



---

# CYCLE-BASED BUDGETING TOOLKIT

---

A Primer



AUGUST 31, 2016

BO YAN

<http://www.cyclebasedbudgeting.org>

*How much money has been spent on literacy, student behaviors, etc. respectively by the district over the past five years and what is the return on each of those investments?*

*How do we help leaders take actions so that money will no longer be wasted on ineffective programs year after year, but reinvested to meet the district's needs instead?*

An organization's budget should mirror its strategic vision and goals by funding programs that most support these priorities and meet the greatest needs. Accordingly, an effective budgeting process should be engaged with both allocation of new spending and reallocation of existing spending to meet those goals.

Generally, a district's budget can be categorized into two parts. One part is *norm-based spending*, which is usually determined by a set of rules based on student enrollment. For example, class size caps at different grade levels dictate how many teachers a school can employ based on student enrollment and, in some districts, school enrollment determines how many counselors, specialists, custodians, or principals a building can have.

In contrast to norm-based spending that rests on rather fixated rules districts have control over but seldom change, the other part is *flexible spending* that districts use to run various programs and launch initiatives. While norm-based spending constitutes the bulk of a district's annual budget, budget discussions and decision making often center on the smaller-portion flexible spending that allows districts to implement strategic priorities and execute improvement plans. How to help a district make the best use of its flexible spending is the focus of this project.

## LIMITATIONS OF EXISTING BUDGETING MODELS

Many budgeting models have been developed over the years. In the K-12 setting, incremental budgeting and zero-based budgeting are probably the two most widely adopted models. With incremental budgeting, the budget used for the current fiscal year becomes the base for incremental change (either increase or decrease) for the next fiscal year. For zero-based budgeting, budget development starts with nothing in terms of budgeted dollars, and every spending item needs to be justified for approval.

At the core, budget decisions should be aligned with strategic priorities and tied to outcomes. For existing programs, those that are closely aligned with the district strategic plan and have been proven to be effective should be continued or expanded with funding support; ineffective ones or programs that do not focus on the district's priorities should be altered or discontinued with the savings reallocated. For new programs and initiatives, the spending should be justified by alignment, evidence of effectiveness and well-developed implementation plans.

Consequently, budget decisions serve as both a compass, directing a district's attention and improvement effort on areas of greatest needs, and a force that drives people to be more cost-impact

oriented by spending public money efficiently and effectively. Unfortunately, both incremental budgeting and zero-based budgeting are limited in achieving these two goals.

The problem with incremental budgeting is obvious for the disconnection between budget decisions and outcomes. Under this model, a program automatically becomes permanent once it is approved. With this entitlement status, people expect to receive more or less of what they received last year and largely spend it in the way in which it has been spent, often regardless of how it has improved teaching and learning. This creates an environment for people to become complacent since they are neither motivated nor pressured to continuously improve.

Since incremental budgeting does not provide a process through which existing programs can be reviewed for adjustments or discontinuation, this budgeting model tends to focus on the allocation of new spending. The reallocation of existing spending is largely not exercised except when there is a budget crisis.

Compared to incremental budgeting, the key advantage of zero-based budgeting is the inherent annual process that forces people to justify both existing and new spending according to certain criteria, which can also be used as an opportunity to reflect upon program implementation for improvement.

The main challenge for many districts is that it is rather tedious and time-consuming to implement a real zero-based budgeting process, especially for large districts with tens of thousands of budget items. There are also situations where most of the budget items are continuously approved each year, producing a result equivalent to that from an incremental budgeting model. In such cases, the zero-based budgeting process is in name only.

The annual review and decision cycle, which is the fundamental strength of zero-based budgeting, can also be a disadvantage, especially in education where many programs take at least one year to get fully implemented and more time to effect. Often times, a decrease in student achievement might be observed at the end of the first year implementation of an effective program as students and teachers are still adapting to the new method or strategy. With the annual decision cycle, such programs may not survive the first year scrutiny although they will produce positive results in the long run.

