

# *Outcomes Based Budgeting* *How to Link Budgets to* *Impact*



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# AGENDA

- 1 Learning objectives
- 2 Outcomes Based Budgeting - Introduction
- 3 Principles of Outcomes Based Budgeting
- 4 Conclusion

# LEARNING OBJECTIVES

## Learning Objectives

- Understand the key differences between traditional budgeting approaches and outcomes based budgeting
- Know whether or not outcomes based budgeting makes sense for your organization
- Leave the session ready to begin a conversation with your board and/or senior leadership about outcomes based budgeting

# OUTCOMES BASED BUDGETING - INTRODUCTION

## *Discussion 1*

- 1. What types of budget processes does your organization use?*
- 2. Is the process effective? If yes, why?*
- 3. How could this process be improved?*



# Common Types of Budgeting

- Zero based budgets
- Program budgets
- Line item budgets
- Outcomes (performance) based budgets



## Definition

# Outcomes Based Budgeting

- Practice of developing budgets based on relationships between program funding levels and expected results
- Generally starts with strategic goals
- Driving from an organizations revenues as opposed to expenditures
- Alignment with performance measures



# Benefits of Outcomes Based Budgeting

Identify high &  
poor performing  
programs

Compare budget  
options

Provide enhanced  
accountability

High degree of  
public  
transparency

Create economies  
of scale for like  
programs

# Key Definitions

## Inputs

- Represents resources allocated to and expended by a program

## Outputs

- Relates to goods or services produced by a program
  - How many clients served?
  - How many units were produced?

# Key Definitions

## Efficiency Indicators

- Measures ratio of inputs used per unit of output and or outcomes
  - Cost per client served
  - Cost per client served that achieved outcome
  - Cost per unit produced

## Outcomes

- Qualitative results associated with the program. Outcomes focus on “why” you are providing the goods or services.
- Differ from outputs as outcomes are the results of such outputs

# **PRINCIPLES OF OUTCOMES BASED BUDGETING**

# Four Principles of Outcomes Based Budgeting

#1

- Establish Outcomes

#2

- Develop Approaches to Achieve Outcomes

#3

- Develop a Budget with Approaches to Achieve Outcomes

#4

- Evaluate Performance and make Adjustments

## **Principle 1 – Establish Outcomes**

- Ideally outcomes are tied to a strategic plan
- There may not be a need to measure every outcome
- Outcomes should be the results of outputs from programs. The outcomes are the “why” you are performing the program.

## Output or Outcome?

Building houses for 100 families

Answer: **Output**



Increasing the number of students that find  
employment after college

Answer: **Outcome**

Reducing the number of violent crimes over the next  
three years to below 10%

Answer: **Outcome**

## **Principle 2 – Define Strategies to Achieve**

- The steps an organization takes to achieve outcomes
- “How are we going to do this?” or “How are we going to get there?” are common questions
- Linking of outputs to outcomes is a significant part of this principle.
  - For example, the number of meals provided by a homeless shelter is an output. Increasing the number of people who have access to food would be the outcome.



## Linking Outputs to Outcomes

- Budget preparers and reviewers should be able to determine that outcomes data make sense related to the amount of output
  - How many persons are expected to find employment after receiving training services, and when?
  - What percentage of elderly will be able to live independently after rehab services? How long will they be able to live independently?
- Historical data as well as internal and external factors will be needed to make this link

## Discussion 2

1. *Has your organization linked outputs to outcomes?*
2. *If yes, how have you accomplished this? Is this done at the organization level, department level or both?*
3. *If no, what are the challenges that you are facing that prevent you from making this connection?*

