

PERFORMANCE BASED BUDGETING for small cities

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Types of metrics

Outcome
Output
Efficiency
Explanatory/Input

4 TYPES OF METRICS



INPUT/
WHINER

PROCESS/
EFFICIENCY

OUTPUT

OUTCOME

Types of performance metrics

OUTCOME

A quantifiable indicator of the actual results received, the benefits/impacts from actions

- LINKED TO THE OBJECTIVE
- most interesting measures
- can be qualitative or effectiveness focused
 - Qualitative = consequence of delivering a product or service
 - Such as: customers that report that roads are good or better in the customer service survey
 - Effectiveness = outputs/outputs
 - Percentage increase in number of pot holes filed
 - usually expressed as a percentage, rate, or ratio

Types of performance metrics

OUTCOME continued...

Information about the ultimate result is not always available or practical to measure.

- May need proxy or surrogate measures
 - Example: completion of 12th grade is not the same as literacy, but it may be the measurement that comes closest and can be accurately measured

EXAMPLES:

- *Percentage increase in clients retained*
- *Percentage increase in grants in compliance with required procedures*
- *Number of youth participating in the employment pilot program who placed in permanent jobs*
- *Customers who report that roads are good or better in customer satisfaction survey*

Types of performance metrics

OUTPUTS

A quantifiable indicator of the number of goods or services produced

- LINKED TO THE STRATEGY
- limited - do not indicate where goals have been accomplished/ do not reveal anything about the quality or efficiency of the product or service provided.
- focus on the level of activity
- commonly indicate the number of people receiving products and services and the number of products and services
- 3 facets – quality/accuracy, quantity, and timeliness

EXAMPLES:

- *Reduced error rate in restaurant inspections*
- *Number of additional homes receiving curbside recycling*
- *Number of emergency calls responded to in six minutes or less*

More meaningful metrics

How much work is done

is not the same as

How well something is working

For example, the number of vaccinations given (output) is not the same as reduction in the incidence of vaccine preventable disease (outcome).

Outcome measure –

Percentage of new products that sell in accordance with projections

Output measure –

Number of new products introduced

Outcome measure

Percent of employees implementing skills learned during training

Output measure

Number of employees trained

Types of performance metrics

EFFICIENCY

A quantifiable indicator of productivity expressed in unit costs, units of time or other ratio-based units.

- also known as productivity measures
- LINKED TO THE STRATEGY
- can be measured in terms of:
 - the input cost per unit of output
 - the ratio of outputs per unit of input
 - The ratio of outputs per unit of time
 - The ratio of outcomes to inputs

EXAMPLES:

- *Average cost per pupil's edition*
- *Average time to complete revisions*
- *Average library branch staff costs per patron*

Types of performance metrics

EXPLANATORY/INPUT

an indicator of factors, resources, or requests received that affect performance and/or measures the amount of resources needed to provide particular products or services.

- **LINKED TO THE STRATEGY**
- usefully in showing:
 - the total cost of providing a product or service (labor, material, equipment, supplies)
 - the demand for services
 - the amount of resources used for one service in relation to other services.

EXAMPLES:

- *Number of school districts eligible to purchase science text books*
- *Number of employees eligible for management training*

What type of metric is this?

Is it an output, outcome, efficiency, or explanatory metric?

- Number of text books distributed
- Number of felonies committed in the city
- Number of new products introduced
- Reduction in the number of customer complaints
- Percent of sales from corporate citizens
- Average cost per client served
- Number of clients returning for further training
- Total average daily school attendance
- Increase in the job satisfaction level of employees
- Positive change in the time it takes to respond to emergency calls
- Amount of letters sent per week
- Number of requests for artwork
- Number of clients served
- Average cost to fill a pothole
- Number of changes to the specifications
- Average number of HR department hours to hire a new employee
- Number of clients who remain fit for five years
- Number of drive-thru customers
- Average consultant hours to write a chapter of text
- Cost per training session
- Percentage change in # of repeat customers
- Number of hours to create a product
- Decrease in high school drop-out rate
- High school drop-out rate

Scenarios

- Collect stray/
dangerous
animals
- Keep water in
public pool
clean
- Teach
grammar
school
children
about bike
safety
- Please develop the
following metrics:
 - *Input*
 - *Process/efficiency*
 - *Output*
- Do not develop the
outcome metric
- In other words,
don't worry about
WHY you are doing
it – JUST DO IT!

Where are you?

Capability Maturity Model

Non-existent	Initial	Repeatable	Defined	Managed	Optimized
0	1	2	3	4	5
:	:	:	:	:	:
:	:	:	:	:	:
:	:	:	:	:	:



0 – management process are not applied at all

1 – processes are ad hoc and disorganized

2 – processes follow a regular pattern

3 – processes are documented and communicated

4 – processes are monitored and measured

5 – good practices are followed and automated



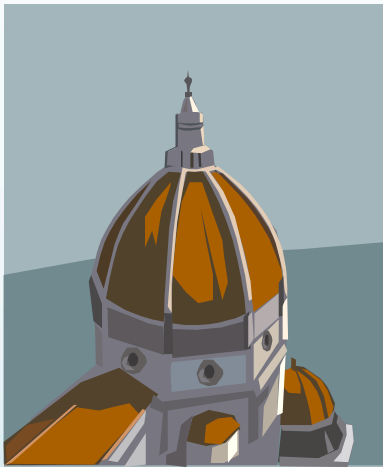
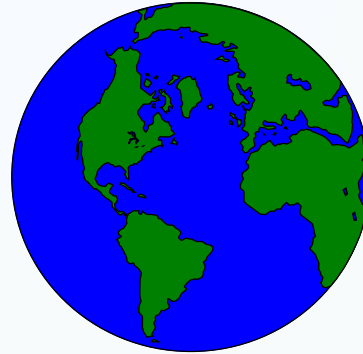
HOW FAR ALONG ARE YOU?

