

Defining Performance Budgeting for Local Government

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By collecting data on the output and the efficiency of their program to service cars, trucks, and other vehicles, local governments can determine whether they are accomplishing their goals and objectives in this area.

City council members and county commissioners regularly struggle with the most basic question of public budgeting: “On what basis shall we decide to allocate x dollars to activity A instead of activity B?”¹ In response to this question, these elected officials typically make modest, incremental adjustments to the previous year’s budget. Less frequently, they systematically link allocations of financial resources to operational accountability.

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This more powerful approach, called “performance budgeting,” answers the question, “Did allocating x dollars to activity A accomplish what we intended? If not, should we adjust the allocation to activity A?”

Local government officials, professional organizations, consultants, and academicians promote performance budgeting for its ability to link allocation of resources to the performance of service delivery. This ability alone has prompted many local governments to adopt performance budgeting, as reported in national surveys.²

The same surveys, though, reveal that performance budgeting has not become

a meaningful part of organizational cultures in local government. Why? One explanation is that the meaning of performance budgeting varies substantially among the local officials who are responsible for implementing it.³ In fact, there has never been an agreed-on definition of performance budgeting.⁴

This article defines performance budgeting, describes what it means for local government, and addresses the major misconceptions that have hindered its success. The article also presents a framework for performance budgeting that localities of all sizes in North Carolina can adopt, and it explains how the framework relates to the budget preparation process

mandated by state law.⁵ Further, the article suggests some uses of performance data to support management decisions.

Definition of Performance Budgeting

“Performance budgeting” is a process for budget preparation and adoption that emphasizes performance management, allowing decisions about allocation of resources to be made *in part* on the efficiency and the effectiveness of service delivery. Performance management occurs when department heads and program managers use data derived from performance measurement systems to support decisions related to planning, organizing, staffing, developing, coordinating, budgeting, reporting, and evaluating—the core functions of management.⁶ Performance budgeting occurs when department heads and program managers use performance data to support and justify budget requests during the annual budget preparation process.

The preceding definition emphasizes the words “in part” because they represent the reason that performance budgeting often fails in local government. Numerous factors affect budget decisions, including the adopted budget of the current year, organizational and investment decisions made in prior years, political mandates, fiscal constraints, and organization-wide goals.⁷ Performance data must compete with these and other factors, and that necessity creates an important distinction between allocation decisions that are *determined* by performance and those that are *informed* by performance. Expecting all budget decisions to be *totally* determined by performance is not real-

istic because decision makers must consider all factors impinging on a decision about allocation of resources before making it. The goal is to inform budget decision making with applicable performance information regardless of how other factors affect budget preparation and adoption and regardless of how resources are finally distributed across programs of service delivery.

A city’s or county’s program for servicing its cars, trucks, and other vehicles—called “fleet maintenance”—provides an excellent illustration of placing performance budgeting in the context of local government administration. A fleet manager regularly collects performance data for calculating the number of “rolling stock units” (vehicles, heavy equipment, trailers, etc.—output), the number of orders for service completed by an individual worker (output/efficiency), the cost per service order (efficiency), the percentage of service orders completed within twenty-four hours (outcome), and the percentage of rolling stock units available per day (outcome). Over the past several years, the local government has increased the number of rolling stock units and the number of service orders completed per worker. These increases have affected the outcome measures by decreasing the percentage of service orders completed within twenty-four hours and the percentage of rolling stock available per day.

The fleet manager has used the available performance information to schedule preventive maintenance, to reorganize the fleet maintenance staff, and to coordinate his program with other programs. He now decides to employ the information to justify a request, through the budget preparation process,

For More Information on Performance Budgeting

Readers seeking more information on performance budgeting might consult the text on which this article is based:

PERFORMANCE BUDGETING FOR STATE AND LOCAL GOVERNMENT, by Janet M. Kelly and William C. Rivenbark (Armonk, N.Y.: M. E. Sharpe, 2003). It describes performance budgeting as the integration of the components of performance management—planning, performance measurement, benchmarking, and evaluation—into the framework of state and local government budgeting. The authors present performance budgeting not as a stand-alone technique but as an extension of the traditional budget process that combines financial and operational accountability.

for another technician position in the coming fiscal year. The budget director and the county manager will analyze this request along with all other requests and make a recommendation to the county commissioners in the proposed budget. Thus the budget director, the county manager, and the county commissioners will make an allocation decision in part on the basis of the performance of service delivery. In other words, the decision is informed by performance results.

