

GUIDELINES TO PERFORMANCE-BASED BUDGETING

OVERVIEW

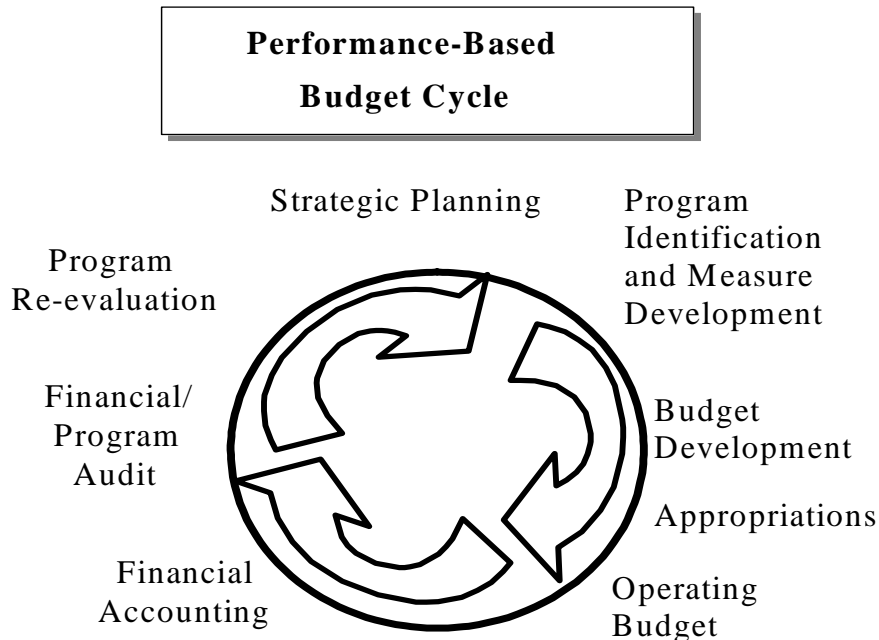
What is Performance-Based Government?

Government agencies and staff use public funds to perform activities and to provide services. Performance-based government measures how effectively and efficiently these funds are used to serve the public. Essentially, the key concept emphasizes managing for results, not the process of providing services. The ultimate goals are to increase accountability, improve management and ensure efficient resources allocation.

How does this tie to Performance-Based Budgeting?

Sections 6-3A-1 through 6-3A-8 NMSA 1978 of the Accountability in Government Act set forth the framework and requirements for performance-based budgeting for New Mexico. A performance-based budget matches resource needs with results expected from the use of funds. It includes quantitative and qualitative expectations and measurement criteria, in addition to dollars expended. Performance-based budgeting establishes the amount and quality of services that are expected from the use of public resources allocated to the agency. This process allows policy makers to allocate resources based on promised results and contributions, and how these allocations relate to the future direction of the agency and New Mexico.

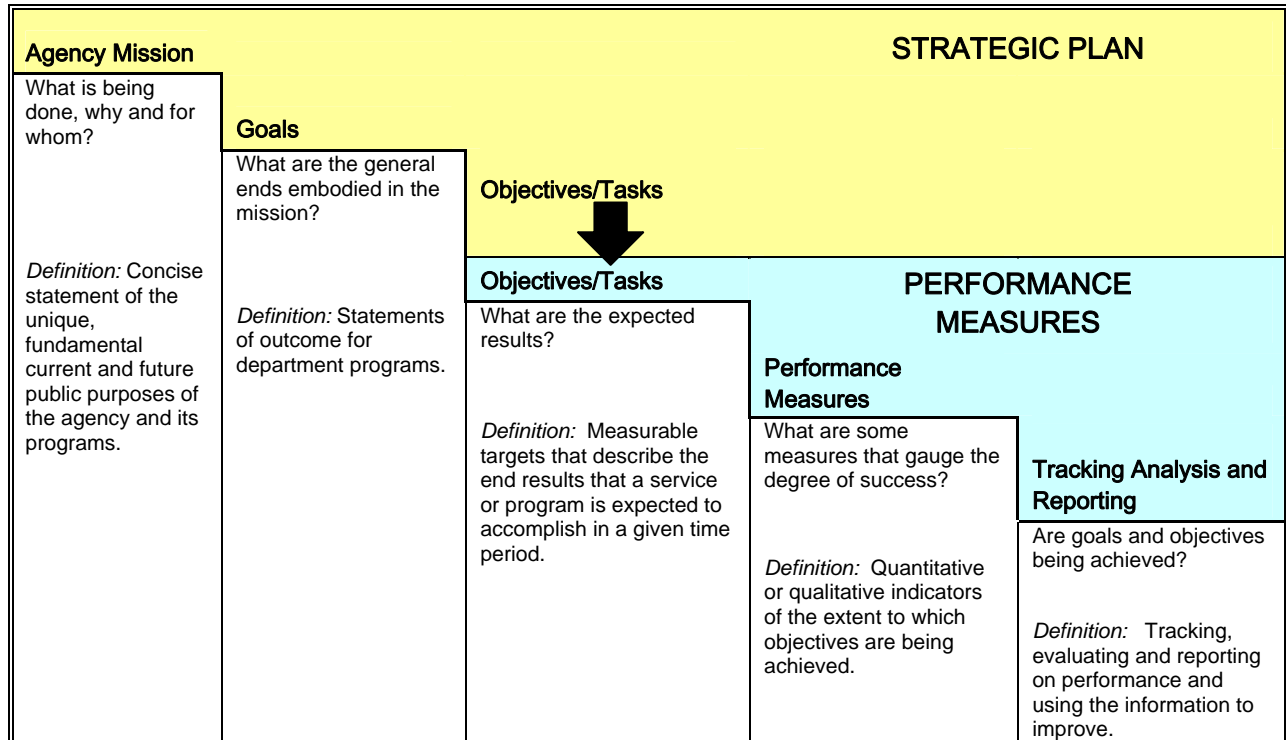
The following diagram summarizes the flow of information for the budget cycle and provides agencies with a context for performance-based budgeting. The budget cycle is a continuous process, whereby stakeholders and agencies must strive for improvement in delivering services which maximize public benefit using the most cost-effective methods.



