

Budget Methods and Format

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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

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Traditional
Line Item
Budgets

Program
Budget

Performance
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Zero-Based
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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

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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

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Performance Budget

Overview

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

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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