

PRIMER ON BASIC APPROACHES TO COUNTY BUDGETING

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Line Item Budgeting

Standard definition—*the classification of expenditures on the basis of categories called objects-of-expenditure (personnel services, contractual services, capital outlay, etc.) and within each category more detailed line-items (salaries, travel, telephones, etc.). This type of budget focuses attention on how much money is spent and for what purpose rather than the activity affected or its outcomes**.

For years the basic format for county budgeting was the traditional “Line Item” format. Implemented first in the early 1900’s as a “good government” reform measure, the Line Item Budget stresses adherence to the county Chart of Accounts and is used primarily as an expenditure control device. Each object of expenditure (such as salaries, fringe benefits, contractual services, maintenance, capital outlay, etc.) is assigned a specific account number. These numbers are standard across departments and can be adjusted easily by finance committees or by administrations in times of fiscal shortfalls. Such budgets lend themselves to “across the board” adjustments, such as reducing all travel by 25% or adding 10% for all county fees for service. Line item budgets also are useful in determining when specific categories of cost (e.g. employee health insurance premiums) are rising rapidly over a short time.

Line item budgets usually provide three other types of board or administrative control:

- ✓ Position control for new hires or continuing positions during the annual budget process
- ✓ Individual line item approval for each object of expenditure and for mid-year adjustments
- ✓ Prior approval for equipment purchases, travel, outside contracting etc.

This kind of budget may appear advantageous to central administration and board committees, but realistically, it provides very little information about the missions, objectives and outcomes of programs being provided to the county’s citizens on a day-to-day basis. Meanwhile, individual reductions in department line items may have drastic effects on the delivery of services in specific programs and may affect adversely activities in related programs and departments. Additional problems are created by restrictions placed on the transfer of funds between line items should budget priorities change after adoption of the annual budget.

Incremental Budgeting

Standard definition—*A process whereby each line item in a budget is increased or decreased across the board by a like percentage, often based upon an arbitrary factor, such as the percentage of growth in the prior year’s consumer price index or the net increase or decrease in property tax growth over the prior year’s base. In such a process the department is guaranteed its prior year’s base allocation and budget debate is limited to the amount of the increment to be applied in the current year.*

Incremental budgeting often works hand in hand in Wisconsin counties with line item budgeting. Since it is increasingly difficult for both appointed and elected officials to determine appropriate funding levels for hundreds of line items within each county department, it is easier to simply increase or decrease all line items or certain categories of line items (e.g. travel, telephones, dues and subscriptions) by a flat percentage. Through much of the ‘80’s and ‘90’s county budgets were allowed to grow primarily by either the percentage of change in the prior year’s Consumer Price Index (CPI), by the percentage increase in union personnel contracts, by the increase/decrease in the equalized valuation of real property, or by some combination of these or similar factors.

*“Financial Management in Local Government: Frequently Used Terms”, Fact Sheet Number 17, UW-Extension Local Government Center, May 2001.

Zero-based Budgeting

Standard definition—*a budgeting approach whereby the expenditure amount for each line item or program is examined in its entirety each year, regardless of prior funding. Those items that cannot be justified are subject to elimination or significant reduction.**

Zero-based budgeting originated in the United States Armed Forces and the Defense Department in the early '60's. It was an attempt to end the traditional practice of providing automatic incremental increases to a department's line items without providing critical scrutiny to each item. Under this style of budget any and every line item are fair game for budget cuts or drastic reductions. Departments must come to the finance committee and the board and argue why each line item amount was recommended and why it should be maintained at that level. Even personnel positions that have existed for years must be individually justified on an annual basis.

Program Budgeting

Standard definition— *the classification of expenditures on the basis of programs, significant problems or policy issues each attempts to deal with, and alternatives for dealing with them. This type of budget focuses attention on the kinds of problems and policy issues chief executives and governing bodies are expected to resolve and, the resources (revenues) needed to resolve them.**

Under program budgeting, county funds are appropriated to programs, activities and units, rather than to functions or categories of expenditures as in a line item budget. Additionally program budget categories typically are broken out by only four or five broad types of expenditures; personnel, general expenses, capital outlays, and contracted (outside) program costs. This compaction of numerous line item accounts under each program or function makes these budgets infinitely more simplistic.

A. E. Buck wrote in Municipal Budgeting in 1926, "The virtues of the program budget are said to be its usefulness in relating ends to means in a comprehensive fashion, the emphasis it puts upon the policy implications of budgeting, and the ease with which it permits consideration of the budget as a whole as each program competes with every other for funds."** The program budget approach also permits decision-makers and the general public to comment on and compare specific programs. It is easier therefore for county boards and the public to approve or disapprove entire programs, rather than to end their effectiveness with a thousand small cuts.

One of the disadvantages of this type of budgeting is the time it requires county department staff to establish missions, goals and objectives for each program and function. There is often much more bookkeeping involved because many central administration costs, such as copying, wages, insurance, and utilities must be reallocated to specific programs under the classification of "indirect costs".

Performance Budgeting

Standard definition--*The classification of expenditures on the basis of specific activities, the number of units performed and their costs. This type of budget concentrates attention on what a work unit does, how frequently it does it, and at what cost rather than a detailed, line-item accounting of expenditures.** *Recently measures of performance have been expanded to include more subjective evaluations focused on overall quality of programs and their direct benefits to stakeholders of the county.*

It is easiest to build performance-based budgets on the foundation of a program-based budget system. Under performance, or "outcome-based budgets", each major program or function is measured using a set of benchmarks. Benchmarks are snap shots of particular activities or functions at a beginning date and time. These benchmarks are used for comparison purposes to measure progress in attaining specific program or functional goals over periods of time (i.e., six months, a year, or several years). Programs, activities, and functions may also be measured quantitatively and qualitatively against other internal and external comparables. As an example, a county land conservation program's shore land restoration project may be measured against those conducted in another neighboring county or against statewide averages. Criteria might include number of frontage feet of shore land restored to a natural state,

*"Financial Management in Local Government: Frequently Used Terms", Fact Sheet Number 17, UW-Extension Local Government Center, May 2001.

** Wildavsky, Aaron. "The Politics of the Budgetary Process", Boston, 1964, page 135.

or number of landowners participating in the program. Under performance based budgeting, programs that achieve their previously stated outcomes are usually retained or allowed to expand; those that do not meet them may be subject to reduced funding or elimination in the following year's budget.

Among the advantages of performance budgeting, the outcomes and indicators generated should give both departments and county boards common accepted goals for major programs. These goals should be consistent with the overall missions of the county government. Successful programs can build stakeholder/constituent support because the department can document their outcomes with data or other measurable impact indicators, which can then be shared with the public.

One major disadvantage of performance-based budgeting is that it takes considerable program staff time to gather outcome indicators and do comparisons with comparable programs in similar sized organizations. To be completely effective, an objective, independent program evaluation component should be established in the county; usually in the form of an internal audit function. Many smaller counties will not have the resources to dedicate staff to these oversight duties, which means that a committee of elected officials will have to provide such reviews and rely heavily on department staff to "self-police" their own program outcomes. The approach also has many of the drawbacks associated with program based budgeting, because it is usually done as a logical extension of that type of budget.

(Note: UW-Extension faculty and department heads may wish to refer to this primer as an aid when viewing the PowerPoint presentation, "Moving from Line Item to Performance-Based Budgeting". The presentation contains practical examples of Line Item, Program, and Performance budget approaches and designs).