

Using Web technology for the budget process

An e-budgeting solution completely automates the development of an organization's budget and forecast. From anywhere in the world, at all times, participants in the process can log through the Internet to access their budget and any pertinent related information so they can work on their plans. Web-based enterprise budgeting systems offer a centrally administered system that provides easy-to-use flexible tools for the end users who are responsible for budgeting. The Web functionality of these applications allows constant monitoring, updates and modelling.

E-budgeting provides the flexibility demanded by modern organizations. For example, the finance department can request across-the-board reallocations of expenditures and model the result immediately. No longer do management accountants have to go back and forth with other managers reinputting data and retallying results. E-budgeting can eliminate the cumbersome accounting tasks of pulling numbers from disparate files, cutting and pasting, entering and uploading, and constantly performing reconciliation. Also, a Web-based budgeting application lets managers access data from office or home – wherever they happen to be working. It broadens the system's availability to the user community.

When executives at Toronto-Dominion Bank were searching for a new solution capable of handling the bank's enterprise budgeting and planning function, they turned to the Internet. The company selected Clarus Corporation's Web-deployed, enterprise Clarus™ Budget solution. Its accountant stated 'in the past, we have compiled our business plan using hundreds of spreadsheets, and our analysts have spent a disproportionate amount of their time compiling and verifying data from multiple sources. Implementing a Web-based, enterprise-wide budgeting solution will help us to develop our business plans and allow our analysts to be proactive in monitoring quarterly results.'

Source: Adapted from Hornyak, S. (2000), Budgeting made easy, in Reeve, J.M. (ed.), *Readings and Issues in Cost Management*, South Western College Publishing, pp. 341–346.

The implementation of a zero base budgeting approach in a UK local authority

The social services department of a local authority decided in 1990 to implement a system of devolved budgeting. Prior to these initiatives, budget preparation had been largely centralized with input from the social services department coming primarily from the director and the assistant directors. In social services departments, the major divisions of service are: juvenile justice and services for adolescents; children and families; elderly; elderly mental infirm; learning difficulties; mental health; and physical disability. In the authority under review, each of these divisions of service was under the control of an assistant director and in addition there was an assistant director responsible for finance and administration. As a result of the devolved budgeting initiative, the number of budget holders increased to over 70, and over 300 cost centres were established.

A zero based approach to budget preparation was introduced for the financial year 1992/93. Prior to the introduction of zero base budgeting (ZBB) the budget allocations available to each cost centre and budget holder were based on an incremental budgeting system which meant that past histories of spending patterns determined current resource allocations. It was anticipated that the increased budget involvement would make it difficult on occasions to justify historically based allocations and the move to zero base budgeting (ZBB) was seen as a means of providing the opportunity for the base to be challenged and redistributions brought about. In its pure form, ZBB requires each budget request to be built up from zero. For large complex organizations this would clearly be close to impossible. The social services department's attempt at ZBB for the financial year 1992/93 adopted the philosophy of starting from some point within the base, rather than from zero, and followed loosely a decision package approach. The process was bottom-up with budgets being built up from cost centres to arrive at a budget holder's budget. The aggregate of each budget holder's budget gave the budget for the division of service, and the aggregate of each division of service budget gave the total social services department budget. (For 1992/93, the gross revenue budget was over £50 million.)

Each budget holder was required to compile three incremental decision packages for the group of cost centres they were responsible for. These were:

- current provision,
- statutory provision,
- 90 per cent provision.

The purpose of the 90 per cent package was to release a notional amount from each budget holder which would be available for redistribution on a prioritized basis. The 90 per cent target was not required for each cost centre but for the group of cost centres under the budget holder's control, thus providing scope to move money around. ZBB does, of course, require not only the inputs for each decision package to be determined but also the outputs. A careful analysis of the needs of the community for personal social services was required in order to establish the demand for services and the level of service that could be provided at each level of funding.

Source: Adapted from Pendlebury, M.E., Management accounting in local government, *Financial Accountability & Management*, May 1994, pp. 117–129.