GUIDELINES

Performance-based budgeting is a top-down, stair-step process. It consists of a strategic plan that lays the foundation for formulating performance measures. The table below highlights the process.

PERFORMANCE-BASED BUDGETING



Preparing a Strategic Plan

A strategic plan is the foundation of performance-based budgeting. It is a tool that formalizes the mission and goals of an agency and defines how programs and services provide results that meet prescribed objectives. A strategic plan covers a time range of three to five years with historical and current year activities kept to a minimum and offered as support to the plan. Agency strategic plans must include an Executive Summary and an Agency Mission/Vision Statement of what the agency does, why it does it and for whom. *Example: To protect water, air, and land resources of the state (what) so that all citizens (for whom) can enjoy and use those resources and preserve them for future generations (why).* Additionally, the strategic plan should contain the following elements for each program:

- Define programs and services that an agency will continue or add to meet its mission and goals through the **purpose statement, users, and statutory authority**;
- Define broad **goals** of the agency that define its priorities and future direction. *Example: Make New Mexico the clean energy state;*
- Formulate **objectives** (also referred to as **tasks**) that directly tie back to goals and describe the end results a service or program is expected to accomplish in a specified

time period. *Example: Increase the production of clean energy by 10% in New Mexico by 2011;* and

- Identify **strategies** that accomplish an agency's mission and contribute to the future policy goals of the State.

A strategic plan should conclude with a final summary that details how the programs collectively meet the agency's overall mission.

Program Purpose Statement

A program is a set of activities undertaken to deliver services that contribute to the mission, goals and objectives identified in the strategic plan. It has identifiable goals and objectives based on legislative authority. The purpose of each program or the benefit derived by the users of the program is the **program purpose statement**. The program purpose statement should identify the program, services provided by the program, customers of the services and the public benefit of those services. *For example: The purpose of the Temporary Assistance to Needy Families, commonly referred to as TANF (program), is to provide temporary cash assistance, job readiness training and linkage to support services (services) for low-income families with children (customers) so that they can engage in activities that lead to employment (public benefit).*

Program purpose statements communicate the relationship between program activities and the public benefit or intended outcome. Program purpose statements which identify the services a program provides in order benefit the public or intended outcome should help agencies easily identify good outcome/output measures. For example, if the public benefit of the TANF program is to increase employment rates for low income families, than a good output performance measure would be the percent of TANF clients who retain a job three or more months.

Ideal Performance Measures

The objectives/tasks defined in the strategic plan are the base for formulating performance measures. A performance measure is the quantifiable measure of outcomes, output, efficiency or cost-effectiveness to gauge if agencies are meeting their objectives. Definitions for each type of measure appear on page 4. In formulating performance measures, it is important for all Executive agencies to keep in mind their performance measures are a function of the Executive branch of government and the Department of Finance and Administration maintains the authority to make final decisions with regard to the measures.

An understanding of the differences between an outcome and an output is key in developing good performance measures. Agencies should strive for outcome measures whenever possible. They are the desired ultimate results that benefit the public whereas outputs are the measure of the number of units produced, services provided or people served by an agency. Using an outcome measure, stakeholders should be able to conclude how well the agency is achieving its core mission. If an outcome is too difficult to measure annually, agencies should consider using milestones or indicators to demonstrate incremental progress towards the outcome. This method also is referred to as a quasi-outcome measure.