- How granular is your budget?
- At which level are performance measures defined?
- Are you using the strategic planning structure, balanced scorecard structure or something else?
- Do you use budget and performance data to correct course and stay on plan?
- Do you present a family of metrics?
- Are you following the best practices established by other governments that are ahead of you?
- Are you publishing this information for your citizenry?
- Do you present the information graphically?
- Is the budget linked to your plan or is it a continuation of last year's data?

Begin by breaking the universe down

Avoid:

- **Vague**
- **Broad**



You can divide the universe by:

- functional area
- provider
- program
- strategies
- control systems
- roles

Line Item Budgets vs. Performance Budgets

<u>Line Item</u>		<u>Performance Budgeting</u>	
Salaries	\$371,917	Help Desk	\$130,600
Fringes	\$118,069	Upgrades	\$240,789
Supplies	\$76,745	New Systems	\$175,203
Equipment	\$23,614	Data Security	\$ 43,753
TOTAL	\$590,345	TOTAL	\$590,345

Your budget can reflect what you DO instead of what general ledger accounts you use.

3 buzzwords of any measurement system

Accountability
Transparency
Focus

*Results = describe the strategy + measure the strategy +
manage the strategy*

*You can't manage what you can't measure.
You can't measure what you can't describe.*

What is the
information worth?

Frequency & Accuracy

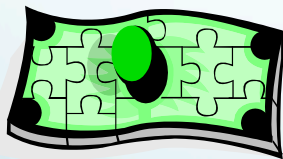
cost

Time & Money



A Budget is...

A **budget** is the translation of the future plans of the organization into financial terms.



Vision without action is a daydream.

*Action without vision is a nightmare.
-Japanese Proverb*

Performance Budget

PERFORMANCE BUDGETING BILL PATTERN

—EXAMPLE—

COMMISSION FOR THE BLIND

	<u>1994</u>	<u>1995</u>
A. Goal: INDEPENDENT LIVING: To assist Texans who are blind live as independently as possible consistent with their capabilities		
A.1. Objective: Increase the # consumers achieving their independent living goals		
Outcomes: Pct Avoiding a Dependent Living Envmt	93%	93%
A.1.1. Strategy: To provide a statewide program of developing independent living skills	\$3,695,823	\$3,439,224
Outputs: # Adults Trained	3,079	3,184
A.2. Objective: Increase the number of children who achieve their habilitative goals		
A.2.1. Strategy: To provide habilitative services to blind and visually impaired children.	\$2,761,465	\$2,869,277
Output: # Children Receiving Services	8,988	9,266
B. Goal: MAINTAIN EMPLOYMENT: To assist Texans who are blind or visually impaired to secure or maintain employment in careers consistent with their skills, abilities, and interests.		
B.1. Objective: Increase the number of successfully employed consumers.		
Outcomes: % Consumers Successfully Rehabilitated With Improved Economic Self Sufficiency.	86.5%	86.5%
B.1.1. Strategy: To provide vocational rehabilitation to services to persons who are blind or visually impaired.	\$28,351,959	\$28,259,959
Outputs: Number of Consumers Served	12,888	12,831
B.1.2. Strategy: To provide transition services leading to successful transition from school to work.	\$1,611,082	\$1,781,861
Outputs: # Students Successfully Completing Program	72	72
B.1.3. Strategy: To provide employment opportunities in the food service industry for persons who are blind and visually impaired.	\$1,920,220	\$1,957,120
Outputs: # Consumers Employed	140	145
C. Goal: Continuation of 1993 Salary Increase	<u>720,302</u>	<u> </u>
Grand Total, Commission for the Blind	\$39,060,851	\$38,307,441



The Game of Budgeting

INHERENT CHALLENGES	RESULTING GAME
uncertain future and outside environment	<ul style="list-style-type: none"> • pessimists - pad budget • optimists - shoot too high
psychological nature of budgeting/negotiations	<ul style="list-style-type: none"> • power plays • positioning
intentions gone awry	<ul style="list-style-type: none"> • what gets measured gets done – and it may be ugly
used for evaluation and rewards	<ul style="list-style-type: none"> • conservatism - won't plan for peak performance
involves numbers	<ul style="list-style-type: none"> • avoidance • relegate duties to accountants
cuts, cuts, cuts	<ul style="list-style-type: none"> • padding • frustration
time consuming	<ul style="list-style-type: none"> • avoidance • rush to wrap-up, may sacrifice quality

Getting Organized

Getting granular

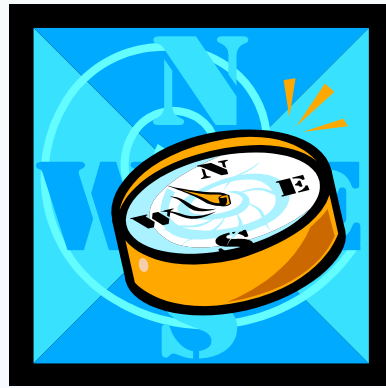
- List the core functions of your whole government
- Take one core function and list what their purposes
- Consider the environment the function operates under
- Rank the purposes as
 - Luxury
 - Nicety
 - Necessity

