



# How to Succeed with Performance-Based Budgeting in Local Government

Any responsible government leader wants to spend taxpayer money judiciously. At the same time, constituents and various public groups desire detailed and immediate access to information about how their tax dollars are spent. But while expectations are rising, budgets are not. Agencies need to track expenditures, align spending to pre-determined goals and share data with the public to demonstrate they are spending wisely and achieving results.

In response, some government officials are adopting a performance-based approach to budgeting. The idea of performance-based budgeting is simple. Steer funds to programs that achieve their desired results based on past data — and away from those that don't. Reward achievement and progress. Limit funding for poor performance. When implemented well, performance-based budgeting helps agencies align costs to strategic objectives, provides leaders with a comprehensive view of each department or agency, and improves transparency and accountability for stakeholders.

"Performance information is essential for local governments," says Dr. Jim McDavid, a professor at the University of Victoria in British Columbia and one of the leading public administration scholars in the fields of program evaluation, performance measurement and management. "If you're looking at the relationship between results and budgetary decisions, it makes a lot of sense."

While the concept might be straightforward, putting it into practice is not always easy.

"Despite widespread interest and growing use of performance budgeting practices, the process of tying performance information to funding decisions in an effective, meaningful and practical manner continues to be a major challenge for all levels of government," notes a National Association of State Budget Officers report.<sup>1</sup>

Agencies can implement performance-based budgeting software and systems to help them achieve their goals, but there are potential obstacles and challenges. Every organization is different, and there is no one-size-fits-all approach or software that can determine which key performance indicators are important to a particular jurisdiction. Therefore, any form of performance, priority or outcome-based budgeting and tracking requires time and effort from an organization's financial and executive staff.

Some of the biggest obstacles to implementing performance-based budgeting systems are:

- They require specificity to operate efficiently
- They are time consuming to review and discuss
- They assume accurate and valid performance data
- People within the agency may have different views of what to prioritize

Successfully implementing a performance-based budgeting system requires careful planning, thoughtful execution and robust training — before, during and after the rollout. The following best practices can help agencies improve their chances of success.

## Best Practice: Decide What to Measure

Experts suggest agencies start by defining goals and associated performance indicators. This isn't always an easy process.

"We often see organizations that understand they need a performance management system but have no clue what it is they are going to measure," says Craig Ross, vice president of Business Development at Questica, a leader in capital and operating budget software. "Having a solution that allows you to track performance is meaningless unless you have solid measures that align with the goals you are trying to achieve."

Performance indicators should be specific, measurable, attainable, relevant and time-bound. Before an agency launches a performance-based budgeting initiative, they should first consider which types of performance measures to track and their related outcomes. The five primary types of performance indicators are: input, output, outcome, efficiency and quality.

Key performance indicators for a parks and recreation department might include acres of green space in a city, park maintenance expenditures or class/program/facility registrants. For a police department, key performance indicators could include 911 response time, violent crime reduction or number of traffic accidents with fatalities.

Professional associations such as the Government Finance Officers Association<sup>2</sup> and the International City/County Management Association<sup>3</sup> also have performance-based budgeting resources available.

## HOW TO SHARE PERFORMANCE DATA WITH CITIZENS

Reporting and sharing performance information with the public can be daunting. The International City/County Management Association suggests the following tips for putting the information into perspective.<sup>4</sup>

- Share your goals
- Share your timeline
- Limit what you report
- Explain what you are measuring and why
- Provide context
- Keep it current

### Best Practice: Overcome Potential Resistance

Elected officials and senior administrators can encounter resistance from staff to move toward a performance-based budgeting approach and process. Staff may feel their work is being boiled down to a few data points that don't reflect the full value of their department or program's effectiveness — or they may simply resist what they see as unnecessary additional work.

There are ways to overcome this resistance. First, involve key staff members from the beginning of the request for proposals (RFP) process for budgeting and performance software to ensure what is ultimately purchased meets their needs.

"Giving staff a sense of ownership in the process goes a long way when it comes to motivating them to implement and use a new solution," says Ross.

Next, demonstrate how a new system will make employees' work easier long term.

"The more the solution encourages collaboration and the more efficient it makes the organization, the more readily it will be adopted," says Ross.

