

NAVIGATING THE BUDGETING  
SOLUTION LANDSCAPE

Enhanced  
Capabilities  
Must Match  
Specific Needs



## INTRODUCTION

Government and education budgeting professionals face constant pressure to provide analytical support for difficult decisions on how to allocate scarce resources. The difficulty of this task is exacerbated by the fact that many state and local governments continue to rely on a mix of outdated and cumbersome tools to collect data and analyze budget scenarios and alternatives. As a result, analysts spend most of their time chasing down numbers, reconciling these numbers, and filling out spreadsheets rather than doing the actual *analysis* that adds value to the decision-making process.

The good news is that emerging budgeting solutions offer increasingly sophisticated capabilities to integrate and automate inefficient data collection and manipulation processes while providing greater insight into budgets in support of decision-making. To select an appropriate solution and solution integrator, however, a public sector organization must consider a range of factors, including functional fit, technical architecture, ease of configuration, the solution's long-term viability, and the evaluating organization's ability to support and maintain the solution long-term.

This ISG Public Sector white paper examines today's public sector budgeting landscape, features and benefits of different solutions, and key selection criteria and considerations.

## BUDGETING SOFTWARE EVOLUTION

Public sector budgeting is uniquely characterized by incremental and highly iterative decision-making involving many participants, constituencies and stakeholders. In this dynamic environment, where budgeting is a combination of top-down, bottom-up and sideways-in, analysts require flexible tools to assess a myriad of perspectives and opinions on an ongoing basis. The ability to support public sector budget publishing and reporting requirements is also essential, as government agencies are expected or required to publish fiscal decisions and provide a quantitative context to funding decisions.



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Early public sector budgeting tools – dating to the mid- to late 1990s – typically included a hodgepodge of niche provider software applications, spreadsheets, custom databases, and word processing tools cobbled together with custom interfaces to ERP applications. There were no robust, integrated ERP budgeting applications. After the Y2K transition, ERP vendors shifted their focus to enhancing business intelligence (BI), financial planning and forecasting, and performance management capabilities. These solutions, which integrate with ERP applications, are often placed under the Enterprise Performance Management (EPM) solution umbrella. By the middle of the last decade, the major ERP software providers had acquired niche vendors with planning solutions, resulting in a stabilization of basic components and enhanced capabilities around planning and budgeting, strategy or performance management, and BI. However, these functional enhancements were primarily targeted to the needs of the commercial sector, and largely failed to address the unique requirements of public sector organizations.

As a result, public sector budget analysts continued to rely largely on stand-alone niche budgeting software or homegrown budgeting tools and approaches that required staff to spend inordinate time and effort on collecting data rather than actual analysis.



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By 2010, numerous niche public sector budgeting applications were available and ERP software providers with extensive public sector client bases had invested in extending these solutions to address unique public sector budget formulation requirements. This investment has yielded public sector budgeting solutions that, when deployed optimally, can automate and integrate public sector budgeting and financial planning along with improved BI and, in turn, much improved decision support capabilities.

## ANALYTICAL SUPPORT

The extension of ERP-integrated planning and budgeting solutions to meet the specific needs of public sector analysts and the evolution of stand-alone solutions provides public sector enterprises with viable solutions to replace their disparate collections of budgeting tools. Beyond public sector-oriented functionality, these tools are typically built on an on-line analytical processing (OLAP) technical underpinning, which is required for optimal insight and

