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MUNICIPAL BUDGETING

The dilemma of supply vs. demand

by JOHN V. FLYNN, JR. / Manager, Philadelphia

Government officials continually face a dilemma in public management. On the one hand is a demand for increased services and great social pressure to take care of those who cannot take care of themselves. On the other hand is the economic reality faced by city and local governments—a declining economic or tax base, almost always a climate of increased wage and salary demands, and even unionization pressures from the workforce.

In addition, local governments face more stringent restraints brought on by the "taxpayer revolt." Many state legislatures have placed expenditure or revenue "caps" on local governments. Even where legally imposed spending ceilings or referendum-imposed revenue limitations are not in the offing, voters are pressing to reduce waste and inefficiency in government and are demanding more accountability in the use of their tax dollars.

Dr. Elsie Watters, Research Director of the Non-Profit Tax Foundation, recently commented: "People in general are tired of higher taxes and inflation. There is a trend towards limiting government spending, and that trend is going to continue."

David Leininger, Development Director for the city of Dallas, Texas, adds: "Cities must understand the dynamics within the marketplace. Cities are competing with the surrounding suburbs, and must act

accordingly in these matters."

In order to meet these challenges, many jurisdictions are reviewing their financial management systems to see how well their planning, budgeting, and control processes accomplish the following:

- Develop short and long range plans.
- Translate plans and goals into activities.
- Relate the output of activities to the appropriate costs.
- Evaluate these activities in terms of their original purpose.

The need for better control of spending and better management of operations has led to a renewed interest in fiscal tools and a new emphasis on productivity studies, operations review, and labor relations. Central to meeting today's requirements is a good management and control process. The management of any government unit usually involves the following phases:

- Establishing plans, objectives.
- Controlling the budget process.
- Managing operations and evaluating results.

Plans and Objectives

Before the taxpayer revolt and the slackening of federal aid, it was assumed that current activities would expand each year. Hence, there was little need for a thorough evaluation of existing operations, and even less need to prioritize

services. Officials today have therefore little or no experience in responding to calls for revenue cuts or spending ceilings. Indeed, recent headlines indicate that some officials, faced with funding emergencies, have had to make quick decisions that may not be in their jurisdiction's best interest.

Clearly, expanding the scope and quality of planning, plus defining objectives, is essential if governments are to cope with resource shortages. The jurisdiction's programming objectives must be defined, and these objectives must be linked to their potential impact on its citizens.

Recent improvements have occurred, of course. One new development is contingency planning. This is a form of long-range planning that takes projected expenditures for current and proposed activities, compares them with projected revenues, and then shows local officials and citizens the impact of—and alternatives to—the projected programs. A strategy to deal with any shortfall is then developed as part of this process. A particularly good example of contingency planning is described in the following article.

The Budget Process

It is important to note how the defining of objectives has been increasingly integrated into the budget process. Let's, therefore, take a closer look at what constitutes a

The dilemma of supply vs. demand

good budget process. In general, it should satisfy the following criteria:

- Meet all charter or constitution requirements.
- Provide management with total control of expenditures.
- Link dollars to results.
- Analyze and review programs.
- Identify options, alternatives.
- Establish the priority for all policies and objectives.

The budget process has probably received more attention than any other phase of government management in recent years. At first, it was considered merely an accounting matter; it fulfilled legal requirements for spending the municipal dollar. It was a "shopping list" of how money was to be spent. But as the demands by the public increased, officials began to focus their budget process on the results of city operations—to consider the output side rather than just the input side. Thus, performance and program budgeting became popular. PPBS (Planning Programming Budgeting System) and Zero Base Budgeting (ZBB) further linked results to costs.

These budget techniques have generally originated in the private sector and transferred to the public sector. Zero base budgeting, for example, was developed at Texas Instruments to control overhead costs. The public sector, including the federal government, has turned to zero base budgeting as a means of allocating limited resources.

Most local governments still rely on line item and incremental budgeting. In this approach, differences are identified and examined on a year-to-year basis. This procedure meets legal and control criteria, but is input and accounting oriented. It does not facilitate decision-making, nor provide rational alternatives.

"We are going through a process of stepping down the level of services on the assumption that there will be no new revenue source over the next three years."

DAVID RUSK
Mayor, Albuquerque, N.M.

The cities of Garland, Texas, and Wilmington, Delaware, were probably the first two municipalities to use zero base budgeting. Other jurisdictions have developed their own planning and budgeting techniques. Lakewood, Colorado, uses a technique it calls PPPB (Planned Program Performance Budgeting), while still other jurisdictions have developed their own systems incorporating the principles of PPBS and ZBB.

