A Systems Approach to Implementing Performance-Based Management and Budgeting

Guam
July 31, 2009

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I. Introduction – Performance Accountability System
II. Historical Overview – Where We Have Been in Austin
III. Performance Planning
IV. Performance Budgeting
V. Performance Measurement and Reporting
VI. Performance-Based Decision Making
VII. Conclusion – What We Have Learned and Where We Are Going
I. 1. Introduction: Government Performance Accountability System

PLAN
Strategic & Annual Planning

ACT
Performance-Based Decision Making

DO
Performance Budgeting

CHECK
Performance Measurement & Reporting

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I. 2. Managing for Results Framework
City of Austin

PERFORMANCE-BASED DECISION-MAKING
- Citizens
- Council
- Managers
- Employees
- Individual SSPR Evaluations
- Organizational Performance Assessment
- Performance and Measurement Audits

BUSINESS PLANNING
- Program/Activity Objectives
- Organizational and Individual Performance Measures
- Structural Alignment
- Performance Targets
- Accounting System

PERFORMANCE MEASUREMENT & REPORTING

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I. 3. Characteristics of a Successful System

- Use existing data whenever possible
- Find a balance between too few and too many measures
- Audit the data regularly
- Modify measures when necessary
- Centrally located staff to analyze data and coordinate the system elements
- Technological infrastructure to support the system

I. 3. Characteristics of a Successful System (continued)

- Data forms should have space for explanatory information and detail
- Tie measures to budgetary allocation and reward system
- Support of top management
- Over the long run should affect bottom line performance of the organization
- Citizens will be better informed and more participative
II. 1. Where We’ve Been (in the City of Austin) …

- 1994 – First Performance Measurement & Reporting System Audit
- 1996 – Second Performance Measurement and Reporting System Audit; Program Budgeting implemented
- 1998 – Third Performance Measurement and Reporting System Audit

II. 2. Where We’ve Been…

- 1998 Corporate Managing for Results Initiative Defined
  - Simplify our System
  - Clarify the Information We Provide
  - Develop Measures that are Meaningful to our Employees
  - Focus on Cost
- 1999 Corporate Partnership Implements CMO Initiative
  - Developed a standard manual--The Resource Guide
  - Trained over 200 managers
  - Developed a single accounting system
  - Identified key performance measures for executive SSPRs
  - Corporate Review Team
II. 3. Where We’ve Been…

- **2002 Fourth Audit of the Performance Management System**
  - Ongoing Integrated System
  - Information Used for Operational Management
  - Measures Are Relevant and Reliable
  - Budgets Are More Data and Results Driven

- **2003-2009 Continuous Improvement**
  - Most Managers and Supervisors Are Trained
  - Performance Measures Supported by More Robust Technology
  - Improvements Being Made to City’s Website
  - “Best Practice Citizen Centric” External Performance Accountability Report Is Needed

III. Performance Planning

III. 1. Establishing programs and activities

III. 2. Developing annual business plans with performance expectations and measures

III. 3. Reviewing business plans to support improvement and accountability
III.1. Service Delivery Model

Inputs → Processes → Outputs → Outcomes

III.1. Service Delivery System

Cause/Effect Relationships

Inputs

Processes

Outputs

Outcomes

Service Efforts

Financial Inputs/Outputs = Unit Cost
Outputs/Physical Inputs = Productivity
Inputs/Outcomes = Cost Benefit and Cost Effectiveness
III. 1. Service Delivery System: Auditing Program

Audit Program or Activity

**Inputs** → **Processes** → **Outputs** → **Outcomes**

**Inputs**
- Staff
- Funding
- Equipment
- Facilities/Rent

**Processes**
- Audit Process-(Survey, fieldwork, & reporting)

**Outputs**
- Reports
- Briefings
- Presentations

**Outcomes**
- Qualitative – Policy/system/management improvements
- Quantitative – Cost savings/revenue enhancement
- Preventive – Deterrence/detection

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III. 1. Austin’s Definition of Programs

▲ Activity = Input → Process → Output → Outcome

▲ Program = group of activities with a common purpose

Example: Audit Program consists of four activities:

▲ Performance Audits
▲ Investigations
▲ Consulting and Assistance
▲ Quick Response
III. 2. Business Plan Alignment Worksheet with Definitions

