

# BUDGETING WORST PRACTICES

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## The Annual Set-up

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“So, boss, at last Congress approved the budget. Now we’re in real trouble!”

“What do you mean, we’re in trouble!? We haven’t had time to do anything wrong yet! Like you said, it’s a new budget.”

“That’s my point. We’re set up. There’s no way to win.”

“How so?”

“Well, we got our budget for the fiscal year ahead, right?”

“Right.”

“And it wasn’t all we asked for, right?”

“True. It never is.”

“Even if we’d gotten all we asked for, it wouldn’t have been enough to satisfy all the demands on us, right?”

“You’re right. They expect the world!”

“So you know what they’re going to say.... ‘Hey, we gave you all that money. Now it’s your job to give us anything we ask for all year long!’ And when we can’t deliver, we’re the villains! We lose!”

“That’s exactly what happens! But that’s just the way the world works.”

“Yeh, right. Try it at your local grocery store.... Hey, Mr. Store Manager, I’ve got 50 bucks to spend. Here, take it. Now, I’m serving a dinner party for 12. I want caviar, Chateaubriand, chocolate truffles.... That’s not the way the real world works, and we all know it. So why do we let that happen here in government?”



### The Root of the Problem

“Hey, unfair! There’s not a lot we can do about it. I don’t see how we can change their attitudes.”

“Their attitudes have nothing to do with it. And we absolutely can fix this problem... if we want to.”

“Oh, believe me, I’d love to. It takes a heck of a toll on our staff. We’re working as hard as we can, and clients are still mad at us. We have no time for professional development, or research – stuff we know we have to do to stay in

business. We don't even have time to answer clients' voice messages! I'd love to find a way out of this scapegoat role! But how???"

"Like anything else, we've got to get to the root of the problem before we know how to fix it, right? So, let me ask you something... When we submitted our budget, did we explain how much we'd need for object classes like salaries, licenses, travel, training, that sort of stuff?"

"Of course. That's how budgeting works."

"Okay, then they made you cut, cut, cut, right? And finally, you got a number."

"Yep, that's the game."

"Now, it's really clear we don't have enough budget to pay for travel and training, right?"

"We have some; but yes, not anything like what we need."

"Here's the punchline: We know we can't travel. But nobody has a clue what products and services our budget covers! We have no way to match expectations to available resources."

"You're right. The budget process doesn't really give us that data."

"It's a trap. Everybody expects everything they can dream to ask for, all for a fixed price! They have no way to know otherwise. And even though everybody knows we can't do everything, they're all going to try to get us."

"And they do! So what you're saying is, we've lost the link between budget and results. So we can't manage expectations. That's true, but that's why we formed the Steering Committee to set priorities."

"Oh, yeh, like a group of disgruntled customers are going to run cover for us! Didn't you ever hear of, 'Divide and conquer'? The last thing we want to do is encourage our customers to gang up on us!"

"It does kinda' feel that way at times. You got a better idea?"

## **The Way Out**

"Well, let's go back to the root cause: Our budget doesn't link resources to deliverables, so people don't know what's in and what's out. That's where the problem starts. That's what we've got to fix."

"I'm with you. So the answer is. ..."

"I think we'd better get on the bandwagon with performance budgeting."

"Isn't that just more of an administrative burden for us?"

"No, I think we can make it work to our advantage. Look, we've got our budget spreadsheet. The columns are our object classes: compensation, travel, training, etc. And the rows are the projects and services they want us to do in the coming year. Picture it?"

"Sounds familiar."

"So we filled in the numbers. Then, what'd we do? We totaled up the columns, right?"

“Right. That’s what we’ve got to enter into the budget submission system.”

“Sure, eventually. But you can’t negotiate the columns. You’ve got to negotiate the rows. They want to cut our budget. You say, ‘Sure, what rows do you want to do without?’ Simple, eh?”

“And what about the financial systems? I can’t just forget about them!”

“No problem totaling the columns... after you’ve negotiated which rows are in and out. So look, the capital travel is too big. You say, ‘Fine. What rows that use a lot of travel do we cut?’ You never cut a column, only the rows, okay?”

“I get it. But what about all our fixed costs, like infrastructure, and staff development, and internal overhead like you and me?”

“It all gets embedded on the rows, on the cost of things the agency wants to buy – just like in the real world.”

## Practicalities

“Okay, it sounds like performance-based budgeting can really help us. But wait a minute. I don’t know anybody that’s done a good job of it, where it really helped manage expectations at the detailed level.”

“Which means, if we do it, we’ll be real leaders, right?”

“Yes, that would be good. But why do you think we can do what everybody else is struggling to figure out?”

“They know how to do it in the private sector. They call it ‘investment-based budgeting.’ Why don’t we just use an off-the-shelf method and tool-kit?”

“Well, even if there is a way, it’s too late for this year.”

“No, it’s not! Too late to affect the total number, true. But we can at least figure out what this year’s budget will and won’t pay for. We can ‘reverse engineer’ the budget that we got, to bring expectations in line with reality.”

“True. That could really help me address all the unreasonable demands this year.”

“Then, once we’ve learned the method, we’ll be all set to do next year’s budget this way, from the start.” □

*For a library of information and case studies on investment-based budgeting, the method, and the tool, go to [fullcost.com](http://fullcost.com). And CIOs interested in a private sounding board on their resource-governance processes may enjoy a private consultation with Dean Meyer. Contact NDMA at 203-790-1100, or [info@ndma.com](mailto:info@ndma.com).*