

## Systems of Budget Administration

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### ABSTRACT

**The line-item budget is the most common form of budgeting in use in school districts today. However, there are alternative methods of budgeting. Three alternative approaches to budgeting are zero-based budgeting (ZBB), planning-programming-budgeting systems (PPBS), and site-based budgeting. In this article, I discuss each of these four approaches to budgeting.**

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Budgeting is the process of calculating the costs of operating an educational program and then applying the legal provisions of local, state, and federal government laws and restrictions to determine the sources of revenue and amounts obtainable to meet the anticipated expenditures (Brimley & Garfield, 2008). This approach to budgeting was common in school districts in the past. They involved little relationship between the objectives of the school program and the expenditures. Rarely were alternative approaches to budgeting considered.

There are a number of different approaches to developing the budget. Four common approaches are (1) line-item budgeting, (2) zero-based budgeting, (3) planning-programming-budgeting systems, and (4) site-based budgeting.

### Line-Item Budgeting

*Line-item budgeting* is a procedure where individual lines are used to describe allocations for various items of expenditure, such as salaries, textbooks, supplies and materials, contracted services, and capital outlay. It is the most common form of budgeting in use in school districts today and was used almost exclusively in all public sector budgets prior to the 1960s (Odden & Picus, 2008).

The focus of line-item budgeting is on what was purchased, not on the purpose of those expenditures. Therefore, it is difficult to use line-item budgets for long-range planning or for management functions. Since similar items, such as teacher salaries, are budgeted under the same line item, it is difficult to ascertain how much is spent for teachers in different programs, different schools, or for different programs within individual schools. Likewise, a line-item budget makes it difficult to ascertain what

resources are being directed toward a particular subject, like reading or math, and makes it difficult to determine whether resource allocation patterns have changed over time.

Although there are alternatives to line-item budgeting, at the core of each alternative is some form of line items describing the revenues and expenditures of individual programs. As a result, line items are a necessary and critical element of any budgeting approach.

### **Zero-Base Budgeting**

In most school districts, the budgeting process begins with the previous year's budget; that is, administrators plan future expenditures as an increase or decrease over the previous year. Under *zero-base budgeting* (ZBB), administrators must start the budgeting process at zero every year, and they must substantiate all expenditures—new and continuing (McKay, 2010). Thus, the entire expenditures budget must be justified rather than merely the adjustments to an existing budget.

Zero-base budgeting was originally developed for use in government organizations as a way to justify budget requests for the succeeding year. The U. S. Department of Agriculture was the first to use zero-base budgeting in the 1960s. ZBB was adopted by Texas Instruments in 1970, and Jimmy Carter used zero-base budgeting as governor of Georgia. Later, as president, he ordered ZBB used in the executive branch of the federal government. Since then, zero-base budgeting (or variations thereof) has been adopted by many government agencies, business firms, state departments of education, and local school districts.

The ingredients of zero-base budgeting are not new. The founders of the concept extracted a viable budgetary technique from the following systems: management by objectives, performance budgeting, program budgeting, incremental budgeting, and line-item budgeting. These management techniques were integrated into a budgeting process, zero-base budgeting, which involves three steps (Odden & Picus, 2008): (1) identify decision units, (2) develop decision packages, and (3) rank the decision packages.

#### **Identify Decision Units**

As a first step, all possible decision units should be identified and the nature of their responsibilities and operation defined to prevent conflicts and assure complete budgeting for the entire school district. At the district level, decision units might include the superintendent's office, the business office, personnel administration, curriculum and instruction, and the like. At the building level, decision units might include the principal's office, student services, curricular departments, teaching teams, attendance services, and other support service areas.

