Niskanen Center

CAPABILITY BASED BUDGETING

Aligning Resources With Results

A capability-based budget gives Congress **and agencies** a clearer line of sight from dollars spent to outcomes delivered.

The Problem

Federal agencies are asked to deliver faster, more secure, more user-friendly services — but the budget structure they operate under no longer matches how the government actually works.

- **Appropriations are structured around inputs** (salaries, contracts, and legacy project lines).
- **Agencies deliver services through integrated capabilities** (eligibility determination, claims processing, cybersecurity readiness, customer experience).

This creates a built-in disconnect: **how Congress funds programs does not align with how agencies execute them.** As a result:

- Spending is fragmented across dozens of activities, making it difficult to show *what outcomes improved because of federal investment*.
- Oversight becomes centered on compliance and paperwork rather than performance.
- Agencies struggle to articulate trade-offs or demonstrate value when budget lines do not map to the work they actually do.

The current model obscures — not clarifies — how public money creates public value.

Why It Matters

This misalignment hampers modernization efforts, slows down service delivery, and makes it harder for Congress to answer basic oversight questions:

- *What did we get for the money?*
- *Which mission capability improved?*
- *Where are the highest risks or the biggest returns?*

Without a clear line of sight from appropriations to outcomes, both Congress and agencies operate with limited visibility. That leads to repeated re-baselining, growing backlogs, and costly work-arounds that frustrate taxpayers and employees alike.

If you're interested in learning more, visit niskanencenter.org/capability-based-budgeting

The Solution: Capability-Based Budgeting

Capability-based budgeting reframes federal investments around the enduring mission capabilities that agencies must build, run, and improve — rather than around fragmented accounting categories.

Examples of capabilities include:

- Eligibility & Enrollment
- Claims Adjudication
- Contact Center Operations
- Identity & Access Management
- Cybersecurity Readiness
- Data Integration and Exchange
- Low-Code No-Code Platform Infrastructure
- Others that directly deliver public services

HOW CAPABILITY BASED BUDGETING IMPROVES ALIGNMENT

- **Creates a shared vocabulary** between Congress and agencies for how resources support mission delivery.
- **Clarifies what funding actually buys** by tying dollars to measurable capability outcomes.
- **Supports modern digital delivery** by aligning with cross-functional teams, modular development, and iterative improvement.
- **Strengthens oversight** by shifting the focus from activity tracking to capability performance and maturity.
- **Enables real prioritization** by showing which capabilities must be sustained, which can be paused, and what results will change.

This framework does not require reinventing appropriations law. It is an evolution in how information is organized and communicated within the structure Congress already uses.

What Congress Can Do

Congress can help agencies transition toward capability-aligned budgeting through targeted, practical steps:

- **Request capability-aligned budget exhibits.** Report language, QFRs, or committee instructions can ask for portions of an agency's budget to be presented by capability — even if accounts stay the same.
- **Encourage pilot programs.** Direct selected agencies (VA, IRS, SSA, DHS, etc.) to submit capability-based justifications for specific portfolios or mission areas.
- **Use capabilities in oversight.** Ask agencies to describe investments, risks, modernization plans, and performance in terms of capability outcomes.
- **Align hearing questions to capabilities.** Shift toward "What capability does this funding build or sustain?" rather than "Did the project hit its milestone?"
- **Support OMB's A-11 modernization efforts.** Signal bipartisan interest in updating budget guidance so agencies can present clearer, capability-aligned information. These steps increase clarity without requiring structural changes to appropriations accounts.

Bottom Line

Capability-based budgeting gives Congress a **clearer, more honest view of what taxpayer dollars achieve**. Agencies gain a management model aligned with how services are actually delivered. Congress gains greater transparency. Both gain a shared framework for modernization, accountability, and smart prioritization.

A modern government cannot function on a legacy budgeting logic. Capability-based budgeting is a pragmatic path forward — and Congress can help lead the shift.

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