# Budgeting for Results and Outcomes

The original recommended practice was developed by the Government Finance Officers Association (GFOA). Some aspects of the practice have been revised by the Financial Management Capacity Building Committee (FMCBC) for use by Nova Scotia municipal governments. The original GFOA recommended practice is *Budgeting for Results and Outcomes,* approved by the GFOA in 2007. Other sources used are footnoted in the text.

## Recommendation

The GFOA recommends that municipalities consider budgeting for results and outcomes as a practical way to integrate performance management into the budgetary process. The following steps should help a municipality use budgeting for results and outcomes:

1. Set Broad Goals to Guide Decisions;
2. Develop Strategies and Financial Policies;
3. Design a Budget Supportive of Strategies and Goals; and
4. Focus on the Necessity of Continually Evaluating a Governments' Success at Achieving the Goals it has set for itself.

## Purpose

Budgeting for results and outcomes links strategic planning, long-range financial planning, performance measures, budgeting, and evaluation. It also links resources to objectives at the beginning of the budgetary process, so that the primary focus is on outcomes rather than organizational structure.

## Background

As mentioned in the Recommendation section, the GFOA has established a step-by-step process to budget for results and outcomes. Essentially, the budgeting for results and outcomes approach begins with determining the municipality's available revenues, determining the desired results and strategies of the municipality, and then deciding what activities and programs can best achieve desired results. This varies from traditional budgeting methods by creating more of a focus on a municipality's objectives and outcomes.

## Considerations for Policy Development

To develop a budget based on budgeting for results and outcomes, municipalities need to define their expected outcomes for the funds available. In order to understand this approach, municipalities should understand the process of budgeting for results and outcomes, as well as the benefits. *Appendix I* provides an introduction to budgeting for results and outcomes, as well as the benefits available to municipalities when using a results and outcomes based budget. *Appendix II* provides a step-by-step process to create a budget through budgeting for results and outcomes.

## Appendices

Appendix I: Benefits of Budgeting for Outcomes
Appendix II: The Process

# Appendix I: Benefits of Budgeting for Outcomes

Budgeting for outcomes (BFO) is a budgeting tool that varies from traditional budgeting methods because it focuses on the results and outcomes of the budget. BFO is a relatively new budgeting tool that has helped municipalities and other levels of government during times of a fiscal emergency. This new type of budgeting helped many American municipalities recover from financial disaster by planning a budget differently. BFO also encourages leaders to rethink their priorities and managers to rethink the way they deliver services.[1]

BFO should be prepared through an inclusive and interactive process. It is an approach that integrates strategic planning, long range financial planning, budgeting, and performance management. BFO can demonstrate effective, ethical, transparent, innovative, and inclusive ways of doing business.[2]

**Benefits to Budgeting for Outcomes**

The following is a list of some of the benefits associated with BFO that municipalities and other levels of government have experienced.

- Can help introduce multi-year budget planning.

- Encourages realistic time frames for measuring and expecting positive outcomes for comprehensive, longer-term policy strategies that seek to tackle difficult and complex problems.[3]

- Can create a higher level of credibility between the municipality and the community.
    - BFO can make a municipality more transparent in its budgeting decisions.
    - The budget holds no surprises for elected officials or the community.

- Can strengthen relationships with Council.
    - Most budgets focus on funding a department, rather than providing services to citizens. With BFO, Council needs to become more involved with setting the priorities and identifying the outcomes that matter most to the community.

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[1] Architects of Results-Based Government. "The Spread of Budgeting for Outcomes". The Public Strategies Group. March 28, 2006.

[2] Atteberry, Darin and Camille Cates Barnett. "Your Budget: From Axe to Aim." International Cities and County Managers Association Public Management Magazine. May 2007.

[3] National Governors Association. The Elements, Advantages, and Difficulties Associated with Results Based Budgeting. August 15, 2001.

- Determine whether the positive outcomes in a program or activity are improving conditions for the broader target population.
  - It is quite common for performance measures in a specific program or activity to show improvements while conditions among the broader population do not change or get worse. This can happen when the program does not address the problem it is intended to solve, or because the scale of the program is too small to make a significant impact.

- The budget would become an open and transparent map of the services offered.
  - Rather than spreadsheet upon spreadsheet, the new budget document should include easy to read pages of key activities.

- People can begin to understand the budget.
  - Citizens, Council, and more municipal staff can have a greater understanding of the municipality's finances and what it costs to provide a certain level of service.