## CYCLE-BASED BUDGETING

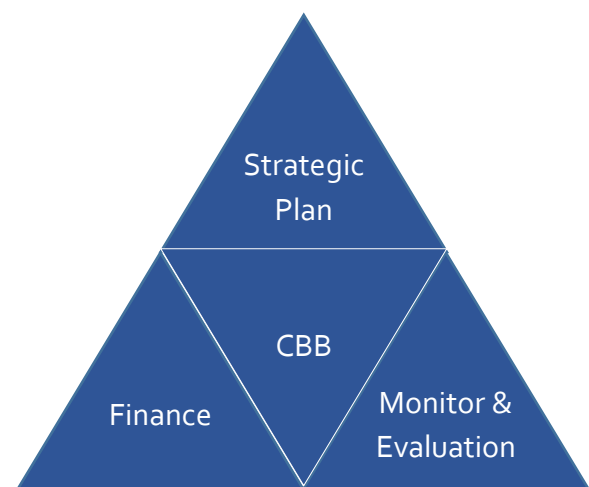
To overcome the limitations of the incremental budgeting and zero-based budgeting models, we developed a new budgeting model termed cycle-based budgeting, which can be understood as a combination of grant application and extension of zero-based budgeting.

On the grant application aspect, each new program or initiative must submit a budget request using an online application form. In the application, in addition to filling out budget items and amounts, the request submitter needs to specify measurable goals such as increasing the percentage of students meeting the state math standard by 3%, or decreasing discipline referrals by 5%, as well as the number of years they need to accomplish those goals.

On the extension of zero-based budgeting aspect, cycle-based budgeting extends the program review and budget decision cycle from the traditional annual to a more flexible time frame, which can be one year or multiple years. The budget request submitters propose the number of years needed to reach the measurable goals they set on the application form, but the district's senior leadership team makes the final decision, which can either shorten or lengthen the cycle.

During the cycle of a program, the implementation and performance data will be monitored and reviewed by program staff for adjustment purpose, but not by the district's senior leadership team for budget decision. That is, the program's funding is secure unless things go terribly wrong. At the end of the cycle, whether the program accomplishes the measurable goals set at the beginning and whether it continues to align with the district's priorities will be reviewed with budget consequences.

The cycle-based budgeting model also enhances the existing accounting system by enabling a district to look at its budget from a different yet badly needed angle. Budget discussions and decisions on flexible spending usually revolve around programs. Once a program is approved, however, the total program spending is routinely broken down into budget items and recorded using the corresponding accounting code. The accounting system allows a districts to track spending and answer questions such as how much money is spent on salaries, benefits, supplies, and services; or examine the distribution of budget allocation by district department and school building.



However, it fails to link a district's spending to its focus areas and improvement strategies. It is very difficult, if not entirely impossible, to find out where money is spent in terms of those focus areas and whether spending on the improvement strategies makes a difference.

Through the online application form, cycle-based budgeting provides the missing link by enabling a district to track spending around a district's strategic planning and execution, as well as answer questions such as how much money has been spent on literacy, math intervention, discipline, or certain subgroups. Most important, it allows a district to examine the academic return on investment by looking at whether the spending has led to the intended outcomes.

Altogether, these three key features of cycle-based budgeting (similarity to grant-application, extension of zero-based budgeting, and enhancement of the existing accounting system) help create the time and space necessary for a program and initiative to be thoroughly planned, carefully implemented, closely monitored, and periodically reviewed. Clear expectations are set at the beginning and accountability is demanded at the end of the program. As a result, limited financial resources can be reallocated depending on program implementation and impact, thus making the flexible spending truly flexible.

## REFERENCES

Odden, A., & Picus, L. (2008). *School finance: A policy perspective (4th ed.)*. Boston, Mass.: McGraw-Hill.

Rennie Center for Education Research & Policy. (October 2012). *Smart School Budgeting: Resources for Districts*. Cambridge, MA: Rennie Center for Education Research & Policy.

Sorenson, R., & Goldsmith, L. (2006). *The principal's guide to school budgeting*. Thousand Oaks, Calif.: Corwin Press.

Levenson, N. (2012). *Smarter Budgets, Smarter Schools: How to Survive and Thrive in Tight Times*. Harvard Education Press.