

Report To: Finance Committee, Board of Health
Submitted by: Dr. Nicola Mercer, Medical Officer of Health and CEO
Subject: PROGRAM BUDGETING AND MARGINAL ANALYSIS (PBMA)

RECOMMENDATION(S):

- (a) That the Finance Committee makes recommendation to the Board of Health to receive this Report, for information.

BACKGROUND:

Program Budgeting and Marginal Analysis (PBMA) is a criteria based decision making framework for resource allocation. This framework was developed by Prioritize Consulting, a Vancouver based consulting firm that has worked with numerous public and health sector organizations. There are currently seven Ontario health units (including WDGPH) using the PBMA framework in addition to the MOHLTC and many hospitals and health authorities across Canada, the United Kingdom, Australia, and New Zealand.

The need for PBMA arises from resource scarcity (the idea that society has insufficient resources to fulfill all human wants and needs), and incorporates the economic principals of marginal analysis (an examination of the additional benefits of an activity compared to the additional costs incurred by that same activity) and opportunity cost (the loss of potential gains from other alternatives when one alternative is chosen) while maintaining the ethical conditions of relevance, publicity, revision, empowerment, and enforcement.

The goal of PBMA is to maximize value for money by making the best possible use of available resources. This is achieved by evaluating resource allocation proposals against an Agency defined set of criteria which encompass all of the factors that should be considered in making these decisions, and then making allocation decisions based on a comparison of all of the proposals against the others.

PBMA is a different way of thinking about resource allocation decision making within the organization. The goal is to move from individual divisional thinking, to overall organizational thinking (see chart at *Appendix "1"*).

In 2017, the Senior Leadership Team at WDGPH adopted the PBMA framework for resource allocation decisions for the 2018 and future budget years.

PUBLIC HEALTH AND/OR FINANCIAL IMPLICATIONS:

Steps in the PBMA process:

- 1) Set and weight criteria:
 - a. Criteria are all of the factors that should be considered in resource allocation decisions;
 - b. They draw upon the organization's mission, vision, values, mandate, and strategic directions.
 - c. WDGPH criteria are attached at *Appendix "2"*.
- 2) Identify risk framework to be used in developing and evaluating proposals;
 - a. WDGPH risk register categories were used, as attached at *Appendix "3"*.
- 3) Set a target for investments, disinvestments, or both, and define what is in scope:
 - a. Target may be a budget shortfall or gain, a percentage of the overall operating budget, or some other relevant metric.
 - b. The overall target is allocated among the divisions, so that each Director is responsible for coming up with their divisional target amount of proposals for investment, disinvestment, or both (based on the organizational targets set).
 - c. WDGPH chose an organizational target for both investments and disinvestments of \$1,000,000 (approximately 5% of the Cost-Shared Mandatory Programs budget).
 - d. What is in scope depends on what the objective is, and what management has control over. *Appendix "4"* is a decision tree for determining whether or not a given activity or expenditure is in scope.
- 4) Develop proposals;
 - a. Proposals include a summary of the idea, the financial and FTE cost or savings of the proposal, an evaluation of the impact of the proposal on the weighted criteria, and an analysis of the risk related to the proposal.
 - i. The highest impact score that an investment proposal can receive is 300, and the lowest impact score that a disinvestment proposal can receive is -300.
 - ii. In the case of investment proposals, the higher the score, the more likely it is that that proposal should be implemented (subject to the risk assessment), as you are measuring positive impact.
 - iii. In the case of disinvestment proposals, the closer the score is to 0, the more likely it is that the proposal should be implemented (subject to the risk assessment), as you are measuring negative impact.
 - b. Proposals are developed by middle and senior management, and may include contributions from staff. It is the responsibility of Division Directors to assess all of the proposals submitted in their division, choose which proposals will move forward for rating, and to ensure that they are able to defend the proposal, its impact, and the risk assessment to the Advisory Committee.
 - c. In developing proposals, two questions are asked:
 - i. In the case of investment proposals: what would you do if you had "X" more dollars to spend?
 - ii. In the case of disinvestment proposals: what would you do if you had "X" less dollars to spend?
 - d. Valid proposals do not include anything that would breach the legislative or regulatory requirements that WDGPH is required to adhere to (this includes both public health specific statutes such as the *Health Protection and Promotion Act*, and generally applicable statutes such as the *Occupational Health and Safety Act*).

