Lecture 13: BUDGETING*

Outline:

- 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.

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* *Based on work by Arne Howitt of the Harvard University Kennedy School of Government*

Purposes of Budgeting

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

Program Budgeting

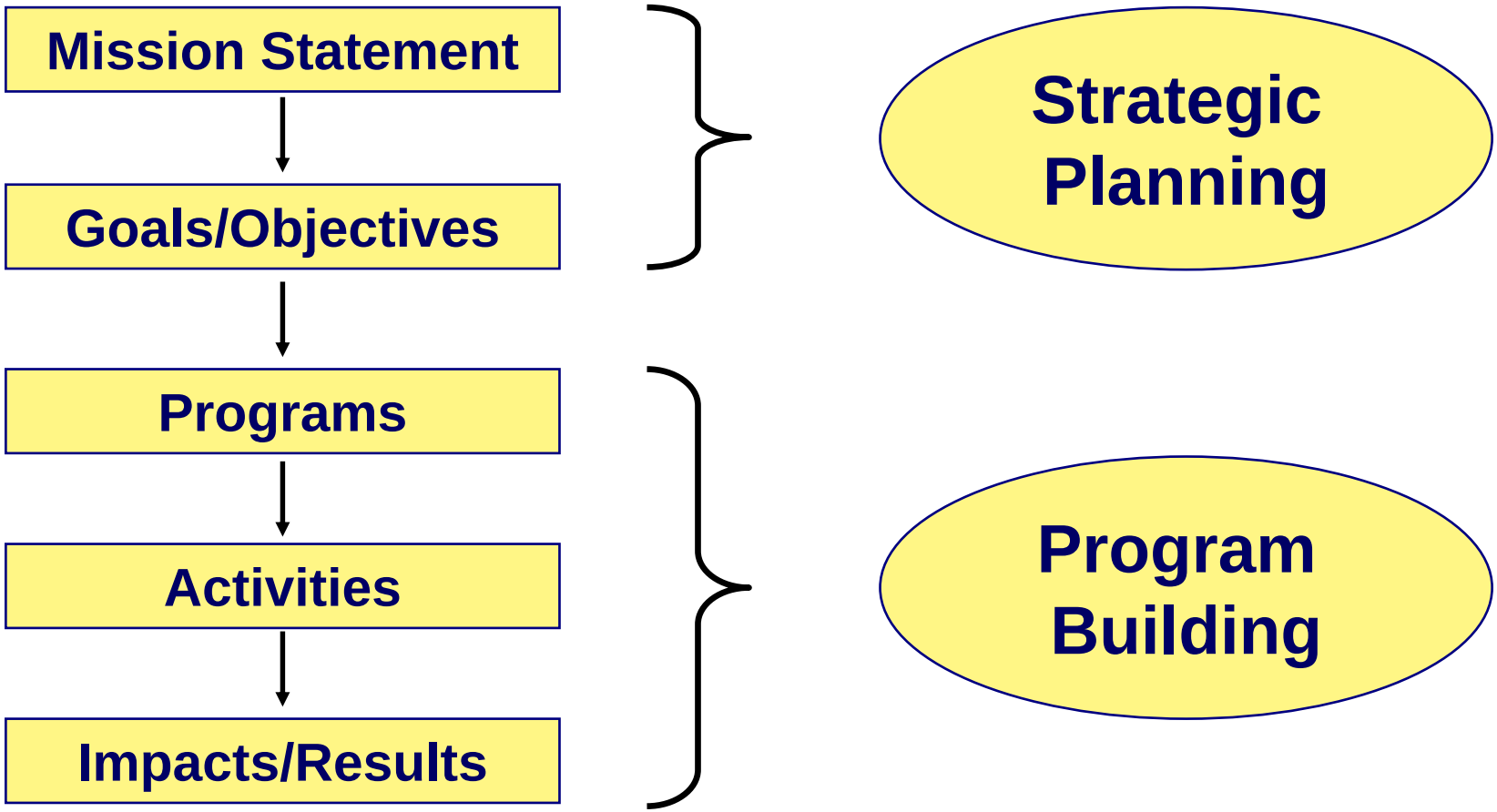
- **Program budgeting is a decision-making process that helps an organization consider how different budget options would affect its performance**

