

FROM OUTCOMES TO BUDGETS

**An Approach to Outcome-Based Budgeting
for Family and Children's Services**

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July 1995

Development of this paper was supported by a grant from the Annie E. Casey Foundation and by funders of the Center's Improved Outcomes for Children Project, including the Lilly Endowment, the Carnegie Corporation, the New American Schools Development Corporation, and the Pew Charitable Trusts.

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I. INTRODUCTION

There is growing evidence that the conditions of families and children in the United States are getting worse and that this deterioration comes at a time when we are spending more money than ever on family and children's services. Much of the resulting debate is about the adequacy of spending levels for specific programs intended to address these conditions. Relatively little attention has been paid to the processes that are **used to make decisions about spending levels**, namely the budgeting systems of the federal, state and local governments. Budgeting systems are arguably the most important decision processes in government; and government budgeting systems have grown up to reflect many of the same problems found in the family and children's service system itself: fragmentation, shortsightedness and a preoccupation with process rather than results.

This paper explores the notion that the budgeting systems used by the federal, state and local governments are actually part of the problem of fragmented and ineffective services, and that changes to budgeting systems are not a sideshow, but an essential part of, and possibly a precondition for, effective reform. The paper offers ideas about new approaches to structuring and running budgeting systems which could be used to produce better outcomes for families and children in the next year and the next century.

What do we mean by outcome based budgeting? Put simply, it is the development of a budget that explicitly works toward the achievement of outcomes agreed upon by state and local leaders and citizens. Spending plans are established according to the likelihood that they will result in improved outcomes for children and families. Such a budgeting process would begin by building on, rather than supplanting, existing budget structures. It would provide pictures of spending by function and result, in addition to the current agency and program array. It would present the long term trends of costs associated with failure to achieve positive outcomes for children. It would provide a framework within which to consider the long term costs and benefits of improving outcomes. And it would provide a

tangible written connection (or audit trail) between spending plans and the outcomes they are intended to improve.

This paper is written at a time when many state and local governments are actively working to transform their family and children's service systems to improve outcomes for families and children. In a few of these places, state and local leaders have begun to experiment with new approaches to structuring budget and financial systems to support the goals of service reform. These efforts represent the rudimentary beginnings of a financial reform movement which may have implications for government budgeting beyond family and children's services. The next years of experimentation will tell us much about what works and what doesn't. While outcome based budgeting is no panacea for such complex problems as teenage pregnancy, school failure and economic dependency, greater discipline in making choices about spending may give us a greater chance of success in solving these persistent problems.

There are, as yet, no proven approaches to financial systems reform. Consequently, this paper offers no explicit blueprints for how to implement new budgeting systems. Instead, it offers our best thinking about the value of a new type of budgeting process and some general parameters about what is entailed. As such, it is a work in progress. It will be up to the states and localities that try to put these ideas into practice to teach us the most critical lessons about implementation.

This paper is intended as a first step in helping interested states and localities shift their budget systems so they are explicitly directed at desired outcomes for children and families. As there is still much to learn about exactly how to achieve this goal, installing an outcome based budgeting system will not occur overnight and probably should not be tried on an entire budget at once. Instead, states may want to carve out a piece of the budget or target one geographical jurisdiction in the state and experiment with a new approach. The state legislature may agree to give the executive branch the authority to conduct a demonstration of the new process. Once it is proven effective, the state may then elect to expand the process to cover the whole budget. In any event, this paper is intended as

only the starting point of what is inevitably a long term and rigorous process, but one that holds significant promise for improving the life circumstances of disadvantaged children and families.

This paper is divided into five remaining sections and several appendices. Section II addresses the problems with the way budgets are currently developed and reiterates the need to restore the connection between budget decisions and the well-being of children and families. Section III attempts to establish a common language about outcome based budgeting so that the reader understands what we mean by terms such as "outcome," "indicator," and "performance measure." Also in Section III, we introduce the concepts of baselines and "turning the curve," as a starting point for outcome based budgeting. Section IV then presents a framework for an outcome based budgeting process that works backward from the outcomes to be achieved to the strategies most likely to lead to those outcomes. Section V explores the development of such a budgeting approach: first, it is described as an incremental approach to be phased in over time; second, four tools are identified as necessary supports in moving toward decision making from an outcomes perspective; and third, some suggestions are offered on how states and localities might put the pieces together to develop a new budgeting process. After a conclusion in Section VI, the paper offers several appendices which provide examples of various documents that might be useful to states and localities as they consider whether and how to pursue this new approach to budgeting.

II. THE PROBLEM WITH CURRENT BUDGET SYSTEMS

The problem with current budget systems has to do with the relationship between budget process and budget content. The structure of budget **processes** influences the **content** of budgets and the resulting effectiveness of government strategies to improve outcomes for children, families and communities. If the strategies derived from current budget processes are not producing the outcomes we want, then the decision processes themselves must be considered suspect.

The problem is twofold: (1) current budgeting processes in both the executive and legislative branches make it hard to make good decisions about the well being of children and families, and (2) the structure of our political system that calls for elections every 2-6 years reinforces short sighted decisions.

There are at least three characteristics of current budget systems which contribute to the failure to properly support the decision process:

Shortsightedness: Government budgets – whether developed in the executive branch or the legislative branch – are usually short term, one or two year plans, with little systematic consideration of long term trends. In general, such systems are too shortsighted to make good decisions about children, families and communities. We know that investments in children and families often take years to produce tangible results. Providing effective health care in early childhood, for example, pays off in healthier adolescents, greater success in school and more productive and self sufficient adulthood. The payoff includes less expense for remediation of childhood problems and the costs of treatment and dependency. But current budgeting systems rarely look at the effects of spending decisions for more than one or two years, let alone twenty. These systems fail to show the trends of such costs in any systematic way. They fail to support or encourage financially sound investment approaches to spending related to children and families. Existing legislative budget processes are often no more supportive of long term cross agency approaches to improving outcomes than executive branch processes.

Fragmentation: Current budget systems are not only shortsighted but they are badly fragmented. They tend to give only one view of spending plans organized by the structure of government agencies and programs. Spending plans by agency and program are necessary for effective management in the executive branch since agencies must be held accountable for public funds in their custody. Legislative budget processes are likewise are organized by committee jurisdiction which cover groups of agencies or programs. But budgets which are organized solely by agency or program are not very good decision tools. Government

organization is often a maze of interrelated, overlapping and sometimes duplicative structures. These structures tend to carve up and compartmentalize problems, rather than dealing with whole problems. While some might argue that it is necessary to **operate** government this way, few would contend that it is the best way to **decide** what government should do.

Process, not results, orientation: Finally, budgeting systems tend to be slavishly devoted to process rather than results. This is partly a function of the sheer magnitude of the task of developing spending plans for a large enterprise every year or two. Staffing this effort in a government environment often leaves little time for work beyond the minimum. Even the best budget operations are hard pressed to meet the procedural demands and deadlines of the annual document production line. Work on the long term strategic view of family and child well being is usually not required by the laws governing budget processes and this work becomes an expendable luxury.