- Municipalities can function more effectively.
  - BFO can increase organizational awareness of services provided by other departments and encourages cooperation to find more cost-effective ways of accomplishing goals and delivering services.
  - Council will also become more involved in the planning process by setting the priorities at the beginning of BFO.[4]

- Reveals, realigns, or removes programs and activities.
  - BFO is designed to reveal the programs and activities that are not working towards achieving the desired outcome. The programs and activities not achieving their outcomes will have to be reexamined to determine their relevance in the budget.
  - The programs that may be restructured or removed as a result of the BFO process may create opportunities for new programs or services.

- BFO helps the general interest trump the special interests.
  - In a traditional budget process, when a line item comes up for review, the interested groups may pressure Councilors to become involved. When this occurs in a BFO process, those Councilors are not just looking at one line, but at a whole list of spending items to achieve a particular outcome ranked by priority. The trade-offs involved in any budget become clearer.

- BFO helps ensure accountability for performance.
  - If the results for a program are not delivered, the program will be reviewed to determine its relevance in the overall corporate plan of the municipality.[5]

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[4] Atteberry, Darin and Camille Cates Barnett. "Your Budget: From Axe to Aim." International Cities and County Managers Association Public Management Magazine. May 2007.
[5] Architects of Results-Based Government. "The Spread of Budgeting for Outcomes". The Public

**Lessons to Learn**

Introducing BFO into a municipality can be challenging, but rewarding. Roles will change and elected officials will be affected by the different method of budgeting. Councilors will need to thoroughly understand policy, fiscal, and operational choices.

The role of the manager and employees will also change with BFO. A traditional budgeting process is typically an internal exercise, involving many municipal staff members. The BFO process may include external stakeholders in the budget process by making specific suggestions for programs and services to be funded, suggesting innovations, and changes that could be implemented to create efficiencies. Stakeholders become more involved in making recommendations regarding the programs and services that should be considered. [6]

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Strategies Group. March 28, 2006.

[6] Architects of Results-Based Government. "The Spread of Budgeting for Outcomes". The Public Strategies Group. March 28, 2006.

# Appendix II: The Process

Developing a BFO budget builds on the existing budget process, with specific enhanced areas of focus. The following are the steps municipalities should take when developing their own BFO budget.

1. **Determine how much money is available**
   - The budget should be built on expected revenues. The municipality should establish an acceptable tax rate for citizens based on the results they want from the municipality.[7]
   - The municipality needs to determine what revenue is available to the municipality. The municipality's financial information should be presented in a way that is understood by Council, managers, employees, and the public.[8]
   - In order to complete this task effectively, managers should communicate the new method of budgeting to the community, in order to encourage a common understanding of the municipality's fiscal issues and why a new approach to addressing its fiscal issues is being adopted.[9]

2. **Prioritize outcomes**
   - The needs of the municipality need to be prioritized, which involves defining the outcomes, along with indicators to measure progress. The municipality needs to articulate its priorities in terms of tangible outcomes.
   - Generally, municipalities should select ten or less outcome goals. These indicators should be expressed in terms associated with outcomes. When choosing indicators, municipalities should:
     - o Include both subjective and objective measures (e.g. perceptions of safety and crime rate).
     - o Commit to real result indicators.
     - o Use an index if necessary to capture multiple sources of related data.
     - o Chosen indicators should make sense to citizens. The following list is an example of priorities that are easy to understand:
       - ▪ Transportation – "I want reasonable and predictable travel times."
       - ▪ Safety – "I want to feel safe where I live, work, and play."
       - ▪ Community Wellness and Vulnerability – "I want to improve the wellness of people in the community and reduce vulnerability of those at risk."
       - ▪ Community – "I want to live in a thriving community, one with infrastructure sufficient to support planned growth."
       - ▪ Preparedness – "I want my community to be prepared to respond to emergencies."

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[7] Hutchinson, Peter and David Osborne. "Budgeting for Outcomes: Delivering Results Citizens Value at a Price they are Willing to Pay". Government Finance Review. October 2004.

[8] Atteberry, Darin and Camille Cates Barnett. "Your Budget: From Axe to Aim." International Cities and County Managers Association Public Management Magazine. May 2007.

[9] Ibid.

- ▪ Effective, Efficient, and Transparent Government – "I want to get the level of service I need at an affordable price and see that my dollars are spent wisely."[10]
- ▪ In addition to phrasing the different types of priorities, other municipalities have simplified the priorities of the public with simple desires:
  - ▪ Improve economic health;
  - ▪ Improve environmental health;
  - ▪ Improve neighbourhood quality;
  - ▪ Make a safer community;
  - ▪ Improve cultural, recreational, and educational opportunities;
  - ▪ Improve transportation; and
  - ▪ Make a high-performance municipality.[11]
- • These types of prioritization are useful and they can influence the programs and activities that will be selected to fulfill the outcomes.

