Exercise 14

Program Budgeting

BUDGETING FOR PURPOSE

As we learned in Exercise 13, performance budgeting assesses the efficiency of government operations by examining the unit costs of public services. Although this information can be very useful for certain purposes, efficiency alone is seldom enough. One can walk through the woods very efficiently but get lost nonetheless. With government programs as with walking in the woods, we need to know if we are headed in the right direction, not just how fast we are getting there.

Program budgeting is designed, in large part, to tell us just that. A program budget forces policy makers to identify and evaluate the goals of public programs and to develop means that are optimally suited to reaching those goals. Where performance budgeting focuses on inputs and outputs, program budgeting encompasses inputs, outputs, *and impacts or results*. Thus, a program budgeting system is a decision-making system. Program budgeting encourages public officials to weigh alternatives systematically and to choose policy strategies that most effectively meet public purposes.

As with line-item and performance formats, the key to program budgeting lies in the organization and presentation of budget data. Program budgets are distinguished by the fact that budget requests are arranged, as the name suggests, by programs. That is, rather than grouping together all personnel costs and all supply costs as line-item budgeting requires or classifying activities after the fashion of performance budgeting, program budgeting requires that budget managers think in terms of agency missions or goals. The broad set of goals for an organization (or, more usually, an entire governmental jurisdiction) provides a set of categories for organizing and evaluating public expenditures. This arrangement is designed to serve as a reminder that day-to-day operating costs or even organizational activities are not ends in themselves. The purpose of government is to provide certain services, to accomplish things. Program budgets focus attention on what those things are and make it easier for officials to determine if government is delivering what it is supposed to deliver.

The structure and logic of program budgeting can be illustrated by reference to our hypothetical Department of Parks and Recreation. You will recall that the final performance budget for the department (Table 13.2) classified expenditures according to seven key activities such as playground maintenance, adult softball, and arts and crafts; moreover, for each of these activities, unit costs were calculated. To create a program budget for this department, we have to refocus our thinking and ask ourselves, What are the goals or purposes of this unit of government with respect to parks and recreation? Subgoals might include providing organized recreational opportunities for adults and supervised recreational opportunities for children, maintaining public spaces for general recreational use, and offering various instructional sports programs. The various subgoals provide a framework for our program budget.

Each subgoal would then be further broken down into more detailed goals, for which specific programs would be planned and developed. The terms used to describe this nested hierarchy of goals and subgoals are *program, subprogram, element,*

PROGRAM:	5.0 Recreation
DESCRIPTION:	This program provides a wide range of public recreational opportunities and services for county residents. The goal of the program is to make possible structured and unstructured leisure-time activities that promote health, physical fitness, and social interaction.
ADMINISTRATIVE UNIT(S):	Department of Parks and Recreation
SUBPROGRAM:	5.1 Athletic Instruction This subprogram provides basic and intermediate instruction for residents of the county in several different sports, including tennis, golf, and swimming. The goal of this subprogram is to encourage residents to pursue vigorous and healthful physical activity by teaching skills basic to such sports.
SUBPROGRAM:	5.2 League Sports This subprogram provides coordination of and support for athletic leagues in the county. The goal of this subprogram is to create opportunities for residents to participate in team sports.
SUBPROGRAM:	5.3 Open Recreation This subprogram provides for the maintenance and operation of public recreational space in the county. The goal of this subprogram is to ensure the availability of public space, including playgrounds, parks, and athletic facilities, for the pursuit of recreational activities by county residents.

Figure 14.1
Sample Program Budget Summary

and *subelement*, with program the most general and subelement the most specific. A summary budget for the recreation program might appear as illustrated in Figure 14.1.

Note that the various subprograms identified in Figure 14.1 may be understood as more carefully specified goals to be pursued in furtherance of the general goal of "providing a wide range of recreational opportunities and services to area residents." Note also that the overall budget is framed without regard to a specific organizational unit or department: The focus is on recreation, not on a particular agency. Although some governments may be organized in a way that permits program budgets to be constructed with a one-to-one correspondence with departments and agencies, pure program budgets often cut across organizational lines, with various units contributing to each of the program categories. This means that budget officials must create additional documentation (called *crosswalks*) that translate program data into departmental operating budgets.

To appreciate the distinctiveness of program budgeting, however, it is necessary to look beyond such a broad summary of planned expenditures. Figure 14.2 provides a sample page from the program budget of our fictional municipality that focuses on a specific subelement of the recreation program.

Figure 14.2 presents budget information of subelement 5.111, tennis instruction. If we had the full budget in front of us, we would find a separate page for subelements 5.112 (golf instruction), 5.113 (swimming instruction), and so on. Indeed, there would be detailed information provided for every subelement of every element of every subprogram of every program in the county. Note that the entry defines the subelement, specifies its objective, and

PROGRAM:	5.0	Recreation
SUBPROGRAM:	5.1	Athletic Instruction
ELEMENT:	5.11	Lifelong Sports (Adult)
SUBELEMENT:	5.111	Tennis Instruction

Description: This subelement is concerned with the provision of tennis instruction to adult residents of the county for the purpose of encouraging participation in a vigorous, lifelong activity that enhances fitness and social interaction.