Misconceptions of Performance Budgeting

Since the early 1950s, when the federal government first embraced it, performance budgeting has been hindered by

Table 1. Unit Costs for a Hypothetical Building Inspection Program

Type of Inspection	FY 2001–02 Budget	No. of Inspections	FY 2001–02 Unit Cost	Projected No. of Inspections	FY 2002–03 Budget
Building	\$485,900	4,920	\$98.76	5,100	\$503,676
Electrical	346,800	4,242	81.75	4,400	359,700
Mechanical	157,411	2,372	66.36	2,400	159,264
Plumbing	125,640	2,680	46.88	2,550	119,544
Total	\$1,115,751	14,214	—	14,450	\$1,142,184



Knowing their unit costs—the cost of a single inspection—helps managers of building inspection programs improve efficiency. But to produce a budget, managers must disaggregate the unit costs into line items and introduce data to reflect such factors as inflation and replacement of capital equipment.

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numerous misconceptions.⁸ The primary misconception is that it begins in the budget office. On the contrary, it begins with performance management in the programs of service delivery. This requires adoption and implementation of a performance measurement system in local government. Performance measurement involves the creation of mission statements, service delivery goals, objectives, and performance measures at the program level.⁹

A second misconception of performance budgeting, often presented in textbooks, is that it requires a standard

unit cost, focusing primarily on the efficiency of service delivery.¹⁰ Under performance budgeting, staff determine the budget for a coming fiscal year by multiplying the unit cost of a particular service by the projected number of units for that fiscal year. For example, one can calculate the unit costs for a building inspection program by dividing the current-year budgets by the number of inspections by type (see Table 1). One then multiplies the unit costs by the projected number of inspections by type for the coming fiscal year (FY 2002–03 in the table), providing a building

inspection budget for that fiscal year (\$1,142,184 in Table 1).

This approach to planning provides powerful information for program managers, forming the base for tracking and projecting output measures (for example, the number of building inspections by type) and efficiency measures (for example, the cost per building inspection by type). The information also sets the stage for “continuous process improvement,” a technique by which the program represented in Table 1 can strive to lower its unit costs.

However, the approach falls short of providing all the information required to produce the following year’s budget.¹¹ At some point, managers must disaggregate the unit cost information so that they can adjust the necessary line items to produce accurate and reliable budget figures—figures that reflect such factors as inflation and the need to replace capital equipment (see Table 2). Doing that produces a budget for the coming fiscal year that is different from (in Table 2, \$65,837 higher than) the budget derived from the unit cost methodology.

Calculating unit costs for programs that provide well-defined services does support performance budgeting by producing efficiency information. However, unit costs are not required for per-

Table 2. A Line-Item Budget for a Hypothetical Building Inspection Program

Line Item	FY 2001–02 Budget	Percentage Adjustment	Reason for Adjustment	FY 2002–03 Budget
Personnel	\$769,451	3.0	Cost of living	\$792,534
Benefits	194,920	5.5	Medical inflation	205,640
Supplies	60,481	2.0	Consumer Price Index	61,690
Training	10,500	—	No change	10,500
Fleet	64,777	10.0	Current fuel price	71,254
Risk	15,622	5.0	Actuarial analysis	16,403
Capital	—	—	Fleet replacement	50,000
Total	\$1,115,751	—	—	\$1,208,021

formance budgeting, as suggested by previous research.

A misconception that stems from the previous one is that performance budgeting replaces line-item budgeting. G.S. 159-26 mandates that accounting systems show assets, liabilities, equities, revenues, and expenditures in detail. Local governments use structured and detailed charts of accounts to comply with this statute, and these form the basis of their general ledgers. “Line-item budgeting” is the process of creating the following year’s budget by adjusting the individual line items contained on the organization’s general ledger. In other words, local governments produce line-item budgets that parallel their accounting systems.

Beyond the legal requirements, omission of line-item budgeting would be unrealistic, as shown with the building inspection example. This format also allows program managers to track budget-to-actual variances by line item, providing them with the necessary information to make adjustments during the fiscal year that would be extremely difficult with the unit-cost format shown in Table 1.

Still another misconception of performance budgeting is that it fails if programs do not receive additional resources when performance data clearly show need. Suppose that, on the basis of an increase in call volume (output) and dispatch time (outcome), the program manager of emergency communications requests another call taker. The city council denies the request and allocates the resources instead to a downtown development project. Does this represent successful performance budgeting? Yes, because the decision to deny the request is informed by performance results. The decision suggests that the program must attempt to handle the projected call volume and maintain a favorable dispatch time without the benefit of an additional call taker. The program’s success or failure to achieve these objectives will be documented in the next year’s performance budget.

A fifth misconception is that adding performance measures to budget documents before publication—a common practice of local government budget directors to make the document look

professional—constitutes performance budgeting. Presenting performance measures in budget documents is appropriate, but localities should first embrace them farther upstream in budget preparation (in budget requests and at budget workshops).

