

Budgetary Approaches

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Over the past 30 years, governmental entities in the United States have used a variety of budget approaches and formats. The development of more advanced budget philosophies reflects growth in both the scope and the complexity of governmental operations and the simultaneous need for systems that are capable of translating the variety of policy decisions into financial plans. For more information on budgetary approaches, The National Advisory Council on State and Local Budgeting provides additional guidelines. Various budgeting models continue to be commonly used and fall predominantly into categories of (1) line-item, or "traditional," budgeting; (2) performance budgeting; (3) program and planning ("programming") budgeting (PPB); (4) zero-based budgeting (ZBB); and (5) site-based budgeting. In addition, many governments use a variety of hybridized versions to address the specific needs of the organization. Although these approaches are considered distinct in terms of the underlying preparation process, actual formats of the prepared budgets may be quite similar; for example, the format of a site-based budget may be quite similar to the format of a line-item budget. Each of the five basic approaches has relative advantages and limitations.

Line-Item Budgeting

Line-item budgeting is still the most widely used approach in many organizations, including schools, because of its simplicity and its control orientation. It is referred to as the "historical" approach because administrators and chief executives often base their expenditure requests on historical expenditure and revenue data. One important aspect of line-item budgeting is that it offers flexibility in the amount of control established over the use of resources, depending on the level of expenditure detail (e.g., fund, function, object) incorporated into the document.

The line-item budget approach has several advantages that account for its wide use. It offers simplicity and ease of preparation. It is a familiar approach to those involved in the budget development process. This method budgets by organizational unit and object and is consistent with the lines of authority and responsibility in organizational units. As a result, this approach enhances organizational control and allows the accumulation of expenditure data at each

functional level. Finally, line-item budgeting allows the accumulation of expenditure data by organizational unit for use in trend or historical analysis.

Although this approach offers substantial advantages, critics have identified several shortcomings that may make it inappropriate for certain organizational environments. The most severe criticism is that it presents little useful information to decisionmakers on the functions and activities of organizational units. Since this budget presents proposed expenditure amounts only by category, the justifications for such expenditures are not explicit and are often unintuitive. In addition, it may invite micro-management by administrators and governing boards as they attempt to manage operations with little or no performance information. However, to overcome its limitations, the line-item budget can be augmented with supplemental program and performance information.

Performance Budgeting

A different focus is seen in performance budgeting models. In a strict performance budgeting environment, budgeted expenditures are based on a standard cost of inputs multiplied by the number of units of an activity to be provided in that time period. The total budget for an organization is the sum of all the standard unit costs multiplied by the units expected to be provided. Although this strict approach may be useful for certain types of operations, many organizations require a more flexible performance approach. For example, expenditures may be based simply on the activities or levels of service to be provided and a comparison of budgeted and historical expenditure levels.

The performance approach is generally considered superior to the line-item approach because it provides more useful information for legislative consideration and for evaluation by administrators. Further, performance budgeting includes narrative descriptions of each program or activity—that is, it organizes the budget into quantitative estimates of costs and accomplishments and focuses on measuring and evaluating outcomes. Finally, the performance approach eases legislative budget revisions because program activities and levels of service may be budgeted on the basis of standard cost inputs.

However, performance budgeting has limitations owing to the lack of reliable standard cost information inherent in governmental organizations. Further, the performance approach does not necessarily

evaluate the appropriateness of program activities in relation to reaching an organization's goals or the quality of services or outputs produced. Consequently, the performance approach has become most useful for activities that are routine in nature and discretely measurable (such as vehicle maintenance and accounts payable processing)-activities that make up only a relatively modest part of the total educational enterprise. But in sum, performance budgeting may offer considerable enhancement to the line-item budget when appropriately applied.

Program and Planning (Programming) Budgeting (PPB)

Program budgeting refers to a variety of different budgeting systems that base expenditures primarily on programs of work and secondarily on objects. It is considered a transitional form between traditional line-item and performance approaches, and it may be called modified program budgeting. In contrast to other approaches, a full program budget bases expenditures solely on programs of work regardless of objects or organizational units. As these two variations attest, program budgeting is flexible enough to be applied in a variety of ways, depending on organizational needs and administrative capabilities.

Program budgeting differs from approaches previously discussed because it is much less control- and evaluation-oriented. Budget requests and reports are summarized in terms of a few broad programs rather than in the great detail of line-item expenditures or organizational units. PPB systems place a great deal of emphasis on identifying the fundamental objectives of a governmental entity and on relating all program expenditures to these activities. This conceptual framework includes the practices of explicitly projecting long-term costs of programs and the evaluation of different program alternatives that may be used to reach long-term goals and objectives. The focus on long-range planning is the major advantage of this approach, and advocates believe that organizations are more likely to reach their stated goals and objectives if this approach is used.