Objective: To provide introductory and intermediate group tennis lessons to all interested adult residents.

Administrative Unit: Department of Parks and Recreation, Division of Recreation.

	Five-Year Plan				
	2005–2006	*2006–2007*	*2007–2008*	*2008–2009*	*2009–2010*
Residents served	700	750	790	825	850
Hours of instruction	1,400	1,500	1,580	1,650	1,700
Cost	$9,800	$11,200	$11,950	$12,560	$13,230

Summary Analysis:

To meet the anticipated increase in demand for tennis instruction over the next five years, the department initially considered four alternative strategies: (1) maintain the current level of service at no charge to students, (2) maintain the current level of service with a small user charge, (3) increase the size of the instructional groups so as to instruct more students in the same number of hours, and (4) eliminate all intermediate lessons.

The department recommends that alternative 1—maintain the current level of service at no charge to students—be fully funded as indicated in the five-year plan. This will require two additional seasonal staff positions.

Alternative 2 was rejected because the calculated costs of administering a user fee system would require that the fee be set at a level that would exclude a significant percentage of interested residents.

Alternative 3 was rejected because analysis of comparable public and private instructional programs indicates that adequate instruction cannot be provided to groups larger than five students.

Alternative 4 was rejected both because it was deemed inconsistent with subelement objectives and because a survey of area residents indicates increasing interest in instruction beyond the introductory level.

Figure 14.2
Sample Program Budget Page

identifies the administrative unit responsible for meeting the objective. Note that it also displays cost and service data for a five-year period. Such multiyear cost projections are a central part of program budgets; their purpose is to force decision makers to weight long-term costs when considering program alternatives.

Perhaps the most important part of Figure 14.2 is the section titled "Summary Analysis." It is here that we find the heart of program budgeting. Given the goal of providing introductory and intermediate group tennis lessons to all interested area residents, budget officials have systematically analyzed various alternative strategies. The first alternative, maintaining the current level of service at no charge to the student, is recommended for funding because it most effectively meets the specified objective. The other three alternatives—instituting a small user charge, increasing the size of the instructional groups, and eliminating intermediate lessons—were found wanting for the reasons specified.

Of course, what we see here is only a brief summary of the analysis that was done; depending on the relative importance of the issue and the rules of the jurisdiction, a fuller and more detailed analysis might well accompany the budget request. This summary makes our point effectively, nevertheless: Program budgets are designed to draw the attention of decision makers to the relationship between the goals or purposes of government and the means available to reach them. Public officials are thereby encouraged to evaluate goals, weigh alternative programs systematically, and choose policy strategies that best meet public purposes. It should be stressed in this context that there is no single methodology or analytical tool that can be used to sort out alternatives in a program budget. Some budget problems lend themselves readily to highly quantitative decision-making devices, such as cost-benefit or cost-effectiveness analysis (see Exercise 16). Other questions require budget officials to rely on "softer," qualitative analyses. Which tool is used will depend mainly on how easy it is to quantify the impact or benefit of a particular set of programs (*costs* can almost always be calculated or estimated in "hard," dollar terms, of course). Although some advocates of program budgeting have been criticized for their excessive attachment to quantification, program budgeting itself does not require any such excess.

As with other budget formats, variations on program budgeting are multitudinous. In general, though, governments that use program budgeting follow the basic pattern described here. That is, all budget requests must be justified in terms of their effectiveness in reaching agency goals. Although program budgeting places heavy demands on agency officials and requires them to spend considerable time and energy gathering and analyzing information, it can pay great dividends. After all, a Department of Parks and Recreation that relied only on performance or efficiency measures might never even think about the adequacy of its tennis instruction program. From an efficiency standpoint, the more people on a court, the better!

Program budgeting became popular in the public sector in the 1960s, following Robert McNamara's use of the system to aid his management of the Department of Defense in the Kennedy administration. McNamara's system, officially termed PPBS (for Planning–Programming–Budgeting System), was extended to all federal agencies by President Lyndon Johnson in 1965. Although PPBS met great resistance from many agency officials, who found it overly complex and cumbersome, and although the formal use of PPBS was suspended in 1971 by Nixon Budget Director George Shultz, the logic and techniques of program budgeting have thoroughly penetrated the routines of government budgeting systems, including those at state and local levels.