There is, however, a more important reason why budget processes miss the connection to outcomes or results. Outcomes or results are usually considered only in terms of what individual agencies and programs produce. The very definition of an outcome in traditional budget processes has to do with the fragmented, partialized view of the world embodied in government organizational structures. Citizens outside government do not view success or failure in these terms. Current budget systems allow and even promote the paradox of programs claiming success while conditions get worse. Budgeting processes, and the information and analytic systems which support them, rarely look above the fray at any higher level of success or failure. Budgeting systems simply do not give our elected officials and decision makers the view of results they need to make good decisions.

These problems are, of course, part of the reason why our elected and appointed leadership often becomes so frustrated with government in general and government budgeting in particular. The problems they think they were elected or appointed to solve are so narrowly defined, so fragmented

and so buried in process that it is almost impossible to connect the ideas of improved well being for children, families and communities with the budget decision process itself.

Part of the reason we have these problems lies in a political system and decision-making process that reinforces a short term view of the problems for families and children and their potential solutions. This is the second part of the problem that has led us to ineffective budgeting. Our political system is set up so that officials come and go every few years: federal legislators are elected every 2-6 years; governors and mayors are elected every four years; state legislative delegates serve 2-4 years; even members of local commissions and school boards are elected for only a few years. While this situation provides a vigorous and effective method of choosing public leaders, it also makes any long term continuity in our elected representation extremely rare. This complex political environment presents a reality that must be addressed: how to get elected and appointed officials to convert their thinking to a long term view that may not have any instant payoff. Part of the answer lies in developing new budget processes which legislative and executive branch officials can use to shape long term solutions rather than discrete program responses.

III. STARTING POINTS

Before describing the framework for outcome based budgeting, it is necessary to consider two starting points which will help frame how budgeting can contribute to improving outcomes for families and children. The first of these is about definitions. The term "outcome" is used today in many different, often conflicting ways. It is important to be clear about this terminology. Second, we need to consider what budget solutions look like for complex social systems; specifically, we need to talk about baselines and the concept of "turning the curve."

A. Definitions

Budgeting requires discipline, and without discipline in the use of language we can have no meaningful discussion of budget system changes. Much of the national discussion of family and children's services reform uses a wide range of terms almost interchangeably, terms like outcomes, goals, indicators, benchmarks, objectives, and performance measures. Before we start, we need a clear and consistent set of definitions. We will use the following:

- An "Outcome" or "Result" is a condition of well-being for children, families, or communities. Outcomes or results are what we want at the bottom line for our children, our families, and our communities. They are conditions like "healthy children," "safe neighborhoods," "children ready for school," and "children succeeding in school." Outcomes are understandable by lay people. They are about the fundamental desires of citizens and the fundamental purpose of government. They are above and beyond the jargon of bureaucracy. Outcomes, by their nature, cannot be "owned" by any single government agency or system. They cross over agency and program lines.
- An "Indicator" is a measure, for which data are available, which helps quantify the achievement of outcomes. Usually, there is no single data element which captures outcomes such as "healthy births," or "children ready for school" or "safe communities." It is, however, possible to identify measures which, taken together, give us an approximation of whether we are achieving an outcome. The rate of low birthweight babies, for example, helps measure achievement of healthy births. Surveys of reading readiness at kindergarten entry can help measure readiness for school. An essential element of this definition is that the data for an indicator are currently available. This is not about things we wish we knew, but about real world information actually produced. As our data systems get better we can add to the list of indicators.
- A "Performance measure" is a measure of the effectiveness of agency or program service delivery. This is a measure of the system's production line and how well its services and programs are working or not working. This includes such information as rates of timely investigation of child abuse, or applications for assistance processed on time. These are the data sets we need to run our programs well, but they measure how well our **responses** are working, not the **results** we are trying to achieve.

The most important distinction in this set of definitions is between ends and means. Outcomes and indicators have to do with ends. Performance measures and the programs they describe have to do with means. The end we seek is not "better service" but better outcomes. The distinctions will help us describe budgeting processes built on clear thinking about what we wish to achieve and the strategies we choose to get there. Budgeting systems preoccupied with programs and process cannot be expected to produce improved results.

B. Turning the Curve

Budgeting is about allocating resources to solve problems. And the social problems that states and communities are trying to solve are enormously complex. Social systems are not easy to change. They are systems with direction and inertia. Changing them takes time. The budget term for this concept of direction and inertia is "baseline."

Baselines tell us where we are headed. They represent the expected course if we continue doing what we are doing, or, conversely, if we fail to change what we are doing. Hence, cost baselines are sometimes referred to as "cost of failure" baselines, meaning the course we expect to follow if we fail to change or fail to act. (This term is sometimes misinterpreted as suggesting individual or organizational failure, and can easily be misused in a political environment. We will soon suggest a replacement.)

The problem solving, decision making system involved in budgeting is therefore about making progress against the baseline, "beating the baseline," or "turning the curve" of actual performance away from the baseline.

Figure 1

[INSERT BASELINE GRAPH HERE]

Consider the above chart – which would be familiar to any business person – as a way of thinking about turning the curve. The line starting from the lower left and rising to the upper right is the cost baseline. It shows the trend line of likely future costs based on the pattern of past actual costs. The second line on the chart represents the path we would follow if we made investments which increase costs in the short run but decrease costs in the long run. Again, the concept is a central part of all business planning. The alternative "investment line" rises above the baseline in the near term, but, as savings are generated, it crosses the baseline and falls below it. Area A represents the short term increase in costs associated with our investment. Area B represents the longer term decrease in costs. When A equals B we have achieved breakeven. As we move past breakeven we save more money than we invested. The savings area (B) represents the return on our investment (A).¹

¹ Note that Figure 1 shows two types of savings in Area

We know that human service investments can work in much the same way as business investments. By investing in effective prevention, it is possible to lower future costs associated with "failure to prevent." Expenditures for immunizations, for example, save later costs of treating preventable disease. Investments in early education can save on later costs of educational remediation or failure. This kind of return on investment relationship can be used to finance human service investments in much the same way that businesses or government capital projects use future revenue as a basis for loans or bond financing.²

B: **cost reduction** which represents expenditures below current spending levels and **cost avoidance** which represents savings from a slower than projected rate of increase. The idea that cost avoidance may be credited against investment to produce "profit" is not unique to government. Business spending on safety programs or preventive maintenance avoids predictable larger spending on workers compensation and costs of repair.

² See The Conservation Company and Juvenile Law Center monograph "Building Bridges," and the discussion of investment-based redeployment in CSSP's "Financing Reform of Family and Children's Services, An Approach to the Systematic Consideration of Financing Options ("The Cosmology of Financing").

Baselines play two critical roles in outcome based budgeting: They provide the basis for considering investments and tracking return on investments for children and families. But more importantly, baselines are the means of measuring success and failure. We succeed if our performance is better than the baseline. We fail if it is equal to or worse than the baseline. This stands in contrast to traditional budgeting systems which tend to use simple year-to-year or point in time comparisons to measure success and failure. A program to prevent juvenile crime may be considered successful only if crime rates actually decrease in the following year. The program is considered a failure if rates go up. In most cases, the situation is much more complicated. If rates have been trending upward for the past ten years, a program may succeed in the *short term* by slowing the rate of increase, or turning the curve away from the baseline. *Long term* success might be defined as sustained improvement against the baseline, and the establishment of a new downward trend. Baselines provide a more realistic frame of reference for assessing both the short and long term impact of social programs.