Other misconceptions of performance budgeting are that it takes the politics out of budgeting, that it can solve a fiscal crisis, and that it is a new budgeting or management technique. In a representative democracy, performance budgeting cannot and should not take the politics out of budgeting. Elected officials make decisions on the basis of political ideologies and the perceived needs of their constituents. The goal is to provide them with the information necessary to consider performance. Performance budgeting offers process improvement and cost savings; however, it cannot solve a fiscal crisis. Managers and elected officials always will face the possibilities of having to raise more revenue and eliminate programs. Finally, promoting performance budgeting as the latest management technique sets the stage for failure. It allows employees to take the posture of “waiting it out” until the next technique arrives. Performance budgeting simply represents good management.

A Framework for Performance Budgeting

One approach to performance budgeting is to ask program managers to submit some performance measures along with their budget requests. These provide some insight into operational accountability, allow the budget director to add measures to the budget document for presentation, and suggest that performance budgeting begins in the budget office (see the first misconception of performance budgeting).

Another approach is to implement a comprehensive framework that includes program review, financial alignment, performance measurement, and timing issues. This planned approach establishes the necessary “infrastructure,” or foundation, for performance budgeting and builds on performance management within the programs of service delivery.

Program Review

Performance budgeting begins with defining programs of service delivery within the organization. This is the most important part of the framework, given that the financial management system (financial accountability) and the performance measurement system (operational accountability) will be structured according to program definitions. North Carolina localities commonly design their organizational structures around programs of service delivery. Local officials are encouraged, however, to review their program definitions before implementing performance measurement systems and to review them regularly afterward for accuracy.¹²

A common definition of “program” is a group of activities, operations, or organizational units directed at the attainment of common goals.¹³ Programs in local government often represent departments, divisions, or programs, depending on the size of the locality, the scope of the services provided, and the capacity of the financial management system. In one jurisdiction, for example, the human resources department is a program in itself; the fire department includes a fire suppression division (program) and a fire prevention division (program); and the solid waste department includes a residential and commercial refuse program, a recycling program, and a yard waste program. The primary consideration in establishing a program structure is the information needs of management.¹⁴

Financial Alignment

Once the program infrastructure is in place, the performance budgeting framework requires a supporting financial infrastructure. The goal is to ensure that inputs (dollars) are tracked at the program level. This may require localities to adjust their current account structures in order to align program inputs with program outputs.

Fortunately, localities in North Carolina typically follow the chart of accounts recommended by the Local Government Commission. The commission also recommends a process for structuring the chart of accounts on the basis of defined operations of service delivery (programs) for line-item budget-to-

actual comparisons. This supporting financial infrastructure is line-item budgeting at the program level.

Tracking inputs at the program level also allows localities to embrace what is commonly known as program budgeting, in which line items are grouped in the categories of personnel, operating, and capital costs for management purposes. Program budgeting focuses on total program inputs for decision making, as opposed to individual line-item inputs. This is an extremely useful format when combined with performance measurement.¹⁵ It also gives program managers the ability to disaggregate their program budgets to the individual line items when needed, returning to the alignment of program inputs with program outputs.

Performance Measurement

The performance infrastructure of the performance budgeting framework is a performance measurement system for tracking outputs, outcomes, and efficiencies of service delivery at the program level. This ability to align program inputs (financial accountability) and program outputs (operational accountability) is fundamental to the success of performance budgeting.

The elements of performance measurement are mission statements, service delivery goals, strategic goals, objectives, and performance measures. For an example of this information for Durham, North Carolina's building inspection program, see the sidebar on this page.¹⁶ Programs start with a mission statement, defining the purpose of their existence. They create service delivery goals from the mission statement, providing overall direction for the program. They then construct quantifiable objectives from the service delivery goals, allowing them to track their progress toward the goals. Service delivery goals commonly have multiple quantifiable objectives. Finally, programs establish performance measures for tracking the quantifiable objectives and other service dimensions deemed important by the program manager. This process ensures that the focus is on outcome measures, tracking the quality of service delivery.

The sidebar also contains strategic goals for the Durham building inspection program. Although the mission state-

A Performance Measurement System for the Durham Building Inspection Program

Mission

To provide a cost-effective level of service designed to assure the adequate protection of the health and safety of the citizens through assertive enforcement of the various state building, electrical, plumbing, and mechanical codes and local zoning ordinances.

Service Delivery Goal, Objective, and Measure

Goal: To provide for the safety and health of citizens by ensuring that all construction meets the North Carolina state building codes.
Objective: Perform two quality control inspections per inspector per month.
Measures: Quality control inspections per inspector per month
Percent inspections found to be accurate

Service Delivery Goal, Objective, and Measure

Goal: To provide accurate and prompt plan review.
Objective: Review 90 percent of all residential plans within 4 working days.
Measures: Percent of residential plans reviewed in 4 days
Percent of plan errors found in field

Service Delivery Goal, Objective, and Measure

Goal: To provide timely response to customer request.
Objective: Respond to requested building inspections within 24 hours
90 percent of the time.
Measures: Percent of inspections performed within 24 hours
Inspections per inspector per day

Workload Measures

- Number of quality checks
- Number of residential plans reviewed
- Number of inspections
- Number of inspections of public schools

Highlights (Strategic Goals)

- Implement program for on-line permit applications for other divisions.
- Develop program to code inspection results for other divisions.
- Continue active participation in the city's "eyes and ears" program.
- Continue to actively enforce provisions of the resource protection ordinance.
- Provide input to ensure one-stop shopping software application meets program requirements.
- Study plan review process for "walk-in" permit applications.