SWOT Analysis

STRENGTHS	WEAKNESSES
OPPORTUNITIES	THREATS

Hoshin Kanri

Japanese for 'shiny
compass'



STEPS:

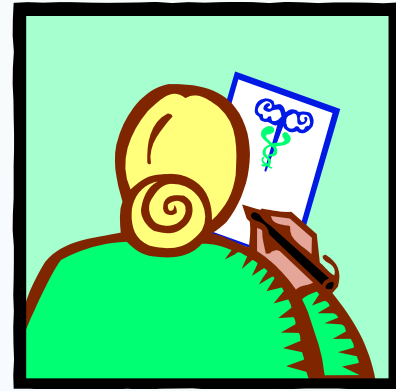
- Identify key strategic data (SWOTS)
- Arrange like issues in columns without talking
- Give each column a verb/noun title (in our case – luxury, nicety, necessity)
- Test for relationships between categories – ask which ones 'drive' the others
- Decide if priorities are clear – if not – go back and rearrange the ideas. If yes proceed
- Catchball plan with next level of management and make necessary revisions
- Develop plans to address key issues
- Develop a timeline for execution

Arrange like issues in columns without talking



- Talking is not allowed
- If you disagree on where the note goes MOVE IT without verbal debate. The other person can move it back, without verbal debate, too.
- Do not sort into strengths, weaknesses, opportunities, or threats or 'good and bad'

Diagnostic questions



PRODUCT OR SERVICE QUESTIONS

- What is the service your group will provide?
- To whom would you provide your services?
- Will they have a lasting effect, or require renewal, and how often?
- Are there any regional, national, legal, or specific limiting factors that I need to know about regarding the product or service I am providing?

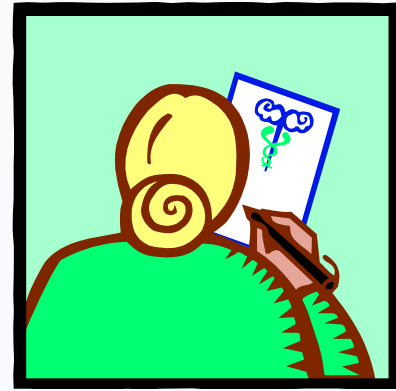
Diagnostic questions



RESOURCE & FINANCING QUESTIONS

- How will you finance your group?
Taxes, fees, debt?
- How will you staff your group, particularly its key positions?
- Do you have a history with the financial behavior service? In other words, have you been providing it for a while?
- What are the trends with resource inflows and outflows?

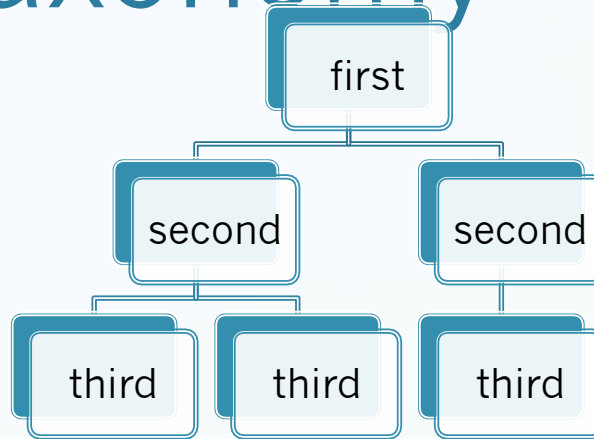
Diagnostic questions



- LONG-TERM PLANNING QUESTIONS
 - When will I need to expand to keep up with demand? How will I know?
 - What happens if I make a mistake?
 - How to I keep up with and ensure flexibility with changing customer, environmental, regional, and regulatory conditions?

