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Four Actions to Integrate Performance Information with Budget Formulation

By John Whitley

Informing budget decisions with performance information is an important element of sound government management. For example, without knowing how building another 350 miles of fence along the U.S./Mexico border will impact border security, policy makers cannot assess whether it is a wise investment. It may be relatively easy to estimate the building cost and whether the fence can be built in the time frame provided, but that information alone is not enough to make a decision. The performance results must also be projected and compared against the likely performance results from alternative uses of those scarce taxpayer resources. It is only through understanding benefits (that is, performance) and costs together that informed budget decisions can be made.

The federal government has spent considerable time and energy to improve performance-budget integration. Joyce (2003) reviews many of the major 20th-century initiatives. The Hoover Commission formally introduced the performance-budget concept to the federal government in 1949 (Schick 1966). Major initiatives of the following decades included the Planning, Programming, and Budgeting System (PPBS), management by objectives, and zero-based budgeting. This trend has continued in the last 20 years with major pieces of performance legislation, including the Government Performance and Results Act (GPRA) of 1993 and the GPRA Modernization Act (GPRAMA) of 2010, and executive branch initiatives, including the Bush administration's Program Assessment Rating Tool and the Budget and Performance Integration element of the President's Management Agenda as well as the Obama administration initiative of creating agency priority goals.

But integration of performance and budget has been hard to achieve. The U.S. Government Accountability Office (GAO) stated in their 2013 report, *Managing for Results*, that the percentage of federal managers reporting that they use performance information to a "great" or "very great" extent in allocating resources actually fell between 1997 and 2013.

With the exception of the Budget Performance Initiative in the George W. Bush Administration President's Management Agenda, none of the legislation or initiatives of the last 20 years focused on budget processes. With respect to performance-budget integration, this has effectively resulted in a one-sided "build it and they will come" approach—if sufficient quantity and quality of performance information became available, the budgeting process would presumably begin using it. There are two problems with this approach:

- The pressures and constraints on the budgeting community often lead to the perception within the community that it does not have the resources or discretion to make the large changes necessary to achieve meaningful performance-budget integration.
- The performance community, with limited direct knowledge of and participation in budgeting processes, does not know what the requirements are for the performance information it develops—what to develop, when it is needed, and how it should be presented.

The purpose of this report is to provide concrete examples of, and recommendations for, how meaningful performance-budget integration (in budget formulation) can be achieved.

Defining Performance-Budget Integration

To identify concrete steps that can be taken to improve the use of performance information in budgeting decisions, it is first useful to clearly define what budgeting decisions are and how performance information informs them. Key elements follow:

- Budget formulation is the allocation of scarce resources among competing investment options. It is choosing between alternatives.
- Performance information's role in budget formulation is to provide decision-makers with estimates of the benefits (the outcome-oriented performance measure targets that can be realized) for alternative resource allocation options—it is the analytic relationship between performance and cost, and the ability to forecast this relationship into the future, which make the performance function relevant to budget formulation.

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In summary, performance-budget integration is informing resource allocation decisions with quantitative performance measures of benefit.

Performance-Budget Integration in Context

The primary focus of this report is on integration of performance information into budget decisions at the program office, agency or department, and OMB. This limits the report's scope in two specific ways:

- Government leaders make a variety of decisions that should be informed by performance information, but this paper is focused specifically on budgeting decisions.
- Budgeting extends well beyond executive branch formulation to include congressional authorization and appropriation and the execution of a budget, but this paper is focused on executive branch formulation.

The three major phases of budgeting in which resource allocation decisions are made are executive branch formulation, legislative branch formulation, and budget execution. Within executive branch formulation, three (largely sequential) steps are illustrated:

- Program office formulation
- Department or agency formulation
- OMB or Administration formulation

Key Actions to Improve Performance-Budget Integration

Performance-budget integration is essential for the sound stewardship of taxpayer resources. But it has been difficult to achieve, despite extensive effort across the government. This report provides concrete actions that can be taken to help performance-budget integration initiatives succeed. The recommendations within each action provide a checklist of important considerations when designing and implementing an integration initiative. They are summarized here:

Action: Engage Leadership
Recommendations

1.1 Focus performance-budget integration initiatives on leadership's priorities.
1.2 Use self-interest to motivate the performance-budget integration initiative.
1.3 Dispel misconceptions.
1.4 Understand the leadership's fiscal environment.

Action: Focus on Analysis
Recommendations

2.1 Staff the performance office with analysts.
2.2 Treat performance measurement as an analytic function.
2.3 Focus analysis on developing alternatives.
2.4 Ensure objectivity.
2.5 Ensure transparency.
2.6 Set realistic analytic objectives at the start of the cycle.
2.7 Develop a sustainable division of labor.

Action: Improve Budget Formulation Process
Recommendations

3.1 Provide top-down guidance at the start of the budget cycle.
3.2 Focus process on decisions and push technical tasks downward.
3.3 If needed, develop a separate analytic staff.
3.4 Engage in multi-year budgeting.
3.5 Push decision making earlier in the process.
3.6 Effectively integrate other elements of the decision support process.

Action: Reform Budget Account Structures
Recommendations

4.1 Ensure capability to construct accurate cost estimates.
4.2 Review account structure and revise if necessary. ◘

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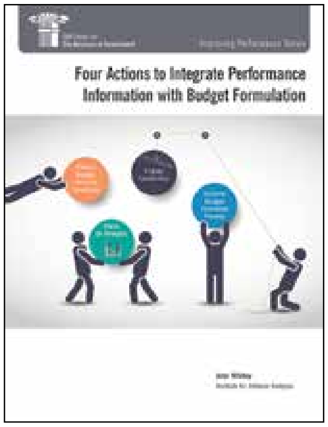

The report can be obtained:

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