Outcome Based Budgeting

How a focus on outcomes can drive better funding decisions for the consumer

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The background to change

Australia has been considered one of the most liveable countries in the world. We have prided ourselves on our economic stability and providing affordable healthcare, education for all, and some of the highest living standards in the world. Today, however, Australia risks losing touch with other global economies unless it confronts challenges around infrastructure development, housing affordability and the cost of energy (to name a few) to remain relevant and one of the most sought after countries to live.

Taxpayers are increasingly asking, "Where are our tax dollars going?" In return, governments are grappling with whether or not more funding directly links to better outcomes. The traditional method of incremental budgeting sends the message that, irrelevant of performance, all agencies will receive the standard indexation increases, which only compounds the poor behaviours. Historically, there has been a tendency to fall into the mindset summarised by: 'if there is a problem, throw money at it and it will go away'. But the focus needs to shift to performance driven budgeting where governments are held accountable to achieving promised outcomes and provide increased transparency of spending to citizens.

In the early 2000s, a multitude of promises and expectations were communicated across the globe by governments embarking on performance based budgeting reforms. Governments promised transparency of government spending and results in order to give voters and central agencies better opportunities for accountability and oversight. This involved integrating performance data into budget documents and moving to a process of measuring and reporting of performance information. Performance measures were being used by government agencies to "legitimise funding". A major improvement in those countries that have mounted reforms over the last decade has been the inclusion of outcomes in funding and reporting. However, when analysed, the inclusion of "fuzzy" outcomes, whereby linkages to outcomes can be loosely and easily made, is of concern. The next step in the evolution of effective allocation and management of resources requires not only measuring and reporting of performance information, enabled by new technology and systems, but actually using this information to inform funding decisions and hold Government organisations to account.

What is outcome based funding?

A focus on outcomes is the next evolution in performance based budgeting reform. Outcomes are the intended impacts of outputs and should be monitored against key performance measures as displayed in Figure 1. For example, criminal investigations are a police output for which the outcome is reduced crime. Outcomes can be short and long term in nature, for example higher levels of education can be regarded as a medium term outcome that leads ultimately to higher economic growth, the final outcome. These outcomes can be measured and monitored against qualitative parameters.
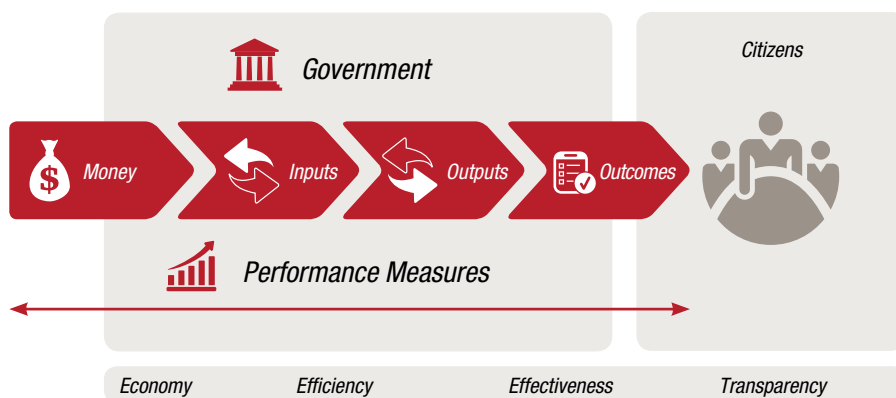
A move to focus on outcomes rather than inputs or outputs means that the focus of agencies becomes about delivering outcomes, and for the ultimate benefit of the citizens. This then ultimately changes the relationship between central government and agencies from one of forensic micro management of spend to one that is collaborative and focused on whether outcomes are being achieved. This shift away from a shopping list of wishes from agencies to a prioritised budget that is focused on the delivery of outcomes is vital if government is to remain relevant to the wants and needs of the consumer – the citizen.

There are numerous countries that have embarked on these reforms, some with more success than others. Most countries face significant political, cultural, technical and legal challenges in adopting an outcomes based approach to budgeting. Key challenges have included:

- Lack of political ownership
- Cultural change required in central agencies to move from compliance based management to outcome based management.
- Unpreparedness for the enhanced accountability in line agencies
- Poor accounting and IT systems that don't support the reform
- Line agencies and central government approaching outcome based budgeting as a technical, theoretical exercise without due consideration for organisational structure impacts and wider public sector reform, e.g. driving policy through to legislation.

Outcome Based Budgeting Process flow

Figure 1 – Outcome based budgeting Process Flow

Outcome based funding framework

Outcomes
Drive funding allocation decisions and accountability *e.g "Safer communities due to reduced crime"*

Program Group
A collection of cross government programs that contribute to an outcome *e.g, "reduced crime"*

Programs
Programs representing outputs for budget allocation e.g, "education, social welfare, police enforcement"

Department of Education | Department of Family and Community Services | Department of Justice

Cluster/Agency service delivery

How do we achieve outcome based budgeting?

