

Larry Goldstein, *College and University Budgeting*, NACUBO: Washington, D.C., Third Edition, 2005.

This review covers just the Appendix which is devoted to describing and evaluating different approaches to budgeting.

APPENDIX: APPROACHES TO BUDGETING

OVERALL PROCESSES:

Incremental/Decremental Budgeting

Each program or activity's budget is increased/decreased by a specified percentage. Underlying theory or rationale: the basic aspects of programs and activities do not change significantly from year to year, and the change in resources in any given year is a small percentage of the base budget. "Appears to be the most widely practiced model in higher education, showing that, for many institutions, the need for efficiency in some administrative areas outweighs the desire for effectiveness."

Cons:

- "Recognized as producing suboptimal results in terms of resource allocation."
- Because it operates only at the margins, it does not involve serious examination of what is being accomplished through the base budget, and it avoids the question of whether there are better uses for some of the resources. Difficult policy choices are circumvented.
- Maintains the status quo, and generally does not represent a budgeting approach that is integrated with planning. In fact, planning may become relatively unimportant when incremental budgeting is practiced. When resources are allocated through an across-the-board approach, there is no need to identify priorities.

Pros:

- Relatively simple to implement; easier to apply; more controllable; more adaptable; and more flexible because of the general lack of emphasis on analysis.
- Minimizes conflict because, for the most part, all institutional components are treated equally.

Zero-Based Budgeting

Opposite end of the spectrum from incremental/decremental budgeting: focuses on the individual program or activity, and assumes no budgets from prior years; instead, each year's budget begins at a base of zero. Usually not applied in practice to an entire budget – e.g., might assume that 80% of the previous year's budget will continue as a base.

Cons:

- Assumes no budget history; thus, it does not recognize that some commitments are continuing and cannot be altered readily in the short run. (This is particularly true of labor-intensive organizations such as universities.)
- In most discussions, ZBB is considered an “all or nothing” proposition, but this does not have to be the case. Can be implemented on just parts of the organization, or done on a cyclical basis (e.g., every five years).
- Consumes incredible amounts of time and generates massive volumes of paperwork, and it is frequently difficult to gain agreement on the priorities.
- Centralized preaudit of lower-level decisions robs those levels of decision-making autonomy and responsibility.

Pros:

- Users gain a much better understanding of their organization through the preparation and review of the decision packages than they would using other methods.

Planning, Programming, and Budgeting Systems

Systematically links the planning process to the allocation of resources. Primary element is cost-benefit analysis applied to organization's program budgets. Characteristics include a focus on centralized decision making, a long-range orientation, and the systematic analysis of alternatives in terms of costs and benefits. “Unfortunately, the PPBS concept generally has been more appealing on paper than in practice.”

Cons:

- Challenges for higher education: requires strong central management, agreement on what constitutes a program, and consensus on the appropriate outcomes.
- Too often, costs are assigned to individual programs through arbitrary allocations that are unrelated to the program's activities.

Pros:

- Attempts to link planning process and budgeting.

Formula Budgeting

Formula budgeting is a procedure for estimating resource requirements through the relationships between program demand and program cost. Relationships are frequently expressed as mathematical formulations that can be as simple as a single student-faculty ratio or as complicated as an array of costs per student credit hour by discipline for multiple levels of instruction. “It is rare to see formula budgeting applied within a college or university. It is more typically used at a systemwide or statewide level to give public institutions a foundation for developing budget requests.”

Cons:

- Because it tends to rely on historical data, it can discourage new programs or revisions to existing programs.
- Given its focus on quantification, it can suffer from many of the faults identified with incremental budgeting.
- Creates incentive to retain programs or activities that contribute funding – even after they no longer contribute to the achievement of mission, goals, and objectives.
- Can have an unequal or even negative impact on participating institutions; e.g., because formulas are based on averages, institutions experiencing increasing enrollments will fare better because their marginal costs are lower than their average costs (and the converse also holds true).

Pros:

- The quantitative nature of most budget formulas gives them the appearance, if not always the reality, of an unbiased distribution.
- May increase institutional autonomy by reducing political influence in budgeting.
- Has capacity to reduce uncertainty by providing a mechanism for predicting future resource needs.
- Overall process is simplified because budget formulas tend to remain stable from one period to the next.

Responsibility Center Budgeting

Essential characteristic is that units manage the revenues they generate. Rather than a central focus on budgetary control, the emphasis shifts to program performance. Units are credited with the revenue they generate through their activities and programs, and are responsible for funding the various cost centers that serve them.

Campuses also impose a tax on the external revenues generated by revenue centers. These tax proceeds are combined with other central revenues to create a subvention pool that funds cost centers as well as revenue centers that are unable to generate sufficient revenues to finance their operations. Central administration is responsible for collecting and redistributing taxes, giving them a key role in the resource decisions for the campus.

Cons:

- Criticism that it focuses too much on the bottom line and does not respond adequately to issues of academic quality or other priorities.
- Concern that decisions made by individual units may have negative consequences for the institution as a whole.
- Concern that a lack of coherence of planning and budgeting will evolve as units gain greater autonomy.

Pros:

- RCB encourages a much broader understanding of institutional finances, because all support services are fully costed and all academic units are credited with their share of total institutional revenue.
- RCB creates incentives to enhance revenues and manage costs.
- Recognizes the importance of revenue sources such as tuition, sponsored programs, and their related overhead recoveries.
- Creates an awareness of the actual costs of relatively scarce campus resources such as space, computing, and telecommunications – more likely resulting in behaviors that lead to optimization of resource use.
- Encourages the removal of central controls and gives more attention to performance or outcomes measures; leads to campus service recipients being better and more demanding customers, and campus service providers becoming more responsive (particularly if outsiders may be substituted).

SPECIAL PURPOSE:

Initiative-Based Budgeting

Initiative-Based Budgeting sometimes referred to as “reallocation budgeting” is **not a comprehensive budget model**. It is a structured approach to the establishment of a resource pool for funding new initiatives or enhancing high-priority activities. It provides side benefit of assuring that units conduct a review of existing activities to make certain that they remain productive. Resources generated through internal reallocation methods are redistributed using criteria established through the planning and budgeting process – frequently entailing some form of proposal process.

Performance-Based Budgeting

PBB focuses on outcomes. Resources (inputs) are related to activities (structure) and results (outcomes). Specific outcome measures are defined in either quantitative or qualitative terms.

Cons:

“For various reasons, difficulties have arisen in applying the newer forms of PBB in the public arena.” Difficulties have to do with:

- Development of performance measures that flow from the state to the institution – frequently not reflecting an understanding of the factors influencing the measures.
 - Outcome indicators that are viewed as relatively meaningless because they are linked with program budgets only at the highest level of aggregation, which may disconnect them from the activities that actually drive the results.
 - Quantitative measures being more widely employed than qualitative measures, though the latter may be more meaningful indicators of success.
 - Performance measures at high levels of program aggregation are not easily linked with organizational divisions and departments.
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