However, several limitations exist in the actual implementation of this approach, including changes in long-term goals, lack of consensus regarding the fundamental objectives of the organization, lack of adequate program and cost data, and the difficulty of administering programs that involve several organizational units. Yet despite its limitations, program budgeting is often used as a planning device while budget allocations continue to be made in terms of objects and

organizational units—a process that has been adopted in many schools throughout the nation. As with performance budgeting, PPB information may be used to supplement and support traditional budgets in order to increase their informational value.

Zero-Based Budgeting

The basic tenet of zero-based budgeting (ZBB) is that program activities and services must be justified annually during the budget development process. The budget is prepared by dividing all of a government's operations into decision units at relatively low levels of the organization. Individual decision units are then aggregated into decision packages on the basis of program activities, program goals, organizational units, and so forth. Costs of goods or services are attached to each decision package on the basis of the level of production or service to be provided to produce defined outputs or outcomes. Decision units are then ranked by their importance in reaching organizational goals and objectives. Therefore, when the proposed budget is presented, it contains a series of budget decisions that are tied to the attainment of the entity's goals and objectives.

The central thrust of ZBB is the elimination of outdated efforts and expenditures and the concentration of resources where they are most effective. This is achieved through an annual review of all program activities and expenditures, which results in improved information for allocation decisions. However, proper development requires a great deal of staff time, planning, and paperwork.

Experience with the implementation of this approach indicates that a comprehensive review of ZBB decision packages for some program activities may be necessary only periodically. Additionally, a minimum level of service for certain programs may be legislated regardless of the results of the review process. As a result, ZBB has had only modest application in schools, although the review of program activities makes ZBB particularly useful when overall spending must be reduced.

Site-Based Budgeting

Site-based budgeting is widely considered the most practical for budgeting within the school district environment, by providing greater control and reporting of school-level data. This budgetary approach

(which may be used in combination with any of the four discussed above) emphasizes the decentralization of budgetary decisionmaking. Site-based budgeting places local managers and other staff at the center of the budget preparation process, making them responsible for both the preparation and the maintenance of the budget.

Site-based budgeting is popular in many school settings. Within a school system, site-based budgeting generally involves granting increased budgetary authority to the school. Resources are allocated to the site, with budget authority for programs and services granted to the school's principal and staff. Campuses are normally allocated a certain level of resources that they have the authority to allocate to educational and support services. These budgetary allocations are meant to cover those areas over which campus decisionmakers have control. For example, schools that have authority over staffing decisions may be allocated funds for staff costs using the site-based budgeting approach. In contrast, school districts that make staffing decisions centrally may not allocate funds to the individual school site for staff costs.

The main advantage of site-based budgeting is that those who best understand the needs of a particular organization are empowered to make resource allocation decisions. This decentralization of budgetary authority may also increase local accountability. Another potential advantage of site-based budgeting is the increased level of participation of the public and staff in budget development. Many site-based budgeting systems create committees composed of staff and community members to determine budgetary allocations. These committees give members a voice from the inception of the budget process, rather than merely when the budget is presented for public review and approval.

Although site-based budgeting may provide substantial benefits, it also has limitations. First, organizations with limited resources may not be capable of granting a meaningful level of site-based budgetary authority. Even if an organization does have discretionary resources, it may be difficult to determine the areas of the budget for which local decisionmakers should be held accountable. Finally, site-based budgeting may be burdensome to some local managers, may increase conflict between staff or departments, or may limit the organization's ability to ensure quality and sufficiency in the services it provides. These problems can be avoided somewhat through the careful design of site-based budgeting guidelines and through training for new budget stakeholders.

Outcome-Focused Budgeting

Consistent with the evaluation objective, government budgeting is becoming increasingly outcome-focused. Fiscal austerity, coupled with intense competition for governmental resources, has precipitated an effort to ensure more effective use of resources at all levels of government. Outcome-focused budgeting is the practice of linking the allocation of resources to the production of outcomes. The objective is to allocate government's resources to those service providers or programs that use them most effectively.

Outcome-focused budgeting is closely linked to the planning process in governments. For a government entity to focus on outcomes, goals and objectives must be identified and tied to budget allocations for the achievement of those objectives. This premise argues that mission-driven (synonymous with outcome-focused) governments are superior to those that are rule-driven because they are more efficient, are more effective in producing desired results, are more innovative, are more flexible, and have higher employee morale (Osborne and Gaebler 1993). In the context of increased governmental scrutiny of governmental costs, including schools, this model may receive more emphasis in the future.

Source: National Center for Education Statistics-Financial Accounting for State and Local School Systems-2003 Edition, Chapter 3, Budgetary Approaches.