CYCLE-BASED BUDGETING TOOLKIT

Ten Key Concepts: Part I

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Cycle-based Budgeting (CBB) is built on ten key concepts, which you will see throughout this web site and in the toolkit. You can use these ten terms to help explain to your colleagues what CBB is about, why it can be helpful, and how to do it. Due to its length, this post is divided into two parts. In this part, the following five key concepts are presented:

- Budget as Investment
- Investment Item
- Investment Item Owner
- Investment Cycle
- Expected Return

BUDGET AS INVESTMENT

Differentiating certain budget items as investments sets the conceptual foundation for approaching those financial resources differently.

A school district's budget is generally understood and approached as how to spend the limited financial resources to meet various needs such as salaries, fringe benefits, instructional materials, capital projects, etc. Accordingly, developing a budget is largely a needs-based and needs-driven exercise.

When budget is approached in this way and everything funded by the budget is tied to certain needs, it is usually difficult to make meaningful changes to the budget, such as shifting strategies by replacing some existing programs with new programs or simply cutting ineffective programs and repurposing the funds to meet the unmet needs.

When district leaders try to make budgetary changes they deem necessary, they often encounter great challenges due to factors such as competing priorities, entrenched interests, and stakeholder pushback. It is hardly a winning proposition to argue one need is greater than another. Any attempt to discontinue a program will likely be perceived as taking services away from those in need.

As long as there is a balance between needs and services (regardless of whether the needs are truly met by the services), such a system provides neither incentive for leaders who want to make a change nor pressure for those who are content with status quo. When there is a budget deficit, district leaders are often pushed to cut across the board, not because it is the best way but because it is politically convenient.

To overcome these problems that stem from approaching budget as meeting needs, CBB differentiates between expenditures that are necessary to operate a school district (operation expenditures) and expenditures that are intended for school and district improvement (investment expenditures), and treats them differently.

Specifically, expenditures treated as investments are assigned with an array of conditions and expectations when they are first initiated. This change allows districts to institutionalize and normalize regular scrutiny of those expenditures according to those pre-specified and agreed-upon conditions and expectations, whose results carry implications for budgetary or implementation actions.

Issues revealed from the review and examination compel and guide district leaders to take actions. At the same time, the review and examination results provide powerful tools for leaders to communicate and justify their decisions, especially for those unpopular ones. With this systematic and transparent approach, budgetary adjustments are more likely to be accepted by stakeholders.

INVESTMENT ITEM

In essence, an investment item is a district expenditure approached as a choice (rather than a necessity) that can give way to another choice based on preset conditions.

The first step of CBB is to decide whether an expenditure should be approached as a necessity for operations or a choice for improvement. This differentiation is straightforward for some expenditures such as salaries and fringe benefits for school teachers, staff, and administrators required by the state laws, regulations, or board policies being operation expenditures and adopting a new intervention program being an investment expenditure.

However, this differentiation might not be clear-cut in some other cases. For example, expenditures for reducing class size can be approached as either an operational necessity or an investment choice. Additional examples include a newly created personnel position, software or hardware purchase, bonus paid to bus drivers, incentive pay for teachers to work in low-achieving schools, etc. This ambiguity is not a weakness of CBB, but a strength instead. This is because it gives district leaders flexibility to approach such spending items as either necessities or choices, depending on local context, and then treat them differently.

Specifically, each investment item will be attached with three attributes at its initiation: 1) a person who will be responsible for planning and implementing the investment and held accountable for its success (Investment Item Owner); 2) outcomes to be achieved as the result of the investment (Expected Return); and 3) a timeframe to accomplish that goal (Investment Cycle). These three attributes will be further discussed next.

This special treatment serves two purposes. First, it establishes a mechanism to ensure that an investment item is scrutinized regularly for alignment with district priorities and for return on investment. Second, it sets expectations for its owner and other stakeholders on the outcomes from the investment item and timing for delivering the results, as well as potential consequences if the expected outcomes are not achieved. These expectations will help provide direction and motivation, and will also create accountability pressure.

INVESTMENT ITEM OWNER

Being linked to a unique owner is a necessary condition for an investment item to receive continuing attention and support, especially when change in leadership occurs.

Each investment item needs to have an owner, who is responsible for planning and implementing the investment. Usually, the owner of an investment item is the person who proposes the investment (e.g., division chief, department head, or building principal). In some cases, the proposer can designate one of her/his direct reports, who is either a district or school administrator, to be the owner. For example, the chief of academic services who proposes a major initiative to prevent summer melt might designate the director of curriculum and instruction to be the owner of the investment.

In addition to indicating clearly who is in charge and will be held accountable, tying each investment item to an owner provides two pieces of information that are helpful for budget decisions. First, it tells the district how many investment items a person is currently implementing, as well as the scale and complexity of implementing those investment items. If a person is already the owner of a large number of investment items or currently implementing a large-scale complex investment item, it is probably unwise to approve additional investment items proposed by the person or put him or her in charge of another new investment item.

Second, overtime, it helps reveal how successful a district or school administrator is in implementing different kinds of investment items. This information provides district leaders with another angle when making investment decisions. For example, with other things being similar, proposals submitted by department heads with many successes in the past should probably be favored over proposals from department heads who have struggled to prove their ability to use taxpayer money well to improve student achievement.

