

Budget Methods and Format

Jerome Dumortier

15 October 2024

Overview

Topics covered

- Budget philosophy and classification
- Budget types

Budget Philosophy

Budgets as a mechanism to protect, allocate, and control public resources

- Requirement for efficiency: \$1 allocation in program A equals \$1 allocation in program B in terms of “benefit”

Difficulty of valuing government goods and services

- Multiple objectives
- Conflicting objectives
- No common mechanism to measure and compare returns from various programs

Differences in beneficiaries across programs and differences in beneficiaries and payers

Budget Classification

Inputs: Purchases of the organization

- Supplies, equipment, labor, consumption goods, capital assets, etc.
- Easy measurement and control

Outputs: Direct products or activities of the organization

- Classes taught, miles of roads maintained, tons of solid waste managed, arrests made, children vaccinated

Outcomes: Accomplishments of the organization

- Safety of people and property, educational attainment of population, placement of program participants
- Most difficult to measure and influenced by factors outside the organization

Organizations exist to achieve results!

Budget Types

- ① Traditional line item budget
 - Orientation towards expenditures and inputs
- ② Program budget
 - Orientation towards functions and programs
- ③ Performance budget
 - Orientation towards activities and outputs
 - Traditional performance budget (focus on activities)
 - New performance budget (focus on outputs)
- ④ Zero-based budget

Budget
Methods and
Format

Jerome
Dumortier

Traditional
Line Item
Budgets

Program
Budget

Performance
Budget

Zero-Based
Budget

Traditional Line Item Budgets

Features of traditional line item classification

- List of spending per item
- Focus on control and accountability
- Input orientation: Control of purchases and use of inputs

General cost categories

- Personal services
- Operating expenses
- Capital outlays

Operating Income of a Municipal Library

Operating Income	Last Fiscal Year	Current Budget	Next Fiscal Year
Municipality	\$ 41,640	\$ 39,050	\$ 47,190
County	\$ 26,400	\$ 23,980	\$ 28,600
State	\$ 1,800	\$ 1,925	\$ 2,730
Donations	\$ 600	\$ 550	\$ 650
Fines and Other Income	\$ 1,560	\$ 2,310	\$ 2,730
Total	\$ 72,000	\$ 67,815	\$ 81,900

Operating Expenditure Municipal Library

Operating Expenditures	Last Fiscal Year	Current Budget	Next Fiscal Year
Salaries and Wages	\$ 28,980	\$ 27,170	\$ 33,345
Employee Benefits	\$ 20,100	\$ 18,700	\$ 21,255
Books and Periodicals	\$ 11,520	\$ 11,000	\$ 13,650
Staff Education	\$ 2,280	\$ 2,145	\$ 2,730
Telecommunications	\$ 1,710	\$ 1,650	\$ 2,048
Utilities	\$ 4,560	\$ 4,400	\$ 5,460
Equipment Repair	\$ 1,140	\$ 1,100	\$ 1,365
Supplies	\$ 1,710	\$ 1,650	\$ 2,048
Total	\$ 72,000	\$ 67,815	\$ 81,900

Advantages and Disadvantages

Question regarding municipal library budget

- Any information on books checked out or reading score increases of children?

Advantages

- Easy budget construction
- Cost control and fiscal discipline
- Transparency

Disadvantages

- Attention to input and not outputs or outcomes
- No indication of supported service programs and spending purpose
- Single year orientation as opposed to multi-year perspective
- No input substitution

Budget
Methods and
Format

Jerome
Dumortier

Traditional
Line Item
Budgets

Program
Budget

Performance
Budget

Zero-Based
Budget

Program Budget

Allocation of resources to major program areas

- Focus on expected results of services and activities

Budget organization around shared common purpose or function and not around departments

- Multi-year in focus
- Limited line item detail leading to greater flexibility in execution
- Requirement of “crosswalk” between program and traditional line item budget

Common program areas

- Public safety, public works, human resources, etc.

Program areas related to organization's goals and across departments

Identification of agency products and services by program structure

- Little to no focus on inputs
- Use of crosswalks for connection of line items with program objectives

Organization of budget goods and services provision

- Grouping of programs with similar objectives (e.g., fire and police providing public safety)

Identification of cost and benefit data to allocate resources differently to reach program objectives

- Provision of measures of effectiveness and efficiency that are useful in reviews of programs and subprograms

Advantages

- Competition among alternative approaches to achieving public purpose not constrained by organizational units
- Focus on government provision of goods and services to society and not on purchases
- Longer horizon for planning and decision making

Disadvantages

Required crosswalks

- Complementary use of alternative budget classifications due to for example accountability purposes

Break with legislative and administrative tradition

- Traditional focus on line items for appropriations

Difficulty of classifications into functions or programs

- High upfront effort to identify goals and objectives
- Overlapping structures among programs

