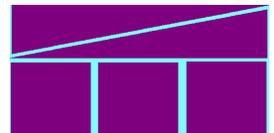

Implementing Performance Based Budgeting

Presentation to:

Governor's Agency Heads

May 23, 2007

Richard D. Brown
Director
Department of Planning and Budget



What Is Performance-Based Budgeting?

The process involves five steps:

- Establish goals that depict or describe the level of performance that we aspire to achieve and want to be recognized for achieving. (What do we want to be?)
- Examine the various services/activities that we currently undertake to determine which ones directly impact or indirectly influence the achievement of desired goals. (Why do we do what we do?)
- Create performance measures and performance targets for services/activities and routinely measure the progress toward such targets in order to enhance our ability to achieve desired goals. (How is my driving?)
- Evaluate current performance trends. (Determine cause and effect to the extent possible.)
- Allocate resources in a manner to maximize performance toward established targets and desired goals. (Level of resources, allocation of resources, and service delivery.)

Accomplishments to Date

Accomplishments

Strategic Planning and Performance-Based Budgeting System

- A common structure has been developed for agency strategic plans and budget requests:
 - Services performed by state agencies catalogued (2004-2005).
 - New budgeting and service area structure implemented (2006).
- State agencies have developed strategic plans in a uniform format:
 - New strategic planning model includes both agency strategic plans and service area strategic plans (2005).
 - State agencies received training and technical assistance on new model (2005).
 - Separate agency plans (Information Technology, Capital Outlay, Workforce) are consolidated within the strategic plan and are on the same reporting schedule (2005).
 - Strategic plans are linked to state budget through service areas

Accomplishments (cont'd)

Strategic Planning and Performance-Based Budgeting System

- The 2006-2008 biennial budget (budget bill and budget document) was presented in a new format:
 - Budget bill identified resources by state agency and service area (2005).
 - Budget document explained budget recommendations by state agency and service area and identified performance measures for service areas (2005).
- State agencies have now established key objectives and performance measures to focus and improve performance management (2006).

Accomplishments (cont'd)

Strategic Planning and Performance-Based Budgeting System

- New *Virginia Performs* system developed (2006).
- Agencies began to access web-based performance measure reporting system and submit revised strategic plans based on final state budget (2006).
- Agencies have entered historical and current data on key performance measures and service area measures (2006).
- Governor's 2007 budget document provided information on key agency objectives and performance measures (December 15, 2006).

Next Steps

What We Are Not Doing

Usual Budget Process

- Send out budget instructions for agency strategic planning and budget requests for current services and new services.
- Have agencies submit strategic plans and budget requests.
- Evaluate (centrally) agency strategic plans and budget requests.
- Announce budgetary initiatives and release Executive Budget (budget bill and budget document).

What We Are Doing

Performance-Based Budget Process

- Provide top-down guidance at outset of process (Governor's Goals/Council on Virginia's Future Goals/Secretarial Goals).
- Meet and collaborate with agencies to discuss key objectives, major issues, funding, and current performance trends.
- Provide specific feedback to agencies for follow-up actions.
- Supplement research efforts to increase effectiveness and improved productivity.
- Delay strategic plan and budget submissions (as long as practical) to take advantage of information gained from agency discussions and research efforts.
- Make budget decisions (to the extent possible) based on performance against established targets and desired goals.
- Explain budget decisions in terms of agency performance and progress toward desired goals.

Next Steps

Strategic Planning and Performance-Based Budgeting System

- Issue top-down guidance to agencies on statewide goals/issues for use in strategic planning efforts (May/June 2007)
 - Long-term statewide (COVF) goals (desired societal results)
 - Governor's stated objectives
 - Functional area initiatives/issues
- Begin next round of development for state agency and service area strategic plans (June 2007)
 - Issue revised strategic planning instructions which build on role of key agency objectives (June 2007)
 - Continue training to enhance abilities in strategic planning and performance measurement (June 2007)

Next Steps (cont'd)