When there is a change in leadership, it is very important to transfer the ownership of the related investment items to new leaders. For example, if an investment item's owner leaves the district or is reassigned to another role, the ownership should be assigned to her/his successor, which involves documenting the change and handing over information related to the investment item to be transferred.

This ownership transfer helps new leaders better understand the challenges they will face as well as how those challenges have been tackled or dealt with by their predecessors, which can be an integral part of new leaders' onboarding process. Moreover, it helps make sure that there is continuing and sustained attention and support for those investment items under those new leaders.

INVESTMENT CYCLE

The Investment Cycle of an Investment Item sets the timeframe for its owner to accomplish the goals as well as for the district to make further decisions about the investment item using the results.

The Investment Cycle is the time period during which an investment item is implemented. An investment cycle, once decided, carries three meanings. For example, a three-year investment cycle means that: 1) funding is secure during those three years unless something goes awry with the investment item or unexpected budget cuts become necessary; 2) the investment owner and her/his team have three years to achieve the goals they set for themselves; and 3) at the end of three years, the investment item will be reviewed to assess the degree to which the goals are achieved and/or alignment with district's now current priorities. The results of the review are then used to inform further decisions about budget and/or implementation actions for the investment item.

An investment item's investment cycle usually ranges between one and five years, largely depending on the complexity of implementing the investment item and how often the district wants it to be scrutinized. For example, a major intervention that involves adopting a new curriculum and training teachers to change instructions might have a five-year investment cycle, based on the consideration that it takes time to implement substantial changes and obtain results.

In fact, significant changes can sometimes lead to a dip in results for one or two years before improvements are observed. This long investment cycle will help avoid unnecessary attention that could negatively impact implementation, or worse, ill-informed decision to discontinue the investment based on those misleading early results.

A shorter investment cycle is appropriate for small investment items that are relatively easy to implement and does not require a long time to see the effect or the result is desired within a relatively shorter period of time. For example, a program that targets kindergarten readiness might have a two-year investment cycle and a one-year investment cycle can be set for an initiative intended to address bus driver shortage.

EXPECTED RETURN

Doing the same thing over and over again and expecting different results is insanity (Albert Einstein). Doing the same thing over and over again without clear expectation is irresponsibility.

Expected return is the measurable improvement a district can expect for the intended student population or group from an investment item at the end of its investment cycle. Defining expected return helps district leaders think through what exactly they want to accomplish from the investment, instead of settling with some general purpose that is usually used to advocate for the spending, but inadequate for implementation and evaluation of the investment.

For example, a department might propose to invest one million dollars to reduce summer melt. While this general purpose may be adequate to get the program funded, it does not carry any substantive meaning for implementation and end-of-cycle review until it is known how summer melt will be measured. In addition, what is meant by "reducing"? Does it mean reducing the number of students experiencing summer melt or reducing the level of summer melt for all students? Further, for what level of reduction can we declare success? A 20% reduction or 40% reduction?

To define expected return for an investment item, its owner needs to provide the following three pieces of information:

1. How many individuals with what characteristics from where will be covered? (*e.g., 500 students who are below reading level in ten priority schools*)
2. What outcomes are sought and how will they be measured to gauge the success of the investment item? (*e.g., reading achievement measured by state assessment*)
3. What is the magnitude of the improvement intended for the targeted individuals? (*e.g., increasing percentage of students reading at grade level from 80% to 85%*)

Defining expected return for an investment item provides clarity that is critical for planning and implementation (e.g., the strategy for reducing the number of students experiencing summer melt by 20% could be rather different from the strategy for reducing the amount of summer melt by 20% for all students). This clarity helps all stakeholders focus on the core mission of the investment and work toward the same goals.

Further, expected return serves as the basis for reviewing the investment item at the end of its investment cycle. With documented consensus about what counts as evidence of success, decision makers can focus their attention and energy on appropriate end-of-cycle decisions using the evidence. Without that, it is difficult to prevent evidence from being overpowered by anecdotal stories or drowned by needs argument, or to stop leaders from endless debates about what outcome data should be used for decisions after the program in question has been operating for some time.

It should now become clear that, in CBB, the decision about an investment item when it is first proposed is more than simply to approve or decline funding for it. An integral part of that decision is to reach consensus and approve expectations for the investment item, including the investment cycle and expected return. While this will undoubtedly require more time and deliberation, accomplishing it is critical to successful implementation and helps make the deliberation more focused and decisions more data-driven for investment items that reach the end of their investment cycle.

By treating a spending item as an investment "owned" by a district or school administrator as well as having the owner specify an investment cycle and expected return, CBB sets the stage for end-of-cycle review and decisions based on the preset success measures that are agreed upon by decision makers. By implementing this approach to budget and budget decisions, district leaders are able to transform certain spending items from entitlements into time-bound conditional commitments. At the same time, CBB will provide district leaders other means and tools to improve systems, which will empower them to make tough and informed decisions and to communicate and defend those decisions with confidence. What those means and tools are and how they can help district leaders succeed in achieving their visions are presented in Part II, which covers:

- End-of-Cycle
- Academic Return on Investment (A-ROI)
- Success Metrics
- Alignment Tagging
- Reset for Success