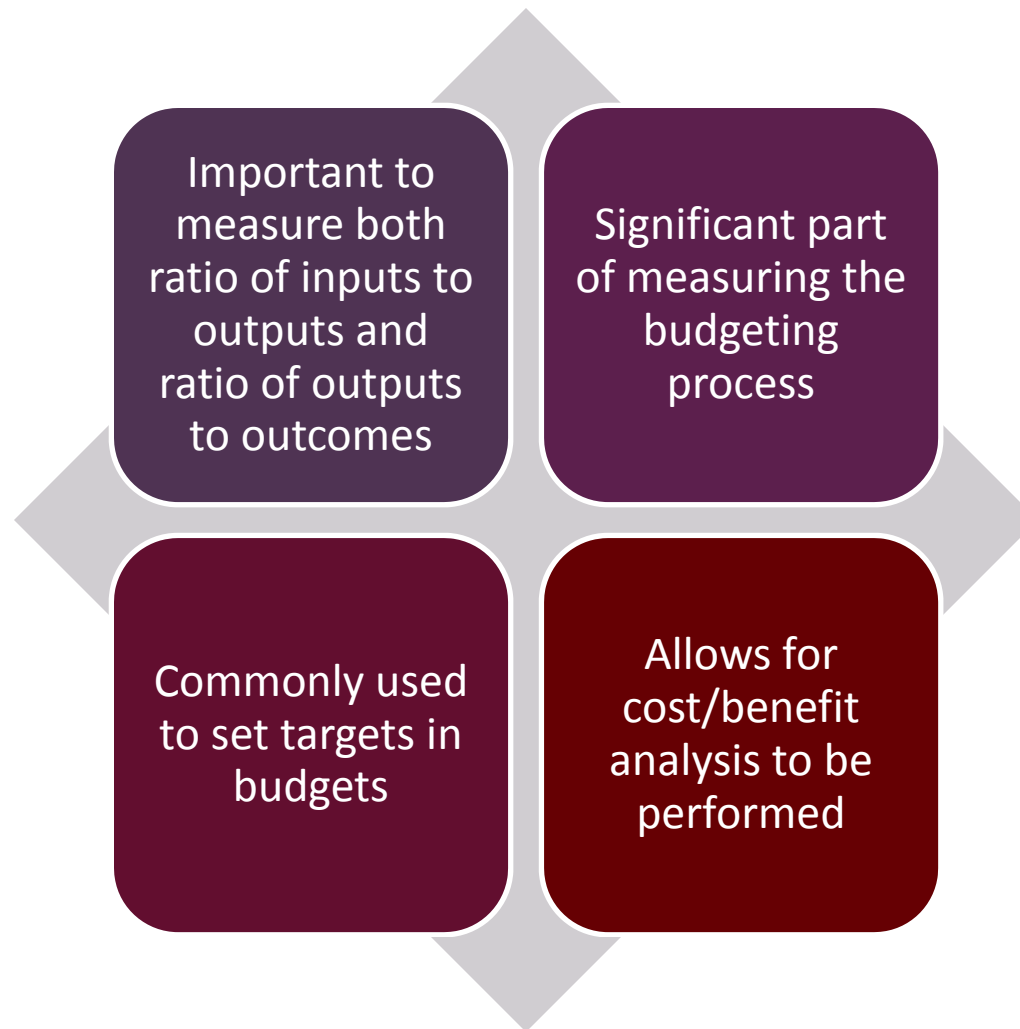


## Principle 3 – Develop a Budget for Approaches

1. Set departmental/program goals (link to outcomes)
2. Understand your revenue sources (program service revenue, unrestricted or restricted contributions, grants, etc....) Not all will be as easily allocated as others
3. Develop a link of outputs to outcomes (principle 2)
4. Develop a link of inputs to outputs (efficiency indicators)
5. Allocate inputs to achieve desired outputs

*\*\*\*In practice many of these steps are accomplished at the department/program level\*\*\**

# Efficiency Indicators



## Exercise – Efficiency Indicators

### Exercise:

For each mission and outcome provided develop the following items related to efficiency indicators

1. Develop output efficiency indicators that the organization could use to measure input to output efficiency
2. Develop outcomes efficiency indicators that the organization could use to measure output to outcomes efficiency

## Exercise (Continued)

1. Organization's mission is to repair roads for safe travel. Outcome is to have roads meet the recommended safety standards as designed by the city.
2. Organization's mission is to find permanent residents for the homeless. Outcome is to reduce the percentage of people who are homeless to under 5%

# The Role of Performance Targets

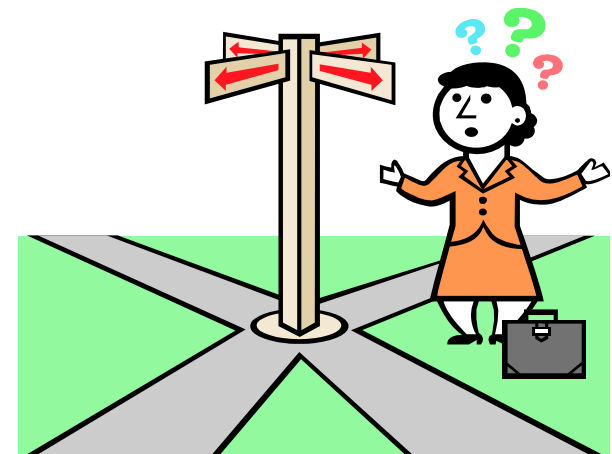
- Service as projected values of output and outcome efficiency indicators
- Can help account for uncertainty in efficiency indicators. Especially those that may not be determined until after the year has concluded
- There are several ways to develop targets including:
  - Based on benchmarking information
  - Based on a range of acceptable outputs or outcomes
  - Based on a variable known after uncertainty is removed (i.e. once the number of clients is known)

# CONCLUSION



# CONCLUSION

- Having a strategic plan or defined outcomes is imperative in order to accomplish outcomes based budgeting
- It will be necessary to gather historical data about the performance of programs/outcomes
- Management should consider how to link inputs to outputs and outputs to outcomes. Departments or program managers can play a critical role in this.
- The implementation of outcomes based budgeting can be evolutionary vs. revolutionary





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