In his essay “PBB in American Local Governments: It’s More than a Management Tool,” Dr. Alfred Tat-Kei Ho poses the question, is performance budgeting dead? Of course, Ho’s question is a rhetorical one. Indeed, performance budgeting is not dead. Still, the practice faces a significant threat posed by the current fiscal crisis that local governments are enduring. Traveling about the country in my role as senior management associate for the International City/County Management Association’s Center for Performance Measurement (CPM), I visit local governments that are using or implementing performance budgeting effectively to help them focus their efforts and allocate scarce resources to address priority issues. It is from such experiences that I base these comments regarding Ho’s research and conclusions about PBB practice in American local governments.

Ho concludes from his case assessment of PBB application in Indianapolis that performance budgeting works best, and perhaps only, at the program level, and not at the department level. His analysis of the budget operations of the city in fiscal years 2008–10 supports this conclusion. Based on my experience, I cannot disagree. Ho is correct in determining that certain specific conditions—an organizational focus on outcomes and not outputs, strong management and executive support, and a focus on continuous improvement—must be met in order for performance measurement, and performance budgeting, to work.

Given my experience and career path, one might quickly conclude that I am a strong proponent of performance measurement application to local government management and budgeting. Certainly, I have seen firsthand the effectiveness of performance measurement programs as implemented among the more than 200 local governments that participate in the CPM. Moreover, many of these participants apply for and receive certificates of achievement, distinction and excellence through the center’s recognition program each year. These governments meet the criteria for recognition not simply because they are measuring things, but because they are using performance measures to make decisions—both programmatically and financially.

The vast majority of local governments that participate in CPM, however, are far smaller than Indianapolis. Because of this, I am concerned about the applicability of Ho’s conclusions as they relate to the thousands of small communities throughout the United States.

As one would expect, Indianapolis’s budget process is complex and multilayered. The mayor and other elected officials appropriate funds to departments, which then allocate those funds to programs, sub-programs, and so on. In this sophisticated budgeting scenario, it is easy to see how, using Ho’s words, “political considerations and gaming” might influence the budget process, and “performance information and rational analysis” may be relegated to a supporting role in the overall decision-making process. This is not to say that elected officials ignore performance information; rather, they likely are more concerned with political considerations and the impact of their budgeting decisions on citizen perceptions than they are on marginal changes in program budgets from one year to the next. This makes sense, of course, for it is program managers and the so-called street-level bureaucrats who probably have the best feel for meeting day-to-day service obligations; responding to service requests and citizens’ concerns in a timely way; keeping informed on the current research of new technologies, materials, and service methodologies; and operating a program or subprogram as efficiently as possible over the course of a fiscal year.

In a city such as Indianapolis, it is reasonable that departmental budget allocations would vary only marginally from year to year, while program budget allocations would be more volatile. Moreover, it makes sense that programs that have more performance measures would be subject to greater volatility than those that do not produce as many. However, where
the local government organization is so small that the organizational chart does not indicate more than just a few layers from top to bottom, I would expect a somewhat different result than what Ho found in Indianapolis.

As an example, consider a city of about 40,000, also in the Midwest, where there are four organizational layers from the city manager to the most junior solid waste collector. In this example, which is far more common in the United States than a major city the size of Indianapolis, program budgeting is the norm—that is, there is no “department-level” budgeting. After discussions with the solid waste supervisor, the city manager would propose a budget for the solid waste program. The proposed budget would be informed by performance information, such as solid waste tonnages, tons collected per collector, expenditures per ton, households collected per collector, and citizen satisfaction levels for solid waste collection. Upon receiving the city manager’s proposed budget, the mayor and city council would review the recommendation and the same performance information, perhaps make some changes, and then make a final decision.

My point is that I believe that in smaller local governments—those that make up the vast majority of cities in the United States—the elected officials have the real luxury of having a more intimate knowledge of the performance measures of an individual program—inputs, outputs, efficiencies, and outcomes—than elected officials in very large cities. As a result, performance information can, and probably does, have an even more dramatic effect on budgeting decisions in smaller cities than in larger ones. I would be interested in further research to see whether this is the case.

