Abstract

Budgeting is a key function for government. The process serves as a framework for decision-making; it sets policy, establishes priorities, and allocates scarce public resources. While the role of the budget has always been prominent, the Great Recession ushered in increased public scrutiny, greater service demands, and strained already tight financial resources. Despite the official exit from the recession, evidence suggests that the current political and fiscal climate is here to stay. To effectively operate in the new climate, government at all levels must be equipped with technology that supports new work processes, includes elements for each level within and between governmental organizations, and provides an avenue for greater societal participation in the process.

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Overview: Why budgeting matters

The Great Recession and its lingering effects ushered in a “new normal” for governments across the globe. The crisis that began in the United States quickly spread to Europe, Asia, and other parts of the world. Austerity measures were approved in Greece; deep cuts were enacted in the United Kingdom; and automatic, across the board reductions were passed via sequestration in the United States. State and local governments in the United States, where reductions in service levels are perhaps felt the most by the public, were forced to make deep service reductions and personnel cuts, with some cities such as Detroit, MI, San Bernardino, CA, and Jefferson County, AL, even filing for bankruptcy.1 According to Posner, the situation is dire:

As spending pressures accumulate to finance an aging nation, a smaller cohort of workers will be left behind to finance these costs. While their real incomes are expected to grow, future generations can expect a slower rate of economic growth, thanks in large part to slowing labor force growth over the next 40 years.2

Despite the official exit from the recession in most parts the world, the impact of the deepest recession since World War II continues to evolve. Governments that were forced to make deep cuts to key service areas, such as public safety and human services, are now faced with a slow recovery, restoring services to pre-recession levels, an aging infrastructure in need of repair, and a more active constituency with heightened demands for government transparency and little appetite for new taxes and fees. The evidence of these challenges has been discussed at length and is well documented.

To address these challenges in a responsible way, a solid budgeting process must be in place as a mechanism for key decision makers to allocate scarce resources toward prioritized programs and services. Posner summarizes the dilemma elected officials have when it comes to prioritizing spending, by noting that:

The question facing political leaders and the public entails weighing two different kinds of risk stemming from this uncertainty: the risk of asking for too much near-term sacrifice should the long-term outcome be more benign than forecast, and the risk of failing to take sufficient actions to prevent or mitigate a crisis that exceeds the long term modelers’ scenarios.3

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Accordingly, there are a variety of budgeting processes in use across all levels of government, the merits of which have been highly debated in the academic literature. Recently, outcome-based budgeting has gained significant momentum, with governments focusing on results and performance in their allocation of scarce resources.

Regardless of the methodology, budgeting is a core government function, and the means by which budgetary decisions are made can signify substantial changes in the operation. According to Rubin and Stein, the current fiscal climate suggests innovation is in order. “While short-term fiscal stress tends to interrupt the introduction of budget innovation, longer-term effects of fiscal crisis may create an atmosphere in which budget reforms are welcomed...cities with deteriorating economies are likely to want more activist government, which puts pressure on the budget process to create flexibility and policy responsiveness within severe revenue constraints.”

Throughout the research, it is also important to note that the entire argument is based around the fact that budgeting in government is inherently different. As noted by Schachter, “Reformers use business world metaphors assuming that private enterprise efficiency has positive connotations for their audiences. But this practice leaves [budget] models vulnerable to the charge of glossing over important differences between business and government.”

There are a number of budget process reforms that have been formulated over the years. While this research recognizes the differences in the different approaches, it does not focus on budgeting methodology per se, but rather on the technology required to support the different budgeting processes employed across all levels of government. It addresses this issue by examining the fundamental drivers of a successful budget process, including citizen involvement, managing the political environment, and how the underlying technology should support elected officials and public administrators as they navigate the choppy waters of the “new normal.”

The following sections begin with a brief review of the current public administration literature related to budgeting, citizen participation, and technology. Next, the paper discusses the evolution of the budget process at a macro-level. It emphasizes moving from the transaction-based environment of the mid- to late twentieth century, through the current environment of decision support and outcomes-based budgeting, and to a true engagement model that encourages citizen participation and government transparency, while taking advantage of the flexible architecture of the Internet. Finally, the paper concludes with a set of tangible recommendations for unifying the disparate processes and technology solutions that support today’s budgetary models.

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Literature review

Starting in the 1950s, one major budget reform has been proposed each decade to overcome the perceived challenges with incremental line item budgeting. First, it was program-based budgeting in the 1960s, followed by zero-based budgeting in the 1970s, and then statutorily imposed budgeting in the 1980s, such as Proposition 13 in California. In the 1990s, there was movement toward entrepreneurial-based budgeting, a method designed to empower departments and agencies with more control over their programs and activities, with high-level direction provided by elected officials and top administrators. Over the past two decades, there has also been a push towards budgeting for results or "outcomes," which measures specific annual goals against workloads and personnel performance.