- **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**

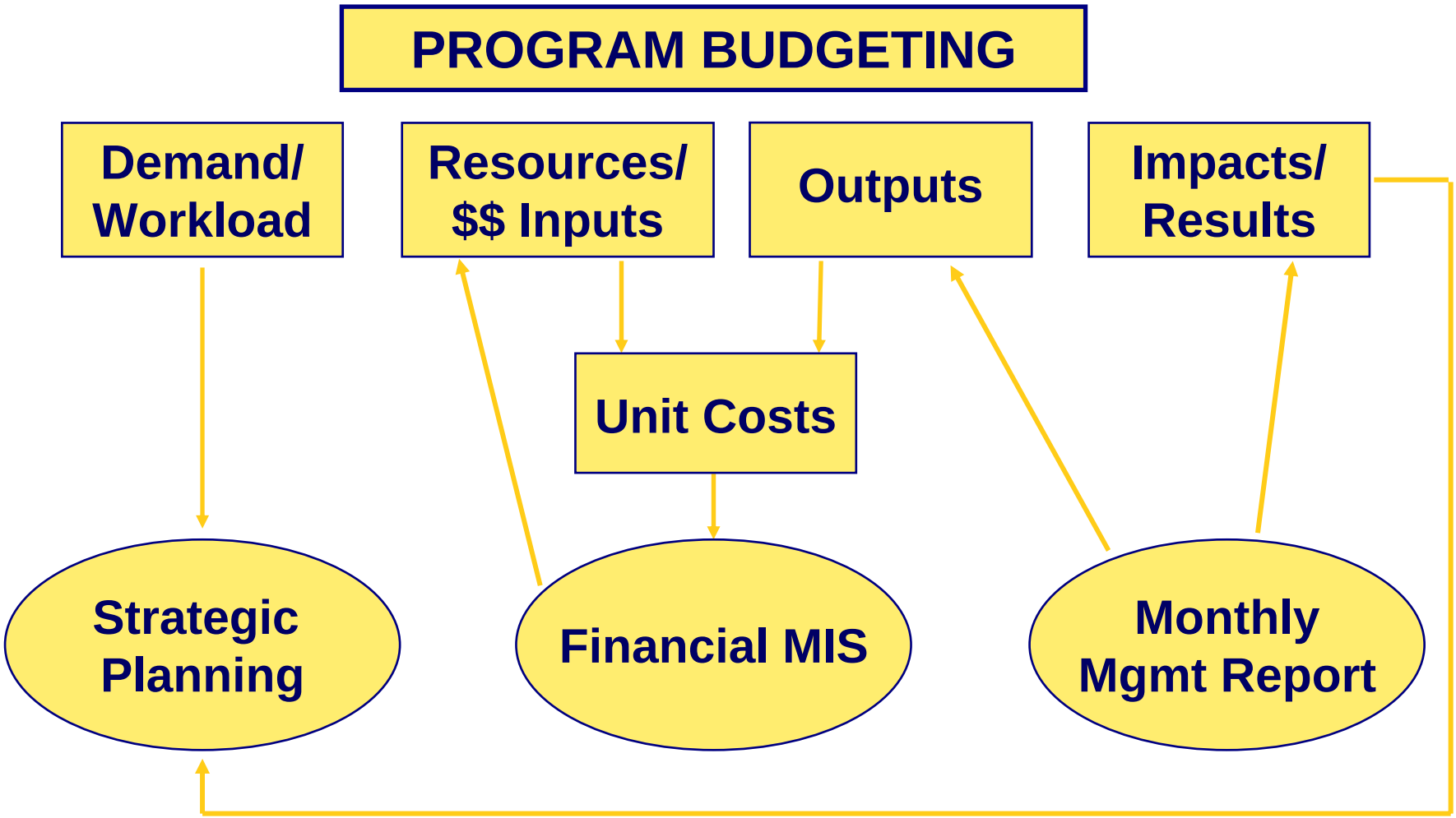
Program Budgeting in Perspective



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



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

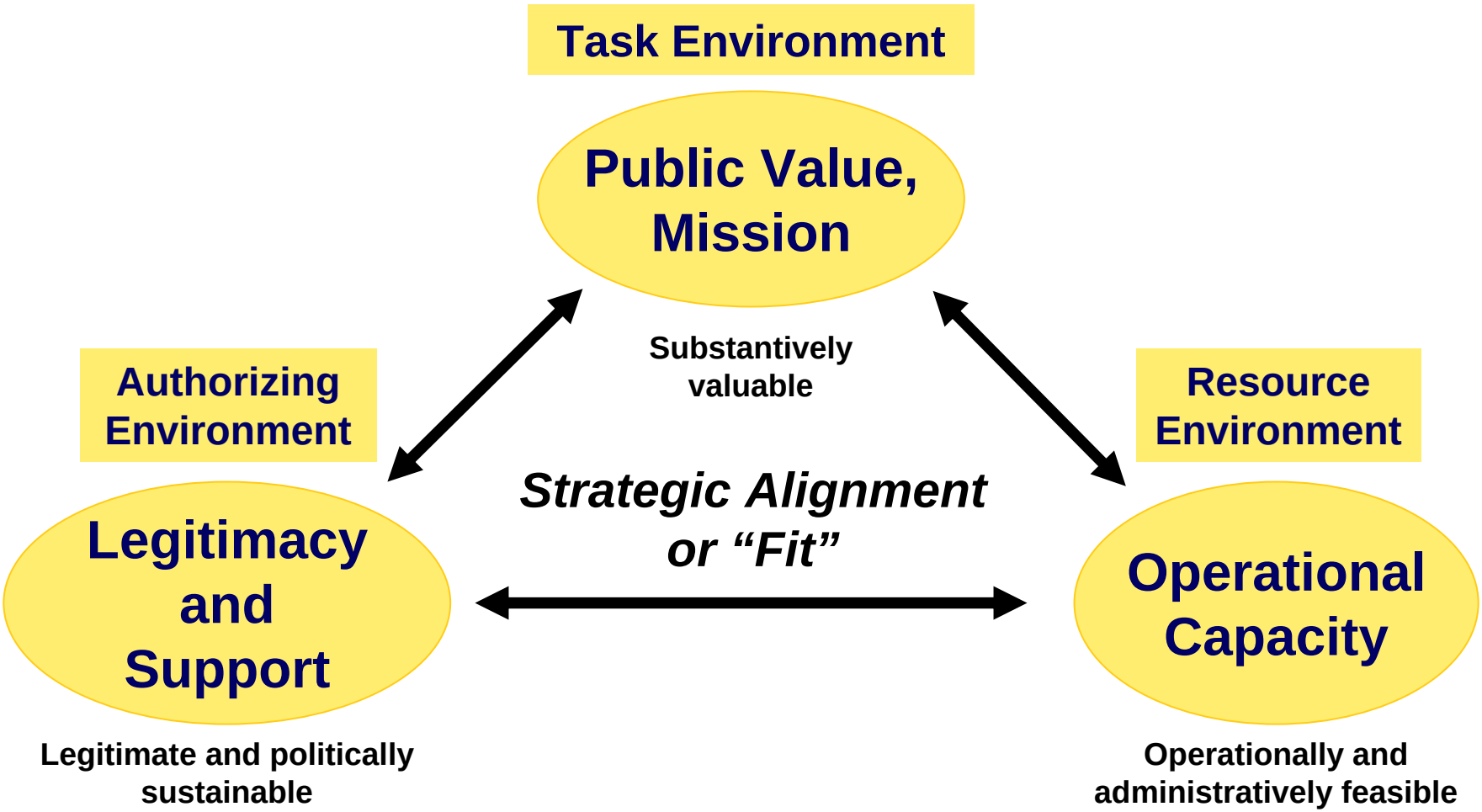
		RESOURCES						
PROGRAM	**ACTIVITY**	**FY94 Actuals**	**FY95 Budget**	**FY95 Budget**	**MEASURE**	**FY94 Actuals**	**FY95 Budget**	**FY95 Budget**
Albany	**Passenger Service**	**Total $** **Total FTEs**	**Total $** **Total FTEs**	**Total $** **Total FTEs**	**Operating Cost Per Mile** **Number of Riders** **Average Fare Per Rider** **MDBF** **Service-ready Vehicles ($ of Req.)** **Percent of Scheduled Trips Run** **Complaints per 100,000 Riders** **Accidents per 100,000 Miles** **Injuries per 100,000 Riders**	**5863**		