3. **Allocate resources among high priority results**
   - • The allocations should be made in a fair and objective manner.
   - • The CAO and the municipality's managers should recommend how much to spend to achieve each result.[12]

4. **Determine what strategies, programs, and activities will achieve desired results**
   - • Municipalities need to establish their priorities, which includes understanding their importance to their municipal objectives and their impact on the budget.
   - • This process involves significant and clear communication from the highest level, including Council and senior staff, to the front line staff delivering the services. The budget needs to be based on the corporate priorities of the municipality.
   - • Councilors, managers, and policymakers of the municipality want to achieve the best results for the tax dollars. Instead of asking departments to prepare budget estimates based on the previous year, managers of the municipalities should make their priorities and outcomes known to all municipal staff. Staff can then respond by determining how their department can help meet the priorities and outcomes set out by the managers. These priorities and outcomes could also be communicated to other levels of government, non-profit, and for-profit organizations for their potential solutions. Each potential service provider should identify how they would deliver the expected results, and at what cost.[13]

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[10] Hutchinson, Peter and David Osborne. "Budgeting for Outcomes: Delivering Results Citizens Value at a Price they are Willing to Pay". Government Finance Review. October 2004.

[11] Atteberry, Darin and Camille Cates Barnett. "Your Budget: From Axe to Aim." International Cities and County Managers Association Public Management Magazine. May 2007.

[12] Hutchinson, Peter and David Osborne. "Budgeting for Outcomes: Delivering Results Citizens Value at a Price they are Willing to Pay". Government Finance Review. October 2004.

[13] Ibid.

- The departments and other service providers should prepare proposals that produce the desired results. The supplier should offer a proposal that delivers the desired results at a competitive price. This process can challenge municipal departments to make their services as competitive as possible. Since there is no base budget, existing programs and ideas can compete on the same basis, encouraging more innovations and best practices.[14]
- This process should encourage new and creative approaches. Some partnerships may develop across departments, with other governments, or with non-governmental organizations to deliver an expected outcome. This could result in a single program or service that may achieve more than one of the desired outcomes of the municipality.[15]

5. **Selecting the successful proposals**
   - After all of the proposals have been submitted, they will be ranked based on the desired outcomes and their impact on the budget.
   - The municipality has already established the amount of revenue available based on an acceptable tax rate for citizens, and with the outcomes prioritized, it will become clear which programs and services should be included in the budget.
   - The end result should list positive choices for the municipality. It is a list of keeps, not cuts.[16]

6. **Set measures of annual progress, monitor, and close the feedback loop**
   - These measures should describe the expected results and outcomes and how they will be measured.[17]
   - The budget should be framed as a collection of performance agreements that indicate the expected outputs and outcomes, how they will be measured, the impact of not achieving the desired results. As a result, accountability should be built into the budget.[18]
   - Municipalities should set up an effective performance management system to track progress on the results. The FMCBC developed a best practice on performance measurement and management, which can be found on the Nova Scotia Municipal Finance Corporation website: http://www.gov.ns.ca/nsmfc/documents/PerformanceMeasurement_000.pdf.

7. **Check what actually happened**
   - Performance measures should be used to compare the actual versus the budgeted results.

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[14] Atteberry, Darin and Camille Cates Barnett. "Your Budget: From Axe to Aim." International Cities and County Managers Association Public Management Magazine. May 2007.

[15] Hutchinson, Peter and David Osborne. "Budgeting for Outcomes: Delivering Results Citizens Value at a Price they are Willing to Pay". Government Finance Review. October 2004.

[16] Ibid.

[17] Atteberry, Darin and Camille Cates Barnett. "Your Budget: From Axe to Aim." International Cities and County Managers Association Public Management Magazine. May 2007.

[18] Hutchinson, Peter and David Osborne. "Budgeting for Outcomes: Delivering Results Citizens Value at a Price they are Willing to Pay". Government Finance Review. October 2004.

- Municipalities should be aware of some of the cultural roadblocks that may be involved when introducing a BFO system. The purpose of the BFO system should be clearly communicated to ensure that those affected understand the new system because aspects of the BFO system can be integrated into the existing budgeting process. When implementing a new budgeting system, it is important to educate and communicate with all of the staff and Council of the municipality.[19]

8. **Communicate performance results**
   - Municipalities should publicly release the results of their budgets. A clear presentation of expected and actual results should be available for each budget year.[20]
   - The annual reporting to the public should include the traditional financial information as well as the results from the BFO process.

[19] Atteberry, Darin and Camille Cates Barnett. "Your Budget: From Axe to Aim." International Cities and County Managers Association Public Management Magazine. May 2007.

[20] Ibid.

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