Without baselines, we are blinded to the reality of complex problems and complex spending patterns. We are limited by a system which inaccurately measures progress in the short term and which skews decision making away from preventive investments. Baselines allow us to think about problems in multi-year terms and avoid the oversimplifications which accompany year-to-year comparisons. Outcome based budgeting uses baselines as the starting point for serious decision making. The purpose of outcome based budgeting can be reduced, in its simplest terms, to finding effective ways to improve our performance against the baseline for the most important outcomes for children, families and communities.

IV. AN OUTCOME BASED BUDGETING FRAMEWORK: A complete system for "turning the curve"

The budgeting system most likely to improve outcomes for children, families and communities is one which starts with the ends we wish to achieve and works backward to the means. The logic here is simple. We have a better chance of achieving a result if we define it first and work deliberately toward achieving it. This, in fact, is what we mean by outcome **based** budgeting. It is budgeting which bases

budget development on an outcomes starting point and systematically derives spending plans from that starting point.

The schematic in Figure 2 portrays such a budget process. It is the conceptual framework for the outcome based budgeting approach presented in this paper.

The budgeting process in Figure 2 involves five stages of work, shown in the five columns of the chart. These columns represent the progression of work from identification of outcomes through to the development of a five to ten year plan designed to improve those outcomes. The chart is a schematic designed to show the structure and progression of the work, not the detail of each stage.

We use the example of healthy births in Figure 2 because it is a relatively easy one to measure. As we move up the age scale to adolescents (school success and risky behavior) and to families (self-sufficiency) and communities (safety), the knowledge base of how to measure these outcomes and what strategies are most effective is more limited. In fact, filling in this chart for some of these indicators will be a difficult task, one that requires the development of new knowledge. But we maintain that the process is a worthy one.

Figure 2

[INSERT FOTB CHART]

A description of the tasks associated with each stage of work depicted in Figure 2 follows.

Outcomes: The process begins with the identification of the outcomes or results we wish to achieve. The first column in Figure 2 shows a set of outcomes which serve to illustrate the starting point for this work. This is not an arbitrary list. We have a growing body of experience with state, county and community efforts to establish outcomes. It is not surprising that the outcomes emerging from this work have many similarities. When people are asked what they want for their children, families and communities, the answers usually come back to basic concerns for the safety, health and success of children, the strength of families and the quality of community life. In spite of these commonalities, the process of setting outcomes must not presume or impose a set of outcomes. The process of identifying outcomes, sponsored by state, county or community leadership, must allow for diversity of opinion, and must be broadly based and inclusive, not top down and directive. The process should allow for change over time, and should permit variations in the way individual communities identify or select the outcomes they use. The process may involve a set of core outcomes, adopted at the state level, with room for county or community additions. Or the approach may involve creating a comprehensive set of outcomes from which communities choose. The process must balance the challenge of being complete and being manageable. The list of eight outcomes in Figure 2 is representative of the common elements of work across the country. Attachment A provides other examples of outcomes and indicators developed in selected state and community processes. Whatever approach is selected, it is essential to take the time to do it right. Budgeting is a political process, and outcome based budgeting requires an approach to identifying outcomes which is politically sound.

Indicators: The second stage involves disaggregating or "unbundling" each outcome or result into a set of indicators, which, if taken together, give us a reasonable approximation of the achievement of the outcome or result. Remember, this is about data which actually exist. We can add to the list of indicators as we improve our data systems. In most cases, there is no set

of indicators which can completely quantify the outcome. We use the best indicators we can find.

In Figure 2, the outcome "healthy births" is supported by two indicators (rates of low birthweight births and rates of pregnant women with no prenatal care). These two indicators help measure the extent to which the outcome is achieved. Data on these indicators can be used to establish a baseline against which to track progress.

Creation of indicator and cost baselines is the next step in the process. This involves the development of an historical trend and forecast for two different data sets. The first is the indicator data itself, such as the historical trend line for low birthweight babies. The second data set is more complex, and has rarely been systematically produced. It is the cost data associated with the failure to achieve the desired outcome, that is the cost of the "bad outcome" counterpart of the desired outcome. The "Cost of Failure" or "Cost of Bad Outcome" (COBO)³ trend line for healthy births would include the many costs associated with unhealthy births, including the costs of hospitalization for premature births and the lifetime treatment costs associated with related illness. These are our "sunk costs" if we fail to improve. Cost of Bad Outcome analyses are a new technology which will take some time to fully develop.⁴ The best starting point for this development may be the highest level, or master view, of all bad outcome costs. (Attachment C shows a prototype of such a high level analysis.) The master COBO analysis provides an unduplicated picture of the cost of bad outcomes, without attributing costs to specific outcomes. The later work of associating bad outcome costs with individual outcomes necessarily involves showing costs in more than one place. The master level analysis

³ Terminology alert: This is the promised replacement term for cost of failure.

⁴ See the discussion of "Investments and the Value of Outcomes" in Deciding for Investment, Getting Returns on Tax Dollars, by Jack Brizius and The Design Team, Alliance for Redesigning Government, National Academy of Public Administration, 1994.

keeps individual outcome analyses in perspective and helps identify weak strategies which simply shift costs from one bad outcome to another.⁵

The identification of indicators and the development of indicator trend lines and cost of bad outcome trend lines lay the groundwork for the next stage of work.

What Works: The next stage is a disciplined process to identify "what works" to improve our performance on the indicator and cost of bad outcome trend lines. With each indicator, it is possible to ask the question: "What do we know that works to turn the curve?" What kind of program, activity, community effort can reduce the rates of low birthweight babies? What efforts can promote higher utilization of prenatal care? The answers to these questions should not, and must not, be limited to government programs. We are concerned here with what is effective, not how it is financed or delivered. The thinking about what works should include no-cost and low-cost strategies, including such things as donated advertising (e.g. on the importance of prenatal care), use of volunteers (e.g. to assist in keeping clinic appointments) and similar strategies.

⁵ Note that the development of cost of bad outcomes data does not involve a judgement about whether or to what extent the costs are preventable, only that they are associated with the bad outcome. The goal here is to reduce, not necessarily eliminate incidence.

