audience who receives the information sets the standard for what is relevant and important.
- Typically, internal audiences are interested in process-level measures and production outputs.
- External audiences involved in budget and policy development are more interested in efficiency and outcome (results) measures.
 - Because ultimate outcomes are often influenced by many factors besides an agency's work, the most meaningful measures for judging effectiveness may be immediate or intermediate outcomes.

Writing Performance Measures – Step 3

- Since performance measures are numeric descriptions of work, start each measure by clarifying the unit of measure, for instance:
 - “The number of . . .”
 - “The percentage of . . .”
 - “The ratio of . . .”
- Next, describe what is being measured. This is usually an attribute of work performance identified in an activity description, expected results statement, or logic model:
 - The number of **days to fill a job vacancy** . . .
 - The percentage of **trainees finding a job** . . .
 - The ratio of **wetland acres cleaned of invasive species** . . .
- Finally, when possible, use the word “per” to clarify the reporting cycle:
 - Average number of days it takes to fill a posted job vacancy **per quarter**.
 - Percentage of trainees finding a job within 30 days of training **per quarter**.
 - The ratio of wetland acres cleaned of invasive species **per year**.

Writing Performance Measures – Common Mistakes

- A performance measure should not include explanations of why the measure is important or how the data is collected.
- Avoid jargon and acronyms in performance measure titles, so readers who are not subject matter experts can understand what is being measured.
- Don't word the performance measures as objectives. Objective statements include words such as "increase" or "decrease," which imply change. Objective statements are not performance measures, although performance measures can tell us whether we are meeting our objectives.

Meaningful Goals – Step 4

Step 1 – Understand the current (as-is) performance.

- Look beyond normal variation (ups and downs) in the data to determine if the general data direction is increasing, decreasing, or staying the same.
- Determine the average or median of past and current performance.
- What level of performance is possible given current resources?

Step 2 – Gather information about ideal performance levels.

- What level of performance do customers want?
- What level of performance do external stakeholders, regulators, or budget developers expect?
- What level of performance do similar organizations achieve (“benchmarking”)?

Step 3 – Compare the results of Steps 1 and 2.

- If there is no difference, no more work is needed to set a target.
- Is there a gap between actual and desired performance?

Meaningful Targets – Step 4

Step 4 – Strategic priorities and resource allocation questions.

- Is improvement an organizational priority?
- What resources do you have to invest in changing the process and to integrate the changes into the everyday way the work is accomplished?

Step 5 – Set the improvement target level.

- If improvement is an organizational priority and if necessary resources are available to change the system, set an achievable target at the desired level of performance and establish a timeframe for when actual performance must consistently operate at that level.

Process

- Agencies re-examine performance measures.
 - Use any/all resources available.
 - “Fresh perspective”
- List all performance measures in template provided by Steering Committee.
 - Only the measure; no data needed.
- Of the measures in the template, identify the key measures

Process

- Submit draft list of measures to DOB and KLRD by **May 1, 2018**.
 - DOB and KLRD will provide any necessary feedback.
- Submit final changes in agency budget submissions **September 15, 2018**.

PBB: How will it be used?

- Elevate performance measures in decision making.
- “Complete the picture” of agency budgets in Executive and Legislative Branch discussions, evaluations, recommendations, summaries, and reports.

PBB: How will it be used?

- Will not be used for wholesale reset of base budgets or SGF allocations.
- Changes to performance measures will not mean automatic increases or decreases to budget.

PBB: How will it be used?

- Greater integration of program inventory information and budget narratives.
- Evaluate marginal changes to agency budgets.
 - Supplementals; enhancements; reduced resources; appeals.
 - Renewed emphasis on demonstrating impact to performance measures.
- Show impact of Governor's/Legislature's recommendations on performance measures.

PBB: Tips for Agencies

- Take advantage of opportunity in Phase 3.
 - How would you like to measure agency performance?
 - How would you like others to measure your performance?
- Provide context/explanation during budget deliberations.

Resources

- Phase 3 support materials
 - Performance measures database
 - Checklist
 - Performance measures reporting template
- Available week of December 4th.
 - DOB website
 - KLRD website

Resources

- Division of the Budget website:
 - PBB Resources:
<http://budget.ks.gov/agencyinfo.htm>
 - Budget Instructions:
<http://budget.ks.gov/agencyinfo.htm>
- Kansas Legislative Research Department website:
<http://www.kslegresearch.org/KLRD-web/PerformanceBasedBudgeting.html>

Questions & Discussion

Performance Based Budgeting Steering Committee