<table>
<thead>
<tr>
<th>ALIGNMENT WORKSHEET BY ACTIVITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Plan Element</td>
</tr>
<tr>
<td>City of Austin Vision:</td>
</tr>
<tr>
<td>Vision: (optional)</td>
</tr>
<tr>
<td>Mission:</td>
</tr>
<tr>
<td>Goals:</td>
</tr>
<tr>
<td>Program:</td>
</tr>
<tr>
<td>Program Objective:</td>
</tr>
<tr>
<td>Program Results Measure(s):</td>
</tr>
<tr>
<td>Activity:</td>
</tr>
<tr>
<td>Activity Objective:</td>
</tr>
<tr>
<td>Services that comprise the activity:</td>
</tr>
<tr>
<td>Activity Performance Measures:</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Responsible Employee:</td>
</tr>
</tbody>
</table>
III. 2. Sample Business Plan Alignment Worksheet

<table>
<thead>
<tr>
<th>Business Plan Element</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Austin Vision:</td>
<td>We want Austin to be the most livable community in the country.</td>
</tr>
<tr>
<td>Mission:</td>
<td>Our community will be the healthiest in the nation.</td>
</tr>
<tr>
<td>Goals: The overall goal of the Austin/Travis County HHSD is to promote health, safety, and well-being.</td>
<td></td>
</tr>
<tr>
<td>Program: Environmental Health Services</td>
<td></td>
</tr>
<tr>
<td>Program Objective:</td>
<td>The purpose of the Environmental Health Services is to provide protection and enforcement services to the public in order to minimize environmental health hazards.</td>
</tr>
<tr>
<td>Program Results Measure(s):</td>
<td>Average response time to complaints/requests, Confirmed cases of food-borne illness, Percent of customers satisfied with complaint/request processing.</td>
</tr>
<tr>
<td>Activity: Health and Safety Code Compliance</td>
<td></td>
</tr>
<tr>
<td>Activity Objective:</td>
<td>The purpose of Health and Safety Code Compliance is to provide inspections, investigations, consultations, and training for the public in order to minimize public exposure to food-borne illness and other environmental health hazards.</td>
</tr>
<tr>
<td>Services that comprise the Activity:</td>
<td>Inspection services, Investigation services, Provide training to food operation employees.</td>
</tr>
<tr>
<td>Activity Performance Measures:</td>
<td>Confirmed cases of food-borne illness, Effectiveness: Cost per food establishment permit, Average inspections/ investigations per inspector, Cost per food manager trained.</td>
</tr>
<tr>
<td>Output:</td>
<td>Number of complaints/requests completed, Number of food establishment, mobile food vendor inspections, Number of temporary food inspections.</td>
</tr>
<tr>
<td>Responsible Employee: Donald Smith</td>
<td></td>
</tr>
</tbody>
</table>

III. 3. Reviews: Corporate Improvement and Accountability

**Review Team**
- Budget Office, Office of the City Auditor, Organizational Development

**Structure**
- Does it provide for alignment of results?
- Does it permit illumination of results and cost information in a manner useful to decision makers?

**Results**
- Do objectives and measures match?
- Was template used for best impact?

**Measurability**
- Are goals measurable?
- Are program and activity measures useful?
III. 3. Plans: Consistent Process & Product

Program and Activity Objectives: MFR Template

Performance Measures: A Family of Measures

The purpose of ________________
is to provide___________________
to ___________________________
so they can ________________

Result Measure...then

- Outputs: How many?
- Efficiency: At what cost?
- Anticipated Demand

III. 3. Activity Objective Statement (example)

The purpose of the Combat Operations
(program)
is to provide/produce emergency incident response
(service or product)
to anyone in the service area
(customer)
in order to save lives and minimize property damage
(planned benefit)
III. 3. Performance Measures (example)

**Result:** Number of fire deaths per capita
Percent of fires confined to the room or area of origin after arrival of AFD (per census track)

**Efficiency:** Average cost per call

**Output:** Number of calls (call volume)

**Demand:** Number of fire alarms (calls) expected

*Exercise 1: Achieving a Balance Between Relevance and Consistency*

1. *Why must we allow measures to change?*

2. *Why must we insist that measures stay the same?*
IV. Performance Budgeting

IV. 1. Link annual plans and budgets

IV. 2. Establish targets

IV. 3. Collect cost accounting information

IV. 1. Link Annual Performance Plans and Budgets

▲ Ensure clear linkage between the plan’s programs and the budget’s programs

▲ Ensure congruence between the plan’s goals, objectives, and targets and the budget’s goals, objectives, and targets
IV. 1. The Budget – Linking Results, $$$, and People

**In the Budget Document**
- Business Plan
- Activity and Program Pages
- Performance Measures: definitions, etc.

**Using the Performance Budget to “Tell Your Story”**
- Changing the Conversation
- This Result...At This Cost

IV. 2. Establish Targets

**Targets for each program and activity measure**

**Sources of criteria for setting targets**
- Historical trends and baselines
- Program requirements or intent
- Customer expectations or demands
- Industry or sector standards
- Benchmarking within the organization
- Benchmarking outside the organization
### IV. 2. Examples of Performance Targets and Measures