Strategic Planning and Performance-Based Budgeting System

- Meet and collaborate with state agencies to analyze current performance and to tie agency strategic planning efforts to statewide goals (June, July and August)
 - Examine quality/appropriateness of agency key objectives, performance measures, and established performance targets
 - Assess current performance in terms of stated agency/service area objectives and performance measures
 - Begin mapping of relationships between agency key objectives/service area efforts and statewide goals/desired societal results (establish strategic agenda)
 - Review current composition of each agency's budget to determine flexibility (mandated vs. discretionary spending)

Next Steps (cont'd)

Strategic Planning and Performance-Based Budgeting System

- The relationship between societal-based indicators, state agency key objectives and measures, and service area performance measures may vary:
 - A direct link among all three levels.
 - An apparent link between two of the three levels.
 - No apparent link.

Example of Direct Link Between Societal-Based Indicators, State Agency Key Objectives, and Measures and Service Area Performance Measures

<u>Level</u>	<u>Goals/Objectives/Indicators</u>
Statewide:	
Desired Societal Result	Protect, conserve and wisely develop our natural, historical and cultural resources
Societal-Based Indicator	Water Quality
Department of Environmental Quality:	
- Agency Key Objective	Improve and protect water quality, especially in the Chesapeake Bay and its tidal rivers.
- Agency Key Performance Measure	We will reduce the annual number of pounds of nitrogen nutrients discharged from significant point sources in the Chesapeake Bay watershed.
Water Quality Improvement Fund Service Area:	
- Service Area Objective	Improve and protect water quality, especially in the Chesapeake Bay and its tidal rivers
- Service Area Performance Measure	Number of pounds of nitrogen nutrients discharged from significant point sources

Next Steps (cont'd)

Strategic Planning and Performance -Based Budgeting System

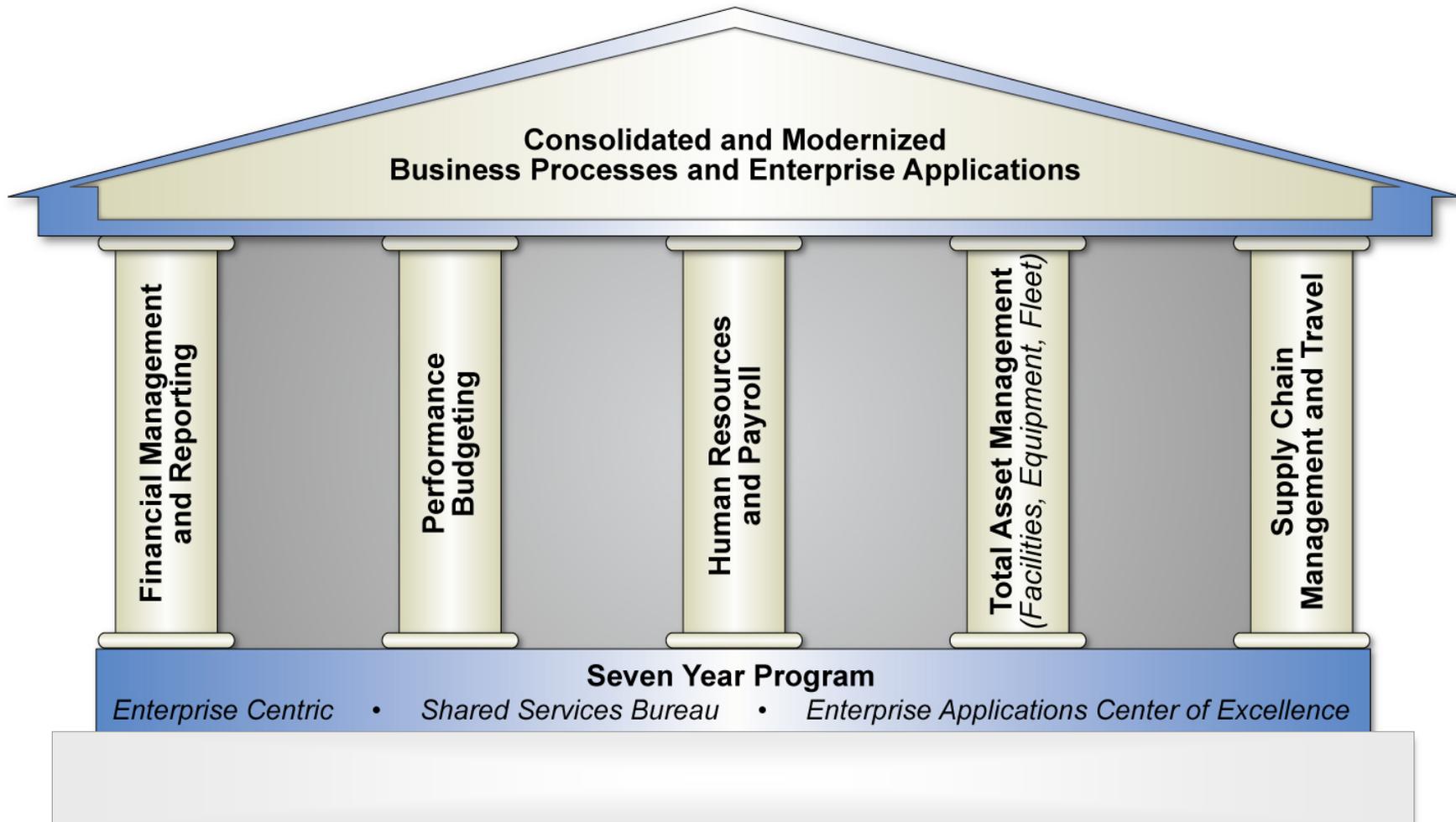
- Support performance budgeting with supplemental analytical efforts to increase effectiveness and improve productivity and operational efficiency:
 - Create task forces to make progress toward desired outcomes by researching cause and effect relationships and making specific recommendations for improvement across the enterprise of state government. Some likely outcomes to be addressed include: infant mortality, early childhood development and school readiness, recidivism (juvenile corrections), or educational/workforce skills of population.
 - Conduct performance reviews on select programs and services
 - What are objectives of activity?
 - What are intended outcomes?
 - Are we being successful?