Source: CITY OF DURHAM, N.C., FY 2001-02 BUDGET.

ment, service delivery goals, quantifiable objectives, and performance measures remain relatively stable over time, strategic goals (sometimes referred to as "annual strategies" or "strategic priorities") are updated annually. They are strategies to expand the capacity of the program and to provide a link to organization-wide goals, responding to the blurred relationship that often exists between program planning and organizational planning. Strategic goals form

the basis for what is commonly referred to as "annual work plans" (sometimes called "annual action plans").

Smaller jurisdictions may question their capacity to adopt a performance measurement system. Although performance measurement systems may not be common in smaller organizations, research has demonstrated that localities of all sizes in North Carolina measure and report performance.¹⁷ Knightdale, with a population of 6,014,

is an excellent example of a small organization embracing performance measurement.

Timing Issues

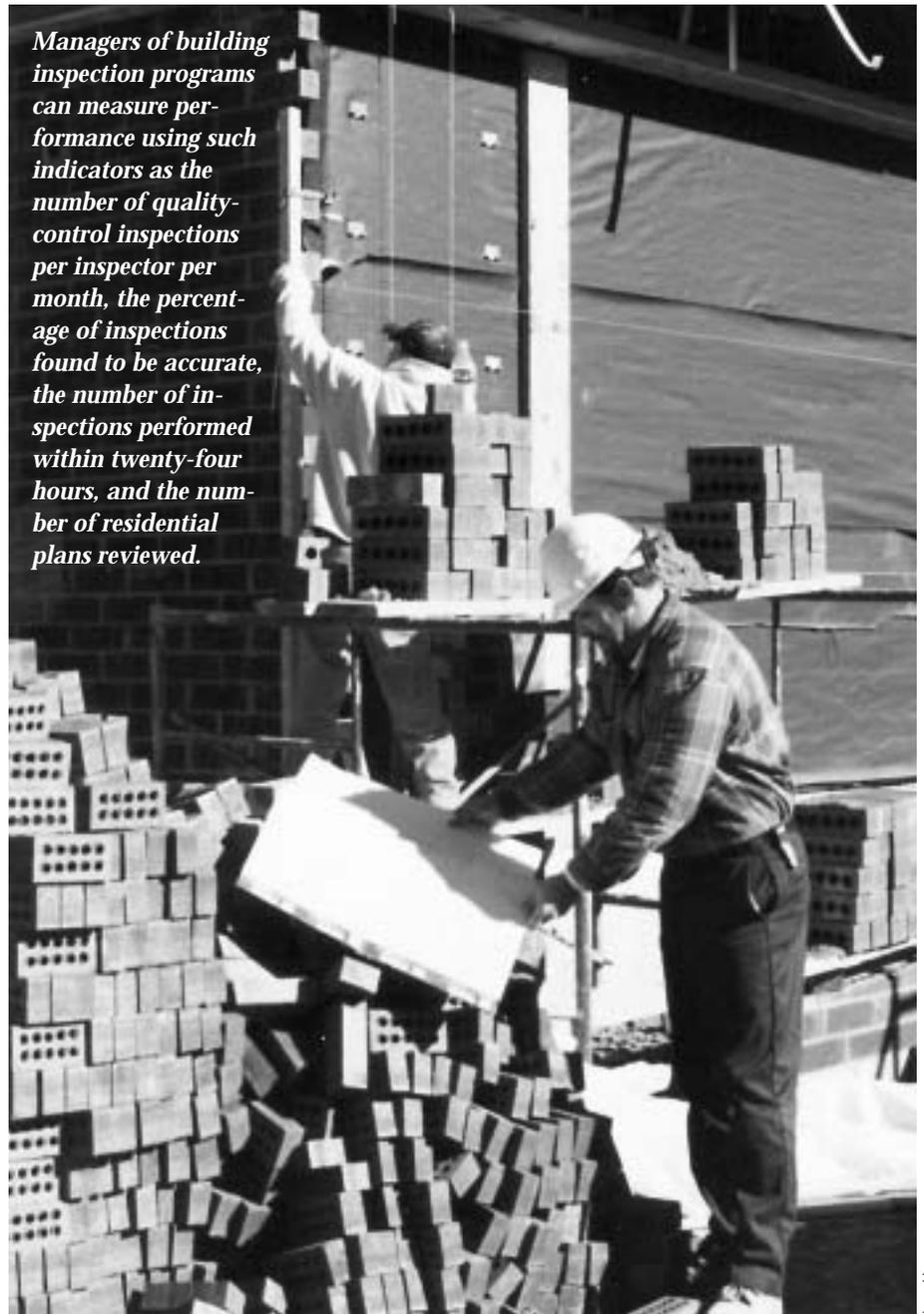
Once the program, financial, and performance infrastructures of the performance budgeting framework have been established, timing issues must be considered to coordinate collecting, analyzing, and reporting performance data with the annual budget process. This is a critical step in performance budgeting that is rarely discussed in the literature. G.S. 159-8(b) requires North Carolina localities to operate on a fiscal year beginning July 1 and ending June 30 and to produce a balanced budget on the following timeline:

- Departmental requests to be sent to budget officer by April 30 (G.S. 159-10)
- Budget and budget message to be submitted to governing board by June 1 [G.S. 159-11(b)]
- Budget ordinance to be adopted by July 1 [G.S. 159-13(a)]

Given the preceding timeline, performance results would have to enter the process before April 30 because they should be reflected in departmental requests. In reality, however, program managers must collect and analyze performance data well before this deadline so that they can identify strategies for program expansion, reduction, or realignment. This allows them successfully to support their budget requests and strategic goals with performance results when the budget office distributes the annual budget worksheets (typically during January or February of each fiscal year). The primary issue surrounding timing is how often performance data should be collected and reported in the form of performance measures. This framework proposes a semiannual basis.

When local officials develop annual budgets, financial data are available on actual expenditures for the prior year, budgeted expenditures for the current year, and results for the current year to date. Program managers in conjunction with the budget director must analyze these data to produce the following

Managers of building inspection programs can measure performance using such indicators as the number of quality-control inspections per inspector per month, the percentage of inspections found to be accurate, the number of inspections performed within twenty-four hours, and the number of residential plans reviewed.



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Table 3. A Program Budget for the Durham Building Inspection Program

Appropriations	Actual FY 1999-00	Adopted FY 2000-01	Estimated* FY 2000-01	Adopted FY 2001-02
Personal Services	\$2,319,464	\$2,358,013	\$2,400,471	\$2,421,109
Operating	426,438	500,643	487,366	221,583
Capital	34,868	4,773	28,434	—
Total Appropriations	\$2,780,770	\$2,863,429	\$2,916,271	\$2,642,692
Full-Time Positions	45.0	45.0	45.0	45.0
Part-Time Positions	0.5	0.5	0.5	0.5

Source: CITY OF DURHAM, N.C., FY 2001-02 BUDGET.

* "Estimated" means based on a projection of year-to-date results.

year's proposed budget, which then is approved by the elected officials. (For an example of how the city of Durham displays this information in its budget document for the building inspection program, see Table 3.)

Collecting, analyzing, and reporting performance measures semiannually allows an organization to align inputs with outputs of service delivery during the annual budget process, providing the necessary information to engage in performance budgeting. [For an illustration of how managers of Durham's building inspection program align performance measures with the prior-year actual results, and how they align adopted (target) measures with the current-year adopted budget, see Table 4.]

During the annual budget preparation process, program managers update their performance measures with performance data collected as of December 31. This provides them with current information for performance budgeting and for estimating what their year-end results will be (the Estimated column in Table 4). Program managers then project adopted measures for alignment with the program budget for the following fiscal year.

The framework to allow performance budgeting now is in place. A line-item budget has been restructured to support a program budget (Table 3), and a

performance measurement system has been implemented at the program level (Table 4). An important aspect of this framework is its flexibility. Although program budgeting and performance measurement focus on total program inputs and total program outputs, program managers must regularly disaggregate the program data to analyze details. For example, given the design of the account structure at the program level, the framework allows a program manager to move from aggregated program inputs (personnel, operating, and capital costs) to disaggregated inputs (line items).

As stated earlier, state law mandates that localities in North Carolina follow a certain process of budget preparation. The administrative and technical details of budget preparation and adoption processes, however, vary widely across jurisdictions. The same holds true for performance budgeting. Most localities engaged in performance budgeting follow the overall structure of the framework presented in this section, but the details for collecting, analyzing, and using performance and financial data vary widely across jurisdictions. For example, the framework calls for collecting and reporting performance data semiannually. Some localities do this monthly, quarterly, or annually. Localities should adapt and implement the framework on the basis of their organi-

zational capacity—leadership, commitment, time, resources, experience, and training—for meaningful performance and budget reform.

Data Analysis

Between the framework for performance budgeting and the philosophy of using performance data, there is a critical link. In Tables 3 and 4, program managers have aligned the inputs and the outputs for the building inspection program. However, they must analyze the data and the processes that produce those data in order to create information for supporting program expansion, reduction, or realignment. In local government, data analysis is directly linked to organizational capacity. It requires people with the necessary process knowledge, time, and analytical skills to create strategies for change on the basis of the inputs and outputs of service delivery.