Drilling down using structure

Taxonomy

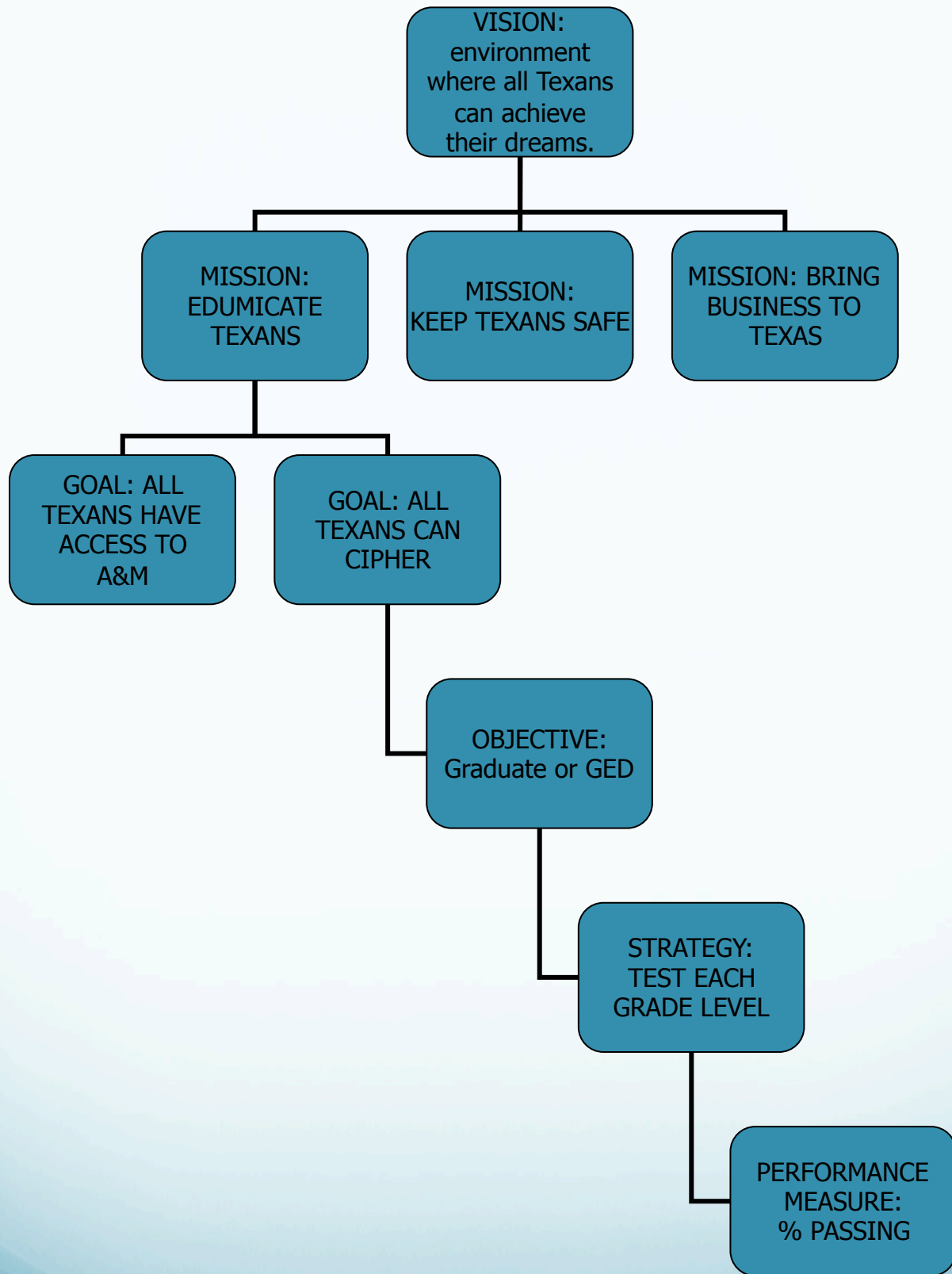


The science of classifying all living things by arranging them in groups according to the relationship of each to the others.

[www.marinebiodiversity.ca/
BayOfFundy/glossQ-T.html](http://www.marinebiodiversity.ca/BayOfFundy/glossQ-T.html)

Questions to answer

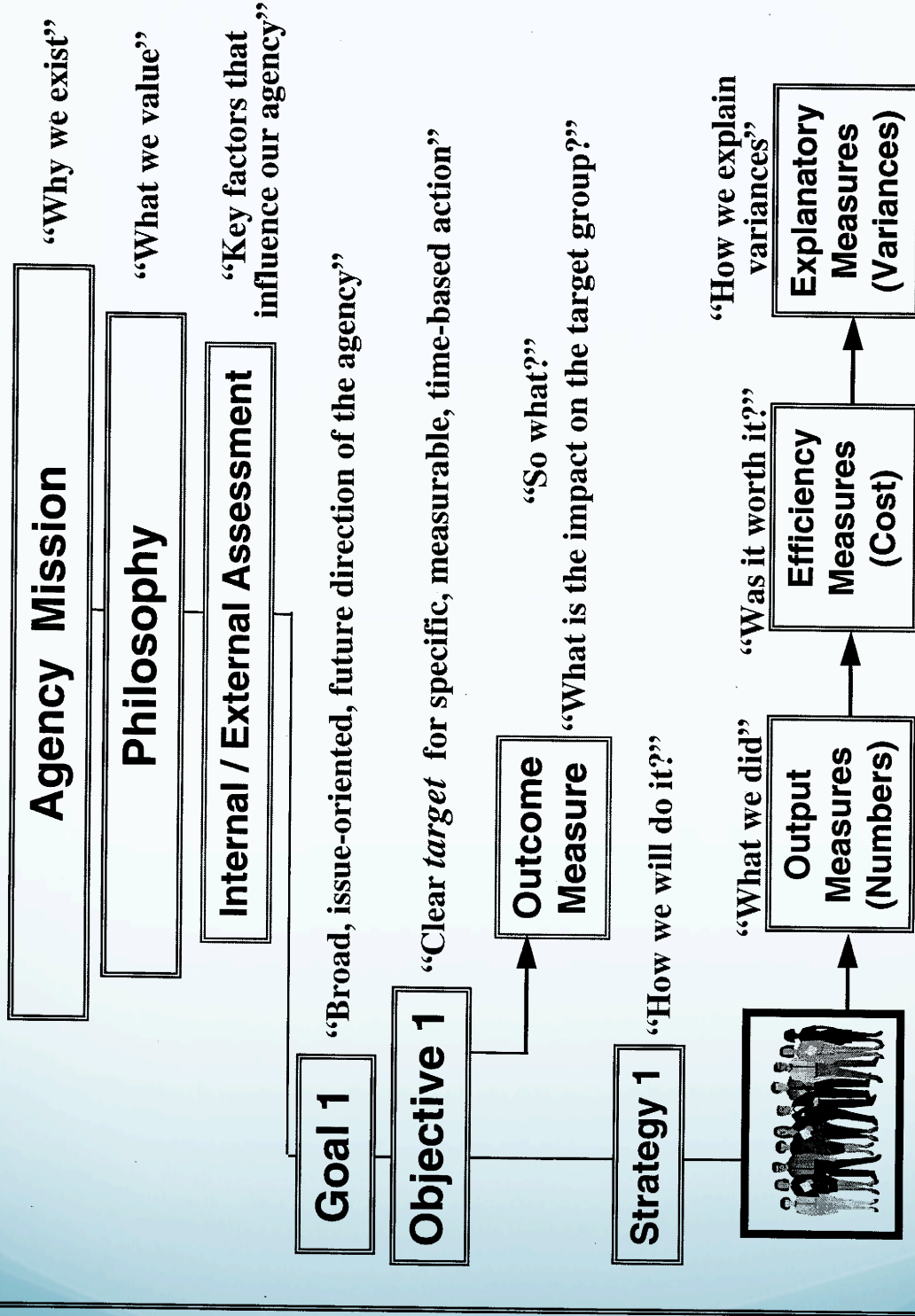
- Who are your customers?
- What does your main customer want and not want?
- How are you going to give that customer what they want or prevent them from getting what they don't want?