Bus Operations: FY96 Program Budget (cont'd)

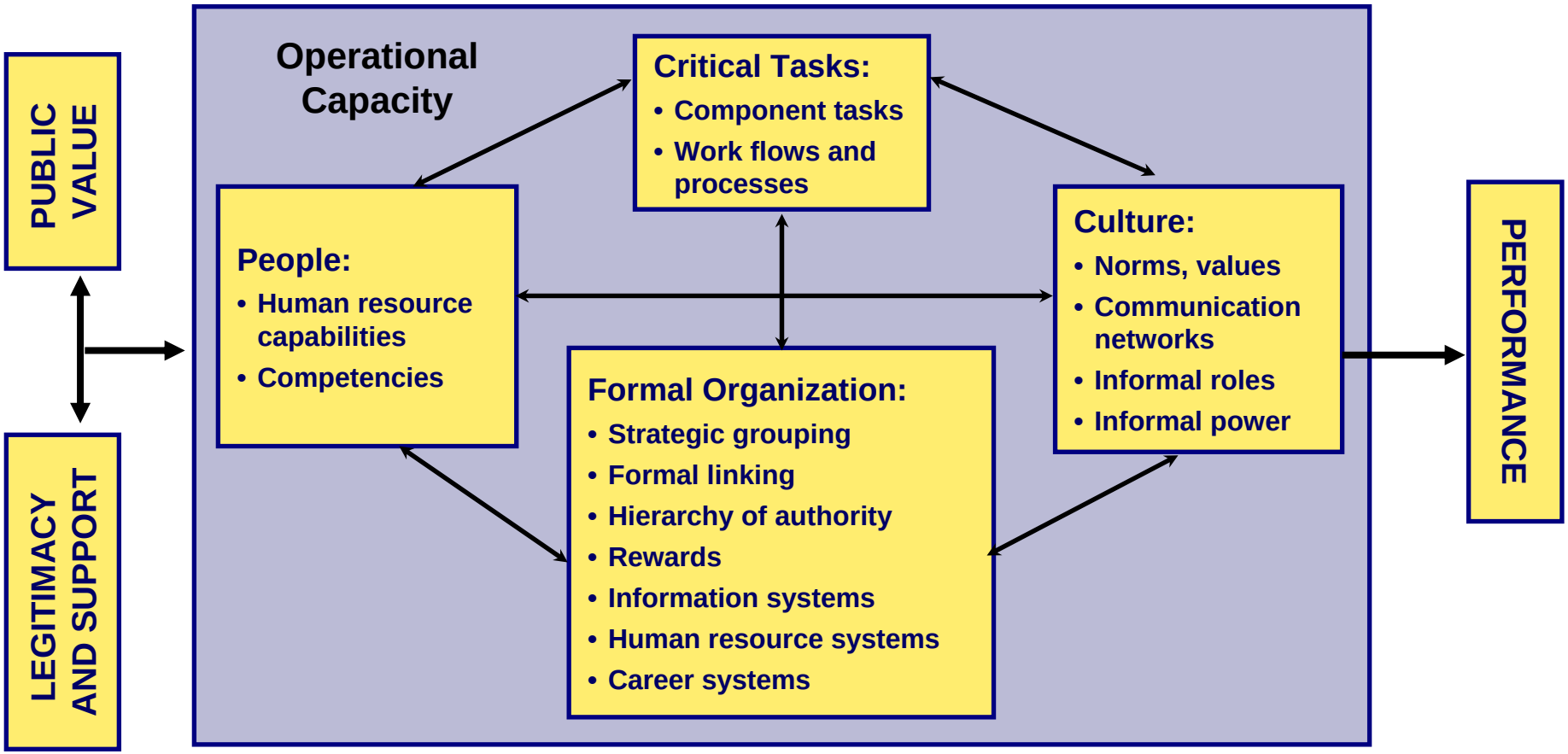
CABOT FACILITY: SOUTHSIDE DISTRICT

		RESOURCES						
PROGRAM	**ACTIVITY**	**FY94 Actuals**	**FY95 Budget**	**FY95 Budget**	**MEASURE**	**FY94 Actuals**	**FY95 Budget**	**FY95 Budget**
SERVICE	**Passenger Service**	**Total $** **Total FTEs** Operators Line Supervisors Management	**Total $** **Total FTEs** Operators Line Supervisors Management	**Total $** **Total FTEs** Operators Line Supervisors Management	**Revenue-Vehicle Mileage** **Number of Riders** **Fares Collected** **Number of Scheduled Trips** **Number of Scheduled Trips Run** **Number of Added Trips Run** **Complaints** **Vehicle Injuries** **Passenger Injuries**			
PREPARE FOR SERVICE **PREVENTIVE MAINTENANCE** **CORRECTIVE MAINTENANCE** **Total Vehicles in this Facility**	**Cleaning** **Fueling** **Mileage-based Inspections** **Seasonal Vehicle Maintenance** **Modification Campaigns** **Air Supply Systems** **Brake Systems** **Engine** **Transmission** **Electrical/Lighting** **Fuel System** **Steering/ Suspension** **Wheels/Tires** **Wheelchair Lifts** **Vandalism** **Accidents** **Other Reasons**	**Total FTEs** Fuelers: Foremen: **Total FTEs** Mechanics: Foremen **Total FTEs** Mechanics: Foremen: **Total FTEs** Management: **TOTAL**	**Total FTEs** Fuelers: Foremen: **Total FTEs** Mechanics: Foremen **Total FTEs** Mechanics: Foremen:	**Total FTEs** Fuelers: Foremen: **Total FTEs** Mechanics: Foremen **Total FTEs** Mechanics: Foremen:	**Number of Vehicles Washed** **Number of Vehicles Fueled** **Number of Inspections** **Number of Vehicles Completed** **Number of Vehicles Completed** **Number of Diagnosis/Repair** **Number of Diagnosis/Repair** **Number of Diagnosis/Repair** **Number of Diagnosis/Repair** **Number of Diagnosis/Repair** **Number of Diagnosis/Repair** **Number of Diagnosis/Repair** **Number of Diagnosis/Repair** **Number of Diagnosis/Repair** **Number of Diagnosis/Repair** **Number of Diagnosis/Repair**			