Performance measures should relate back to the agency's mission and programs. They should not be a short time or one-time activity but something that is enduring. Agencies should strive for a quality (rather than quantity) set of performance measures that are relevant to the core functions

and results of their programs and services. Performance measures should include targets that are ambitious, realistic and attainable. In general, a performance measure should be:

Useful	Provide valuable and meaningful information to the agency and policy makers.
Results-oriented	Focus on outcomes.
Clear	Communicate in a plain and simple manner to all stakeholders (employees, policymakers and the general public).
Responsive	Reflect changes in levels of performance.
Valid	Capture the intended data and information.
Reliable	Provide reasonably accurate and consistent information over time.
Economical	Collect and maintain data in a cost-effective manner.
Accessible	Provide regular information to all stakeholders on results.
Comparable	Allow direct comparison of performance with performance at different points in time.
Benchmarked	Use best practices standards.

DEFINITIONS

The following definitions and examples were developed by the American Society of Public Administration based on materials used by many public administrators, the Government Accounting Standards Board and current literature on performance measurement. They are provided as a quick reference for preparing strategic plans and performance measures:

Agency – A branch, department, institution, board, bureau, commission, district or committee of the state.

Baseline – The level of results at a certain time that provides starting point for assessing changes in performance and for establishing objective or targets for future performance.

Effectiveness measure – A measure of cost per unit of outcome. *Example: An agency's cost to keep teen parents who are on welfare in school through graduation to prepare them for work.*

Efficiency measure – A measure of cost or the amount of other resources per unit of output. *Examples: cost per inspection, cost per person trained.*

Goal – A broad statement generally describing a desired outcome for an agency and/or its programs. *Example: The Department of Transportation will help ensure the safe transportation of the motoring public.*

Mission – A concise statement of the fundamental public purpose of the agency and its programs. A mission statement should state what an agency does, why it does it and for whom.

Objective/Task – Measurable targets that describe the end results that a service or program is expected to accomplish in a given time period. *Objectives/tasks should flow from goals, the purpose of a program, or the agency's overall mission. Example: By the year 2000, The Department of Transportation will reduce the number of fatal accidents per million vehicle miles by 10 percent.*

Outcome – The measurement of the actual impact or public benefit of a program; a measure of the extent to which a service has achieved its goals or objectives, and as defined, met the needs of its clientele, or met commonly accepted professional standards. *Examples: the percentage of participants in a job training program who got a job in their field; percentage of customers satisfied with taxpayer assistance services; number of measles cases, per 1000 population.*

Output – The measure of the volume of work completed or the level of actual services or products delivered by a program. *Examples: the number of home health care visits provided to the elderly; the number of road improvements completed; the number of immunizations provided.*

Performance measure – A quantifiable, enduring measure of outcomes, outputs, efficiency or effectiveness. In general, measures should be related to an agency's mission and programs, and they should not merely measure one-time or short-term activities. *Example: development of a statewide plan by 1999 is not an "enduring" measure of an agency's performance.*

Program – A set of activities undertaken in accordance with a plan of action organized to realize identifiable goals and objectives based on legislative authority.

Purpose Statement- the purpose of each program or the benefit derived by the users of the program.

Stakeholder – Individuals or groups external to an agency who have a direct interest in its performance.

Strategies – The focused methods of accomplishing an agency's mission.

Target – The expected level of performance of a program's performance measures; a quantifiable or otherwise measurable characteristic that tells how well a program must perform to accomplish a performance measure.

Vision – A statement that generally describes an organization's preferred future, logically connected to the organization's mission but more idealistic and directive. *Example: Children will not go hungry.*

Source: ASPA's Center for Accountability and Performance, Performance Measurement, Concepts and Techniques

REFERENCES

The Accountability in Government Act (Sections 6-3A-1 through 6-3A-8 NMSA 1978) sets forth the framework and requirements for budgeting in New Mexico. All requirements, procedures and deadlines are contained in the Act. It may be viewed on-line at <http://www.state.nm.us/clients/dfa/pdf/AGA%20deadlines.pdf> and on the SBD website at www.state.nm.us/clients/dfa/indexBUD.htm.

The first book listed below was used extensively to prepare these guidelines. It and the second book listed are recommended as references for preparing strategic plans and performance measures:

- *Performance Measurement, Concept and Techniques, Third Edition*, ASPA's Center for Accountability and Performance, Performance Measurement, Concepts and Techniques, Washington, D.C. (info@aspanet.org).
- *Measuring Up, Governing Guide to Performance Measures for Geniuses (and Other Public Managers)*, Jonathan Walters, Governing Management Series, Governing Books, Washington, D.C., 1998 9 (www.governing.com).

The Government Accounting Standards Board (GASB) has a website that provides links to performance measures of various states. It may prove valuable as a reference in preparing performance measures and can be viewed at http://www.seagov.org/initiatives/state_gov.shtml.