A clear view
Implementing performance-based budgeting
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Resource constraints are an ongoing challenge for the federal government. But in the current economic climate, agencies and departments face extraordinary pressure to do more with existing, or fewer, resources. Reduced tax revenues, soaring deficits and a deepening national debt are driving a focus on aligning resources where they can achieve the best outcomes. At the same time, there is demand for unprecedented visibility and transparency in the use of those resources.

Surveying the present
The Government Business Council, in concert with EY, recently surveyed Government Executive magazine subscribers about how policy directives are implemented at their agencies. The results augment a survey launched globally by EY to identify common challenges faced by governments in the development and delivery of policy outcomes.

We discovered that federal executives cite four factors as the most common reasons for the failure of policy directives to deliver desired outcomes:
- Unclear roles and responsibilities – 46%
- Lack of communication – 43%
- Ineffective metrics for measuring success – 42%
- Unclear definition of intended outcomes – 42%

Almost half of federal executives (47%) believe that evaluation of policy implementation at their agencies is not supported by fact-based evidence. Federal executives agree: policies must be well-informed, and execution must be well-planned and adequately supported, if programs are to achieve successful outcomes.

Toward a performance-based future
Given this situation, federal leaders must be able to understand and quantitatively explain the alignment of long-range planning, annual budgeting, forecasting and operations. We have worked extensively with leading commercial clients to help implement robust enterprise performance management to identify, measure and model the specific drivers of performance and link them to desired outcomes.

This approach to performance-based budgeting can be used by the federal government to:
- Improve decisions: accurately assess the operational and financial impacts of various scenarios before making decisions
- Align strategy with operations: cascade strategy, outcome metrics and drivers to hold leaders and program managers accountable for targets
- Adjust to the changing environment: understand the impact of key financial and non-financial drivers on the organization to better manage the uncertainty and complexity of government
Creating the future state

Performance-based budgeting has yet to be widely embraced, yet it represents a real opportunity to tie financial planning to operational results, allowing departments and agencies to drive down costs while sustaining and improving performance.

To create a performance-based budgeting environment, you need:

- Strong governance
- Integral linkage between budget and execution
- Clearly defined and stated desired outcomes
- Meaningful performance metrics
- Standardized processes and procedures

Performance-based budgeting begins with the assumption that drivers — the links between operations and outcomes — are the common threads across all performance management processes.

**Figure 1 — Performance-based budgeting process**
No matter what success means to you ...

Leveraging the process detailed in Figure 1, it is critical that you identify what you want to do, what it will take to get there, how you want to proceed and what constitutes success.

First, quantify the relationships between these to understand fully how to focus on what matters – on what truly drives performance. Then, make the changes necessary to allocate limited resources where they may best achieve your goals. Budgeting should be a value driver for the organization, not a compliance exercise unrelated to operations. Driver-centered, performance-based budgeting helps enable your organization to successfully deliver and measure critical policy outcomes and public services while achieving greater visibility and transparency throughout budgeting and execution.

... We can help you achieve it

We are a global leader in working with organizations to identify and quantify the drivers that produce results. At a time when agency budgets are increasingly scrutinized, understanding how to achieve targeted results is critical. Our performance-based budgeting approach is designed to holistically identify your current performance environment and key focus areas. But first you must know where to start. We can begin with a rapid assessment (Figure 2) – over weeks, not months – to determine the current state of performance management in your organization. We will examine your objectives, the existing metrics and the degree to which operations are aligned to delivering against your agency’s goals.

Figure 2 – Rapid assessment

- Review current metrics in use against mission and strategic objectives
- Evaluate gaps between targeted versus realized performance for each key metric
- Identify the sources for the identified gaps
- Assess the organization’s understanding of the current performance management framework
- Develop high-level plan of action to address gaps

Duration: 4–6 weeks

Selecting the appropriate measures is critical to driving performance. As part of our rapid assessment, we provide a graphical analysis to identify gaps between targeted and realized objectives for each measure to provide a deep understanding of performance gaps and potential resource misalignments.

We also have a more robust approach to implementing an integrated performance management framework specific to your organization and mission (Figure 3).
Throughout this process, we will work at the pace your department or agency can accommodate, but we will push to move quickly. Aligning resources to performance is critical to achieving the outcomes you aim to deliver.

**Figure 3 — integrated performance-based budgeting process**

<table>
<thead>
<tr>
<th>Understand the vision/strategy</th>
<th>Define value drivers</th>
<th>Identify potential metrics</th>
<th>Prioritize and validate metrics</th>
<th>Embed</th>
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</thead>
<tbody>
<tr>
<td>• Understand the organization’s mission</td>
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<tr>
<td>• Identify key metrics used by stakeholders</td>
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<td>• Understand the organization’s strategy and operating models</td>
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<td>• Break down the organization’s strategy into key areas of strategic focus</td>
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<td>• Validate/enhance understanding with key client stakeholders</td>
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<tr>
<td>• Understand the key activities required to deliver the organization’s strategy</td>
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<td>• Develop a customized value creation map</td>
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<tr>
<td>• Identify a list of potential metrics for each area of focus</td>
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<td>• Validate/enhance the preliminary list with stakeholders</td>
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<tr>
<td>• Define and agree on approach for how to validate and prioritize the list to the key few metrics</td>
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<td>• Collect supplementary information for each of the chosen metrics</td>
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<tr>
<td>• (Optional) Conduct quantitative analysis to understand impact of changes on financial performance</td>
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<tr>
<td>• (Optional) Conduct quantitative analysis to understand interrelationships between the metric and other metrics</td>
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<tr>
<td>• Define qualitative/ranking approach for validating metrics</td>
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<tr>
<td>• Conduct workshops to evaluate chosen metrics</td>
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<tr>
<td>• Review overall list of metrics; validate that it is balanced from multiple perspectives</td>
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<tr>
<td>• Define appropriate visualization and drill down for each metric to support evaluation, analysis and decision-making</td>
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<td>• Link the validated metrics to planning process design</td>
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<td>• Link the validated metrics to performance reporting and planning tools</td>
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<tr>
<td>• Link the validated metrics to performance-based budgeting process</td>
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</table>
Next steps

Given increasing measures to rein in spending and cut the federal deficit, coupled with unprecedented transparency, it is more important than ever that federal departments and agencies align their budgets with mission, supporting defined goals and desired outcomes.

Does your department or agency use performance-based budgeting? In these uncertain fiscal times, can it afford not to?
For more information, contact our Federal Health Advisory practice:

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Please visit ey.com/us/gps
Ernst & Young is proud to sponsor The Institute for Veterans and Military Families (IVMF) Fellowship

In October 2013, EY launched a first-of-its-kind fellowship program to support IVMF, sending EY professionals to work pro bono for IVMF to advance work supporting veterans and their families.

IVMF develops education and employment-focused programs in collaboration with industry, government, non-governmental organizations and the veteran community. The organization works to address the primary economic and public policy concerns of our nation’s servicemen, servicewomen and their families. Fellows provide strategic consultation to IVMF, drive policy and support programs that can have a significant impact on veterans’ issues, and enhance relationships with IVMF's key stakeholders.