Rethinking Budgeting as a Continuous Process

In their article “Budgeting and Rebudgeting in Local Governments: Siamese Twins?” Eugenio Anessi-Pessina, Mariafrancesca Sicilia, and Ileana Steccolini address a very important subject for the community of public sector financial practitioners that is severely underinvestigated in the international literature. The article argues that approved budgets are a starting point for a continuous process of budget execution and revision, or “rebudgeting.” The authors adopt an explanatory perspective and test hypotheses on the determinants of the rebudgeting process.

This research speaks powerfully to the professional community, which is already used to thinking about budgeting as a yearlong cycle, far from a one-stop-shop exercise that culminates with the issuance of an organization’s budget whose allocations are to be simply monitored and reported. The framework and the determinants of rebudgeting proposed by the authors have the potential for widespread application to other public sector systems, where the same analysis could give interesting comparative results based on the budgeting rules and the contingent institutional, political, and funding patterns.

The main difficulty in treating this topic and, at the same time, its main element of interest is that rebudgeting is an informal and elusive process. Notwithstanding the presence of rules and procedures to propose and approve budget revisions in any public sector system, a common trait of many rebudgeting processes in their own organizations.

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For example, in my own experience, it is extremely common for budgeting processes to be heavily incremental, as budgeting is still perceived as a rational exercise that moves from past allocations and the amount of unexpended resources, accounts for marginal increases or decreases of available funding at the corporate level, and comprehensively consolidates the departmental budget proposals issued based on approved programs of work. The more incremental the budgeting process, the more the rebudgeting process is left to tackle emerging needs and development initiatives. Because budgets are intended as authorizations to spend, it is intuitive that internal allocations will be conservative and that there will be “space” for further allocations during the year. Think, for example, how common it is for chief financial officers (CFOs) to face emerging priorities or crises during the year by suggesting the release of resources whose existence was unknown to most within the organization. Who controls these allocations—elected representatives, top management, or CFOs—and how in the context of governance systems, power dynamics, and administrative settings is a relevant field for further research.

Incrementalism is clearly stronger for operating budgets than for capital budgets, not only because of the one-time nature of the expenses related to the latter, but also because of their magnitude. This explains the increasing tendency of organizations to set up separate processes and funding for capital budgets.

Building on another hypothesis put forward by the authors, budgets are, by their very nature, conservative. Soon after receiving their financial allocations, managers start encumbering resources and making their plans, which could be extremely difficult to change at a later stage without significant repercussions for programs of activity. This is exacerbated by the cost structure of most public organizations, which is considerably skewed toward fixed costs.
Funding patterns are further important determinants of rebudgeting. For example, in the context of United Nations organizations, the incidence of voluntary contributions by member states and the continuous fund-raising efforts by the organizations makes rebudgeting absolutely necessary. In fact, in many organizations the only “fixed” budget is for administrative and management costs (overhead), while resources for program activities are allocated in several consecutive rounds based on income projections and as estimates of surplus or deficit from previous years stabilize.

As the article points out, organizations’ administrative culture seems to be a critical determinant of rebudgeting. From my own experience, I observed that many public sector managers consider it a good and desirable practice to seek “savings” on their assigned allocations whenever internal financial rules allow them to carry forward balances of unspent resources. This practice allows them to signal their ability to “deliver more with less” and, more importantly, to have reserves to manage their programs and to increase their internal negotiation power, that is, to take on development projects or to “find budget space” to pay for unexpected priorities. In practice, it is quite common for managers to submit and negotiate allocations based on what they think they can obtain rather than the strict needs of the programs. As a consequence, contingencies may be “built-in” budget estimates, and many organizations have rules to prevent the carrying forward of unexpended resources, which usually get reallocated from the center to the units. This dynamic greatly increases the need for rebudgeting.

As a practitioner, I also observed that the basis of accounting used for budgets can be seen as a determinant of rebudgeting. I refer here to my current organization, the United Nations Population Fund, which, in line with the newly adopted accrual accounting system, applied the “delivery principle” to its budget allocations. Program resources allocated to units and not corresponding to delivered goods or services at the end of each calendar year are taken away from the units and centrally reallocated based on corporate program priorities in the new year, leaving the units to cover their pending obligations with fresh resources. This mechanism, which intends to achieve a virtuous cycle in which managers “budget for what they can deliver,” is creating significant rebudgeting needs as the cultural shift progressively takes place.

As the authors note, future research should further investigate the rebudgeting process in terms of the roles and interactions of its main players. Other interesting elements of the context to be considered are the prevalent management style and the type of budgeting process followed by organizations (i.e., “top down” or “bottom up”), the level of trust and type of accountability between elected representatives and top management, the level of detail and fragmentation of budgetary allocations, the length of the budgetary process, and the mechanisms used to ensure dynamic consistency between planning, programming, and budgeting.