Budgeting

Accounting & Finance

How budgets are built, and the behaviour they cause.

Approaches and their effects.

Approaches

Incremental — last year plus a change	Zero-based — justify every line afresh
Rolling — always covers a fixed horizon	Activity-based — driven by planned activity

Behaviour

Budgetary slack — padding for an easy target	Use it or lose it spending at year end
Gaming targets rather than improving	Short-termism when bonuses attach

Participation improves accuracy and commitment, but also creates the opportunity to build in slack.