All of these reforms have been debated, adopted, rejected, or modified, in an attempt to find the optimal method for what is one of the most important processes of government. However, the merits of each methodology are only important in this context, since, as previously noted, this paper is not meant to debate which budget reform of the past half century is most suited for government, but rather to establish a basis to explore the core fundamentals of public sector budgeting as a foundation for technology as we move further into the 21st century. As such, the remainder of the paper begins with a discussion of the four key purposes of the budget, followed by an analysis of the themes present in the literature, and finally, a look at where technology needs to go to support elected officials and public administrators in the budget process moving forward.

Allocation of scarce resources

Most local governments are required by law to balance their budgets. Similarly, most states are also required to balance their budgets. Granof and Mayper note that, "The requirement of a balanced budget for governments is widely acclaimed as a means of achieving fiscal prudence and economy." In such an environment, one of the challenges for public officials is optimizing the allocation of scarce resources in a world of unlimited demands.

This task becomes significantly more complex during tough economic times, such as the current environment. Revenues decrease due to lower than anticipated sales and property tax; grant funding becomes generally less available and more competitive; and fees for services, such as those generated by cultural and arts programs, parks and recreation, and other ancillary services provided by government, decrease due to lack of attendance.

Conversely, demand for government services during challenging economic times increases, or at a minimum remains steady, leaving a funding gap that requires public officials to make tough choices in their allocation of finite resources. This is made more difficult due to the rising costs of unemployment, healthcare, infrastructure, and a rising prison population, among other needs. As a result, there has been a greater push toward focusing on results and outcomes to ensure the proper allocation of resources.

“The fiscal stress brought on by the combination of slower economic growth, taxpayer resistance, and ever-increasing demand for public services is...given as a major reason for the move to budgeting for results by industrialized countries.” Ultimately, balancing priorities and thus, the budget, is critical. According to Rubin, balance is "the most important constraint on budgeting."
Budgeting as a control mechanism

At all levels of government, the budget is the primary control mechanism. Elected officials and administrators use the adopted budget as a means to hold departmental heads accountable, while the public, in turn, uses the budget as a reference point to hold their elected officials and top administrators responsible for performance targets and anticipated outcomes. According to Cothran, there are key qualities that nearly all governmental efforts attempt to achieve—central control of total spending, decentralization of authority to departments in the use of funds, and accountability for results.

One adaptation to fiscal stress was for policy makers to take greater control of total spending in order to retard incremental budget growth at the same time that they gave program managers greater discretion in the detailed use of the funds. In fact, to the extent that they get a firmer grip on total amounts, policy makers are often willing to grant greater discretion. They hope that the decentralization and more intensive accountability will lead to greater efficiency and effectiveness with the funds available.13

Centralized control of spending is paramount to maintaining fiscal balance, and the adopted budget is a primary mechanism for achieving this objective. However, decentralization of authority in the execution of the budget presents other challenges. Decentralization requires greater accountability of departmental heads and line managers, often necessitates increased accountability for results. According to Schick, “More devolution of responsibility to agencies and, within them to line managers, seems to be the greatest incentive that can be provided for improved management performance... [But] increased responsibility has to be matched with increased accountability.”14 Ultimately, though, in order to make government more accountable financially, administrative and legislative controls must be in place.15

Legislative usage restrictions

Proposition 13 in California is one example of a legislative usage restriction. Proposition 13 was enacted in 1978 as a means to limit the amount of property tax that could be levied in California. For better or worse, it effectively limits the amount of revenue that can be collected, and thus budgeted, in governments across the state. While this is just one example, there are other ways that legislatures can limit themselves, often in much subtler ways. For example, the annual appropriations process can be used as a mechanism to approve funding for various programs and initiatives. This process, in use at nearly all levels of government, is an effective means for elected officials to ensure oversight of bureaucratic officials and front-line managers. Other legislative restrictions have been enacted to limit spending above average revenue levels. In Massachusetts, for example, legislation was passed to set aside surplus capital gains in the state’s budget stabilization fund.16

14 Schick, p 29
15 Ma and Hou
Although there are a variety of ways that legislatures can enact limits on the budget process, and, as a result, the growth of government and spending, balance is critical. As such, other means of legislative restriction includes setting proper goals and expectations, and then aligning incentives to those goals. This approach, which relies heavily on delegation, also allows elected officials more time to monitor performance. According to Cothran, “If policy makers want an organization to pursue the policy-makers’ goals efficiently, they should clearly specify the goals, and perhaps even involve subordinates in the setting of those goals... The delegation of authority will leave those at the top more time to think about goals and to monitor performance.”17

Community collaboration

Community engagement is one of the cornerstones of a successful budget process. Budget reformers at the turn of the 20th century envisioned a budget process, established by law, that would require public officials to ask the public what its needs were, arguing that citizens should be able to present their cases to elected officials as established members of civic society.18 Some see ancillary benefits to community participation in the budget process, including enhanced accountability, improving trust in government, building consensus, and maintaining legitimacy.19 Conversely, others see challenges with community participation and providing citizens and residents with adequate access to information, and accordingly, properly informing them on what the data means. According to Schachter, many people do not understand the data provided to them by government in various transparency initiatives, and further, do not understand why they should seek out the data in the first place. Nonetheless, Schachter does not advocate not sharing the data, but rather advocates educating the citizenry to improve upon the process.20