### Best Practice: Invest in Long-Term Training

Initial training programs are essential when implementing a new software solution, but it's equally important to provide ongoing training opportunities, especially as new staff come onboard.

In addition, while some functions of a software package are used routinely, others may only be needed occasionally. Staff may forget how to use certain features as time passes. Ongoing training mechanisms allow staff to stay current as new features and upgrades become available.

"Having good training resources available to keep people up to speed on new features and to onboard new staff is critical," says Ross. "If that doesn't happen, systems often don't get used to their full potential."

Training — either online or in person — should provide a mix of hands-on tutorials and step-by-step examples that can be archived and accessed when needed. Vendors should supply manuals, reference documents and ongoing access to learning materials with every new release of software.

There is also an important project management aspect to launching a new software solution. The priority is always to get up and running as quickly as possible with minimum system capabilities, but too often other important features are ignored and never implemented. Managers need to identify which functionalities will be used to go live, and which ones will and should be implemented later and when.

## HOW THE CITY OF LARGO, FLA., BOOSTED TRANSPARENCY

Interacting with a large printed budget document (or even an online PDF document) can be time consuming, and data is static and not always up to date. The city of Largo, Fla., wanted an interactive, web-based tool to communicate with internal and external stakeholders using a variety of financial snapshots, including revenue sources and comparisons of expenditures to budget. City officials also recognized they needed to share their financial data in a more engaging manner.

In 2015, Largo issued an RFP for a budget reporting and analysis software solution with integrated personnel, operating and capital budget systems. Questica was awarded the project based on its workflow management system and a robust dashboard management system. In 2016, Largo implemented Questica Budget, followed by Questica OpenBook, a data visualization tool designed to evolve how budget and other information is shared with stakeholders internally and externally.

Today, OpenBook allows city personnel to monitor budget developments and track spending in a single department or across the entire organization via a customized dashboard. They can also see proposed changes to the budget — and the subsequent outcomes of those changes — in real time, giving them a more efficient decision-making process. Largo residents can also access information — in an easy-to-understand format — about how the city spends their tax dollars, which increases transparency and accountability. [Largo.com](http://Largo.com)

## THREE WAYS HIGH-PERFORMING CITIES SHARE PERFORMANCE DATA BETTER<sup>5</sup>

- 1 They collect and share data across departments, with leadership and with residents.
- 2 They create open data policies to support the sharing of performance metrics and transparency initiatives.
- 3 They increase resident access to data through the web and other educational programs and expand opportunities for local businesses.

### The Power of Data

No matter which budgeting methodology a local government chooses, the desired outcome is the same — to create a budget that is developed with thought and insight and managed appropriately. Data is an increasingly important part of the process because it gives government officials the information they need to determine the effectiveness of programs, to gauge constituent budget priorities and to improve transparency.

There will always be a blend of methods utilized to gather data, but government officials recognize the value of performance-based budgeting. It may be complex, but performance-based budgeting is an effective way to prove an agency is spending money on programs important to constituents and achieving the results the agency, elected officials and the public seek.

### Endnotes

1. Investing in Results: Using Performance Data to Inform State Budgeting, National Association of State Budget Officers, 2018, <https://www.nasbo.org/main-site/reports-data/investing-in-results>
2. Anatomy of a Priority-Based Budget Process, Government Finance Officers Association, 2010, [http://www.gfoa.org/sites/default/files/GFR\\_APR\\_10\\_8.pdf](http://www.gfoa.org/sites/default/files/GFR_APR_10_8.pdf)
3. Open Access Benchmarking: Key Performance Indicators, International City/County Management Association, 2017, <https://icma.org/documents/icma-open-access-benchmarking-key-performance-indicators>
4. Checklist: Performance Information for the Public, International City/County Management Association, 2017, <https://icma.org/documents/checklist-performance-information-public>
5. The Equipt Report: Becoming a High-Performing City, A Benchmark Study 2017, [http://www.governing.com/papers/equipt-report-80621.html?promo\\_code=GOVERNING\\_web\\_library\\_list](http://www.governing.com/papers/equipt-report-80621.html?promo_code=GOVERNING_web_library_list)