Next Steps (cont'd)

Strategic Planning and Performance-Based Budgeting System

- Perform best practice reviews on components of state government operations (operational review of energy or water usage, mail processing, fleet management, paper usage, etc.)
- Assess efficiency of select state government processes in terms of accepted benchmarks or best practices (e.g. unit cost of eligibility determination, unit cost of licensure or permit issuances, etc., vs. best practices or unit cost standards)
- Foster productivity enhancements through gainsharing arrangements (Productivity Investment Fund)
- Re-engineer business practices to mitigate risks and increase efficiency and data availability (Virginia Enterprise Applications Program)

VEAP Overview



Budget Guidance Memorandum

Getting The Process Started

- Shortly, you will receive a Budget Guidance Memorandum (BGM) to kick off the performance budgetary process.
- Following issuance of the BGM, you will also receive:
 - Additional guidance from your Secretary on specific issues that will need to be addressed in your performance budget submission, and
 - Detailed instructions from DPB on how to prepare your agency's strategic plan submission.

Getting The Process Started (con't)

- This Budget Guidance Memorandum will contain:
 - An explanation of the Governor's top priorities:
 - Transportation challenges,
 - Health Care (prevention, access, and quality),
 - Education (Early childhood development/reading abilities, and
 - Conservation (400,000 acres by end of decade).
 - The long term goals established by the Council on Virginia's Future.
 - A worksheet showing each agency's FY 2008 appropriation and position level allocated to an inventory of services/activities in the agency.
 - A calendar of events that will guide the performance based budgeting process over the course of this year.