FURTHER READING

Accounts of the operation of program budgeting in the Pentagon are offered in Alain C. Enthoven and K. Wayne Smith, *How Much Is Enough?* (New York: Harper & Row, 1971); Charles J. Hitch and Roland N. McKean, *The Economics of Defense in the Nuclear Age* (Cambridge, MA: Harvard University Press, 1967); and Allen Schick, "A Death in the Bureaucracy: The Demise of Federal PPB," *Public Administration Review* 33 (March–April 1973),

Good general treatments of PPBS are found in the readings suggested for Part Three as a whole and the relevant chapters in Aaron B. Wildavsky and Naomi Caiden, *The New Politics of the Budgetary Process*, 5th ed. (New York: Longman, 2004).

Overview of Exercise

In this exercise, you will first help design an overall program structure for the Adams County Library system. To do so, you must outline a set of program goals that the library is trying to achieve to serve as a framework for the budget. You will then review a request from a member of the library staff to buy a new bookmobile and to fund associated operating expenses. In response, you will write a memo explaining how the request should be stated in terms of a program budget.

INSTRUCTIONS

Step One

Assume that you are A. C. Andrews, deputy budget director for Adams County. Read the memo addressed to you from Budget Director Johnson (Form 66), and use Form 67 to outline a set of subprograms for the Adams County Library that could be used as a program budgeting framework. Because the purpose of this exercise is simply to get you to think in program budgeting terms, there is no expectation that you have any detailed knowledge of library administration. Just draw on your general experience with public (or college) libraries, and ask yourself: What do libraries do? What services do they try to provide? (Note: Although this information isn't necessary to complete this exercise, to provide continuity with Exercises 12 and 13, assume that you are now in FY 3; if you like, fill in appropriate dates on memos.)

Step Two

Review Form 68 and formulate a response to Budget Officer Tome on Form 69. Remind Tome that such requests must be submitted in a program format, and make some suggestions as to how this might be done. (Hint: Are there any alternative ways to meet these service goals?)

Step Three

Answer the questions on Form 70.

FORM 66

February 25, 20__

TO: A. C. Andrews
Deputy Budget Director

FROM: Sarah T. Johnson
Budget Director

RE: Revisions in Library Budget Format

Now that we finally seem to have gotten everyone to agree on program categories for the new format, we need to move ahead and devise appropriate subprograms, elements, and subelements. Although the staff in each operating unit will carry out most of this work, it is important that we provide some technical assistance at this stage of the process. Despite our training sessions, most of the department heads still do not understand program budgeting.

I'd like you to act as technical liaison with the library people. Your help with their performance budget gave you good insight into what's going on over there.

Here's what I would like you to do: Try to get the library staff to stop thinking in line-item and performance terms. Help them categorize library services by program, by what they are trying to accomplish. Disabuse them of the notion that "cataloging" is a public service! But don't develop the entire budget structure for them. Confine your efforts to the subprogram level. Identify a set of subprograms and provide a brief set of definitions and objectives.

As you know, the library has been designated the sole administrative unit responsible for the program category "Library and Information Services." The library's entire operating budget is to be presented in this category.

Draft Program Budget Summary

PROGRAM: Information and Library Services
ADMINISTRATIVE UNIT: Adams County Library

SUBPROGRAM:

SUBPROGRAM:

SUBPROGRAM:

SUBPROGRAM:

SUBPROGRAM:

April 23, 20__

TO: L. C. Tome, Budget Officer
Adams County Library

FROM: J. Stacks, Head Librarian
Main Branch

RE: Funds for a New Bookmobile

We have received increasingly insistent requests from residents of North Waynesfield to open a new branch library. They point out, quite accurately, that the closest library facilities are over 6 miles away and that the steadily growing population in North Waynesfield warrants better and more convenient library services.

I think we need to do something for these people this year. Consequently, I am submitting a supplemental budget request for a new bookmobile unit. The estimated costs are as follows:

Bookmobile truck	$31,000
Driver-librarian salary	23,000
Books and periodicals	11,000
Maintenance expenses	5,000

Although the total costs for the first year will be fairly high ($70,000), once we have the additional truck it won't be so expensive in future years. Also, I figure we'll have to use this truck in North Waynesfield only about half time; we can use it to fill service gaps in other areas of the county when it isn't in North Waynesfield.

FORM 69

May 2, 20__

TO: L. C. Tome, Budget Officer
Adams County Library

FROM: A. C. Andrews, Deputy Budget Director
Adams County

RE: Bookmobile Request

Questions

1. What advantages, if any, do you see in using a program budget format? Would library services likely be improved if the Adams County Library used the subprogram structure you devised? If so, in what ways? If not, why not?

2. What was the problem with the budget request that Stacks submitted to Tome? Do you think a program format would help Tome make a more intelligent decision?

3. Given the analytical difficulties presented by program budgeting, do you think it is worthwhile to justify all budget requests every year in program terms? Would it be better to limit detailed program analyses to "big ticket" or expensive items and have other things presented in a simpler, incremental fashion?

4. Who benefits from program budgeting? Do you suppose it would tend to give more political and administrative power to some officials than others? If so, which ones?

5. Assume you are a member of the county board of supervisors. Would you rather see a budget submitted in a program format or have a line-item or performance presentation?