What evidence is required to make it onto the "what works" list? Do we need hard and fast evidence, "proven" results from rigorous evaluation? Or is judgement and experience sufficient? In the real world, the state of our knowledge from research will never be fully up to this challenge. If we wait until we know with perfect certainty what programs work, we will miss the opportunity to act. On the other hand, the whole point of asking this question is to move away from throwing money at problems or funding programs on the basis of speculation, popularity or political clout. Although there are serious limitations to our knowledge, there is a growing body of literature, information and experience on which to draw. The last 20 plus years of experimentation has taught us something about which kinds of programs and policies are most effective, or at least has given us a much better understanding of the characteristics of successful programs.⁶

The process of identifying "what works" will result in two kinds of responses: those which connect primarily to a single indicator or outcome (such as the link of effective family focused prenatal care to healthy births) and a longer more complex list of "what works" answers which connect to more than one outcome (such as the use of family support centers to improve school readiness, school success and other outcomes.) These are referenced as "single outcome" and "multiple outcome" strategies in Figure 2. This distinction is important because it provides

⁶ Lisbeth Schorr's book Within Our Reach is an example of research that has identified the kinds of programs that work to improve outcomes for families and children.

a clear placeholder in the framework to consider strategies which cross over outcomes boundaries. This helps avoid narrowly constructed responses and improves the chances of producing a coherent and cost effective agenda.⁷

The first cut (and maybe the second and third cuts) at the "what works" process will produce an expansive list of approaches to helping families and children. This first list will almost always be an undisciplined and unaffordable response. The process cannot stop here. The final product from this stage of work should be a disciplined package of approaches which, taken together, has a reasonable chance of "turning the curve," and represents an efficient and defensible use of resources. While this stage of work should not be fully constrained by resource questions, every step in the process must anticipate the resource limitations in the later stages.

Notice that the questions we are dealing with here are about whole problems (the bad outcome baselines) and whole solutions (the package of "what works" investments to beat those baselines.) This is not about funding favorite programs, creating pilot programs or providing funding in doses too small to have any effect. This work requires intellectual honesty about what it will take to solve the problem at scale. The process of confronting the size and scope of

⁷ This also highlights one of the dangers of structuring an outcome based process with a narrow starting set of outcomes (e.g. only outcomes associated with early childhood, or adolescence). Such processes may bog down because the work does not allow consideration of strategies which cross over to outcomes not "on the table."

bad outcome problems is not a comfortable one. It means that we must come face to face with what it takes to make good on our rhetoric. It may cost more or take longer than we are prepared to acknowledge. Traditional budget processes allow, even encourage, this process of avoidance, yet another reason why they fail to produce real change.

Systems view and gap analysis: A disciplined list of "what works" which has a chance to turn the curves must be passed through two types of analysis:

- The first analysis looks at how the elements of "what works" fit together in a coherent whole system. If accessible, community based, family focused prenatal care for all pregnant women below 300% of the poverty line is to be an essential part of the strategy to turn the low birthweight curve, we need to think about how this service fits into an overall service design and connects to other pieces of the service system. We need to think about the relationship of health services and schools. We need to decide if we prefer five different parts of the system providing this service, or a more coordinated response. Creating this vision of a coherent system must be part of the outcome budgeting process or part of a closely connected strategic planning process conducted across agencies at both the state and local level.
- The second analysis quantifies the difference between needed and existing resources. If we know what is needed to achieve better results and we know how it is to be configured, then we can compare what's needed, what's available and identify the difference to be phased in. If 60% of pregnant women currently receive early and consistent prenatal care, we can price out what it costs to reach 95% or 100%. This process, of course, becomes more complicated when changes are proposed in the way existing services are defined, configured or funded. To the extent outcome based budgeting moves toward less categorical community based service structures, the business of defining gaps becomes more a matter of realigning and redeploying resources, not pricing new services. However it is produced, the end product of this stage of work is an agenda of actions and cost which can be crafted, in the next stage, into a multi-year plan.

Multi-Year Budget: The final stage of work involves crafting a multi-year agenda which, if financed and implemented, represents the best thinking about what works to turn the indicator curves to produce the desired outcomes. The 5 to 10 year palate on which this agenda is developed provides a way to stage implementation by moving urgent spending forward in time and less urgent or less affordable spending backward. (See the financing discussion in Appendix B1.) The results of this work can take two very different forms. The process could lead to an incremental budget agenda, which addresses progressive changes in the service system and spells out a multi-year plan for the use of new and existing resources. The process could also be used to produce an outcome based reconfiguration of the entire budget for some, or all, of the service system.

The progression from considering strategies that work, through to the development of a multi-year budget is not strictly linear. The process will require considerable interplay and adjustment. There will in fact never be a static "right answer." The result can only represent the best thinking at the time. At the end of this work, however, we have a logic trail or audit trail from the budget request to the outcomes we hope to achieve. We can say how the requested service fills an identified gap in a well configured system, linked to evidence that the service can turn the curve of a specified indicator, associated with a desired outcome. Compare this audit trail to traditional budget justifications which focus on the demands for more service not the need for better results.

What Outcome Based Budgeting is Not

One important way to be clear about what we mean by outcome based budgeting is to define what it is not. Outcome budgeting, as we have described it above, should not be confused with other forms of budgeting which sometimes use similar terms.

Outcome based budgeting is not performance budgeting.

Performance budgeting is a necessary and useful part of an outcomes based budgeting system, but it is not the same thing. Performance budgeting focuses on performance measures for agencies and programs and the use of these measures to make decisions about managing agencies and funding programs. (See the definitions in section III.) Performance measures can be used to identify programs which are improving (e.g. a child support enforcement program where collections have increased and cost per dollar collected has decreased), or programs with declining performance. (e.g. an adoption program where the number of successful adoptive placements has decreased and the total time required for a completed adoption has increased). Performance measures can also be used to provide incentives or make purchasing decisions (e.g. contract renewals only for managed health care providers which fully screen and immunize children in their care). Outcome based budgeting does not substitute for these important management functions. Rather, outcome based budgeting is about choosing the best cross agency strategies to improve outcomes. In contrast, performance budgeting is about making sure that the program components of that strategy perform properly. Since performance budgeting involves setting performance measures within the current agency and program structure, performance budgeting rarely gets at the big picture questions of whether outcomes are improving. Performance budgeting is an essential subset of a complete outcome based budgeting system, but it is a supplement to, not a substitute for, an outcomes approach.

Outcome based budgeting is not initiative based budgeting

Equally important is the difference between outcome budgeting and traditional initiative based budgeting. Outcome budgeting is about whole problems and whole solutions. Initiative based budgeting, is about how to create saleable budget packages for the annual or biannual budget process. It is not uncommon to see a "children's initiative" one year and an "environmental initiative" the next. These are often short term packages which spread money over a range of programs and projects but do not connect to any longer term plan to improve outcomes. The individual components of such initiative packages may be worthy, but the approach itself tends

to perpetuate the ineffective and fragmented systems which have contributed to the current declines in the measurable well being of children families and communities.

Outcome based budgeting is not traditional budgeting with an outcomes veneer.

Finally we must consider the ways in which traditional budgeting can be made to look like outcome based budgeting. In truth, it is not hard to make very traditional budget products appear as if they were developed from an outcome based process. The method simply involves putting an outcome veneer on top of traditional budgeting. Budget shops or agencies analyze their budget requests and "relate" their budget priorities to an agreed upon outcome list. Agencies are good at this. This is, in fact, the time honored way of winning resources, namely packaging requests to suit what is in vogue that year. The truth is that agencies could relate their budget agendas to any list of outcomes without changing the content of their budget. Unless the budget process involves starting with outcomes and working backward to agendas, it is not really different. Unless budget reform is about new ways of making decisions, it is not about real change, or any real chance of getting different results.