#### **Develop Decision Packages**

A decision package is a document that describes and justifies a specific program or activity in such a way that decision makers can evaluate it and rank it against other activities competing for available resources. Each package must include sufficient

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information about the program or activity to allow the next level of administration to properly understand and evaluate it. This information includes the following:

1. the purpose or function of the unit
2. alternative means to carry out unit functions
3. the cost and benefits of each alternative
4. the technical and operational feasibility of each alternative
5. performance measures to compare past and present productivity
6. the consequences of not funding a particular program or activity

### **Rank the Decision Packages**

The final step in ZBB involves ranking decision packages. The initial ranking occurs at the lowest organizational level where the packages are developed. In schools, for example, this might involve department chairpersons, head custodians, and building principals. This permits the unit leader to evaluate the importance of her own activities and to rank the decision packages affecting her unit accordingly. Next, the packages would be ranked by each succeeding administrative level. Budget revenues are then distributed according to activities ranked as essential to meeting the school district's goals. Some departments or divisions may receive increases, some decreases, and others nothing at all.

On the one hand, zero-base budgeting provides a constant reassessment of all the school district's programs and divisions in terms of their ongoing contribution to the organization's goals. It facilitates the development of new programs. And it broadens the base of decision making by involving personnel at operating units in the budgeting process. On the other hand, the process of continual justification necessitates more paperwork at every level of administration, and administrators may have a tendency to inflate the benefits of their programs in order to maintain funding.

The application of ZBB in schools is frequently more appropriate in the support areas, such as research and development, personnel, and finance, where programs are more likely to be discretionary, than in instructional areas. That is, administration can change such programs easily if cost-benefit analysis indicates that such action is warranted. However, ZBB is less applicable in instructional areas, because a prescribed curriculum may be mandated by the state and a core curriculum may be necessary to develop a student's essential and life skills.

### **Planning-Programming-Budgeting Systems**

The planning-programming-budgeting system (PPBS) was pioneered at the Rand Corporation in connection with weapons system analysis for the United States Air Force in the 1950s; the Department of Defense implemented the system in 1961. Later, PPBS was popularized by President Lyndon B. Johnson, when he directed all federal agencies to use this budgeting technique in 1965 (Doh, 1971).

*Planning-programming-budgeting systems* were developed to provide school

administrators with objective information to aid in planning educational programs and for making choices among the alternative ways of allocating funds to achieve the school's goals (Brimley & Garfield, 2008; Odden & Picus, 2008). PPBS is very similar to zero-base budgeting, but it does not assume that all programs must be re-justified during each budget cycle. The essential steps of PPBS include the following.

### **Specifying Goals**

The process begins by analyzing and specifying the basic goals in each major activity or program area. The starting point of PPBS is to answer such questions as "What is our basic purpose or mission?" and "What, specifically, are we trying to accomplish?" For example, a school district goal might be to improve management information systems through the implementation of computer technology districtwide. A school building goal might be to improve all students' performance on the state mandated achievement test.

### **Search for Relevant Alternatives**

Through PPBS school administrators assess as fully as possible the total costs and benefits of various alternatives. Program budgeting endeavors to determine rates of return for programs, as well as the rate of return to be foregone when one program is chosen over another. The implementation of a computer network, for example, may be the most efficient way to improve management information systems in the school district.

### **Measure the Costs of the Program for Several Years**

An essential feature of PPBS is long-range planning and budgeting. For example, in budgeting for additional schools, decision makers would need to consider not only the initial costs of construction but also the costs of operating and maintaining the facilities in future years. In addition, long-term enrollment projections must be made to determine the future need for school facilities.

### **Evaluate the Output of Each Program**

PPBS focuses on the outputs of programs, whereas traditional budgeting approaches tend to emphasize expenditure inputs. Program budgeting enables school administrators to compare program proposals, relate them to current activities, evaluate them in terms of priority, and then to increase or decrease allocations of resources to them. In other words, it is an attempt to answer the question "How effectively and efficiently are we achieving our goals?"

The planning-programming-budgeting system has great potential benefit in education, where budgeting too often has been regarded as a mere control technique, used to control the allocation and expenditure of revenues, rather than as a planning tool (Brimley & Garfield, 2008). For too many years, public school budgeting has been handled largely on a line-item basis, with allocation of funds to such accounts as salaries, textbooks, supplies, equipment, and contracted services, rather than for programs

designed to accomplish identifiable program objectives (Odden & Picus, 2008). Furthermore, because program responsibility is often fragmented among various divisions, buildings, or departments, and most goals are expressed in such general terms as "providing adequate counseling services," budgeting has tended to be an exercise by various divisions of competing and negotiating for funds, rather than a unification of effort and support to accomplish specific program goals (Lunenburg & Ornstein, 2008).

