BUDGETING OVERVIEW

- What are the purposes of budgeting systems?
- What is program budgeting? What can it accomplish?
- What are the potential pitfalls of instituting such a system?
- What strategy was used to implement it at the MBTA?
- What happened? A cautionary tale about organizational change.
Purposes of Budgeting

• Control
• Efficiency
• Resource Allocation/Planning
• Team-Building
• Public Education and Accountability
Program Budgeting

- Program budgeting is a decision-making process that helps an organization consider how different budget options would affect its performance.

- Program budgeting focuses on the **efficiency** and **resource allocation** functions of budgeting. It can contribute to **control** and **team-building** as well.
Program Budgeting’s Benefits

- Compared to conventional incremental budgeting, program budgeting promises:
  -- more reasoned decisions
  -- probing of the organization’s “base budget”
  -- logical connections between budgeting and other key management processes
  -- improved capacity to explain and defend budget choices
  -- improved team-building
Program Budgeting in Perspective

Mission Statement

Goals/Objectives

Programs

Activities

Impacts/Results

Strategic Planning

Program Building
Program Budgeting Data

- “Demand” or “Workload”
  -- e.g. number of engine overhauls, staffing needs

- “Inputs,” “Resources,” or “Expenditure Objects”
  -- e.g. personnel, materials, equipment

- “Outputs” or “Products”
  -- e.g., passenger miles of service, buses preventively maintained

- “Outcomes” or “Impacts”
  -- e.g., single-occupant vehicle trips averted
Program Budgeting Linkages

**Program Budgeting**

- Demand/Workload
- Resources/\$\$ Inputs
- Outputs
- Impacts/Results

**Unit Costs**

**Strategic Planning**

**Financial MIS**

**Monthly Mgmt Report**
Potential Organizational Problems

• Excessive expectations
• Over-centralization of decision-making
• Energy and skills spread too thin in effort to achieve comprehensiveness
• Proliferation of paperwork requirements
• Inadequate training and technical assistance for departments
• Premature efforts to link program budgeting to other management systems
Strategy for the MBTA - 1

- Keep purposes focused, promised results modest, and system design streamlined.

- Develop the system collaboratively in close consultation with central management, the budget office, and department managers.

- Design the system to empower departments to improve the quality of their decision making, while central management focuses on its more limited priority agenda.
Strategy for the MBTA - 2

- Keep the agenda concentrated on priority issues where good budget decisions can make a difference.
- Keep the focus on substantive budget issues, not paperwork requirements.
- Provide effective training and technical assistance to departments.
- Go slowly in linking program budgeting to other management systems.
## Bus Operations: FY96 Program Budget

**Mission:** To provide safe, clean, and reliable transportation services for more than 350,000 riders per day

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### Bus Operations: FY96 Program Budget (cont'd)

**CABOT FACILITY: SOUTHSIDE DISTRICT**

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Total Vehicles in this Facility
The Strategic Triangle

Task Environment

Public Value, Mission

Legitimacy and Support

Authorizing Environment

Operational Capacity

Resource Environment

Strategic Alignment or “Fit”

Legitimate and politically sustainable

Substantively valuable

Operationally and administratively feasible
The Organizational Congruence Model

Operational Capacity

People:
- Human resource capabilities
- Competencies

Critical Tasks:
- Component tasks
- Work flows and processes

Formal Organization:
- Strategic grouping
- Formal linking
- Hierarchy of authority
- Rewards
- Information systems
- Human resource systems
- Career systems

Culture:
- Norms, values
- Communication networks
- Informal roles
- Informal power

People:
- Human resource capabilities
- Competencies

Public Value

Legitimacy and Support

Performance

Program Budgeting at the MBTA

PUBLIC VALUE

PEOPLE:
- Power threat to department heads
- Intellectual stretch, unwanted tasks for department budget officers
- Power threat to sub-department heads
- “Not invented here” for new budget director

FORMAL ORGANIZATION:
- Exertion of authority by GM over departments, but no GM’s reserve fund created, budget hearings did not get GM’s attention, dissipation of effort
- No leverage over FMIS development
- Failure to mobilize Deputy GM and Chief of Staff
- Department heads not actively engaged

CRITICAL TASKS:
- Required internal analysis, new ways of presenting information
- Tension between “analytic” and “budget cutback” modes

CULTURE:
- Lack of a policy entrepreneur for budgetary reform
- Considerable department autonomy
- Fears of budget cutbacks
- No expectation by depts. that decisions would be made on the merits
- GM’s initiatives disappear if you outwait them

LEGITIMACY AND SUPPORT

PERFORMANCE
Strategic Tensions in MBTA Program Budgeting Initiative

- No support from Secretary/Chairman, but strong pressure for budget cuts.
- No interest or support sought from or given by MBTA Advisory Board.

Public Value, Mission

Operational Capacity

Conflict of “budget cutbacks” vs. “preservation of service and jobs” had priority over analysis of needs and investments.

Legitimacy and Support

Despite GM’s initiation of the project, the MBTA lacked internal commitment and ability to do program budgeting.