

BASELINE BUDGETING

ASSUMPTION:

That there is a

GUARANTIED budget INCREASE

per year.

CUT or INCREASE????

- When is a cut in budgeting not a reduction in the overall budget?
- When our Government uses “Baseline Budgeting.”
- Only our Government is capable of creating the illusion that an *increase* is actually a *cut*!

EXAMPLE: Company's "baseline budgeting" practice *automatically* allows for a 10% increase each year.

- 2011 budget is \$100,000.
- 2012 budget will automatically be \$110,000.
- Due to shareholder pressure the CEO announces that there will be a 4% cut for 2012.
- Shareholders are happy (and ignorant!)
- The 2012 budget will be \$106,000.
- Is this a CUT of 4% or an INCREASE of 6% ?