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Preparing an Efficient and Effective Annual Budget - Approaches to Create it -

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Overview:

1 Introduction

2 Civic Budgeting

3 Integrated Planning

4 Zero-Base Budgeting

5 Performance-Based Budgeting

1 Introduction

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1 Introduction

→ *Worldwide Problem of the public sector.*

An enormous *gap* between

- In principle endless public and private *needs*
- The lack of financial *resources* in the public sector

Therefore annual budgeting is often a very difficult and disappointing process.

Standard phrase: "Increase revenues, save expenditures"

→ *What is to be done to look for reasonable compromises?*

- Using institutional approaches (2)
- Using technical approaches (3, 4, 5)

→ *Success factor for reducing the financial gap.*

Involving the citizens in all phases of the public planning and steering cycle particularly at the level of *local government*

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2 Civic Budgeting

1 Introduction

= Participation of citizens in annual budgeting (participatory budgeting)

2 Civic Budgeting

3 Integrated
Planning

Meanwhile a lot of experiences with regard to civic budgeting (in Germany 2012: Implementation in 274 local governments, see www.buergerhaushalt.org, www.buergergesellschaft.de)

4 Zero-Base
Budgeting

→ Three *actors* of civic budgeting:

- council members = official participants (legislative power)
- city managers = official participants (executive authority)
- citizens = unofficial participants

5 Performance-
Based Budgeting

→ Involving the citizens should contribute to pursue the following goals:

- Improvement of *allocative* effectiveness (allocation of resources at its best)
- Improvement of *operational* effectiveness (Increase productivity and cost-efficiency)

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|-------------------------------|---|
| 1 Introduction | → Main <i>features and criteria</i> of successful and effective civic budgeting: |
| 2 Civic Budgeting | - <i>Transparency and Information.</i> |
| 3 Integrated Planning | -- Understandable and citizen friendly presentation of the budget structure and contents especially the linkage between the financial budget items and the corresponding public activities and services |
| 4 Zero-Base Budgeting | -- Information about the present financial and economic situation of the community and its development in the future |
| 5 Performance-Based Budgeting | - <i>Organisational environment</i> |
| | -- Participation at the level of the community as a whole or at the level of districts with independent political and administrative responsibilities, |
| | -- Implementation of an organisational framework (steering groups, teams) |

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Based Budgeting

- *Consultations and Discussions.*

-- Creating a culture of open and independent discussing the financial problems, and an atmosphere of fostering brainstorming und creativity,

-- No restrictions for discussing the essential financial items, activities and services delivered by the local government and its budget priorities

-- Using different forms of consultation and discussion (meetings, hearings, interviews, web-based communication)

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Based Budgeting

- *Continuity of civic budgeting.*

-- Implementing civic budgeting as a continuing process
and not as a non-recurring event,

-- Continuous improvement of the structure and
organisation of civic budgeting

- *Rendering an account of citizens recommendations
by politicians and city managers.*

-- Serious dealing with the results of the public discussions
and consultations,

-- Providing reasons for a refusal of citizens
recommendations and suggestions

1 Introduction

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Conclusion.

→ Civic budgeting causes a *win-win-situation* for all of the three actors

→ Civic budgeting may be an solution for the *principal-agent-problem*. the agents (politicians) must find a budgetary agreement with the principal (citizens)

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3 Integrated Planning

→ *Horizontal* integration

= *Coordination* between the goals, objectives, strategies, actions and resources of all the different policy fields inclusive the setting of priorities involving the citizens

→ *Vertical* integration

= *Deriving* the short-term planning (= annual budget) from the long-term planning (= strategic plan) with an installed feedback from the annual budget to the strategic plan

→ The annual budget should not be prepared by *incrementalism* (= Forward projection of funding the budget items from the past into the future).

- The primary question in budgeting must be:
What is to be achieved?
not: How many money may we spend?

- The annual budget should be part of a performance oriented Strategic Planning and Budgeting System like an *annual segment* within the strategic plan (Alignment of strategic planning and budget)

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→ *Distinction* between

- *Goals* = *general ends* toward which state or local government as a whole and its individual units direct its efforts

- *Objectives* = *clear targets* for the scheduled strategies and actions derived from the higher-ranking goals

→ *Strategic Plan Elements:*

- *Vision, Mission, Philosophy*

-- Concerning the state or local government level as a whole as well as individual units (divisions, departments or agencies)

- *Goals linked with specific Performance Indicators (Benchmarks)*

-- Concerning the government as a whole with regard to the long-term strategic themes of public activities and services

-- Cascaded down to the level of divisions, departments or agencies

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- *Objectives linked with Outcome Indicators
connected to Strategies and actions linked with Output,
Efficiency and Explanatory Measures*

-- Concerning the level of divisions, departments or
agencies

- *External and Internal Assessment:*

Description of internal and external influences on the goals
and objectives that determine whether target can be
reached

(organisational and fiscal aspects, demographics,
technological developments, economic variables, impact of
statutes and Regulations, Evaluation and opportunities for
improvement)

-- Concerning the level of divisions, departments or
agencies



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→ If using the *Balanced Scorecard* in Strategic Planning and Budgeting:

Assigning the goals and objectives to the specified perspectives (Customer, Financial, Internal Process, Learning and Growth) and visualising these elements in a strategy map

→ *Linkage* within the Strategic Planning und Budgeting System

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Planning**4 Zero-Base
Budgeting5 Performance-
Based BudgetingStrategic PlanAnnual BudgetDivision,
Department or
Agency Goals↓
Objectives→ Outcome Measure
(Measuring the public
benefits)

→ Outcome Target

↓

↓
Strategies→ Output Measure
(Workload and
production volume)

→ Output Target

↓
Efficiency Measure
(Output unit costs or
time for completion)

→ Efficiency Target

↓
Explanatory Measure
(External factors and
influences relating to
agency operations)

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→ *Example* of Strategic Planning and Budgeting System:
Government of Western Australia, Department of Local
Government, Integrated Planning and Reporting Advisory
Standard (www.dlg.wa.gov.au):

The strategic component of this system is divided into a
long-term plan (strategic community plan) and a medium-
term plan (corporate business plan)

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4 Zero-Base Budgeting (ZBB)

(see Thomas P. Lauth, Zero-Base Budgeting Redux in Georgia: Efficiency or Ideology, Public Budgeting & Finance, Vol. 34, Number 1, Spring 2014, p. 1 ff.)