The Strategic Triangle

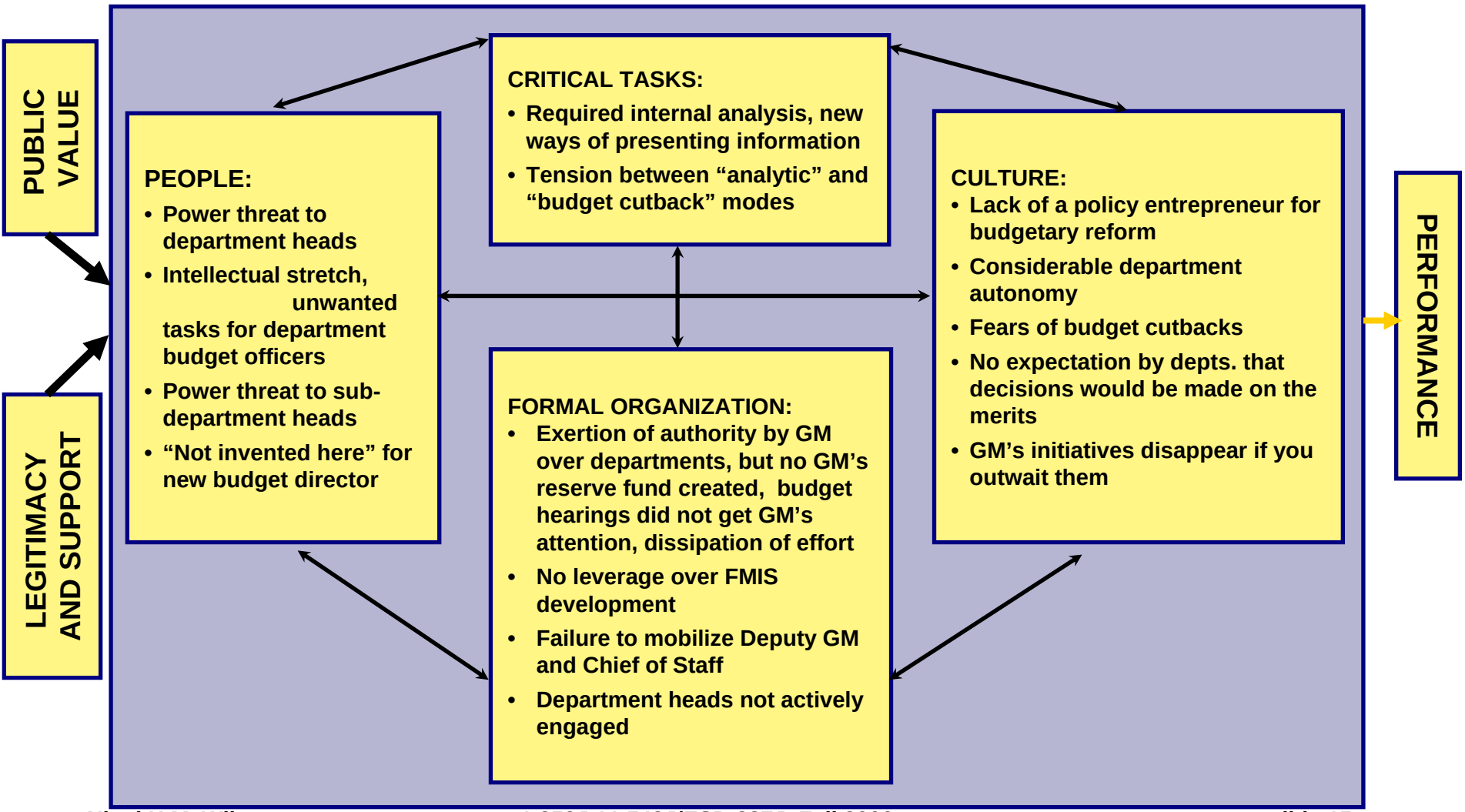


The Organizational Congruence Model



Source: Michael Tushman and Charles O'Reilly, *Winning Through Innovation* (Cambridge, MA; Harvard Business School Publishing, 1998)

Program Budgeting at the MBTA



Strategic Tensions in MBTA Program Budgeting Initiative