Outcome based budgeting requires a shift in mindset for government ministers, staff, and citizens, from a short term 'outputs' mentality to a medium term focus on economic and social outcomes. Achieving that mindset shift requires strong leadership from parliamentary officeholders to government department senior executives to help drive the change. Outcomes are harder to deliver than outputs, and by their nature will be publically communicated, requiring resolve from leaders to see the transition through.

The objective of outcome based budgeting is to, over time, increase the link between funding and outcomes. Outcome based funding is not only a focus on new policy but a vehicle to support the central government reviewing and analysing 'the base'. This has traditionally been achieved through compliance based spending reviews. However a significant mind shift to allow conversations to be focussed on desired outcomes where a scenario of overspending previously 'may be ok' will be a significant cultural shift. The maturity of systems, processes and adoption of policy will inform the extent to which outcome based budgets can be implemented. Regular reviews of the delivery of outcomes are required in order to review the success of programs and initiatives and ultimately inform decision makers. Experience globally has shown where agencies refrain from reporting on performance information because "no adequate performance measures exist", ends up only causing outcomes to suffer.

To gain the interest and acceptance of leaders, the benefits and drawbacks of outcome based budgeting need to be well explained and understood.

Communicating & tracking progress

Against community-supported outcomes is an endeavour likely to be embraced by the public in the interests of improved political ownership transparency and accountability; however, when data trends begin indicating potential failure to meet an outcome, this may create a public relations challenge for the government and associated agency of the day.

One way to address this concern of government officeholders is to hold an open communications exercise with citizens, explaining that the move to outcomes based budgeting will bring:

significant benefits for citizens

greater insight into how tax dollars are spent

increased transparency on government data

This will be the first step to achieve an **'open source government'**.

However, it also requires a two-way relationship between government and citizens to make this work. Government will attempt to hold itself to outcomes valued by the public, but the corollary is that the public needs to provide feedback on the utility of the outcome based budgeting, and allow for some time for the government to get the concept, and its tracking, right. Governments, as collections of people, can still fall prey to the 'planning fallacy' in behavioural economics, whereby the time forecast to complete a service or project is generally underestimated – and the first time that governments and their treasuries commit to particular outcomes – this must be kept in mind.

On the organisational side of the outcome based budgeting equation, a significant question for treasury departments and interfacing government agencies is whether staff have the skills and motivation to contribute to outcome based budgeting. For example, many treasury roles interfacing with government agencies to date may have involved detailed review of financial data – especially with a lens to data accuracy. In an outcome based budgeting environment, a supporting system that has the ability to automatically validate data uploaded by agencies and support performance monitoring of outcomes is pivotal to supporting the shift of treasury roles to a more strategic focus.

A shift to outcome based budgeting also requires a new approach to recruitment and staffing. Recruitment can help support treasury departments in identifying

Figure 2 – Outcome based budgeting Maturity Curve (By Country)
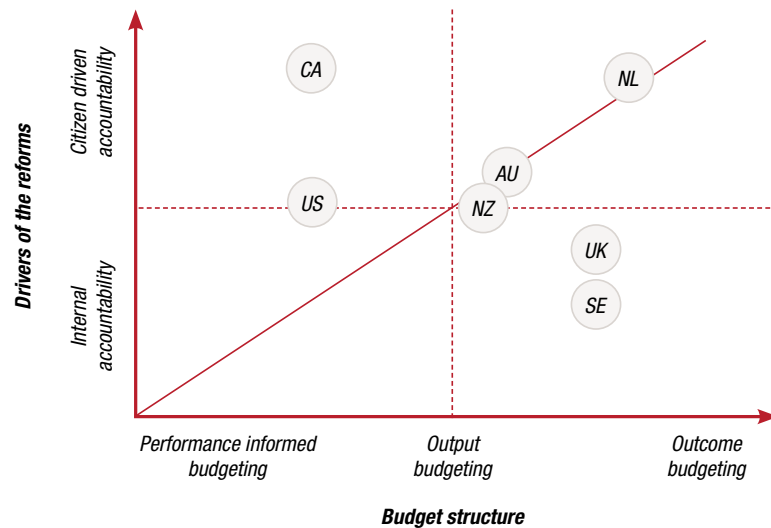
and developing a workforce that is equipped to provide strategic advice to its related government departments. Furthermore, given a centralised system, opportunities for staff secondments between agencies and treasury are enhanced – given the use of a common financial language.

As part of the transition to outcome based budgeting, central government should work in collaboration with central agencies to move away from traditional compliance based spending reviews, and focus on analysing and understand 'the base' numbers and any reasons behind overspending. Central government should start the conversation with central agencies to understand how overspending links to citizen owned outcomes,

pivoting *their focus from compliance based financial management*

to working with the agencies to support the achievement of the desired outcomes for the jurisdiction.

This mindset shift will allow Treasury to move further along the maturity curve (see figure 2) to focus on outcome budgeting and citizen driven accountability.

Processes and systems to put into place

How governments define and manage the funding and monitoring of outcomes is a critical consideration during the business process and system design. Business processes should be designed to ensure better accountability across the decision making process and more effective allocation of funds throughout the budgeting process. Supported by an agile and modern system that allows for outcomes to be defined in a SMART way – to be specific, measurable, achievable, relevant and timely and monitored against the right level of information, this will help governments undergoing a reform to adopt an outcome based approach to budgeting.