There are many ways for budget reform efforts to get sidetracked. There are vested interests and pressures for change which can easily lead to ineffective and ill considered new approaches. The test is ultimately one of effectiveness. Do our budget systems lead to improved outcomes or not? This test of effectiveness, which we use to judge strategies for improving outcomes, can be used to judge budget systems as well.

V. DEVELOPING AN OUTCOMES BASED BUDGET PROCESS

In this section, we examine some of the issues associated with moving existing budget systems toward the use of an outcomes based framework. We begin with a note of caution, suggesting that states and localities interested in moving toward this framework use an incremental approach. We then identify some of the new budgeting tools required to support the development of an outcome based budget. And finally, we discuss an approach to organizing an outcome based budget process and phasing-in the use of outcome based budgeting over several years.

A. An Incremental Approach

The framework noted above has not yet been tested and proven effective by states and communities. Because it is still theoretical, the reader should make no mistake about the difficulty of creating an outcomes based budget. In fact, there are a number of forces at work in the current system that serve as barriers to an outcome orientation. These factors get in the way of any systematic attempt to restructure the way budgets are developed.

For example, the creation of an outcome based budget presumes that state and local officials have been successful in first reaching consensus on outcomes that are broadly perceived as important. Even with consensus on outcomes, multiple constituencies will have different perspectives on which strategies should be pursued to help more children grow into productive adults, especially when resource considerations are at stake. For example, serving sick children may take away resources available to healthy children and different people will legitimately disagree on the relative priorities assigned to each group. While conflict in budgeting is normal, even healthy, these conflicts and tradeoffs may get in the way of changing budget processes, as different constituencies perceive their interests to be more or less threatened by new approaches to decision making.

Perhaps the most challenging obstacle to outcome based budgeting is the political and bureaucratic inertia behind the current approaches to budgeting. Even if leaders become convinced that outcome based budgeting can deliver on the promise of more informed long term decision making and more effective use of resources, there is a natural resistance to change familiar executive and legislative budget processes, and understandable reluctance to start a process of change whose benefits may span beyond the terms of the elected officials involved.

Given the difficulties inherent in the development of an outcome based budget, it may be wise for states to begin the process incrementally rather than encompass the entire statewide children and family budget at the outset. It is unrealistic to expect an entirely new kind of budgeting process to replace traditional budget processes overnight. Outcome based budgeting requires a workload and organizational commitment above current levels. A complete replacement of existing budget structures in a single year is impractical as well as imprudent.

One way to start the process would be on an experimental basis with one piece of the budget or one geographic region of the state. For example, it may be advisable to start with a **full set** of outcomes and indicators, but experiment with the rest of the budget process for only one indicator or set of indicators. A state or local team could use the process to systematically develop an outcome budget agenda for turning the curve for lowbirthweight babies or teen pregnancy. Or, an individual department could develop a multiyear budget by starting with the indicators most closely aligned with their traditional missions. An education department might start with "children succeeding in school" or "children ready for school," as a beginning use of outcome budgeting.

A still different approach to experimentation might be to use an outcome budget approach for all or most funding for families and children in a particular jurisdiction. Such an approach would need to be carefully coordinated with the development of local capacity to oversee, or "govern," the system of services for families and children across traditional agency lines.⁸ This would require the careful

⁸ See the Center's draft paper "Changing Governance to Achieve Better Results for Children and Families."

development of state/local agreements about the funding involved and the nature of the process as well as a significant investment in developing local capacity to support the process.

Finally, a state or local government prepared to move beyond experimentation will need to structure the transition of executive and legislative branch processes in a carefully planned way which spans several years, at least. It will be necessary to run new processes in parallel for some period of time. Budgeting will still need to produce spending plans which align with organizational responsibility for existing agency and program operations. Resources and work commitments will need careful attention. In Appendix B1, we present one of several possible approaches to converting to outcome based budgeting over the course of several years.

B. Outcome Based Budgeting Tools

Outcome based budgeting will require the development of some new tools which are not now routinely produced in federal, state or local budget processes. These new tools are needed to move budgeting processes beyond agency and program perspectives and provide the information and analyses necessary to support decision making from an outcomes perspective. The four most important tools are discussed below. The first, a Family and Children's Budget, provides the consolidated spending summaries by function and outcome necessary to consider strategies across agency and program lines. The second, a legislatively mandated Cost of Bad Outcomes Baseline Report, provides the trend analyses and forecasts necessary to gauge the success or failure of improved outcome strategies. The third, a Research and Demonstration Report on Results, provides existing information (and plans to gather new needed information) on cost effective services and strategies for improving outcomes. Finally, the fourth is some mechanism to track progress and provide feedback so officials can make mid-course corrections in the strategies they are funding.

(1) A Family and Children's Budget: As noted above, the structure of federal, state and local government budgets reflects the current fragmentation of the family and children's service

system itself. Information about spending is spread across different agency budgets. Often spending for the same or similar service can be found in many parts of the budget. It is difficult to find even the most basic inventory of spending for family and children's services. And more advanced pictures of spending by special population (e.g. children in out of home care), by common service (e.g. child care) or by common function (e.g. intake) are rarely produced. Pictures of spending by outcome (e.g. children ready for school) are rare or non-existent. Furthermore, government budgets reflect only a portion of total spending on services and supports for families and children. We need to create a document which regularly presents a coherent and useful picture of spending for family and children's services. Such a document would go beyond a simple aggregation of spending line items, and present summaries of expenditures which show the interrelationship of common functions and services and can be directly used to support outcome based decision making.

There are a relatively small number of examples of children's budgets developed by states or counties (see Attachments D and E), and only a few of these have been produced on a regular basis. In general, these budgets have proved to be of limited value in the decision making process. The reason appears to be a tendency to stop at the point of providing a summary of line item spending by agency and program. Family and children's budgets must go beyond simple inventories of agency and program spending if they are to support decision making across agency and program boundaries.

It is possible to think of the spending inventories included in current children's budgets as only the first of three stages in the development of complete family and children's budgets.

- Stage 1: Inventory

An inventory budget provides a simple summary of existing line items and some form of analysis of spending by agency, program and type of program (i.e. education versus health). Inventories are the logical starting point for developing a family and children's budget, and can be used to answer such basic questions as whether spending for family and children's services, or spending for specific agencies or programs, is rising faster or slower than total spending.

- Stage 2: Functional

Stage 2 family and children's budgets go beyond the inventory of spending and present summaries and analyses of spending by common service or common function. A budget, for example, which shows all spending for child care, or cross agency spending on intake for out-of-home care, could be used to identify the most effective relationship between these services and advance the work of creating a coherent cross categorical system of services for children and families.

- Stage 3: Outcome Based

The most advanced family and children's budget would go beyond inventory and functional presentations to provide summaries and analyses of spending by outcome. These budgets could serve to synthesize the work of the outcome based budgeting process for decision makers, presenting the complete picture from choice of outcomes to proposed five and ten year strategies. In its most advanced form, an outcome budget could be structured to span beyond an individual level of government and present these kinds of analytic pictures for the totality of federal, state, local and private sector spending for families and children.