<table>
<thead>
<tr>
<th>Model Component</th>
<th>Target</th>
<th>Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Input Economy</td>
<td>In FY 09, decrease the audit office's personnel allocation by five full-time positions.</td>
<td>Number of audit office positions deleted in FY 09.</td>
</tr>
<tr>
<td>Process Efficiency</td>
<td>In FY 09, provide branch library services at the staff cost of $2 or less per patron.</td>
<td>Average branch library staff costs per patron in FY 09.</td>
</tr>
<tr>
<td>Output Quality (accuracy)</td>
<td>In FY 09, reduce the restaurant critical inspection error rate by 10 percent.</td>
<td>Restaurant critical inspection error rate in FY 09.</td>
</tr>
<tr>
<td>Output Quantity</td>
<td>In FY 09, expand curbside recycling services to 1000 additional homes.</td>
<td>Number of additional homes in FY 09 receiving curbside recycling services.</td>
</tr>
<tr>
<td>Output Timeliness</td>
<td>In FY 09, all Level 1 emergency calls will be responded to with a unit on site within six minutes.</td>
<td>Response times (range) to Level 1 emergency calls in FY 09.</td>
</tr>
<tr>
<td>Outcome Effectiveness</td>
<td>In FY 09, place in permanent jobs 15 at-risk youth enrolled in a pilot employment program.</td>
<td>Number of pilot program participants placed in permanent jobs in FY 09.</td>
</tr>
</tbody>
</table>

### Sources of Performance Expectations

The process for identifying expectations should be rigorous.

**Exercise 2:**

List the pros and cons of deriving criteria for performance expectations from the sources discussed previously.
IV. 3. Base program budgets on unit costs that support desired program outputs and outcomes as reflected in targets

- Activity-Based Costing (ABC)
- Identify Direct and Indirect Costs

**Performance Budgeting**

- Long-sought “ideal” of budgeting experts:
  - *Performance-driven budgeting.*

- Best-case reality:
  - *Performance-informed budgeting.*

**Exercise 3:** Why might the best-case reality be “better” than the ideal?
V. Performance Measurement and Reporting

V. 1. Individual Performance Appraisal

V. 2. Organizational Performance Assessment and Reporting

V. 3. Performance and Measurement Certification Audits

V. 1. Establishing Accountability
Key Points of Business Plan Alignment/SSPR Integration

- Every employee in the organization contributes to the City Vision.
- Every employee in the department contributes to the Mission of the department.
- Every employee in the department contributes to at least one Business Plan Goal.
- The Alignment Worksheets show employees how the Services they provide support specific Activities, Programs, and Goals in the Business Plan.
- Performance Measures show citizens, City Council and employees how well we are doing.
- Every Business Plan Measure must be written into at least one employee’s SSPR.
- Every employee, including department executives, will have at least one Business Plan Measure in their SSPR.
V. 1. Individual Performance Appraisal

Alignment Worksheet

<table>
<thead>
<tr>
<th>Mission</th>
<th>Program Objective</th>
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<tr>
<td>Goals</td>
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<td>Program – Activity –</td>
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<td>Services that comprise Activity</td>
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Activity Performance Measures

- Efficiency:
- Demand:
- Output:

Employee SSPR

- Program Objective
- Activity Objective

Activity Results Measure

- Description of Services

- Individual Performance Measure
  - Same as the Activity Performance Measure
  - Part of the Activity Performance Measure or,
  - Contributes to the Activity Performance Measure

V. 2. What is a Performance Monitoring System?

Management

- Performance Goals
- Program and Levels
- Performance Indicators
- Intended Uses

Data Component

- Data Collection
- Data Processing

Analysis Component

- Measurement of Current Performance Levels
- Comparison of Current Performance with Criteria (performance goals)

Action Component

- Decisions Concerning Goals
- Decisions Concerning Programs and Levels
- Decisions Concerning Monitoring & Evaluation
V. 2. Ensure Performance Measure Definitions/Formulas are Established

Design monitoring system to track and analyze the selected measures (efficiency, outputs, and outcomes are essential).