- 5) Rate proposals:
 - a. The Advisory Committee (or rating panel) is comprised of the Senior Leadership Team.
 - b. The Advisory Committee reviews each proposal in detail, and asks questions about the validity of the impact score and the risk assessment to ensure that they are accurate, fair, and defensible.
- 6) Choose which proposals to implement.
 - a. Once all of the proposals are rated, they are compared against the rating of all the other proposals to identify which proposals should be implemented. In this way, the opportunity cost is factored in: if the decision is made to implement one proposal using the resources available, another proposal that could have been implemented with those same resources is given up; by comparing all of the proposals against one another using a defined set of criteria, you are assessing what is the most important, based on all of the ideas for how money can be spent or saved.

Proposal Implementation Guidelines

Disinvestments

- Anything with a positive score should be accepted for implementation right away;
- Anything between 0 and -50 should be accepted, unless there is a significant risk element;
- Most proposals between -51 and -100 should be accepted, unless there is a significant risk element; and
- Once the score gets beyond -100, then it really becomes a judgment call and the two key factors are: the quality of the **investment** proposals and the severity of the forecasted deficit.

Investments

- Anything with a score higher than 200 should be accepted, subject to risk factors and funding availability;
- Between 150 and 200, it depends on the availability of funds for implementation and the quality of the **disinvestment** proposals;
- Between 100 to 150, these can be looked at seriously but few should be accepted (and certainly not risky ones);
- It is not recommended to allocate any resources to an investment with a score below 100.

APPENDICES:

Appendix “1” – A Different Way of Thinking about Decision Making in the Organization

Appendix “2” – WDGPH PBMA Criteria

Appendix “3” – WDGPH Risk Categories

Appendix “4” – Making Resource Allocation Decisions

REFERENCES:

None.

Original Signed Document on File

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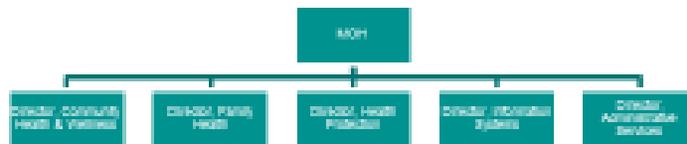
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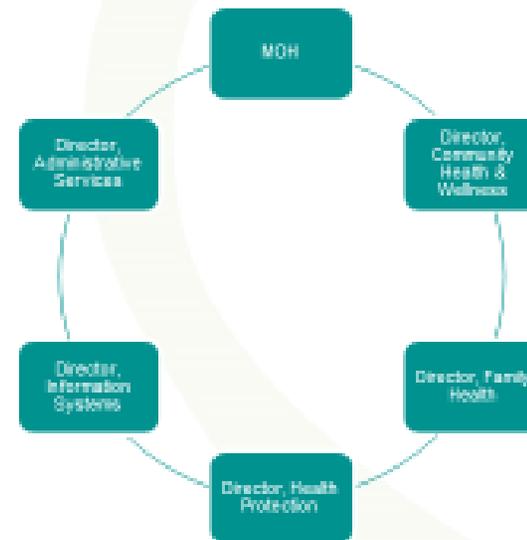
Appendix "1"

A Different Way of Thinking About Decision Making in the Organization

From this:



To this:



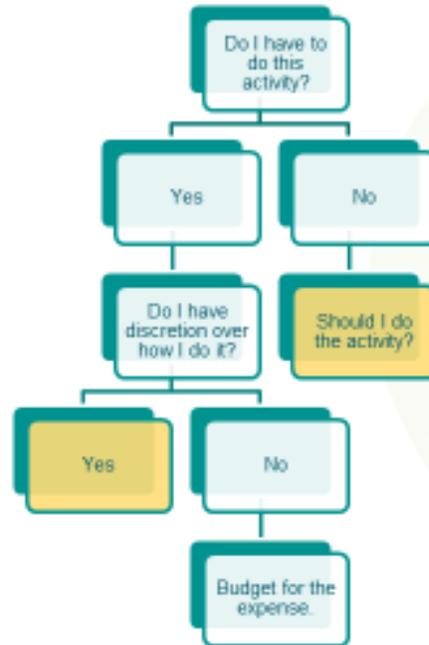
Appendix “2” – WDGPH PBMA Criteria

Criteria	Definition	Weight
Health impact	Impact of the proposed change to the program / activity on: <ul style="list-style-type: none"> • the burden of illness it is intended to prevent; and • the risk factor it is intended to reduce. In assessing impact, account for the likelihood that another organization could step in and fill the gap created in the case of savings, or that another organization will retrench a similar service in the case of investments.	19
Health equity	Impact of the proposal on: programs and services that integrate equity principles to reduce or eliminate health differences between population groups.	14
Organizational capacity	Impact of the proposal on: our capacity to effectively deliver public health programs and services and supports our strategic goals.	19
Service centred approach	Impact of the proposal on: providing excellent service to anyone interacting with public health and supports our strategic goals.	6
Healthy communities	Impact of the proposal on: our work with communities to support the health and well-being of everyone and supports our strategic goals.	12
Legislative Requirements and Provincial Mandates	Impact of the proposed change on the ability of the program to meet the legislative requirements or provincial mandates for this program / activity (Ontario’s Health Promotion and Protection Act, the Ontario Public Health Standards, the Ontario Public Health Organizational Standards, Accountability Agreements, and other legislation)	15
Innovation and Change	Impact of the change on the culture of curiosity in terms of interest in evidence-based decisions, translation of knowledge into action, and on the environment for innovation in services.	4
Collaboration/Partnership	Impact of the proposed change on our relationship with community partners (organization to organization). This includes the impact on the agency’s reputation (with funders, community, etc.). In selecting a rating, consider: <ul style="list-style-type: none"> - our ability to leverage partnerships to enhance service delivery capacity; and - impact on community partner in terms of their resources and costs. 	7
Implementation Challenges	Assessment of the challenges and support for the implementation of the proposed change, including ease of sustainment.	4
		100

Appendix “3” – WDGPH Risk Categories

Risk Category	Risk Description
Financial	The risk of failing to meet overall financial commitments (including fraud and financial failure) and uncertainty related to obtaining, committing, using or losing economic resources.
Operational/Service Delivery/Strategic/Policy/Equity	Uncertainty around strategies, P&Ps or activities carried out to meet objectives or deliver programs and services and the resulting impact on the population.
Human Resources	Risks related to recruitment, development and retention of human resources required to meet objectives.
Organizational/Governance/Political/Environmental	Uncertainty related to development of appropriate accountability and control systems; changes in political priorities or direction; uncertainty related to external risks (e.g. natural disaster).
Technology/Information/Knowledge/Privacy	Risk related to unauthorized access or use, inaccuracy and/or incomplete information, as well as uncertainty related to alignment of information and technology resources (infrastructure).
Legal/Compliance	Uncertainty regarding compliance with applicable legislation and regulations, as well as standards, contracts and/or directives.
Security/Health and Safety	Risk of breaches in physical access to offices and supplies, as well as risk to the physical safety of staff members, both at agency office locations or in the performance of work outside agency offices.
Stakeholder/Public Perception/Reputational	Uncertainty related to managing stakeholder (i.e. community partners, government, funders, clients and the general public) expectations or relations.

Making Resource Allocation Decisions



Activities and expenditures that land in one of the highlighted boxes could benefit from the PBMA;

Activities for which the answer to the questions “do I have to do this activity”, and “do I have discretion over how I do it?” are both no, cannot benefit from PBMA. The expenditure must simply be quantified and budgeted for.