→ Origin of ZBB in the *private economy* (Texas Instruments)

→ Modified and transferred into the public sector:
Initiated 1973 in Georgia/USA

→ *ZBB Basic Features.*

- Budget deliberations on the *whole budget* not just on proposed increases
- Agencies must defend their entire budget *each year*
- *No assurance* that the prior year budget would be retained

1 Introduction

→ *ZBB Components.*

2 Civic Budgeting

- Starting with identifying *cost centers* (agency subunits or programs) for which it is appropriate to assign costs for activities or services

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Planning

- Preparing the core-element of ZBB the so-called *decision-packages* for each *cost center* which include

4 Zero-Base
Budgeting

- Statement of *goals and objectives*
- *Work program* by which these goals and objectives are to be achieved
- *Benefits and related costs* caused by fulfilling the work program
- *Alternative methods* of achieving goals and objectives

5 Performance-
Based Budgeting

- *Alternative levels of funding* of the decisions packages and a related description of the *effects* on benefits and costs (maybe starting at 80 percent and then increasing the funding level step by step till 120 percent of the prior budget)
- *Consequences* if not funding a cost center (agency or program) → What may happen on zero budgeting?

- *Ranking the decision-packages* in order of decreasing benefits according to the different levels of funding (ideal form of ZBB → starting on zero funding)

ZBB is the way that each public program must justify its existence. Hence ZBB is the contrary of incrementalism.

1 Introduction

→ *ZBB Problem.*

2 Civic Budgeting

All those participating in the budget process were extremely *overstrained* by the lot of information:

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Planning

- The *producer* of the information:
the budgeters and the administration staff

**4 Zero-Base
Budgeting**

- and the *addressees* of the information:
the politicians who had to consider the mass of information
in decision making

5 Performance-

Based Budgeting

Hence they began to handle this system less seriously and to fudge the analytical data. This was the reason that after some years ZBB came to its end.

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Based Budgeting

→ *Budget Redirection:*

The redirection was guided by the following arrangements:

- Emphasizing *programs*, rather than agencies
- Introducing *strategic planning*
- Fostering the use of *performance indicators*
- Reducing the *complexity* by proposing program budgets only at three levels of the base budget:
 - *Reduction* 5 percent
 - *Redistribution* of an amount equal to 3 percent
 - *Enhancement* limited to 2 percent

This budgeting system is called “*Prioritized Program Budgeting* (PPB)” and it is now running in Georgia

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Based
Budgeting****5 Performance-Based Budgeting (PBB)**→ *Important prerequisite for an effective PBB.**Citizens participation*- in *developing* performance measurement- and in *steering* public activities and services by web-based information systems presenting performance data→ Involving citizens in *developing performance*- The Prime Minister of *Free State of Saxony* (part of Germany) asks citizens for a so-called report-card:

-- 200 randomly selected citizens which represent the variety of Saxony take part in a day long deliberative process

-- Citizens developed *indicators* and *evaluated* their government's performance:
3 indicators in each policy field are developed and evaluated-- Citizens formulate *suggestions* for areas with urgent need for action, which are discussed in cabinet

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- There are a lot of further projects of citizens involvement in performance-based strategic planning and budgeting:

-- www.bertelsmann-stiftung.de

Project "kompass" (local government project for installation a strategic steering):

Community members developed strategic goals and the appropriate performance indicators

-- www.cgg.wa.gov.au

Geraldton Community Strategic Plan (CSP)

developed by community members in cooperation with the council (community-generated indicators and council-generated indicators)

1 Introduction

→ Involving citizens in *steering public services*

2 Civic Budgeting

State and local government should run an *internet-portal*.
“Citizen-focused Performance Reporting”

3 Integrated
Planning

- New York City: Citywide Performance Reporting (CPR)
www.nyc.gov/html/ops/cpr/html/home//home.shtml:

4 Zero-Base
Budgeting

-- About *500 indicators* comprising 40 agencies especially
outcomes with regard to

**5 Performance-
Based
Budgeting**

8 citywide themes: Citywide Administration
Community Services
Economic Development and Business
Affairs
Education
Infrastructure
Legal Affairs
Public Safety
Social Services

1 Introduction

-- The CPR *main goals* are increasing

2 Civic Budgeting

--- *Accountability*: enables the public to monitor agency performance on critical outcome measures

3 Integrated
Planning

--- *Transparency*: one-stop, user-friendly tool to view performance data (graphical representation, drill-down capability)

4 Zero-Base
Budgeting

--- *Accessibility*: available for everyone

5 Performance-
Based
Budgeting

- Necessary reduction of performance complexity:

Dashboard Indicators = *Key* indicators for every department or agency (no more than 3 indicators per department or agency)

Example: *Key indicators* for the Fire Department dashboard

→ Percent of structure fire confined to room of origin

→ Percent of emergency incidents where the amount of time between call receipt and the arrival at the point of incident is 8 minutes or less

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