(2) An Annual, Legislatively Mandated, Cost of Bad Outcomes Baseline Report: Our budget systems must be built on a longer term view of child, family and community well-being and the costs and benefits associated with achieving better results. We need to ask questions, not about next year, but about the next 5, 10 and 20 years. We need to ask what effect proposed actions and proposed spending will have over the long term. We need to make sure

that the long term picture is always in front of decision makers, and we need to find ways of making the long term viewpoint politically feasible given the structure of our political process. For one thing, this means we need to dedicate the time, energy and resources required to systematically produce long term baseline projections for all critical indicators of family and child well-being, and companion projections of the cost of bad outcomes. These baselines should be produced annually as a decision tool for executive and legislative branch decision makers. Such pictures are now partially produced for only a few programs in the family and children's service system, usually welfare and foster care program caseloads. A fully developed Cost of Bad Outcomes Report would lay the groundwork for a change in decision making behavior. It would allow decision makers to have 20 year pictures in front of them when they make important decisions. Eventually, this long view may become the norm and not the exception in public budgeting. The recommendation for mandating cost of bad outcomes analysis through legislation is a matter of both stability and capacity. The systematic production of annual COBO analyses should represent a stable long term commitment of the state, county or community. This, and perhaps other elements of the outcome based budget process, deserve the status and support represented by a permanent change in budget law. A legal base for this work will also help assure that resources are provided to do the job right, and will help assure that both the executive and legislative branch budget processes are solidly grounded in a long term outcome based framework.

(3) A Research and Demonstration Report on Cost Effective Strategies: The third tool critical to outcome based budgeting is a resource to support the "what works" part of the outcome based budget process. We need to find a way to use our research resources to address the most pressing questions of service strategy effectiveness, and in particular the cost benefit effects of alternative strategies. A series of documents (report, newsletter, encyclopedia) are needed which pull together, in user friendly form, the most important findings on cost effective strategies for improving outcomes. Such documents could be produced by individual states, or by a national network or consortium. The work requires a close partnership between the research community and those responsible for public budgeting. This partnership requires

a greater commitment to funding longitudinal studies, and a greater willingness on the part of the research community to examine expenditure information. A closely connected process would identify and summarize the most pressing questions requiring research, and present a plan to obtain this information. This plan could be a direct byproduct of the budget process itself. The needs for research information could be readily identified by those who are trying to select the most promising programmatic approaches as part of the larger budget development process.

(4) Information Systems to Track Progress: Officials responsible for outcome based budgeting need to create timely feedback reporting on indicator achievement against the baseline and use this for mid-course corrections for policy and fund allocation. It is pointless to identify outcomes and indicators, produce baseline forecasts and investment plans and then wait two years for information on whether these efforts are working or not. A budget system without timely feedback reporting is more or less useless as a problem solving process.⁹ Officials responsible for a complete budgeting system must have the capacity to learn, and to

⁹ Budgeting systems and other "complete" problem solving systems must have three components: a vision of a solution, a means to manipulate the environment, and a timely picture of the current situation. It is generally not possible to solve problems with only two of these three elements.

make mid course corrections, and this requires timely data, and a process for considering data between annual budget cycles.¹⁰

The problem is, of course, that data for many key indicators may take months or years to become available. In constructing a new approach to budgeting we should not settle for this answer. Some investment in producing timely data must be part of the plan. This may involve spending money to speed up the production of currently collected data (such as faster special reporting on low birthweight births) or the creation of new data (such as use of surveys or record reviews to capture data on immunizations or readiness for school). The result we are looking for is a report produced at least quarterly on indicators compared to the baseline forecast. This should feed a process in which state and local officials consider these data between budget cycles and make recommendations for mid-course corrections.

These four tools, if established at the outset, can help state and local officials create a new budgeting process that may lead more directly to improved outcomes for children and families.

C. Putting the Pieces Together

Given the framework proposed in Section IV, what would it take to structure an outcome based budgeting process in the real world? Can we define an attainable process which uses outcomes as a starting point and systematically works through the development of a coherent, credible and *fundable* multi-year budget? How can a state develop a process which is flexible enough to run in parallel with

¹⁰ See "Improving Evaluability Through Self-Evaluation," Charles L. Usher, Evaluation Practice, Vol. 16, No.1, 1995, pp. 59 - 68.

existing state, county or community budget systems, while the state's capacity to use outcome budgeting develops?

Different political and organizational environments in each state or locality will dictate how an outcomes based budgeting process is to be structured. It is important that whatever structure is chosen incorporate all the relevant executive branch agencies and the pertinent legislative committees. In a state or county government, the process could be supervised by the cabinet secretary responsible for budget and finance, or by a special cabinet for children and families. In states where the legislative branch operates a parallel budget development process, the new structure could be used to organize budget committee work plans and staff assignments. At the community level, policy oversight could be provided by a community collaborative or governance entity responsible for improving outcomes for children and families.

Attachment B1 presents one of several possible approaches to structuring an outcome based budgeting process and phasing this process in over several years. This approach has several characteristics:

Use of a cross agency structure: In order to create a budget which addresses outcomes across agency and program boundaries, it is necessary to organize work on outcome budgets across agency and program lines. The idea that cross agency teams can produce effective plans to address problems is hardly a novel idea. There are many examples of cross agency work on such matters as economic development, emergency management, or public safety. These are usually time limited, or ad-hoc arrangements organized to address a particular narrowly defined or temporary problem. An outcome based budget process, however, could create a permanent structure geared to outcomes such as children succeeding in school, or children staying out of trouble (juvenile crime) which harnesses the combined intellectual and organizational power of many agencies to produce better results.

Resources devoted to new tools: If we are to make 20 year decisions, then we need 20 year tools, such as the cost of bad outcomes report discussed above. The development of these tools

must be planned and staffed, and the tools themselves must be given time to develop and improve. An outcome based budget process must support the development of such tools and must lodge responsibility for that development within an interagency structure.

Decision making based on results: The decision process should be geared to producing improved outcomes or results for families, children and communities. The "results test" must stand above other criteria in the way decisions are framed for decision makers. The process must involve a clear structure for reporting on results, and an honest assessment of whether our strategies are working or not. It must put us face to face with the real choices about what it takes to improve outcomes and then frame the hard decisions about what is working, what isn't working, and where when and how we need to invest.

Interactive and self correcting: The process must be intellectually honest, interactive and self correcting. It is critical that the process provide timely feedback on the extent to which each indicator is being achieved against the baseline. This information should be used for mid-course corrections in spending decisions.

While the approach outlined in Attachment B1 is geared to the executive branch budget process, a similar process could be developed using the legislature as the lead. The legislative branch has an essential role to play in advancing outcome based budgeting. In the short term, legislative leadership can provide the authorization necessary for experimentation with new approaches to budgeting. As this experimentation proceeds, legislatures may find the new products and structures produced by outcome based budgeting useful in the legislative appropriation process. Committees may structure joint hearings on outcomes which cross committee boundaries. The long term trend analyses included in the annual cost of bad outcome baseline report may prove useful in the process of reviewing, as well as developing the budget. In the longer term, legislatures can and should enact new laws which institutionalize the concepts and structures necessary to sustain outcome based budgeting approaches, once proven reliable.