Rossman and Shanahan describe community collaboration as openness, including lack of secrecy, access to information, and transparency in the process. They note the overwhelming agreement of scholars in this area, but also three important barriers to public participation in the budget process, in addition to education challenges. Barriers include citizen discouragement and apathy, cynical citizens, a decline in social connectedness, and technical barriers. Despite these barriers, in their research, they note that citizens desire participation, but also concurrently desire privacy.21

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18 Rubin, Budget Theory and Practice: How Good the Fit?
20 Schachter, p. 530-537.
21 Rossman and Shanahan, p. 56-66.
Bridging the gap between theory and practice

The new normal—unlimited service demands with limited resources, increased citizen awareness and engagement, increased transparency and accountability, an aging infrastructure and workforce—is here to stay. For years, academics and analysts have been calling for substantive changes to the budgeting process across all levels of government. Governments have generally heeded their calls, but have been forced to adapt their processes around technology solutions that lack key functionality and workability. As a central function of government, budgeting is critical to the quality of life for all citizens. The public sector is inherently different that the private sector and requires tailored solutions to meet the increasing demands of communities across the globe.

There is no doubt that during the past two decades, enterprise budgeting solutions have evolved as budget processes and methodologies have also evolved. In the 1980s, the focus was on transactional processes. This meant bespoke integration of disparate products, with no congruency between what occurred within the system (transactions), and what occurred outside of the system in terms of decision-making by elected officials, citizen engagement, and community participation. In the mid-1990s, things began to change, with a movement toward monolithic, closed suite applications that were highly generic and inflexible, with little room for nuances and differences between budgeting processes. Similar to that of the 1980s, if a governmental organization wished to include the community in its decision-making processes, it was done outside of the technology, requiring public administrators to track various processes manually.

Today, though the evolution of technology has provided maximum flexibility for unifying systems using Internet standards, budgeting solutions have not kept pace and continue to force governmental organizations to maintain multiple systems and processes to incorporate what is considered best budgeting practices.

Public sector budgeting solutions must:

• Be flexible
• Deliver information in-context
• Encourage citizen participation and engagement
• Be balanced
• Be descriptive

Flexible

Most public sector organizations use an incremental approach to budgeting, regardless of the deployed budgetary model. However, not all approaches are created equal, and the underlying processes supporting the approach can vary widely. As such, the technology solution and framework must be flexible to support the varied approaches, methodologies, size, and scope of the organizations that deploy it.

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In-context

Context is critical for communicating the various decisions made during the budget process. Similarly, information must be contextual for both citizens and administrators alike. Information provided to the public without context exacerbates the communication divide between elected officials, administrators, and the public. As previously mentioned, poor citizen engagement and participation is partly due to lack of understanding of decisions made during the budget process, including funding availability and prioritization of services. To achieve proper context, budgeting solutions must integration with traditional ERP (Enterprise Resource Planning) systems, but also support expressive text used to describe services and convey context.

Participatory and engaged

Public sector budgeting must be participatory, and incorporate various elements of the governmental organization and the community. However, it must be tailored in a way so as not to slow the process down. Invariably, a small contingent of citizens and interest groups often garner the most attention during the budget process, whether national, state, or local government. Social engagement tools that have emerged over the past decade such as Facebook®, Twitter®, and Instagram®, among others, have made it easy for the masses to share and receive information as soon as it happens. Citizens need the ability to engage easily with the budgeting process, through its various iterations, and work the way they work. As such, budgeting solutions must support new ways to engage those individuals who may not attend town hall meetings or engage their respective elected officials directly, but otherwise pay attention to civic matters.

Balanced

Frontline managers have different needs than those of elected officials, but both parties need to be engaged in the budget process. Solutions tailored for one group or the other miss the mark. If frontline managers are not able to effectively prepare the budget for their respective services, the final product (the adopted budget), is often not as effective as it otherwise could be. Likewise, if elected officials are not able to effectively understand and thus communicate to their constituents the various decisions made during the process, it creates ancillary problems elsewhere. Budgeting solutions need balance. It starts with frontline managers having the tools necessary to model and forecast various hypothetical decisions and to understand the anticipated corresponding impact of those decisions.

Descriptive

Finally, the final, adopted budget, in any public sector organization, has to be descriptive, and provide ample support for decision-making. Budgeting is setting policy, whether operational, capital planning, or debt service. It is critical that technology solutions support the process across each of the aforementioned areas. Once adopted, the technology supporting the budget process must provide automated reporting and analytical capabilities to provide support for decisions, or to make necessary adjustments in future budgets.
Conclusion

As outlined in the research, governments at all levels have generally adapted their respective budget processes to achieve what academicians and analysts would consider best practices. However, as processes have evolved, the technology supporting those processes has not kept pace. Unfortunately, this has forced government organizations and agencies to adapt their processes around technology solutions that lack key functionality and workability. To effectively operate in the new climate, Infor® is committed to equipping governments at all levels with technology that supports new work processes based on the principles of participatory budgeting. The work processes include budgeting elements for each level within and between governmental organizations and providing an avenue for greater societal participation.

Bio

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