Despite its benefits, for most schools and school districts, PPBS has not been the great tool in practice that its logic would imply. There are several reasons for this (Lunenburg & Irby, 2006). First, many school leaders do not understand the philosophy and theory of the technique. They have tended to provide lower-level administrators, including principals, with directives and forms without really understanding the system. Second, schools have multiple and conflicting goals that are vague and ambiguous. And schools lack clearly defined success criteria. Leaders cannot sensibly program, plan, and budget for an unknown or vague goal that is not easily measurable. Third, in many cases, there is a lack of attention to planning premises: Even with clear program goals, the decision maker needs to have a clear understanding of critical planning premises. Fourth, schools have a long tradition of doing line-item budgeting, and most school board members, accustomed to this approach, often reject program budgets unless they are reformulated in a line-item format. Finally, because revenues are dispersed annually for the operation of schools, many school leaders have been reluctant to change from the practice of annual budgets to long-range program budgets.

### **Site-Based Budgeting**

Traditionally budgets have been prepared by the school district's chief financial officer (CFO), with the approval of the superintendent, and then imposed on lower-level administrators. Although some school districts may still follow this pattern, many others now allow building principals to participate in the process of formulating the budget. This practice, known as *site-based budgeting*, helps principals to internalize budgets as their own and to use these budgets as operating guides to implement their educational plans. Although the process could begin in almost any area, school districts usually start with a revenue budget, which is derived from three sources—local, state, and federal revenues—based on projected enrollment figures for the fiscal year. Then, almost simultaneously, building principals prepare their own units' expenditure budgets and submit these budgets to upper-level administration for approval. Figure 1 illustrates the steps involved in preparing a budget using a site-based budgeting approach.

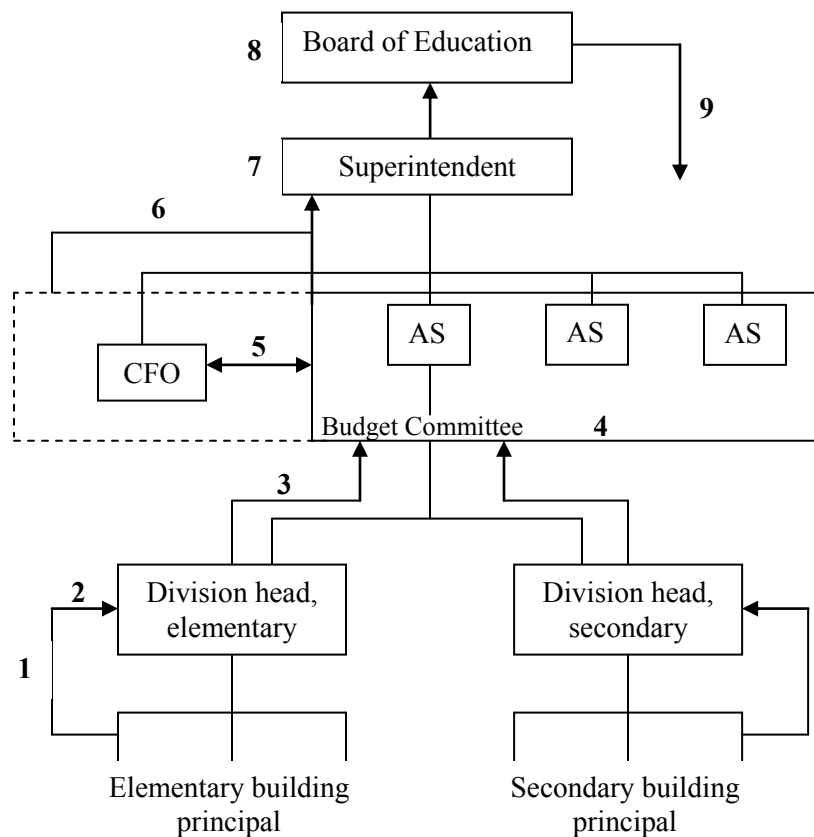


Figure 1. Site-based budgeting process.