Elements of a strategic plan

- **VISION: An inspiring picture of a preferred future not bound by time - represents a global and continuing purpose.**
- **MISSION: A statement of what the entity does, why they do it, and for whom they do it. Spells out the reason for the entity's existence.**
- **PHILOSOPHY: The expression of the core values and operating principles of conduct for the entity in carrying out its mission.**
- **GOALS: The general ends towards which the entity directs its efforts.**
- **OBJECTIVES: Clear targets for specific action that quantify progress towards meeting a particular goal.**
- **STRATEGIES: Methods by which the entity seeks to accomplish its goals and objectives.**
- **PERFORMANCE MEASURES: Quantifiable results measuring whether the entity met its objectives and strategies.**

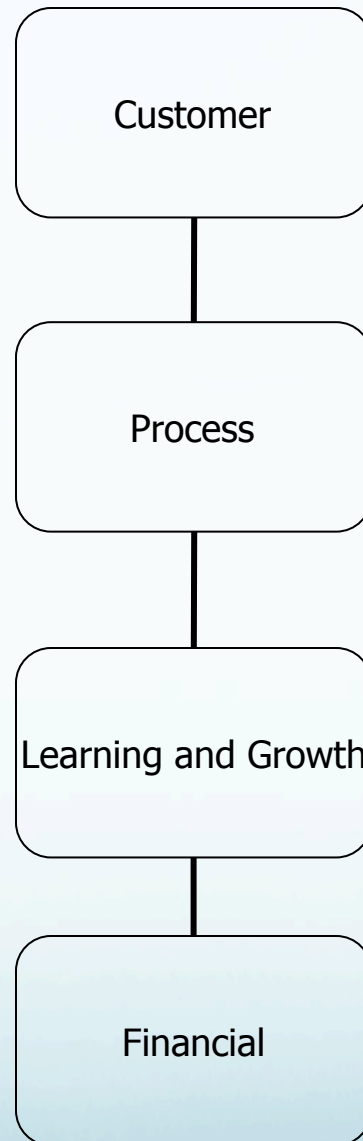
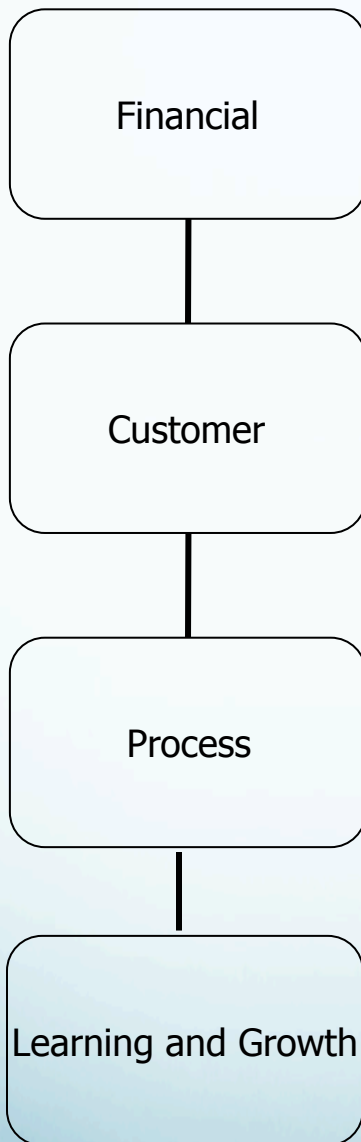
The Strategic Planning & Performance Measurement Process



Models:

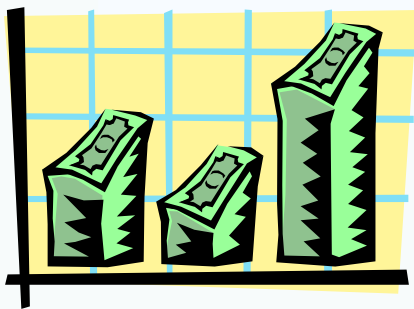
Private
sector

public
sector



4 components of the balanced scorecard

Financial



Customer

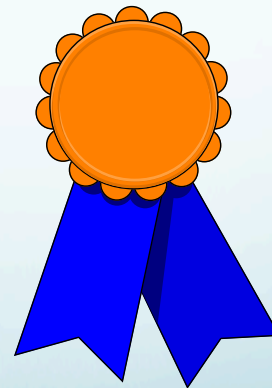


**Internal
Business
Processes**



15%

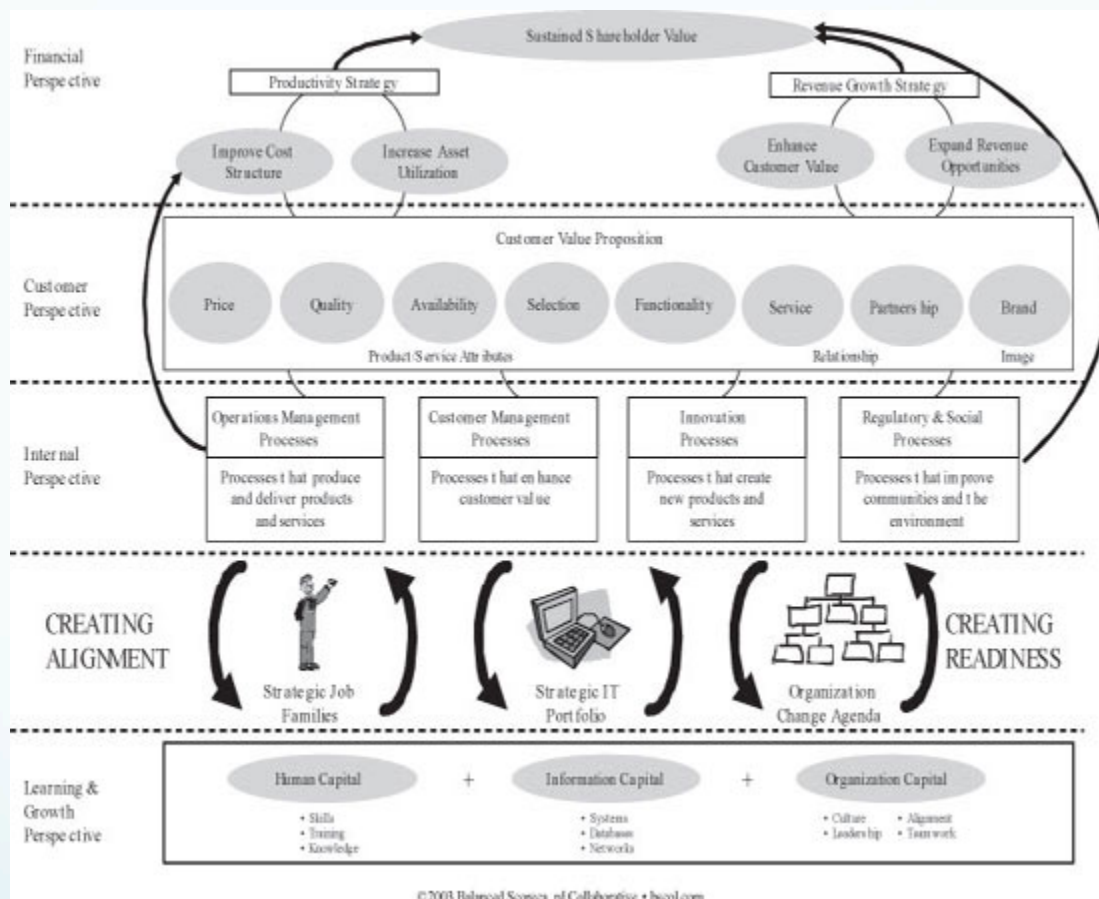
**Learning and
Growth**



Questions answered by each component

- Financial asks
“How do we look to our shareholders?”
- Customer asks
“How do customers see us?”
- Internal Business Processes asks *“What must we excel at?”*
- Learning and Growth asks
“Can we continue to improve and create value?”

Kaplan and Norton's Strategy Map



Simple strategy map

FINANCIAL	Long term shareholder value			
	Productivity strategy		Growth strategy	
	Improve cost structure	Increase asset utilization	Expand revenue opportunities	Enhance customer value
CUSTOMER	Product or Service Attributes		Relationship	Image
INTERNAL	Operations mgt processes	Customer mgt processes	Innovation processes	Regulatory and social processes
LEARNING AND GROWTH	Human capital			
	Information capital			
	Organization capital			