VI. CONCLUSION:
Changing the culture of public budget systems

The leaders of our states, counties and communities have a choice to make. They can continue with traditional budgeting approaches. These approaches will present the same pictures and essentially the same choices as in the past. In all likelihood they will produce the same results. Or state and local leaders can consider changing the way they do business, literally. They can begin to build budget systems which provide 5-10-20 year pictures of past, and probable future, performance as a matter of routine everyday work on public budgets. They can begin to develop budgets which address the long term commitments necessary to improve outcomes for children, families and communities, not just the fragmented year-to-year changes in spending allocations for agencies and programs. It is possible to reconnect public budgeting with what the everyday citizen and their political representatives understand to be important, the results for people, not the results for bureaucracy. And with any luck, it might be possible to harness the machinery of government with the efforts of private organizations and citizens to make a real difference for our children, families, and communities. This is no small choice and no small change in behavior.

The ideas in this paper are intended to help think about that choice. Some of the technology needed to convert to an outcomes perspective in budgeting still needs to be created. Some of it will always be experimental. But states and localities may be able to translate the concepts and processes into a feasible venture given the political will to do so. The challenge of reshaping budget systems will require the time and talent to do new work thoroughly and well. This change is not about producing a cost of bad outcomes report on one subject every few years. It is about producing one every year for every outcome. It is about changing the picture **routinely** presented to decision makers and letting them ask a different set of questions. In the end, it is the questions, more than the answers, that promise to make a difference. And budgeting, at its best, is about making a difference.

APPENDICES

- A. Examples of Outcomes
- B1. Outcome Based Budgeting: An Approach to Implementation
- B2. From Outcomes to Budgets Worksheets
- C. Cost of Bad Outcomes Prototype
- D. Examples of Children's Budgets
- E. Example of an Outcome Based Budget Agenda
- F. Additional Reading

Appendix A

Examples of Outcomes

This attachment provides examples of outcome and indicator lists developed as part of state, and community efforts, in Missouri, New York, Oregon and Vermont.

Appendix B1

Outcome Based Budgeting: An Approach to Implementation

This attachment outlines one of several possible approaches to structuring an outcomes based budgeting process.

Attachment B1

OUTCOME BASED BUDGETING An Approach to Implementation

This section outlines one of several possible approaches to structuring a new budgeting process. It might be considered a "generic" approach which can be adapted to different political and organizational environments. It attempts to organize the work using a cross agency structure, which could, over time, grow from an experimental effort to a permanent structure for mainstream budgeting.

We assume, as a starting point for our discussion, that the state or community has developed a working list of outcomes and indicators through a separate, broadly based process. Given such a starting point, an outcome based budget process could be structured in the following way:

Outcome Teams: Create a team for each outcome. Get the best people from inside and outside of government and assemble a team devoted to work on each outcome. Make sure the team is a manageable size, has a good mix of perspectives and has top notch budget and data membership. (Budget and data membership is not support staff but peer membership.) Each team would be given wide latitude to gather and analyze information considered necessary to completing its task. This would include consulting with experts in the field, visiting programs, holding hearings, in effect, anything necessary to gather pertinent information, consult widely and make the best possible judgements.

From Outcomes to Budgets: Each team works through the "From Outcomes to Budgets" process. (See Attachment B2.) This involves giving each team three charges:

- Charge #1: Create a picture of the indicator and cost baselines. Review and refine the list of indicators, and compile information on the history of each indicator associated with the team's assigned outcome. Identify data for the past ten years, or more. Identify and study trend analyses where they exist. Create a five to ten year forecast of

future indicator levels assuming we stay on our current course. Create an analysis of all costs (federal, state, local and private) associated with, or caused by, failure to achieve the desired outcome. (For example, identify all such costs associated with unhealthy births.) Identify ten years of historical data on bad outcome costs. Create a Cost of Bad Outcome forecast by projecting worst case, best case, and most likely case future growth in the cost of bad outcomes if we stay on our current course. Gather as much information as possible (from research, informed opinion, focus groups, any way the team can get it) on why this is happening. What causes this problem and what is causing these trends. Compile a complete cost of bad outcomes report which summarizes the team findings and lays the groundwork for considering strategies to turn the indicator and COBO curve.

- Charge #2: Develop an action and budget agenda - assuming that money is no object. What do we know that works to turn the cost and indicator curves developed in charge #1. Consider the full range of possible responses, including non-governmental strategies, and no-cost/low-cost strategies. Describe why the team believes each action will work. Identify the research, informed opinion or other base for the team's conclusions. Develop a complete package of actions which, if taken together, could plausibly move the cost and indicator levels into an "acceptable/desired" range over five to ten years. Provide the team's best assessment of cost and indicator levels over the next five to ten years, specifically: What happens to the indicators by year? What is the cost of action by year by major fund source (federal, state, local, private other)? What, if any, savings in out-year spending can the team credibly associate with changes in the indicators? Specify the programs in which savings would occur and provide estimates by fund source.
- Charge #3: Develop an action and budget agenda - assuming that money IS an object. Take the work on Charge #2 and produce a package which gets the most bang for the buck. What is the leanest and meanest way to attack this problem. Assuming that Charge #2 produced the most expensive package, develop at least two more packages, with all the same analysis, which represent medium and low cost approaches. Assume that the low cost approach will be selected so make it good, and make it work.

Common Ground: Create a "Common Ground" Team where the work of the Outcome teams can be crafted into a coherent whole. The "Common Ground Team" would fulfill three specific functions for the Outcome teams: First, the Common Ground team would keep members informed of progress across tasks and provide a forum to discuss strategies which cut across more than one outcome. Second, the Common Ground team would combine the work of the different committees into a single set of recommendations. This last charge becomes

more formal as the process nears its conclusion and involves the production of a formal report describing the complete Outcome based Budget Agenda, including a crosswalk to the state, county or community organizational operating structure. Third, the Common Ground team would be responsible for developing the best possible versions of the outcome based budgeting tools discussed in section V for use by the individual team. These include: (1) a Family and Children's budget which aggregates spending for children and families, and provides a framework for analyzing spending by function and outcome; (2) A Cost of Bad Outcomes baseline report which provides trend analyses for total bad outcome costs; and (3) a report, or series of reports, on the best available research on the cost effectiveness of strategies for improving outcomes.

Financing: Create a Finance Team to examine financing options and propose a financing plan for the outcome based budget agenda. This team would have representatives from each of the outcomes teams, plus special finance expertise. The team would have a special set of charges. The team would pass judgement (in a concur, non-concur mode) on the committee statements about future cost savings from any set of actions. The team would examine the full range of financing options for funding the Outcome Budget Agenda, with a special emphasis on investment approaches. The team would examine overall spending and consider the Cost of Bad Outcomes forecasts as a basis for investment financing approaches which use out-year savings or cost avoidance associated with prevention. The team would produce a multi-year financing plan which can be combined with the outcome based budget agenda into a single statement of program and fiscal strategy.

