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Focus on Results for Smarter Government Budgeting

By Leonard Gilroy

Fiscal crises inevitably yield difficult choices for policymakers as they seek ways to cut spending. There are surely some functions government can stop providing, but unfortunately the traditional budgeting process fails to offer meaningful guidance to policymakers on where to start. Traditional government budgeting tends to focus only on the increase to a base budget, and rarely are most critical questions asked—e.g., "are we funding the right things, and are we getting results from our spending?" In essence, the budget is on autopilot, and Virginia's state and local governments need a better approach.

The adoption of a priority based, or outcome-based budgeting system would help Virginia policymakers more easily identify the governmental activities most important to taxpayers and help make difficult trade-off and cost-benefit decisions. Current "autopilot" budgeting is premised on the notion that to maintain current services, agencies need to spend what they did last year, plus an increase to account for inflation and population increases. In effect, this approach concentrates on the margins of spending—the annual spending increase requests from agencies—while leaving the other 90 to 95 percent of spending unexamined. It's simply assumed from the outset that the activities should continue to receive funding, representing an unsustainable approach to fiscal management.

Luckily, policymakers are shifting their views about government budgeting and are seeking new approaches that fund "first things first" and better align spending and outcomes. Virginia policymakers should look to the examples set by Washington State, Iowa, Dallas (TX), Spokane (WA) and others that have used an outcome-based budgeting model—also known as Budgeting for Outcomes (BFO)—that treats spending as an investment and assumes that the type and amount of investment should change annually as results, performance and needs change. Budgeting this way places the focus on the investments and what can be accomplished with available resources—when resources run out, spending stops.

BFO integrates strategic planning, zero-based budgeting and performance-based budgeting in a workable, common-sense system. It starts by asking what government functions should be considered "essential" and what results matter most in each area. Policymakers and the public then collaboratively rank programs according to how cost-effective they are at achieving the results citizens want. The budget is then built by going down the list and funding the most important programs first, "buying down" the list with available revenues until they're gone. This ensures that vital services are being funded before less-critical ones, and services that don't deliver results are reduced or eliminated. Kitchen table budgeting works this way, and governments should do the same.

BFO was first employed by former Washington State Governor Gary Locke in 2002 and was called the Priorities of Government (POG) model. At the time, Washington was facing a potential $2.4 billion budget deficit, prompting Locke to call for a top-to-bottom evaluation of what services the state provided and how.

The Public Strategies Group, led by author and government reform guru David Osborne (a key architect of the Clinton administration's "Reinventing Government" initiative), developed the POG approach with the Locke administration as a central means of closing the budget deficit. The administration identified a set of ten key results that citizens expect from government, including improvements in K-12 student achievement, public safety, health and economic vitality.

Agency and administration officials formed "result teams" to analyze government activities in each of the ten result areas, and the teams ranked these activities according to how well they achieved the desired outcomes set forth in the ten goals. The result teams were aided by a 10-member "guidance team" comprised of leaders of the public, private, and nonprofit sectors that oversaw the prioritization process and reviewed the work of the result teams.

The result teams were each given a dollar allocation to serve as an upper spending limit for their purchase plans. The discipline of a spending limit kept proposals grounded in financial reality, forced people to articulate priorities and choices and encouraged creativity. The priority rankings established by the result teams were then used to develop the 2003-05 biennial executive budget proposal. Activities were funded from the top of the list down until the spending limit was reached.

The POG model is still used in Washington State today under the current administration, demonstrating the longevity of the BFO approach. BFO allows decision makers to reward programs and activities that best serve public goals and helps reduce waste by identifying ineffective and duplicative programs and services. In short, it's focused on funding "what works" and eliminating spending on what doesn't.

Perhaps the greatest benefit of BFO is simply making budgetary priority and trade-off decisions clear to all. As a 2005 U.S. Government Accountability Office report on innovative state performance budgeting efforts noted:

One Washington legislator said that [BFO] provided decision makers with proposed priorities in a clear and easily understood format that encouraged constructive debate. . . Legislative officials said that the greatest contribution of [BFO] was that it provides a strong, clear means of communicating budgetary trade-offs to both decision makers and the public.

Adopting a BFO-style approach would be a major step for Virginia's state and local governments towards bringing accountability and fiscal sustainability to budgeting. This type of reform can ensure that taxpayer dollars are spent with maximum effectiveness and that trade-offs among different categories of spending are transparent and explicit. By focusing on performance and priorities, policymakers can make smarter cuts and rid taxpayers of poor performing and non-essential government services along the way.

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