Notwithstanding the issue of organizational size, however, the real elephant in the room is the fiscal climate in which local governments now find themselves. Indeed, the budget pressures faced by today’s local government managers are probably worse than at any time in recent memory—certainly worse than that experienced in the last several decades in the United States. Record deficit spending at the federal level, reduced income and property tax revenues at all levels, and reduced state funding of local programs have combined to create a fiscal environment consistently referred to as the “Great Recession.” Combine that with an electorate whom the media frequently refers to as “angry” at government at all levels, and the conditions exist for dramatic reductions in local government services—even among services such as public safety that traditionally have been insulated from significant budget shocks, as well as other highly valued services.

As Ho writes, “Performance-based dialogue at the program level is especially important in today’s fiscal environment, when many state and local governments are struggling with declining revenues and growing pressure from the public to do more with less” (emphasis added). Unfortunately, however, that very same fiscal environment is causing local governments—of all shapes and sizes—to furlough or even eliminate positions throughout their organizations. Such downsizing often includes the very staff who would be in the best position to evaluate program efficiencies and effectiveness and who could provide the breadth and depth of critical performance information that managers, mayors, and other elected officials need in order to make informed budgeting decisions.

Anecdotaly, we at the CPM have seen this manifest itself in a number of ways and instances among our participating jurisdictions. Local governments have had to delay or forgo reporting performance information to the CPM because they lack the staff to simply collect the data. Others report that they need the CPM to take a more active role in analyzing performance data for the local governments—for example, to identify high performers or to develop best practices case studies—because local government staff have been reassigned from performance measurement activities to “essential services.” (Unfortunately, even this terminology reflects the work that still needs to be done in framing performance measurement as an “essential” local government activity.) Other local governments, although far fewer in number, have abandoned performance measurement entirely, given a lack of staff resources.

What may be most disheartening to consider is the fact that the CPM participants “get it.” That is, these participants understand performance measurement as an investment that will pay for itself over time. These participants utilize performance measurement in their budgeting and management processes and commit the staff time and resources necessary to take part in a national comparative performance measurement program. If these governments are feeling fiscal pressures so severe that even they are scaling back their performance measurement efforts, consider what other jurisdictions are facing.

As important as Ho’s findings are about the relationship between performance budgeting and departmental and programmatic appropriations, perhaps it is even more telling to know that the fiscal climate is forcing local governments to make very painful choices, including some that are detrimental to the performance measurement and management reform effort. Such choices may mean that local governments can no longer afford to treat performance measurement and performance budgeting as critical management tools. Rather, local governments are forced to scale back on performance activities in order to devote scarce resources to so-called core activities, such as public safety, transportation, and utilities.

It would be interesting if future research would be directed at the impact that challenging fiscal conditions can have on a local government’s interest in and ability to fund investment activities such as performance measurement and performance budgeting, staff development and training, and community building. I would presume that, during times of fiscal stress, high-performing jurisdictions resist scaling back on investment activities more than other jurisdictions do, but that even these high performers find it easier to cut investment activities than to cut traditional services.

At what cost, however, are these investment cuts made? Without the ability to make informed decisions using high-quality performance information, are local governments at risk of making decisions based solely on managers’ intuition, or what worked last year, or “the way we’ve always done it”? And, by reverting to those more primitive forms of decision making and resource allocation, are local governments only making it harder for themselves to be nimble, to react quickly and well to opportunities, to compete in a global economy, to provide an appropriate mix of services to a population growing more diverse each day, to take steps to curb and reverse damage
to the environment, and to position themselves for future—and, perhaps, even more damaging—fiscal conditions?

A local government that finds a way to remain committed to performance measurement and budgeting, even in lean times, will thrive in the long run. Moreover, as Ho’s research implies, the extent to which the organizational distance between decision makers and program leaders can be shortened, the better off a local government will be.

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