The challenge in delivering a broad overarching budgeting solution is defining the right level of information to be captured and this begins with having the right stakeholders at the initial design phase.

The business must first focus on defining the priorities of the government of the day to enable outcome based budgeting and then overlay the required supporting processes in a system agnostic view. A top down approach is recommended that keeps tying back to the outcomes, meets the needs of the stakeholders and which can be delivered through a viable technical solution.

Designing and building information systems that support outcome based budgeting and the collection of high quality data is key in ensuring that process and systems transformation goes hand in hand. Information technology limitations can negatively impact the budgeting process as

seen in Australia and the UK. Prior to 2005 Australian Treasury faced challenges in collecting budget information from agencies due to the lack of a supportive IT system(s) to collect performance indicators. Collection was done manually without a structured approach, which led to a disconnect between four output indicators – quality, quantity, timeliness, and cost. In the UK, development of IT systems was decentralised with individual departments choosing how to implement separate information systems. This resulted in a disconnect between data generated by different agencies, insufficient connection between the performance targets and indicators, and incorrect reporting of data.

An ideal solution

should be able to meet the needs of statutory reporting requirements
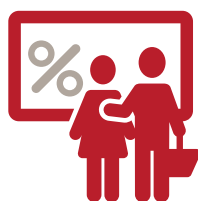
but also have the ability to provide decision makers, for example cabinet, a view of funding outcomes that can be measured.

Six key drivers to support simplified business processes through technology enablement

01

Inclusion of system features to define and capture information on outcomes and performance measures, link outcomes to performance measure's and subsequently monitor these throughout the budget lifecycle. This will provide increasing Treasury control for future decision making as new information becomes available about the relationship between outcomes, outputs, activities and inputs.

02

Implementing security restrictions that enable specific role allocation such as segregated Agency and Treasury roles, so accountability of decisions is supported by the system. This role based IT system will help simplify task assignment (through notifications) and support staff movements throughout the organisation.

03

Implementing workflow enabled business processes, so budget bids can be tracked and monitored from creation to approval with automated notifications sent at the key steps of the process. Workflow and role based security work hand in hand to ensure appropriate routing of tasks to simplify the review and approval process.

Flexibility within the system to support Machinery of Government changes as and when they occur. This is key to a successful process transformation, as technology needs to support agile ways of working where changes in Government structures and/or processes such as outcome updates can occur in a dynamic environment.

04

Provide an online platform to report on outcomes and their ongoing performance to ensure transparency between Treasury, Agencies and citizens. This is key to support simplified process transformation where information is clear and readily available to all stakeholders. This initiative was successfully implemented by the London Datastore who provide access to a large number of datasets transformed into digitally visualised content for customers to interact with.

05

Designing a modularised IT solution to support a phased rollout approach, whereby each function of the system can be implemented separately either by the business function or by the user population while maintaining integrity of the solution. This will enable efficient processes whereby users are focused on tasks aligned to the budget lifecycle during key timeframes. An example of this is implementing an open/close period for each module based on user enterable dates to align with key activities happening at that point in time.

06

How should government agencies react to all this change?
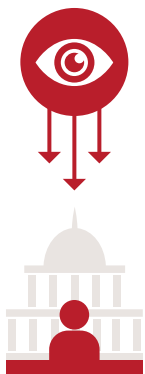
Agency focus

*should be on rethinking the way they **work with central government** to achieve the best outcomes for citizens.*

Compliance based reactiveness should be replaced with strategic proactiveness. The daily exchange and relationship with central government should be more constructive and fluent with a desire to support shared success rather than a 'gatekeeper' mentality. From a micro level, agencies should rethink how they support outcome based funding and be aware of what is required to work within its bounds. The need to have systems and processes that enable the provision of information to government based upon outcomes. For example, the critical decisions associated to allocating cost to outcomes.

A cornerstone of future strategy

With increasing demands from citizens central governments and their agencies should acknowledge outcome based budgeting as a cornerstone of their future strategy. Outcome based budgeting is objective driven, provides accountability, enhances transparency and is enabled by technology all whilst supporting the strategic goals of government. In order to be successful, the following needs to be in place with supporting governance:

1. *Putting the Customer first when setting outcomes:*
   Outcomes can be used as a mechanism to engage with the community and seek input on prioritisation of spend.

2. *Performance measures:*
   Utilise performance measures as a lever to analyse performance against an outcome but also as an opportunity to assess proposed spend against: *effectiveness, efficiency and productivity criterion.*

3. *Culture of accountability:*
   Instilling a culture of accountability from cabinet down through elected representatives to ensure delivery of outcomes based on prior commitments.

4. *Simplicity:*
   Key to success is simplicity and transparency in process. Don't create an industry for agencies. Focus on insight, not micro management.

5. *Technology:*
   Technology that is flexible enough to support statutory reporting requirements whilst offering central government the relevant level of aggregate information to make accurate decisions.

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