Most of these improved systems link costs to outputs and indicate the trade-offs when considering various alternatives or priorities. Because something was done last year is no reason to do it again this year, or at least at the same level. Rather, the level of activity should have to compete with all other activities, both existing and proposed.

David Singleton, administrative assistant to the mayor of Wilmington, Delaware, states: "The image of government is that it is inefficient and wasteful. To the extent that city management can conserve and reallocate resources, it actually creates resources."

Under these improved budgeting systems, the budget process should never stand alone. It must be a management tool as well as a budget tool. And it must be used on a year-round basis, such as when allocating

scarce or limited resources. The days of excess money are over. "The most limited resource that government now has is revenue," says Lewis McLain of Dallas County. "We must revert back to the basics. The public more than ever wants the basics, not the luxuries, not additional staff. All activities and programs must be examined and justified."

Operations and Results

This leads to the final phases of the management process. The budget document should provide a base plan, or "contract," that top management may use to evaluate a program's effectiveness. This requires, of course, a standard of measure to determine if the program's objectives are being accomplished. Such measurement and evaluation are important keys to a management/budget system.

Outputs can be measured against plan on a monthly as well as a yearly basis. Did the budget unit meet its objectives as defined by its program measures? If not, why not? Were the cost projections accurate? If not, why not?

Problems are identified early and corrected, or the plan revised to meet unforeseen developments.

Two techniques used to improve this important phase of management are resource allocation and control and zero base budgeting.

Resource allocation and control is the scientific measurement of the exact number of people required to provide services. It can also help to measure the effectiveness of operations. Dekalb County, Georgia, has initiated such a resource allocation and control system to improve operating methods, provide more effective delivery of services, and match people to program needs. It is

further explained in the next article.

Zero base budgeting, a more complex system, has been successfully used by Wilmington, Delaware. Wilmington has achieved outstanding results by means of (1) a conscious effort to reduce personnel, (2) the implementation of an improved budget technique, and (3) a management emphasis on operational efficiency. David Singleton of Wilmington has said, "The city must be realistic and blunt as to its ability to fund the demands of its

constituents. For survival the city must keep taxes within reason." Wilmington's experience with ZBB is further explained in the article which follows.

The taxpayer revolt has provided a warning to local governments across the country. Glenn Jackson of the Anti-tax National Taxpayers Union repeats the point. "Jarvis Gann and the successful voter referendum to roll back property taxes in California will unleash a massive wave of similar proposals across the country.

People have reached the breaking point."

The message is clear. A balance will have to be struck between demand for more and the ability to pay for it. Improved management budgeting and control process will either be used by public officials or forced on them. The tools for examining alternatives, setting priorities, and implementing those activities as effectively as possible are available. All that is needed is a commitment to use them. △

Three improved budgeting techniques

A government official who wants to strengthen his unit's financial management has a wide variety of planning and budgeting systems to choose from. The three planning and budgeting techniques which follow illustrate this variety. More importantly, they demonstrate how sound planning and budgeting enhance the effectiveness of overall management and how they can contribute to substantial cost savings. Each of these systems:

- Improves the quantity and quality of information about government operations, providing a sound basis for decision-making.
- Facilitates operations reviews, enabling officials to update pro-

grams in order to meet changing priorities and to increase cost effectiveness.

- Provides a sound basis for long range planning. If funding shortfalls are foreseen, officials have time to redirect resources, alter service levels, or increase revenues, avoiding "crash" program reductions.

Below are descriptions of each of the three systems:

Contingency Planning in Greenville

Contingency planning helps officials to make the hard choice between changing tax levels and meeting the expectations of citizens. Contingency planning is a long range system that estimates revenues over a five-year period and then compares the alternative expenditures required to provide service.

To implement the system, Greenville, S.C. set up a task force of internal and external consultants to measure the widening gap between expected revenues and expenses for the given period. Since the mayor and city council wanted to minimize tax increases over the five years, the task force was instructed to find

ways to close the gap by making city operations more productive. Accordingly, the task force:

- Prepared a detailed five-year general fund forecast for revenues, expenditures, and fund balances.

- Formalized the service objectives of the mayor and city council, consistent with locally generated revenues.

- Surveyed citizens on their perceptions of the quality of city services.

- Analyzed city operations to identify productivity and cost savings opportunities. These were grouped into three categories, based on the time required for implementation and the cost of the level of service:

- Priority I Improvements: quick implementation with no significant impact on service levels. (e.g., cutbacks in unnecessary overtime).
- Priority II Improvements: four to six months implementation time, but little impact on services (e.g., departmental consolidation).
- Priority III Improvements: long-term implementation, requiring