Pulling it all together

Strategy map			Balanced scorecard		Action plan	
Theme	Strategies	Objectives	Measurement	Target	Initiative	Budget
Financial	<ul style="list-style-type: none"> •Grow revenues •Fewer planes 	<ul style="list-style-type: none"> •Profit •Grow revenues •Fewer planes 	<ul style="list-style-type: none"> •Seat revenue •Plane lease cost 	<ul style="list-style-type: none"> •20% growth seat rev. •5% decrease lease cost 		
Customer	<ul style="list-style-type: none"> •Lowest prices •On-time service 	<ul style="list-style-type: none"> •# repeat customers •FAA on-time arrival rating 	<ul style="list-style-type: none"> •70% repeat customers •#1 on-time rating 		<ul style="list-style-type: none"> •Implement CRM system •Quality management 	<ul style="list-style-type: none"> •\$XXX •\$XXX
Internal	<ul style="list-style-type: none"> •Fast ground turnaround 	<ul style="list-style-type: none"> •Fast ground turnaround 	<ul style="list-style-type: none"> •On ground time •On-time departure 	<ul style="list-style-type: none"> •30 minutes •90% 	<ul style="list-style-type: none"> •Cycle time optimization 	<ul style="list-style-type: none"> •\$XXX
Learning and Growth	<ul style="list-style-type: none"> •Strategic job = ramp agent •Strategic systems = crew scheduling •Ground crew alignment 	<ul style="list-style-type: none"> •Develop necessary skills •Develop the support system •Ground crew aligned with strategy 	<ul style="list-style-type: none"> •Strategic job readiness •Info system availability •Strategic awareness •% Ground-crew stock-holders 	<ul style="list-style-type: none"> •70% •100% •100% •100% 	<ul style="list-style-type: none"> •Ground crew training •Crew scheduling system roll-out •Comm. program •Employee stock ownership plan 	<ul style="list-style-type: none"> •\$XXX •\$XXX •\$XXX •\$XXX

What the balanced scorecard is and isn't

Creating the balanced scorecard is a critical step in the strategic process. So many organizations create a strategic plan and then dutifully ignore it because of day-to-day issues/firefighting tends to take precedence. The scorecard periodically reminds the organization what the critical strategic issues are and gives the necessary feedback on the progress toward achieving them.

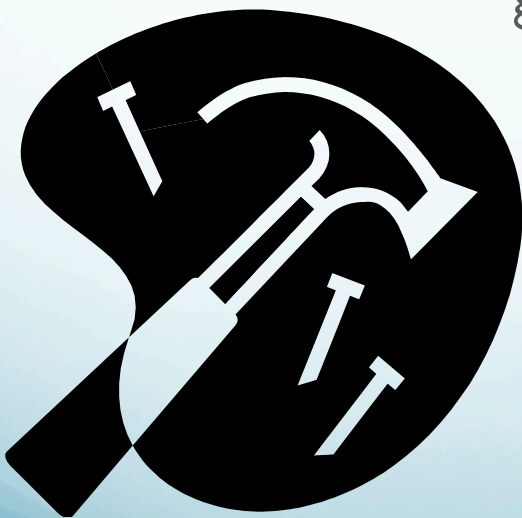
It is important to remember the balanced scorecard is like a scale. The role of the scale when you are on a diet is not to make you lose weight. The scale merely provides you with feedback on how you are doing. In the same way, building a balanced scorecard will not improve organizational performance. It will simply give you feedback on how well you are achieving your strategic direction. **ORION DEVELOPMENT GROUP**
www.odgroup.com

Defining value

- **Mission** – why we exist
- **Values** – what is important to us
- **Vision** – what we want to be
- **Strategy** – our game plan
- **Strategy map** – translate the strategy
- **Balanced Scorecard** – measure and focus
- **Targets and initiatives** – what we need to do
- **Personal objectives** – what I need to do

Complete the tool

- Set timelines
- Quantify targets
- Select initiatives
- Link resources
- Identify accountable groups/people



Defining the metrics

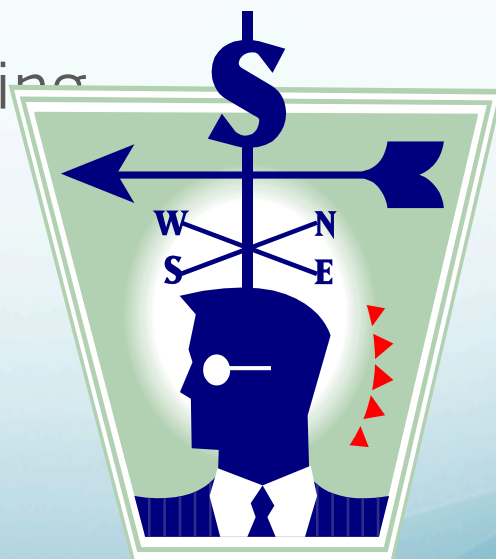
Defining the metrics

- Key elements of a definition:
 - Explains what the metric is intended to show and why it is important
 - Describes specific sources of information and how it is calculated
 - Clearly and specifically describes how the measure is calculated
 - Identifies any limitations about the measurement data, including factors that are beyond the organization's control
 - Identifies whether the metric is cumulative or non-cumulative
 - Identifies who is responsible for performance
 - Describes how often the metric is to be collected

How to project the metrics

Set the target using:

- Trend analysis or other statistical techniques to establish a baseline projection if past data exists
- Industry averages/ benchmarking
- Sampling or piloting performance



A good metric
is...

Good metrics are...

