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# Three improved budgeting techniques

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further explained in the next article.

Zero base budgeting, a more complex system, has been successfully used by Wilmington, Delaware. Wilmington has achieved outstanding results by means of (1) a conscious effort to reduce personnel, (2) the implementation of an improved budget technique, and (3) a management emphasis on operational efficiency. David Singleton of Wilmington has said, "The city must be realistic and blunt as to its ability to fund the demands of its

constituents. For survival the city must keep taxes within reason." Wilmington's experience with ZBB is further explained in the article which follows.

The taxpayer revolt has provided a warning to local governments across the country. Glenn Jackson of the Anti-tax National Taxpayers Union repeats the point. "Jarvis Gann and the successful voter referendum to roll back property taxes in California will unleash a massive wave of similar proposals across the country.

People have reached the breaking point."

The message is clear. A balance will have to be struck between demand for more and the ability to pay for it. Improved management budgeting and control process will either be used by public officials or forced on them. The tools for examining alternatives, setting priorities, and implementing those activities as effectively as possible are available. All that is needed is a commitment to use them. △

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## Three improved budgeting techniques

A government official who wants to strengthen his unit's financial management has a wide variety of planning and budgeting systems to choose from. The three planning and budgeting techniques which follow illustrate this variety. More importantly, they demonstrate how sound planning and budgeting enhance the effectiveness of overall management and how they can contribute to substantial cost savings. Each of these systems:

- Improves the quantity and quality of information about government operations, providing a sound basis for decision-making.
- Facilitates operations reviews, enabling officials to update pro-

grams in order to meet changing priorities and to increase cost effectiveness.

- Provides a sound basis for long range planning. If funding shortfalls are foreseen, officials have time to redirect resources, alter service levels, or increase revenues, avoiding "crash" program reductions.

Below are descriptions of each of the three systems:

### Contingency Planning in Greenville

Contingency planning helps officials to make the hard choice between changing tax levels and meeting the expectations of citizens. Contingency planning is a long range system that estimates revenues over a five-year period and then compares the alternative expenditures required to provide service.

To implement the system, Greenville, S.C. set up a task force of internal and external consultants to measure the widening gap between expected revenues and expenses for the given period. Since the mayor and city council wanted to minimize tax increases over the five years, the task force was instructed to find

ways to close the gap by making city operations more productive. Accordingly, the task force:

- Prepared a detailed five-year general fund forecast for revenues, expenditures, and fund balances.

- Formalized the service objectives of the mayor and city council, consistent with locally generated revenues.

- Surveyed citizens on their perceptions of the quality of city services.

- Analyzed city operations to identify productivity and cost savings opportunities. These were grouped into three categories, based on the time required for implementation and the cost of the level of service:

- Priority I Improvements: quick implementation with no significant impact on service levels. (e.g., cutbacks in unnecessary overtime).
- Priority II Improvements: four to six months implementation time, but little impact on services (e.g., departmental consolidation).
- Priority III Improvements: long-term implementation, requiring

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additional analysis, and having significant impact on service levels (e.g., increasing user fees or contracting out for services).

□ Consolidated the above plan to show how the projected shortfall between revenues and expenses could be narrowed as the various cost savings plans were implemented.

Thus was shown the cumulative effect at each level for each of the five years of the forecast.

With this information, Greenville city officials balanced cost and service options. And they were better able to communicate the costs of each service to the public.

### Resource Allocation, Dekalb County

Seeking a better way to allocate budgeted funds, Dekalb County adopted a resource allocation system. The traditional budgeting approach links the costs of a program to the resources needed *before* it can function, such as personnel and supplies. Under a resource allocation and control system, however, personnel requirements are linked to the *output* projected from each operation.

As with the contingency planning system in Greenville, changing over to a new system provided an excellent opportunity to identify the potential for cutting costs and improving productivity. It was implemented as follows:

**Data collection.** Work and information flows were documented based on interviews and questionnaires; also tasks within each department were defined.

**Analysis.** Each task was reviewed to determine which departments and agencies performed each function; and the time required for each task was measured.

**Recommendations.** Based on the information gathered in the preceding steps, work flow improvements were designed and tested; also skills required for each task were defined.

**Implementation.** Job descriptions were modified to reflect new skill level definitions and improved work flows; an action plan was developed for changing to the new system.

Results of the system were twofold. First, a review of Dekalb County operations revealed measurable improvements in both productivity and work flow. Second, the budgeting process was changed to relate staff requirements and service outputs. For example, staff time in a purchasing department was linked to the volume of purchase orders processed. In this way, county officials can determine how much output their budget dollars will purchase in the coming year. Also, a resource allocation and control system can provide a more logical basis for budgeting. Of course, it can also help improve productivity by monitoring and evaluating the resource requirements.

### Zero Base Budgeting in Wilmington

Faced with a declining tax base, the mayor and city council of Wilmington, Del., decided to adopt zero

base budgeting for FY 1976. It would complement management techniques already implemented. Their goal was to provide a more logical and informed basis for containing city expenditures. Key elements of the ZBB system included:

**Establishment of budget units.** Each budget unit—a current or proposed activity—was required to operate within a single agency or department and to be managed by a single individual who was responsible for budget and operations.

**Division of budget units into service levels.** Along with the levels of service that could be provided by each budget unit, the costs and expected outputs were determined for each level.

**Analysis of service levels.** The need for, costs of, and benefits from each service level were analyzed by the appropriate department and the mayor's office.

**Ranking of service levels.** All service levels of each budget unit were ranked in order of priority by the mayor and city council. Monies were provided to service levels in order of ranking until funds were exhausted.

Once again, a planning and budgeting technique provided an excellent basis for evaluating the quantity and quality of services and for identifying opportunities for reducing costs and increasing productivity.

ZBB is clearly the most complex of the systems described here. However, the improved information about city operations, the increased accuracy of long range planning, and the logical method of allocating resources to operations of highest priority can help to produce real dollar savings, as is demonstrated by the adjoining table of the experience in Wilmington. ▲

—STEPHEN W. BURNETT/Partner, Atlanta