Council on Virginia's Future Long-term Goals

- Be recognized as the best-managed state in the nation ([Government and Citizens](#)).
- Be a national leader in the preservation and enhancement of our economy ([Economy](#)).
- Elevate the levels of educational preparedness and attainment of our citizens ([Education](#)).
- Inspire and support Virginians toward healthy lives and strong and resilient families ([Health and Family](#)).
- Protect, conserve and wisely develop our natural, historical and cultural resources ([Natural, Historic and Cultural Resources](#)).
- Protect the public's safety and security, ensuring a fair and effective system of justice and providing a prepared response to emergencies and disasters of all kinds ([Public Safety](#)).
- Ensure that Virginia has a transportation system that is safe, enables easy movement of people and goods, enhances the economy and improves our quality of life ([Transportation](#)).

Current Services Base Budget Composition (Preliminary)

FY 2008 Appropriations and Positions

Department of Planning and Budget (122)

<u>Services / Activities / Costs</u>	<u>FY 2008 Appropriations/Positions</u>				<u>Mandated Amounts</u>		<u>Discretionary Amounts</u>	
	<u>General Fund</u>	<u>Nongeneral Fund</u>	<u>Total (All Funds)</u>	<u>Positions (All Funds)</u>	<u>General Fund</u>	<u>Nongeneral Fund</u>	<u>General Fund</u>	<u>Nongeneral Fund</u>
<i>Direct Services</i>								
Budget Development and Budget Execution	\$3,982,861	\$0	\$3,982,861	49.10	\$0	\$0	\$3,982,861	\$0
Commonwealth Competition Council	\$3,493	\$250,000	\$253,493	2.00	\$0	\$0	\$3,493	\$250,000
Council on Virginia's Future	\$800,000	\$0	\$800,000	0.00	\$0	\$0	\$800,000	\$0
Forecasting and Regulatory Review	\$634,542	\$0	\$634,542	7.15	\$0	\$0	\$634,542	\$0
Legislation and Executive Order Review	\$59,886	\$0	\$59,886	0.50	\$0	\$0	\$59,886	\$0
Program Evaluation	\$1,074,701	\$0	\$1,074,701	6.15	\$0	\$0	\$1,074,701	\$0
School Efficiency Reviews	\$1,182,500	\$0	\$1,182,500	0.00	\$0	\$0	\$1,182,500	\$0
Subtotal, Direct Services	\$7,737,983	\$250,000	\$7,987,983	64.90	\$0	\$0	\$7,737,983	\$250,000
<i>Administrative and Other</i>								
Administrative Services	\$461,119	\$0	\$461,119	5.10	\$0	\$0	\$461,119	\$0
Subtotal, Administrative and Other	\$461,119	\$0	\$461,119	5.10	\$0	\$0	\$461,119	\$0
<u>Agency Total</u>	<u>\$8,199,102</u>	<u>\$250,000</u>	<u>\$8,449,102</u>	<u>70.00</u>	<u>\$0</u>	<u>\$0</u>	<u>\$8,199,102</u>	<u>\$250,000</u>

Major Milestones for Strategic Planning and Performance Budgeting Processes

April to Mid-June	Issuance of Governor's and top-down guidance, as well as strategic planning instructions, to state agencies.
Mid-June to Early Sept.	High-level meetings with state agencies to review strategic planning and performance efforts; identify key services and objectives and how these key areas relate to desired results (top-down guidance); discuss other strategic issues facing individual agencies, and provide further guidance to state agencies for follow-up.
End of July	Base budget (current services) instructions issued to state agencies, including specific instructions for potential reallocation of resources and/or efficiency or savings efforts.

Major Milestones for Strategic Planning and Performance Budgeting Processes (cont'd)

Early September	Base budget submissions due from state agencies and decision package instructions issued by DPB.
Mid-September	Strategic Plan submissions due from state agencies.
Early October	<p>Complete work on outcome-oriented studies, performance reviews, operational reviews, efficiency assessments, and productivity enhancement (gainsharing) efforts.</p> <p>Budget decision packages due from state agencies.</p>
Early October to Dec. 3	Governor's Office, Cabinet, and central agencies review of various submissions for state agencies and development of budget recommendations.

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