



Budgeting for Outcomes

Improving on a Best Practice

By Michael J. Mucha

In October 2012, the GFOA and the City of Baltimore hosted BFO 2.0, a forum designed for experienced budgeting for outcomes practitioners to discuss their experiences, lessons learned, and success stories.

Over the past 10 years, many governments have turned to budgeting for outcomes as a way to create sustainable budgets that fund programs and services aligned with their communities' long-term needs, regardless of the revenues available. BFO is a performance budgeting process that is based on identifying priorities that reflect the results that citizens want, and then developing strategies and funding programs and services aimed at accomplishing those priorities. Proposed programs and services are prioritized and ranked and funded within each major, high-level priority, based on their prospects for achieving desired results. All governments that use BFO implement essentially the same core elements, but each organization implements slight (or in some cases significant) variations in the standard format, and these variations have led to different process outcomes. The GFOA and the City of Baltimore, Maryland, recently assembled a group of practitioners to discuss their experiences with BFO.

CONSIDERING IMPROVEMENTS

In October 2012, the GFOA and the City of Baltimore hosted BFO 2.0, a forum designed for experienced BFO practitioners to discuss their experiences, lessons learned, and implementation stories. The goal of the event was to discuss strategies and ideas for building upon the basic BFO process, since a clear trend in the GFOA's BFO research is that governments make improve-

ments with each successive BFO cycle, based on they have learned from experience. Approximately 45 people attended the event, representing organizations from across the United States that are known for their BFO processes, including the City of Fort Collins, Colorado; the City of Redmond, Washington; and Mesa County, Colorado. Below are some of the improvements participants saw as key to "future versions" of BFO, to get the most out of the process and to encourage other governments to use it.

Merging BFO with Overall Performance Management Efforts.

Budgeting for outcomes is a part of a larger performance management approach. To use it effectively as a tool that encourages overall accountability, efficiency, and improvement, organizations need to use other tools such as performance measurement, process improvement, and program evaluation. For example, to decide the degree to which a stated priority has been achieved, organizations need performance measures to evaluate results, both at the program level and the community level. Process improvement strategies such as Lean can also help make sure individual programs are working as efficiently as possible and that they are focusing on appropriate outcomes.

Developing Effective Leadership to Support BFO.

Executive vision and leadership are critical. When leaders understand the process, organizations get the most out of it, using BFO

for tough discussions that are based on evidence about what programs and services are most effective and appropriate. The results of the BFO process — efficiency, transparency, innovation — are achieved more by the focus on BFO by leadership than through use of the BFO process alone. For example, organizations with leaders who stressed collaboration and creativity were more likely to experience collaboration and creativity than those that didn't. In addition, organizations with leaders who supported the process were more likely to achieve the expected benefits of the BFO process. The challenge is in communicating the value of BFO to new leaders and to leaders in organizations that have not already experienced the value of this approach. BFO does not replace the need for making difficult decisions or reduce the role of decision makers; it provides a structure and better information for informing those decisions.

Reducing the Administrative Burden of BFO. Budgeting for outcomes is often a time-consuming process. Many organizations have realized significant benefits from their efforts, but there is no denying that it can be a large initial time investment. Reducing this time commitment will be important in convincing more governments to adopt BFO. Forum participants identified potential methods of reducing time commitments, such as not going through a full BFO process every year, identifying templates, and tools to speed implementation and making sure instructions and procedures are clear and well understood so teams and departments can work quickly and on task.

Finding Technologies to Support the Process. For many organizations, BFO remains a process that is managed

outside of the main financial system. There are very few (if any) commercially available budget systems that support the full budgeting for outcomes process, although many systems provide the capability for producing program budgets. As a result, many organizations rely on Microsoft Excel, or they've had to develop custom budget applications to help manage the process. Both of these approaches have limitations; Excel makes collaboration among departments difficult and custom-built applications cannot be transferred from one organization to another. What is needed is a technology solution that supports all phases of the process and is integrated with the main financial system.

Implementing a True BFO Approach. Many organizations have modified their budgeting for outcomes approach by removing organizational units or types of expenditures, such as capital items, from the process. However, BFO requires all programs and services to be aligned with priorities, and preferably, all sources of funding; narrowing the scope of the effort may not lead to the most effective use of funding, thus lessening the impact on priorities. Governments need to consider all their programs and services to truly reprioritize spending, ensure that the budget completely supports community preferences, and certify that it has purchased the programs and services that lead to best results.

Considering Service Levels. In the basic BFO approach, organizations balance their budgets through an approach in which programs that are ranked "above the line" are funded, while those "below the line" are not. This all or nothing approach does not necessarily consider service-level alternatives or

take into account how different levels of funding might provide different levels of efficiency in outcomes. In reality, governments often do take these factors into account, but do so outside of the BFO process. In determining the optimal mix of services to accomplish desired goals, organizations should consider different service levels as part of the BFO request so results teams can analyze impact of funding level on outcomes within an offer or program. For example, the most effective use of resources might not be implementing all of program A at the expense of program B; it might be better to reduce funding for program A slightly so that both A and B can be funded at reduced levels. This makes it important that participants understand the relationship between promised outcomes and levels of funding, in addition to the relative value of programs in achieving priority results.

NEXT STEPS

Answers to these issues and critiques of the BFO process will be discovered as more and more governments adopt this best practice and find ways to innovate. In the next few months, the GFOA will release a research report that highlights the major findings from this forum, along with the GFOA's research into budgeting for outcomes over the past year. Anyone who is interested in joining these discussions is encouraged to visit the BFO Network site at www.bfonetwork.org. To register for access to the BFO Network, please visit <http://bfonetwork.org/?xgi=3jm4h8qP7rKE6Z> |

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