In step 1, the building principals submit their budget requests to their appropriate division head. The division head takes the various budget requests from the building principals and integrates and consolidates them into one overall division budget request (step 2). Overlapping and/or inconsistent requests are corrected at this stage. For example, two principals might each request \$10,000 to buy five computers. The division head knows that an order of ten computers carries a 10% discount, so the school district will request \$18,000 to buy 10 computers. Much interaction between administrators usually takes place as the division head works to integrate and coordinate the budgetary needs of the various building sites.

In step 3, division budget requests are forwarded to a budget committee. The budget committee itself, shown as step 4, is composed of top-level administrators with line authority. The committee members are likely to be associate or assistant superintendents (AS). As shown in Figure 1, budget requests from the two divisions are reviewed at this stage and, once again, overlapping and inconsistencies are corrected.

Step 5 of the process involves interaction between the budget committee and the chief financial officer (CFO). This interaction can take a variety of forms. The budgets could pass from the committee to the chief financial officer for further evaluation and approval. Or the CFO could be a member of the budget committee. Or the CFO might

evaluate the budget requests before they go to the budget committee.

In step 6, the final budget is sent to the superintendent of schools for approval. After undergoing her scrutiny (step 7), it is passed on to the Board of Education for review (step 8). Final budgets are then passed back down to the division heads and building principals (step 9). As the budget requests pass through these stages, some changes may be made. The budget that the building site ultimately has available may be more than, less than, or the same as what it initially requested.

This site-based budgeting approach is often advocated because it has two primary strengths. First, individual building principals are able to identify resource requirements about which top-level administrators are uninformed. Site leaders (principals) have information on efficiencies and opportunities in their specialized units. Second, school principals are motivated to meet the budget, because they participated in its formulation and therefore feel it is their responsibility (Lunenburg & Irby, 2006).

There may be, however, disadvantages to site-based budgeting. Let's look at the advantages and disadvantages of site-based budgeting. The question is should the building principal have total control of the budget? The school literature on quality supports decentralization of the budget to the site where the product is made or the service is delivered (Brimley & Garfield, 2008; Odden & Picus, 2008; Plecki & Monk., 2004; Rosenstengel, 2004). The thinking behind this recommendation is that those at the site are in a better position to know how to allocate resources in order to meet school goals. In a school setting, site-based budgeting means that the school's administrative team controls all funds necessary for the functioning of the school, including the largest budget category: personnel.

The advantages of site-based budgeting include the following:

1. Site-based budgeting is an enlightened approach. It empowers the educators at the school site.
2. Principals often feel their hands are tied by bureaucratic regulations emanating from the central office.
3. Principals are more able to meet needs if they have control of important variables. Because they are accountable for outcomes of a school, they should have the option of allocating all resources as needed.
4. Only people at the site know exactly what resources are needed. For example, the superintendent has no idea how many teacher aides are needed in a building. The present way of doing things is ineffective (Lunenburg & Irby, 2006).

The disadvantages of site-based budgeting are the following:

1. Site-based budgeting is inimical to district-wide coordination and quality control. Accountability is diffused and weakened.
2. Policy and regulation, including the teachers' contract, are safeguards that protect most people in the school district from the frivolous behavior of some.
3. People are comfortable with the traditional budgeting paradigm in which the principal and department chairpersons indicate needs and make requests. They would be extremely uncomfortable making all budget decisions and being held accountable for them.

4. Teachers and principals are generally not risk takers. Given full control of a school's budget, they would be likely to play it safe. It is unlikely that they would invest in important but costly new ventures (Lunenburg & Irby, 2006).

### Conclusion

The line-item budget is the most common form of budgeting in use in school districts today. However, there are alternative methods of budgeting. Three alternative methods for developing budgets are zero-based budgeting (ZBB), planning-programming-budgeting systems (PPBS), and site-based budgeting. ZBB requires that administrators start from zero to justify budget needs every year. PPBS, a variation of ZBB, requires that budgets be developed from a program perspective rather than using the traditional line-item approach.

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