People engaged in data analysis should not limit their review to the kind of information presented in Tables 3 and 4. Program managers commonly track performance measures beyond the statistics they collect and report for the annual budget process. The next section presents several management techniques that increase the likelihood of data use. Data analysis is a prerequisite for each technique presented. This missing component may be one reason why local

Table 4. Performance Measures for the Durham Building Inspection Program

Measures	FY 1999–00 Actual	FY 2000–01 Adopted	FY 2000–01 Estimated	FY 2001–02 Adopted
Quality control inspections per inspector per month	2.4	2.2	2.0	2.0
Percent inspections found to be accurate	99%	99%	98%	98%
Percent of residential plans reviewed in 4 days	93.6%	91%	90%	90%
Percent plan errors found in field	0.3%	.07%	1.0%	1.0%
Percent of inspections performed within 24 hours	97%	92%	90%	90%
Inspections per inspector per day	14.7	15	14	14
Number of quality checks	737	713	648	648
Number of residential plans reviewed	2,610	2,632	2,632	2,632
Number of inspections	81,585	85,000	80,000	80,000
Number of public school inspections	84	84	84	84

Source: CITY OF DURHAM, N.C., FY 2001–02 BUDGET.

Analyzing Data

Supporters of performance management have successfully documented how localities are collecting and reporting performance measures. What now needs documentation is how localities are analyzing performance and financial data to create meaningful and usable information. Performance measures are primarily designed to monitor the performance of selected service dimensions. It is the responsibility of management to analyze the processes that produced the results and identify strategies for performance improvement.

The most comprehensive source of analytical techniques and examples of routine performance analysis is *Tools for Decision Making: A Practical Guide for Local Government*, by David N. Ammons.¹ It covers an array of techniques for analyzing performance and financial data in the context of local government administration, including central tendency analysis, correlation, cost-effectiveness analysis, demand analysis, floating averages, process flow charts, regression, sensitivity analysis, and work distribution analysis.

A common measure reported by fire suppression programs—the number of calls for fire service—provides an excellent example of how to use one of these techniques, demand analysis (a fairly detailed examination of workload patterns), to analyze data. Following are the number of actual calls for service over the past four fiscal years in a hypothetical city fire department:

FY 1999–2000	FY 2000–01	FY 2001–02	FY 2002–03
13,698	14,202	14,501	15,062

An analyst calculates the increase in demand for service that the fire suppression program experienced between FY 1999–2000 and FY 2002–03: 10 percent. She asks, “Why is the overall demand for fire service calls increasing? Are resources deployed in the most efficient and effective manner? Are strategies available to help stabilize the increase in demand?”

One of the most important steps in demand analysis and other analytical techniques is to disaggregate data to reveal

what may or may not be driving outputs and outcomes of service delivery.² The analyst disaggregates the data by type of service call:

Type of Call	FY 1999–2000	FY 2000–01	FY 2001–02	FY 2002–03
Fire	4,998	4,854	5,012	4,885
Medical	5,148	5,095	5,165	5,635
False alarm	2,700	3,348	3,489	3,667
Other	852	905	835	875
Total	13,698	14,202	14,501	15,062

Analysis reveals that the type of call driving the overall demand rate is false alarm, which has increased by about 36 percent between FY 1999–2000 and FY 2002–03. The number of calls regarding actual fires has remained relatively stable over the same period. Calls involving medical response have increased by 9.5 percent, prompting the analyst to disaggregate those data by service zone. That analysis reveals that a particular service zone of the city has been driving the demand for emergency medical calls.

On the basis of her analysis, the analyst, in consultation with the fire chief, constructs three strategies. First, in the zone experiencing a high demand for emergency medical calls, she increases the shift coverage by two firefighters per shift. Second, she makes a budget request to purchase a quick-response vehicle for the same zone. Third, she forwards a request to the budget director and the city manager to increase the false alarm fee. This strategy has the potential of slowing the demand rate for calls involving false alarms.

Each of these strategies has significant implications for performance budgeting. All are based on performance data. The change in shift coverage has the potential of increasing the effectiveness of fire suppression with the same level of resources. Greater efficiency may occur with this change, as well. A new quick-response vehicle will be a one-time investment, as opposed to a recurring cost. An increase in the false alarm fee has the potential of increasing the city's revenue.

Notes

1. DAVID N. AMMONS, *TOOLS FOR DECISION MAKING: A PRACTICAL GUIDE FOR LOCAL GOVERNMENT* (Washington, D.C.: CQ Press, 2002).
2. HARRY P. HATRY, *PERFORMANCE MEASUREMENT* (Washington, D.C.: Urban Inst. Press, 1999).

governments have not used performance measures as successfully as they have collected and reported performance data. (For more information on data analysis and on disaggregation of performance data at the program level, see the sidebar on this page.)