V. 2. Establish Performance Reporting “Best Practices”

Design reporting formats and decide frequency of reporting. Austin reports include:

- Quarterly Performance Reports
- Annual Performance Reports
- Community Scorecard
V. 2. Use Performance Reports to Improve Performance

- Use performance reports to target and direct analysis of program performance
- Use analysis to identify the causes of inadequate program performance and focus improvements on causes
- Use performance reports to identify high performance programs

V. 2. City of Austin Scorecard

- Sources of Benchmarks
  - ICMA Comparative Benchmark Project
  - Central Texas Indicators Project
  - Comparison with other major Texas cities and across the nation
  - Grouped into areas of priorities developed by City Council
V. 2. City of Austin Scorecard (continued)

- Funding decisions made on:
  - Customer priority
  - Customer satisfaction
  - Results shown
  - Efficiencies and inputs

V. 3. Conduct Performance and Measurement Audits

- Audit departmental and program performance
- Audit relevance and reliability of performance measures
Exercise 4

List your top three criteria for an effective external performance report and compare with your colleagues.

Who do you think is the primary user of the report and why?

VI. Performance-Based Decision Making – Includes Stakeholders, Elected Officials, Managers, and Employees

VI. 1. Using performance information to support decision making

VI. 2. Examples
VI. 1. Performance Information Used for Different Decisions

- Budgetary Decision making
- Manage & Improve Operations
- Accountability Reporting

VI. 1. Performance Information Supports Decisions to:

- Assess and adjust program performance service levels, and resources,
- improve existing programs and services,
- improve internal management systems,
- revise performance plans and reports,
- initiate new programs and services, and
- bottomline—use performance information to support continuous improvement and public accountability.
### Strategic Performance Budget Decision Model

#### In Reality: Varies with Fiscal Environment

<table>
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<th>Performance Results</th>
<th>Strategic Success in Achieving Community or Program Outcomes</th>
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<td><strong>POOR</strong></td>
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Use of Strategic Goals and Performance Results in Prince William County Budget Decisions

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### Strategic Performance Budget Decision Model

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Use of Strategic Goals and Performance Results in Prince William County Budget Decisions
VI. 2. Examples of Performance-Based Decision Making (Inputs & Mission)

2009 Index Crime and Number of Officers in Selected Cities

VI. 2. Examples of Performance-Based Decision Making (Efficiency)

Health Clinics Adjusted total cost comparison among clinics for billable and nonbillable encounters combined. External Costs: City/County corporate overhead (payroll, HRD, treasury, controller’s office, etc.) along with capital improvement projects, rent, depreciation, etc. Internal Costs: Physicians, nurses, medical supplies, pharmacy, etc.

SOURCE: OCA analysis of FQHC costs
VI. 2. Output Effectiveness (Quantity) Recreation Centers

Exercise 5

Brainstorm ways to encourage government managers and policymakers to use performance information when making decisions:

- Political leaders
- Policy staff
- Legislators and legislative staff
- Program administrators
- Service providers
- Consumers of services
- Press and public

www.AuditorRoles.org
VII. Conclusion: Creating a Managing for Results Culture

- Supporting our Vision ...
- Creating A Results Orientation: Services, Activities and Programs
- Creating Accountability: Measures and Indicators
- Creating Integration: Making it Happen at the Operational Level

VII. Lessons Learned

- “Bottom-Up” approach neglected broad performance areas and alignment
  - Department key indicators
- Accounting structure is a major hurdle
- Definition of “services” not clear
- Results orientation difficult when template not used effectively
- Poor use of template = poor measures
- The “not something I control” syndrome
VII. Where we are going…

- Assessing and Improving the Reliability of Reported Measures
  - Data Collection Infrastructure
  - Certification Program
- Providing Further Training
  - Using Information in Management
  - Using Information in Operations
- Assessing the Degree of Cultural Shift at the Operational Level
- Passing and Implementing a “Best Practice” Performance Accountability Ordinance

VII. Performance Measurement and Accountability: Best Practices Checklist

- Obtain active participation by top-level managers and decision makers
- Create a clear vision of why and how performance measures will be used internally and externally
- Understand the limits of performance measures and what they can and cannot do
- Sustain organizational commitment over a long period despite barriers and the potential for bad news.
- Integrate the performance measurement and reporting system with organizational planning, service delivery, and decision-making systems
- Through planning align mission, goals, objectives/targets, and measures
- Design goals and objectives/targets that specify a single aspect of performance
- Design aggressive yet realistic goals and objectives/targets that encourage progress beyond past performance levels
- Involve employees, customers, and stakeholders in developing goals, objectives/targets, and measures
VII. Performance Measurement and Accountability: Best Practices Checklist (Continued)

- Identify all programs which will be measured and define them through an input → process/activity → output → outcome model
- Design a “family of measure” for each program which provides key information to support decisions
- Periodically evaluate current performance measure; change when needed but try for comparability over time
- Define each measure and identify data sources and data collection procedures
- Produce performance information (including explanatory information) which is clear and useful to management, employees, customers, and stakeholders
- Educate, encourage, and reward managers for using performance information to make decisions which improve program management and service delivery