

Integrating Budgeting and Performance Measurement

All of the advocates of performance measurement favour incorporating performance-based information into the formulation of budgets. The real issue is how this is to be done and the extent to which performance information should drive budgetary decision-making. It is more than a coincidence that performance measurement initiatives in most governments have been launched and controlled by central budgetary agencies (whether these are called Treasury Boards, Management Boards or other titles) and by the funding authorities for outside third parties engaged in the delivery of public services. However, the relative merits of a centralised unilateral, uniform, forced and strictly regimented approach versus a decentralised, consultative, flexible, gradual and more experimental approach, are still being debated.

‘Performance-based budgeting’ has become a popular, but poorly defined term. In a general sense, it might be thought of as the practice of determining the budget of a program or a department on the basis of its past or anticipated future levels of performance. More precisely, according to John Mercer, a key architect of the GPRA in the US, ‘real performance-based budgeting gives a meaningful indication of how dollars are expected to turn into results’.¹ It does this by showing for each program area how dollars fund day-to-day activities, how those activities lead to outputs (the volumes of goods and services produced) and then what outcomes (impacts within society) should result. Mercer has developed what he calls ‘Cascade Performance Budgeting’ (May 2003), which consists of four principal steps:

- reformatting the budget along the lines of department’s strategic plan;
- illustrating through tables and diagrams the connections between budgets and strategic goals;
- linking day-to-day activities to this chain of performance budgets; and,
- displaying the full costs of these activities in a manner that facilitates the calculation of the total cost of achieving goals.

Even though it was first developed in the small (130,000 people) California city of Sunnyvale (where Mercer was Councillor and Mayor), it is claimed that ‘the general structure and methodology for developing a Cascade™ Performance Budget is similar for all government applications’.² **Exhibit 6** provides a conceptual overview of the components of CPB and **Exhibit 7** provides an actual example of downward reporting on performance for a particular program.

There is no disputing the sophistication of the CPB approach — with its vertical and horizontal linkages to capture information about different dimensions of

programs and the interactions among programs. In addition to the conceptual and analytical challenges of applying the approach, there are the costs of doing so. To produce the comprehensive, valid, reliable, comparable and continuous performance data called for in the CPB model would be a massive and expensive undertaking. It would require training of program staff and an enormous amount of staff time. Since budgets are already prepared under great pressures of time and with an overriding focus of meeting government priorities and serving ministers, it is doubtful whether such a performance budget could be produced in time to guide decision-making. This raises the important point that performance measurement systems must themselves be subject to cost-effectiveness evaluation. In principle, such systems should provide 'relevant' and 'adequate' data at a 'reasonable' cost. As the quotation marks suggest, what is relevant adequate and reasonable involves a subject judgement.

There is another problematic aspect to the insistence that performance measurement be tied directly and immediately to budgetary decision-making. Doing this will make performance measurement more threatening. In a time of budgetary restraint and cutbacks, performance reporting can be seen as a 'gotcha tool' for the Treasury Board and the Auditor General. If the centre demands performance information, it will be provided, but often in a desultory and cautious manner. Partly to protect the minister, the department, their programs and their own reputations, managers will volunteer negative news reluctantly, if at all. As Douglas Hartle, a shrewd observer of the budgetary process, once wrote: "It is a strange dog that willingly carries the stick with which it is beaten."³ In most jurisdictions, departments have been asked to absorb the costs of producing performance reports without additional resources and many probably feel that the money could be better spent directly on programs.