Use of Data

The success of performance budgeting hinges on a change in managerial

philosophy. Managers must become accustomed to using both performance and financial data to support their budget requests and daily management decisions. Most jurisdictions report that the only time they use performance data is when they are making budget decisions.¹⁸ Localities should be commended for using performance measures whenever they do so. However, the reason for adopting performance measurement is to support performance management

throughout the year. Managers who routinely use performance data will create the information they need to support their annual budget requests.

This discussion is not intended to be a comprehensive explanation of how to use performance and financial data to support decision making by management or to identify ongoing strategic goals for performance improvement. It merely provides a few examples of how localities can use data to support man-

agerial decisions, including how they can link the data to their annual budget preparation.¹⁹

Strategic planning at the organization-wide level is becoming more common in local government.²⁰ It typically involves creation of an overall mission statement, identification of core values, and specification of organizational goals by the organization's stakeholders. Specific objectives, performance measures, and performance targets often are missing at this level. Administrators and managers must develop annual work plans containing this information as they identify specific strategies for goal achievement. They use performance data to construct, justify, and track the success of their

work plans over time, allowing performance budgeting to occur when their plans contain budget implications. The "balance scorecard" offers another approach to building annual work plans and to linking specific strategies to organization-wide goals.²¹

Using data should be an ongoing management approach to service delivery. One of the best approaches to using data is *continuous process improvement*. It requires managers first to analyze processes in order to determine the current levels of performance. Next, they establish performance targets and identify strategies to close the gap between the current levels of performance and the targets. This requires perfor-

mance management outside the budget process and sets the stage for performance budgeting. (An example of these strategic goals for building inspections can be found in the sidebar on page 31.) Some will have direct budget implications; others will not. The long-term goal is to change the organizational culture so that program managers are constantly searching for ways to improve service delivery.

Benchmarking offers localities an excellent way to place their performance measures in the context of other jurisdictions. An example of a formal benchmarking process is the North Carolina Benchmarking Project, managed by the Institute of Government.²² In local government, program managers commonly contact neighboring jurisdictions on an informal basis to obtain comparable performance data. Either way, the program managers' goal is to identify gaps in the performance results of their programs as compared with those of other jurisdictions. Once program managers have identified the causes through process analysis, they construct strategies to close the performance gap on the basis of the policies and processes of other jurisdictions. Performance management occurs as managers use internal and external data. Performance budgeting occurs when identified strategies have budget implications.

Tracking performance data over time (trend analysis) is an excellent way for a program manager to identify programs, functions, and processes that are prime candidates for *program evaluation* or *performance auditing*.²³ The purpose is to collect and analyze performance data to support recommendations for change, including specific implementation guidelines for process realignment. This allows allocation decisions to be informed by performance because the recommendations derived from program evaluations or performance audits that have budget implications are constructed on the performance of service delivery.

A final approach to using performance data is only recently gaining attention in local government. *Performance data auditing* requires local officials periodically to verify the accuracy and reliability of performance data.²⁴ They identify strategies for improving the data's



In a fire suppression program, an analyst can use demand analysis to determine why citizens are calling for one type of service more than another.

integrity and the processes that produce the data by examining data collection and reporting methodologies and by tracking the details of service delivery.

Returning to a misconception of performance budgeting, simply placing performance measures in a budget document does not constitute performance budgeting. However, performance results placed in budget documents should be accurate and reliable for the users of this information, providing another need for performance data auditing.

Conclusion

Performance budgeting occurs when the results of service delivery inform decisions about allocation of resources. Using performance data to inform decision making within the core functions of management requires leadership, management, analytical skills, and communication skills and a continuous commitment to providing efficient and effective service delivery.

One of the major misconceptions of performance budgeting is that it is a stand-alone budgeting technique. The performance budgeting framework presented in this article requires line-item budgeting, program budgeting, performance measurement, and performance management to link inputs to outputs successfully. Line-item budgeting provides the necessary infrastructure for budgeting and accounting for financial resources at the level of detail required for accurate and reliable information. Program budgeting requires the alignment of inputs with programs of service delivery—where the functions, activities, and processes are located for service provision. Performance measurement provides the necessary infrastructure for tracking outputs, outcomes, and efficiencies at the program level. Performance management is used to support an extremely important core function of management in local government—the annual budget preparation and adoption process.

A final aspect of performance budgeting is that it requires ongoing leadership from all levels of the organization for successful adoption and implementation. This is especially critical for senior managers and elected officials, who

play an important role in changing the organizational culture to accommodate performance budgeting. Numerous jurisdictions in North Carolina are committed to performance budgeting. Hickory is one city where an organizational culture change has occurred. During meetings and workshops, Hickory's program managers, department heads, and elected officials commonly use financial and performance data to analyze service delivery, identify strategies, and support decisions.