- Responsive – reflects changes in level of performance
- Valid – captures the intended information, represents what is being measured
- Responsibility linked – matched to an organization unit responsible for achieving the measure
- Customer focused – reflects the point of view of customers and stakeholders
- Comprehensive – when taken together, the set includes all key aspects of performance
- Cost-effective – justifies the cost of collecting and retaining data
- Challenging - aggressive and challenging, yet realistic and attainable within the planning period and available resources
- Collectable – possible to collect accurate and reliable data
- Meaningful – significant and directly related to the mission and goal
- Compatible – integrated with existing financial and operational systems
- Comparable – useful for making comparisons with other data over time
- Simple – easy to calculate and determine
- Credible – based on accurate and reliable data
- Relevant – logically and directly relate to areas of the scorecard, goals, or functions
- Balanced - the set includes several types of measures including outcome, efficiency, etc. measures
- Timed – there is a specific time frame for completion
- Understandable - someone unfamiliar with the organization will understand what the metric means
- Results oriented - specifies a result rather than an activity

A bit on “how”

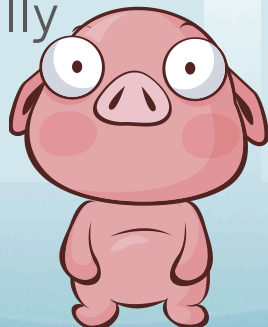
“You can’t get what you want, till you know what you want.” Mama

Options for getting started

Options

- Consultant to help create
- Consultant to help guide
- Pilot for one function
- Whole hog but half-baked
- Whole hog fully baked

Pros and cons



Common reasons for resistance...

to performance measurement:

- *We already did that!*
- *Performance measures are inherently unfair because I only have so much control over outcomes.*
- *Performance measures are going to be used to beat me up, not help me out.*
- *Performance measurement is going to invite unfair comparisons.*
- *Performance measurement is a great idea, but it won't hold once this administration is gone.*
- *There is no way to measure what I do.*
- *My division has conflicting missions.*



Why change fails:

John P. Kotter/Harvard Business Review

- Not establishing a great enough sense of urgency
- Not creating a powerful guiding coalition
- Lacking a vision
- Under-communicating the vision
- Not removing obstacles to the new vision
- Not planning for and celebrating short-term wins
- Declaring victory too soon
- Not anchoring changes in the corporate culture



How to Sell Your Budget



- Maintain credibility
- Know your numbers
- Be willing to sacrifice
- Benchmark
- Demonstrate necessity for compliance
- Quantify short-term and long-term results
- Depict in pictures
- Present compellingly
- Take burden off decision maker... allow them to say yes
- Keep in close communication with the boss throughout the whole process
- Take notice of the political situation
- Clearly link your budget to the goals and objectives of your superiors



THE PROCESS

STAGE 1: Plan the work of the organization

- develop vision & mission (retreat?)
- develop strategy map

STAGE 2: Generate the numbers and metrics

- develop scorecards for the four legs
- develop measures and dashboards
- link the budget to the plan

STAGE 3: Sell the plan

- establish leadership and management team's alignment, authority, and responsibilities
- create timelines
- train employees

STAGE 4: Design a measurement system

STAGE 5: Monitor & report on performance

STAGE 6: Revise

You may need to train executives on the tools before you begin work on the plan

Responsibilities of project managers

Project managers are also responsible for balancing and integrating competing demands to implement all aspects of the project successfully, as follows:

- **Project scope** Identifying the specific work to be done for the project.
- **Project time** Setting the finish date of the project as well as any interim deadlines for phases, milestones, and deliverables.
- **Project cost** Calculating and tracking the project costs and budget.
- **Project human resources** Signing on the team members who will carry out the tasks of the project.
- **Project procurement** Acquiring the material and equipment resources with which to carry out project tasks.
- **Project communication** Conveying assignments, updates, reports, and other information with team members and other stakeholders.
- **Project quality** Identifying the acceptable level of quality for the project goals and objectives.
- **Project risk** Analyzing potential project risks and response planning.

How long will this take?

14 weeks **CREATION** only

- STEP 1: Define measurement architecture (3 weeks)
 - Define measurement unit
 - Identify linkages between units\
- STEP 2: Build consensus around strategic objectives (3 weeks)
 - Conduct interviews of senior mgt
 - Synthesize results
 - Facilitate meeting with executives to gain consensus on mission & strategy
- STEP 3: Select and design measures (5 weeks)
 - Subgroups refine wording of objectives, identify measures, identify sources of information for measures, identify linkages between objectives and measures
 - Facilitate second meeting with executives
- STEP 4: Build Implementation Plan (3 weeks)
 - Decide how to measure and communicate results
 - Facilitate third meeting with executives

Timeline - Implementing a Balanced Scorecard

- Clarify the vision (months 1-3) newly formed executive committee refines balanced scorecard
- Communicate to middle management (months 4-5) top three layers of management learn about new strategy
- Develop business unit scorecards (months 6-9) – each unit develops their own scorecard
- Eliminate non-strategic activities (month 6)
- Review business unit scorecards by senior management (months 9-11)
- Refine the vision (month 12)
- Communicate balanced scorecard to the whole organization (month 12 +)
- Establish individual performance objectives (months 13-14) executive management links individual objectives and incentive compensation to the balanced scorecard)
- Update long-range plan and budget (months 15-17) establish five year goals for each measure and identify sources of funding. First year of 5 year plan becomes current year budget
- Conduct monthly and quarterly reviews (month 18+)
- Conduct annual strategy review (month 25-26) update plan
- Link employee's performance to the balanced scorecard (months 26-26)

For more information:

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www.StrategyMap.com.au

Strategy Maps: Converting intangible Assets to Tangible Outcomes by Robert S. Kaplan and David P. Norton
2004, Harvard Business School Publishing Corporation

Balanced Scorecard Strategy for Dummies by Chuck Hannabarger, Wiley Publishing
2007

Orion Development Group, BSC Training and Consulting
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Rockaway Park, NY 11694
Toll Free: (800) 510-2117
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