Exhibit 6

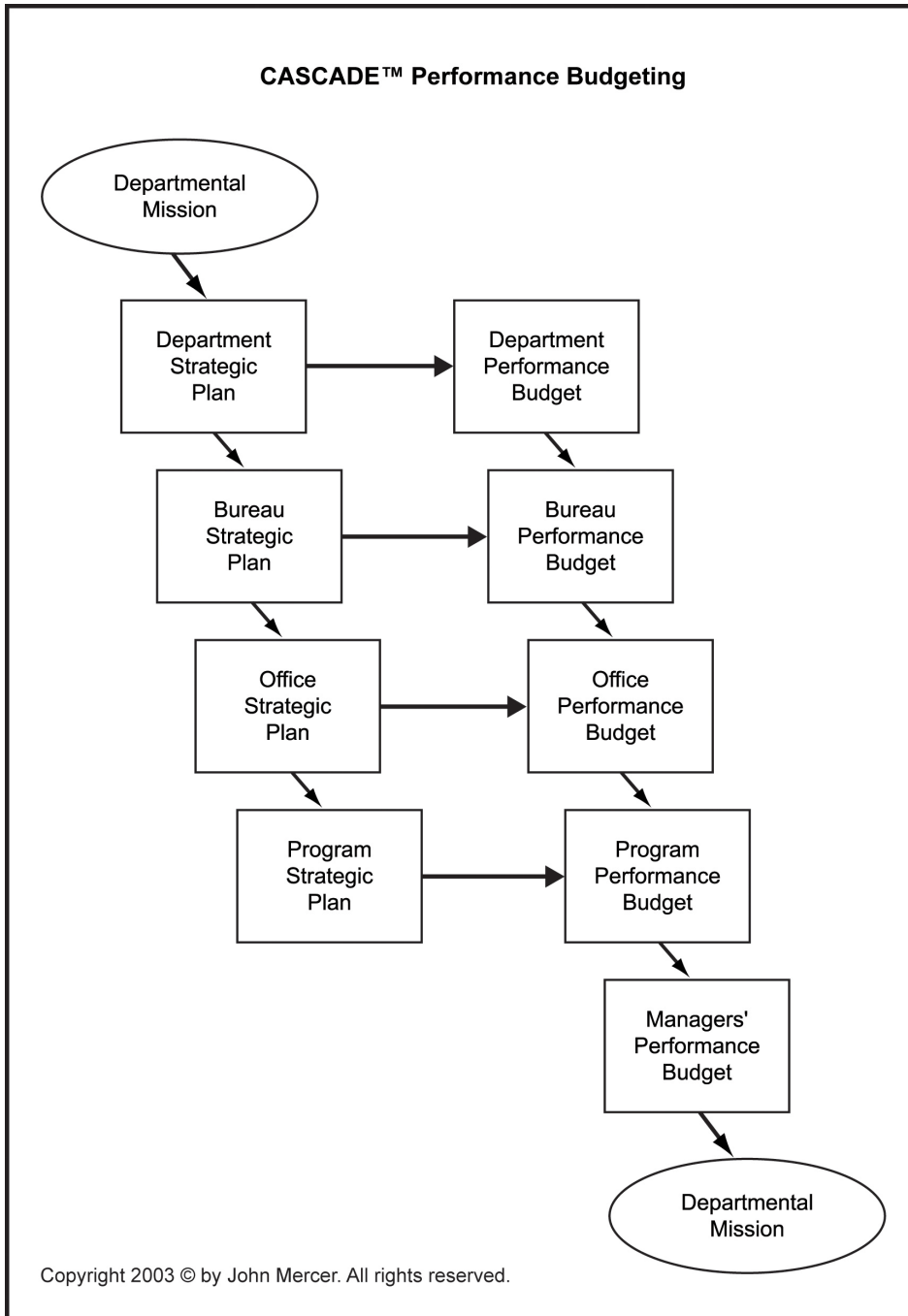


Exhibit 7

Cascade™ Drill-Down Example

End Outcome to Intermediate Outcome to Outputs to Activities for FY 2005

Strategic Goal 4. The public will be protected from unsafe practices that pose serious threats to their local environment.

- **Strategic Objective 4.1.** Local communities will be assured of safe and proper handling of dangerous toxic chemicals.
 - **Strategic Performance Goal 4.1.1.** By FY 2008, achieve a reduction of 24% from the 2002 baseline in the number of adverse incidents designated as 'serious' in the transportation and storage of Class A1 and A2 toxic chemicals.
 - **FY 2005 Annual Performance Goal 4.1.1.1.** Reduce the number of serious incidents in the transport and storage of Class A1 and A2 toxic chemicals by 4% from the 2004 result.
 - **Performance Indicator 4.1.1.1 — PI.A.** No more than 3 deaths caused directly by adverse incidents involving Class A1 and A2 toxic chemicals.
 - **Performance Indicator 4.1.1.1 — PI.B.** No more than 28 hospitalisations required as a direct result of adverse incidents involving Class A1 and A2 toxic chemicals.
 - **Performance Indicator 4.1.1.1 — PI.C.** Length of hospitalisation is no greater than 3 days in at least 80% of cases.

Hazardous Cargo Program

- **Program Measure 4.1.1.1 — PM.A.** Reduce the number of incidents of spillage in the transport of Class A1 and A2 toxic chemicals by 3% from the 2004 result.
- **Program Measure 4.1.1.1 — PM.B.** Increase the ...

Toxics Storage Safety Program

- **Program Measure 4.1.1.1 — PM.C.** Reduce the number of incidents of spills and leaks in the storage of Class A1 and A2 toxic chemicals by 5% from the 2004 result.
- **Program Measure 4.1.1.1 — PM.D.** Achieve an average satisfaction rating of at least 3.8 on a 5-point scale from Class A1 and A2 licensees on their dealings with TSSP officials.

Activities:

- **4.1.1.1 — 3.** Conduct 4975 inspections
- **4.1.1.1 — 4.** Complete 1985 investigations
- **4.1.1.1 — 5.** Issue 4100 licenses

ENDNOTES

¹ John Mercer. 'Cascade Performance Budgeting: A Guide to an Effective System for Integrating Budget and Performance Information and for Linking Long-Term Goals to Day-to-Day Activities' (May 2003) p. 5.

² *Ibid.* p. 1.

³ Douglas G. Hartle. 'The Role of the Auditor General of Canada.' *Canadian Tax Journal* 23, 3 (1975). p. 197.