Notes

1. V. O. Key, *The Lack of a Budgetary Theory*, 34 AMERICAN POLITICAL SCIENCE REVIEW 1137 (1940).
2. XiaoHu Wang, *Assessing Performance Measurement Impact*, 26 PUBLIC PERFORMANCE & MANAGEMENT REVIEW 26 (2002).
3. Katherine Barrett & Richard Greene, *Coming to Terms*, GOVERNING, Mar. 2003, at 56.
4. Philip G. Joyce, *Appraising Budget Appraisal: Can You Take Politics out of Budgeting?* PUBLIC BUDGETING AND FINANCE, Winter 1996, at 21.
5. N.C. GEN. STAT. §§ 159-10 through -13 (hereinafter G.S.).
6. Output measures indicate the amount of work performed, outcome measures the degree to which performance objectives have been achieved or reflect the quality of performance. Efficiency measures reflect the relationship between work performed (outputs) and resources required to perform it (inputs). DAVID N. AMMONS, MUNICIPAL BENCHMARKS (Thousand Oaks, Cal.: Sage Publications, 2001).
7. David N. Ammons, *Productivity Improvement in Local Government: Its Place among Competing Priorities*, 43 PUBLIC ADMINISTRATION REVIEW 113 (1983).
8. The misconceptions discussed in this section are drawn from JANET M. KELLY & WILLIAM C. RIVENBARK, PERFORMANCE BUDGETING FOR STATE AND LOCAL GOVERNMENT (Armonk, N.Y.: M. E. Sharpe, 2003).
9. AMMONS, MUNICIPAL BENCHMARKS.
10. JEROME B. MCKINNEY, EFFECTIVE FINANCIAL MANAGEMENT IN PUBLIC AND NONPROFIT AGENCIES (Westport, Conn.: Quorum Books, 1995).
11. Another problem is that dividing the total program budget (personnel, operating, and capital costs) by the number of outputs is a crude methodology for determining unit cost. For more information on cost accounting, see DAVID N. AMMONS, TOOLS FOR DECISION MAKING: A PRACTICAL GUIDE FOR LOCAL GOVERNMENT (Washington, D.C.: CQ Press, 2002).
12. Although making periodic program changes is a natural part of doing business,

making constant changes once programs are defined diminishes the value of historical trend data (financial and performance).

13. STEPHEN J. GAUTHIER, GOVERNMENTAL ACCOUNTING, AUDITING, AND FINANCIAL REPORTING (Chicago: Government Finance Officers Ass'n, 2001).

14. PLANNING, PROGRAMMING, BUDGETING (Fremont J. Lyden & Ernest G. Miller eds., 2d ed., Chicago: Markham Publ'g Co., 1972).

15. THOMAS D. LYNCH, PUBLIC BUDGETING IN AMERICA (4th ed., Englewood Cliffs, N.J.: Prentice-Hall, 1995).

16. The building inspection program is a consolidated function of the City of Durham and Durham County. The program was specifically selected for this article because it is a common function in both municipal and county governments.

17. David N. Ammons, *Performance Measurement in North Carolina Cities and Towns*, POPULAR GOVERNMENT, Fall 2001, at 11.

18. LYDIA BJORNLUUD, BEYOND DATA: CURRENT USES OF COMPARATIVE PERFORMANCE MEASUREMENT IN LOCAL GOVERNMENT (Washington, D.C.: International City/County Management Ass'n, 2000).

19. For examples of how localities across the United States use information derived from performance results, see *id.*

20. For more information on strategic planning and the annual budget preparation process, see NATIONAL ADVISORY COUNCIL ON STATE AND LOCAL BUDGETING, RECOMMENDED BUDGET PRACTICES (Chicago: Government Finance Officers Ass'n, 1998).

21. The "balance scorecard" is a management system that uses financial and non-financial information for enhancing goals, objectives, measures, and strategies by assessing organizational performance across four dimensions: financial, internal business, innovation and learning, and customer. Charlotte is an example of a local government in North Carolina that is using this system.

22. For a recent report issued by the project, see WILLIAM C. RIVENBARK & MATTHEW H. DUTTON, FINAL REPORT ON CITY SERVICES FOR FISCAL YEAR 2001-02: PERFORMANCE AND COST DATA (Chapel Hill: Institute of Gov't, Univ. of N.C. at Chapel Hill, Feb. 2003), available from the Publications Sales Office, e-mail sales@iogmail.ioq.unc.edu, phone (919) 966-4119.

23. Social scientists created program evaluation to identify a program's impact as gauged by its purpose. Accountants created performance auditing to analyze the economy and efficiency of a program. They both are used to identify findings and to make recommendations for improving decision-making processes and service provision.

24. William C. Rivenbark & Carla M. Pizzarella, *Ensuring the Integrity of Crucial Data*, POPULAR GOVERNMENT, Winter 2002, at 28.