Budget
Methods and
Format

Jerome
Dumortier

Traditional
Line Item
Budgets

Program
Budget

Performance
Budget

Zero-Based
Budget

Performance Budget

Basic elements

- Identification of service level through use of performance measures
- Allocation of resources to various programs within an organization and outline of service level on which the budget is constructed
- Control over costs and focus on improving internal management of programs
- *“Did allocating \$X to activity A accomplish what was intended? If not, need for adjustment of resources spent on activity A?”*

Shift in budgeting paradigm

- Shift from input-output to output-outcome focus
- Focus on results, performance, outcomes, and impact of government expenditures

Example: [Sunnyvale \(CA\) City Budget](#)

Sunnyvale: Public Safety Programs

Department of Public Safety and its programs

- Police Services
- Fire Services
- Community Safety Services
- Personnel and Training
- Investigation Services
- Communication Services
- Public Safety Administrative Services
- Records Management and Property Services
- Fire Prevention and Hazardous Material Services
- Community Preservation Services

Sunnyvale: Workload and Performance Indicators

Workload indicators

- Number of traffic enforcement stops.
- Number of parking and traffic citations issued.
- Number of traffic complaints addressed by enforcement efforts
- Number of police responses to emergency events

Performance Indicators

- Average police response time to emergency events.
- Average police response time to urgent events

Traditional Performance Budget I

Features

- Relationship between inputs and outputs/outcomes
- Integration of budgeting with planning and management
- Activity cost (unit cost) within organizational units
- Workload factors presented

Performance indicators (additional details from [GA Municipal Association Budget Types](#))

- Workload: Number customers served, miles of streets maintained, businesses inspected, etc.
- Efficiency: Cost per unit
- Effectiveness: Levels of satisfaction, % of targets met, etc.

Traditional Performance Budget II

Advantages

- Information for internal management and cost containment (technical efficiency)
- Higher levels of accountability, i.e., demonstration of activities and service level
- Tool for management responsibility and accountability due to assessment of quantity, quality, and productivity of the budget

Disadvantages

- Cost of budget preparation
- Exposition of operating details
- Quality of performance measures

New Performance Budget: Principles

Principles

- ① Strategic plan with stated objectives
- ② Development of outcome performance measures
- ③ Flexibility in appropriation and execution
 - Agencies' flexibility in spending appropriations in order to achieve stated objectives (not input controlled but responsibility for outcomes)
- ④ Reporting and audits focus on outcomes, i.e., meeting of objectives

New Performance Budget: Outcome Measures I

Outcome measures

- Specific policy goals or objectives
- Used as mechanism to allocate resources for activities, inputs, and projects to achieve goals and objectives
- Measures should link directly to mission statement
- Limited importance and weight given to objectives in case of large number of objectives

New Performance Budget: Outcome Measures II

More specifics about outcome measures

- Clear and unambiguous, not necessarily quantitative
- Relevant and appropriate to the objective, not just available
- Economic, i.e., objective measured at reasonable cost
- Adequate: Providing acceptable basis for assessing performance
- Observable and measurable

Conditions for effectiveness of outcome orientation

- Consensus on measures among operating agencies, finance departments, administration, and citizens
- Means for unbiased collection of measures
- Meaningful measures
- Training on interpretation and use of measures
- Transparent and understandable process

New Performance Budget: Challenges

Comparing agency performance

- Measures not comparable across agencies
- Difficulty deciding how to allocate resources between agencies

Cost allocation

- Difficulty allocating overhead expenses to various agencies

Micro-management

- Political agendas in selection of measures, collection of data, or use of measures in preparing budgets or making appropriations

Audit

- Focus on achieved goals and not spent money

Performance Budgets versus Program Budgets

Difference in focus

- Performance budget emphasizes management efficiency
- Program budget emphasizes benefits to the governmental unit from the expenditures

Both use indicators to measure financial and operational performance

Budget
Methods and
Format

Jerome
Dumortier

Traditional
Line Item
Budgets

Program
Budget

Performance
Budget

Zero-Based
Budget

Zero-Based Budget

Basic elements

- Defend entire budget annually
- No automatic base to start from
- Focus on entire budget, not just increase

Advantages and Disadvantages

Advantages

- Lots of operating data
- Consideration of alternative delivery devices
- Formal consideration of priorities
- Focus on agency and department objectives

Disadvantages

- Significant effort in budget construction
- Not all programs can be zeroed out
- Implicit path dependency

Summary of Budget Structures

- Input orientation provides system for resource accountability, template for audit and internal control, fiscal discipline, anti-corruption.
- Output orientation helps with agency management and control
- Outcome orientation focuses on objectives, hardest to measure and control but focuses on what government exists to provide
- Systems often substitute output orientation for outcome orientation
- Systems moving toward outcomes