It is not realistic to expect the process outlined above, or any new approach to outcome based budgeting to replace traditional budget processes overnight. Outcome based budgeting requires a workload and organizational commitment above current levels. It will be necessary to run new processes in parallel for some period of time. Budgeting will still need to produce spending plans which align with organizational responsibility for agency and program operations. Many budget and accounting functions may remain essentially untouched by this process or may change slowly.

One approach to making the transition to outcome based budgeting takes advantage of the difference in existing budgeting systems between base and incremental components of the budget. Most budgeting systems use the existing budget as a starting point for creating the next.¹¹ In simple terms, the base budget addresses what is needed to continue existing government program commitments. This can be thought of as current spending plus adjustments for such things as inflation and population growth. The incremental part of the budget process addresses substantive changes (increases or decrease) against the base budget. The relationship between these two components can vary depending on fiscal circumstances and management tradition. In times of flat or declining resources, the entire budget process may consist solely of reductions in the base budget. In other circumstances, cuts in the base budget might provide money to fund new spending in the incremental budget process. In times of plenty, base budgets can be fully funded and funds can also be made available for incremental new spending. Outcome based budgeting could be implemented over a four year period by starting with a process which impacts the incremental portion of the budget and moving to a process which eventually is used to meet both incremental and base budgeting functions.

The following example, although sketched out over four years, could actually be made either shorter or longer. It is offered here as an example of how the new budgeting process could be phased in over some period of time.

Year 1: *The base budget remains the same and there is a parallel check on the incremental budget using an outcome framework.* Although the incremental budget would be developed in the traditional way, an outcomes approach would be used as a parallel check on whether the traditional incremental budget was likely to lead to the desired outcomes. This assessment process is intended to identify whether the recommended spending changes in the incremental budget move total spending in the right direction, i.e. toward spending strategies most likely to improve outcomes.

For example, an incremental (or initiative based) budget in times of increasing resources might spread money over a range of programs with marginal one year increases in each (e.g. the provider network for the juvenile justice system). In contrast, an outcome based budget might place greater emphasis on multi-year strategies that are

¹¹ This stands in contrast to "zero based" budgeting which starts the budget cycle with a clean slate.

believed to head off continued growth in remediation costs (e.g. juvenile justice system entries). The two budgets would contrast long range and short range approaches and may serve to shift incremental spending toward strategies which are cost effective over a multiyear period. In times of decreasing resources, an outcome based budget would similarly provide a longer term, results oriented perspective on the effects of proposed spending reductions.

Year 2: *The entire incremental budget is developed according to an outcomes framework.* Here, the outcome budget process would be used as the primary vehicle for developing the annual budget recommendations for the incremental spending increases or decreases. The incremental budget agenda would be derived completely from the outcomes process and would use spending reductions and increases to steer toward strategies most likely to improve outcomes.

An incremental budget developed in this way would show the relationship of one year spending proposals to a five to ten year strategy. If, for example, the first year emphasis is on improving immunization rates, the budget presentation would make clear how this relates to a multiyear strategy to achieve specified levels of immunization, and why this sustained approach is believed to work. The complete incremental outcome budget would display and justify why some actions are recommended in the early years and other actions are deferred.

Year 3: *A parallel check on the base budget is conducted using an outcomes approach.* The outcome based budget process is used as the primary vehicle for incremental spending plans as noted in Year 2 above, and as a check on base budget plans developed through the traditional budget process. The check on base budget plans provides options for moving existing spending toward strategies most likely to improve outcomes.

In addition to the pictures presented above, the use of outcome based budgeting for base budgets allows a fuller exploration of the "what doesn't work" question. For example, a disciplined examination of what it takes to improve reading scores may provide the political cover, for the first time, to shift funding from programs which are marginally effective to those with demonstrated results. In cases where the marginal program is dictated by federal requirements (such as those in Title I or the Drug Free Schools program) the process may produce the justification needed for a waiver request.

Year 4: *Replace some or all base budget functions with an outcome based budgeting process.* In this final phase, the outcome budget process would be used as the mainstream budget development process for both base and incremental budget recommendations. Every program and every expenditure could be subject in this process to the same test of coherence and effectiveness. Program expenditures would be justified in terms of their place in a coherent multiyear strategy which works to turn the outcome/indicator

trend lines. Programs with related functions (e.g. child welfare and juvenile justice intake and licensing) or related roles (e.g. public health and school health roles in health screenings) would have their relationships examined and better defined within a larger results oriented strategy.

Appendix B2

From Outcomes to Budgets Worksheets

This attachment provides prototype worksheets for use in completing the five stages of work in the FOTB process.

Appendix C

Cost of Bad Outcomes Prototype Analysis

This attachment is a prototype Cost of Bad Outcomes analysis, prepared by CSSP using data from the Los Angeles County Children's budget for FY 1989 through FY 1993. This is not an official document of Los Angeles County government.

Appendix D

Examples of Children's Budgets

This attachment provides examples of Family and Children's Budgets which are currently produced on an annual basis. Sample pages are shown from budgets from Kansas and Oklahoma. Of these two, Oklahoma's budget is the more advanced, moving beyond the Stage I inventory approach to provide some Stage II cross agency summaries by common service (e.g. child care) and outcome (e.g. promoting positive mental health).

Appendix E

Example of an Outcome Based Budget Agenda

Attached is the best current example (we know of) of an annual budget agenda derived from an outcomes starting point. The pages are excerpted from the Multnomah County budget for Fiscal Year 1994 - 95. Multnomah County used a selected set of the Oregon Benchmarks as the basis for this work.

Appendix F

Additional Reading

Building Bridges, The Conservation Company and the Juvenile Law Center, Philadelphia, 1994

Deciding for Investment: Getting Returns on Tax Dollars, Jack Brizius and the Design Team, The Alliance for Redesigning Government, National Academy of Public Administration, 1994

Financing Reform of Family and Children's Services, An Approach to the Systematic Consideration of Financing Options, or "The Cosmology of Financing," Center for the Study of Social Policy, Draft, June 1994

"Improving Evaluability Through Self-Evaluation," Charles L. Usher, School of Social Work, University of North Carolina at Chapel Hill, Evaluation Practice, Vol. 16, No.1, 1995, pp. 59 - 68.

Improving Outcomes for Families and Children, a Framework paper of the Improved Outcomes Project, Center for the Study of Social Policy, 1994

Making a Difference: Moving to Outcome-Based Accountability for Comprehensive Service Reforms, Nancy Young, Sid Gardner, Soraya Coley, Lisbeth Schorr, Charles Bruner, National Center for Service Integration, Resource Brief #7, 1994

Oregon Benchmarks, Standards for Measuring Statewide Progress and Institutional Performance, Report to the 1995 Legislature, Oregon Progress Board, December, 1994

Spending and Revenue for Children's Programs, Steven D. Gold and Deborah Ellwood, prepared for the Finance Project, 1995

Within Our Reach, Breaking the Cycle of Disadvantage, Lisbeth B. Schorr, Doubleday, 1989