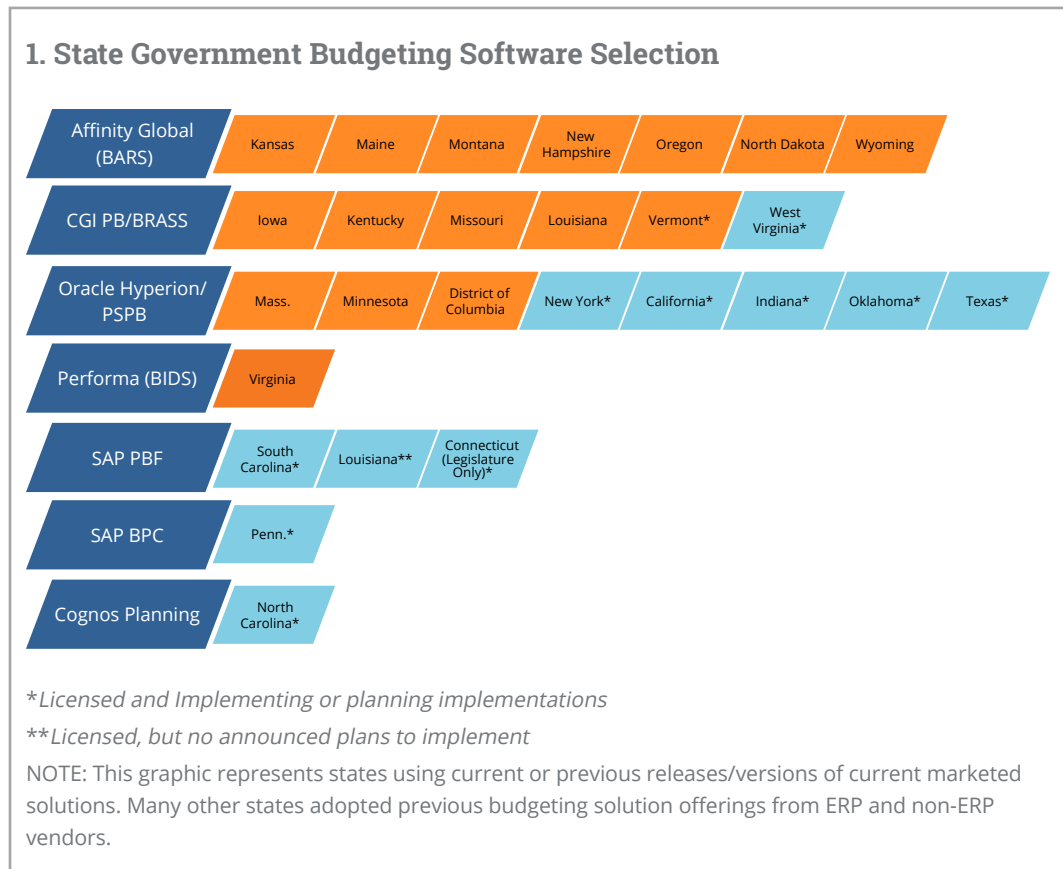
## NAVIGATING THE BUDGETING SOLUTION LANDSCAPE

decision support into a highly dynamic budgeting process. Further, today's leading budgeting solutions integrate budgeting, ERP, and strategy or performance management with business intelligence (BI), enabling a greater level of flexibility and insight to help optimize the allocation of scarce public resources.



Seven software providers have a substantial presence in the planning and budgeting solution market at the state level

At present, seven software providers have a substantial presence in the planning and budgeting solution market at the state level, as illustrated below. Gold-colored states are live with the applicable vendor solution. Gray-colored states have licensed budgeting software, but are not live in production with the selection software. Some of these vendors have niche, stand-alone budgeting solutions (Affinity Global, Performa, Cognos) that can interface to 3rd party ERP applications, and others are provided by ERP software vendors (CGI, Oracle, SAP) with supported integration to these vendors' ERP applications, and with the ability to stand-alone and interface to other ERP applications. Though niche vendors such as Affinity Global have many state installations, most of these states adopted these solutions more than a decade ago. The recent trend, since ERP software vendors delivered public sector budgeting functionality, has been toward state adoption of ERP vendor-provided solutions. Most of these public sector budgeting software providers, along with other more niche-focused software providers, offer these solutions to federal and local governments, as well as to K-12 and higher education organizations.



## CRITERIA AND CONSIDERATIONS

While public sector budgeting capabilities offered by leading ERP software providers have clearly matured, and all the major players offer a high degree of functionality, there is no one right answer when it comes to selecting a particular solution. Rather, the right choice requires assessing a particular organization's unique set of requirements and matching those to the specific capabilities of a particular vendor. A "devil in the details" perspective allows a buyer organization to obtain a clear understanding of the capabilities of a given solution, and of the degree of fit between that solution and client requirements. One fundamental consideration is the existing client environment. Another is the level of integration that will be needed; if an ERP system is already in place, that will obviously influence solution strategy and vendor selection. Solution complexity, implementation consultants, and proposed approaches must also be assessed, along with the level of technical expertise within the client organization. Some ERP solutions offer sophisticated functionality but require a high degree of specialized support which can be costly and difficult to maintain over time. Risk levels associated with different solutions must also be evaluated.



Each public organization's budget process is unique and their specific requirements are often quite different.

Each public organization's budget process is unique and their specific requirements are often quite different. Public sector-specific functionality found in modern budgeting solutions can be grouped into five categories. An effective solution requires a detailed understanding of requirements along with the ability to differentiate between software providers' capabilities in these areas:

- 1. Integration:** Available solutions range from fully integrated (with software provider delivered and supported integration) to completely stand-alone. The level of integration will impact implementation and long-term support complexity and cost. Less-integrated solutions often have a long-term hidden maintenance cost that can substantially increase the Total Cost of Ownership (TCO).
- 2. Forms and Process Management:** Public sector budgeting is typically a form-based process with many iterative reviews, analysis, and revisions from inception to adoption. A "built-for-public sector" budgeting solution must therefore have flexible budget forms that support unique data requirements for each budget type, including forms for managing changes to levels of service via decision package management. Additionally, these solutions must provide robust integrated text handling and performance management to provide a single point of entry for budget requests and related decision context.
- 3. Supporting Different Budget Approaches and Budget Types:** No two public organizations budget the same. Unlike accounting, no industry standards exist for budgeting. Furthermore, as the core resource allocation process for public sector organizations, public sector budgeting is often highly policy-oriented with a high degree of political context. The strongest public sector budgeting solutions provide substantial flexibility in supporting various budget approaches, including incremental, zero-based, performance or outcomes-



based, and hybrid approaches. Additionally, these solutions provide substantial flexibility in supporting unique functionality to support operating, capital, special revenue, and other budget types. Finally, these solutions are flexible enough to support budget formulation, current year budget monitoring, and long-range planning.

- 4. Forecasting and Modeling:** To support public sector budgeting, solutions must provide flexible modeling and forecasting solutions. Specifically, since personnel budgets are often 60% or more of a public sector organization's budget, these organizations typically require position and employee-level personnel expenditure forecasting to support budget formulation, budget monitoring, and other analyses (e.g. collective bargaining). Additional modeling and forecasting tools for driver-based budgeting, revenue forecasting and budgeting, long-term expenditure modeling, and ad hoc analysis are also essential to the public sector.
- 5. Business intelligence:** The most powerful public sector budgeting solutions integrate robust BI applications to support reporting, analysis, and automated budget book publishing.

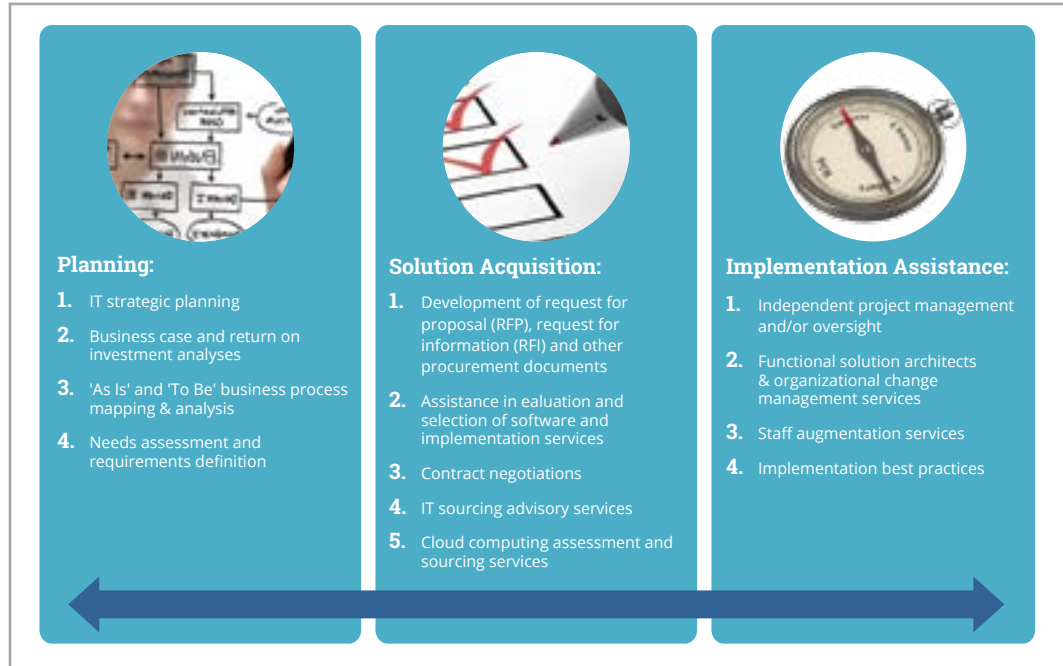
## THE OPPORTUNITY

Although enhanced capabilities are available today, relatively few public sector entities have taken advantage of these offerings. ISG analyses show that roughly 10 percent of state and local government entities, and even fewer K-12 education and higher education organizations, have a streamlined and effective integrated budgeting solution in place; another 20 percent have a budgeting capability that is integrated to some extent but limited in terms of capability and architecture; while an additional 20 percent or so have purchased budgeting solutions and are in the process of deployment. This means that, for approximately half of all public sector entities, budgeting is still dominated by the traditional spreadsheet and "catch can" model of data gathering and number crunching. Thus, public sector budgeting remains pervasively labor-intensive, error-prone, and slow to respond to decision support analysis requests.

Many public sector entities have assessed their operational strategies and are acutely aware of the need for improvement and enhanced budgeting capabilities. Effective choices regarding software providers and licensing models (e.g. Cloud versus traditional), implementation partners, and long-term support approaches will be essential to optimize the benefits of investments in budgeting solutions.



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