What do training consultants, office supply companies and sports stores have in common?

The answer is that they are all very busy during June and December each year, as businesses (including schools) spend up big in a race to ‘use up’ their budgeted allocation for the financial or calendar year. Requisition requests for professional development and training, stationery and school supplies, and sports goods and consumables all suddenly become the urgent focus at these times of the year. If this expenditure is unjustified, then the result is an inefficient waste of scarce financial resources.

Many schools adopt a traditional approach to budgeting, where historical performance is the starting point and a new budget is produced by simply adjusting last year’s budget. That is a weak budgeting method, and it should be scrapped, as it will only perpetuate past inefficiencies and will do nothing to encourage reflection of current goals or creative thinking. Lasting, significant benefits cannot be realised by making mere incremental adjustments.

Zero-based budgeting
Just because an expenditure item was included in one year’s budget, does not mean it should remain in the budget for ever. The ‘use it or lose it’ mentality encourages unnecessary spending by departments, who feel

It’s beginning to look a lot like budget time

Wendy Collins

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they should exhaust their full budget allocation, even if items are no longer required or relevant.

Instead, consider the use of zero-based budgeting, which eliminates the weaknesses of the incremental budget process. Zero-based budgeting reviews every dollar in the budget. According to Anandarajar, et al, “Every activity is evaluated on its own merits and expenditure critically reviewed for its effect on the whole budget. No item of expenditure is included in the budget unless it is absolutely necessary for the operation of the organisation.”

The budget is an integral part of your strategic annual planning. It allows you to monitor and successfully control the management of your school’s finances. The best budgets are those that align your school’s overall strategic and annual goals and improve educational opportunities for your students.

Of course, budgets are not just about expenditure. A vital aspect of the budget process is the consideration of revenue from sources such as government funding, fees, grants, contributions, hire of facilities, and fund raising. Zero-based budgeting focuses on the expenditure part of the equation, rather than on revenue. It is concerned with optimist resource allocation, in order to best achieve the organisation’s mission.

In a school context, the first step in zero-based budgeting requires Heads of Department to define the mission of their departments and to articulate how this aligns with the school’s overall strategic vision. Robust discussion should be encouraged among the team leaders regarding the school’s mission and how it can best be achieved.

Building a budget starting from zero means that a detailed and structured consideration of each expenditure item is considered. According to Callaghan, et al, from global consultants, McKinsey & Company, this process “builds a sustainable culture of cost management”. Cost visibility, cost governance, and cost accountability are the resulting benefits. The zero-based budgeting process has another major benefit. It links overall corporate governance, with accountability and cost visibility. It also helps departments to focus upon incentives and priorities.

A further benefit of zero-based budgeting is that duplication and waste are identified. Where duplication of resources and expenditures are discovered in the various departments across your school, the way is opened to eliminating unnecessary, redundant expenses.

Overall, the advantage of zero-based budgeting is that it encourages leaders to “take a strong introspective look at the mission of an organisation, and focus exactly on how the organisation is allocating its resources in order to achieve that mission.”

Zero-based budgeting does take significant time, but it is not meant to be simply a once-off annual process. It involves a process of controls and the most beneficial allocation of costs to programs and goals, with employees making cost management part of their everyday routine. When implemented correctly, it should build a sustainable culture of cost management. What this means for your school is that a ‘cost management tool kit approach’ is adopted. Your key financial staff operate as a team who develop “deep visibility into costs and set detailed savings targets”. For best outcomes this should occur in an environment of on-going communication.

Of course, there are also some minor disadvantages of a zero-based budgeting approach. The main down-side is that it takes a high level of effort to implement. However, with time and training, the benefits can soon pay off. One alternative to consider, if you face time constraints, is that zero-based budgeting can be implemented on a rolling basis through different departments within your school, over several years.

Your school budget is more than just an important financial document. It is part of the overall process of your management control and monitoring of valuable resources. Change your mindset and recognise the budget process as a vital tool of efficient administration and organisational management, rather than as an unpleasant chore to be finalised each year, as quickly as possible. As you explore the benefits of a zero-based budgeting approach, school-wide benefits will accrue. Efficient and effective achievement of your school’s strategic goals will be the recognisable outcomes.

References

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