

IMPROVED BUDGETING PRACTICES MANUAL

FOR POLAND

Revised October 1996

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FOR POLAND**

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Prepared for

**U.S. Agency for International Development
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INTRODUCTION

The *Improved Budgeting Practices Manual for Poland* emphasizes the role of the program budget as a tool for policy, management, and social communication. The manual identifies the shortcomings of budgeting methods generally employed in Poland, which result in less-than-rational allocation of resources. Also, the manual compares standard practices with the new mode of budget construction and outlines the new perspectives opened up by the proposed reform to convince readers of the validity of the new approach to local government financial management.

The City of Krakow has developed and introduced a new type of budget, called a task budget. Task budgeting consists of allocating means to program priorities. Implementation is described in terms of detailed tasks involving target specifications and cost calculations. This leads to a budget that is transparent for all concerned, with expenses logically connected to objectives and results that can be evaluated in terms of cost effectiveness.

Other cities, such as Lublin and Szczecin, have taken approaches to budget reform that are different from Krakow's. However, these cities appreciate the advantages of the new approach to budgets, and they have appended additional information to their budget reports beyond what is formally required, thereby making their documentation more readable.

The objective of the manual is not to create or promote an ideal prescription for budget programming implementation. This is impossible, since each local budget has its own unique characteristics related to local conditions, prevailing preferences, available management personnel, and many other factors. Instead, this manual should provide reference and advice needed by local governments as they absorb the basic premises of reform as well as instruments already tested in Poland.

The manual has two main parts. The first part of the manual has 14 chapters and represents an introduction to program budgeting. The exercises and examples at the end of some chapters come from actual Polish and U.S. cities and illustrate practical applications of the problems discussed. U.S. and Polish local governments and finance systems are compared in an appendix to this introduction to help readers better understand the theoretical material contained in part one. The second part of the manual, *Task Budgeting in Poland: Krakow Case Study*, provides a detailed summary of the experience of the City of Krakow during the past four years. It offers an analysis of the functional

ramifications of local government in Poland within existing laws and regulations as well as the phases of budget reform in Krakow. The methods for developing the task budget, as well as tools for implementation, are also described.

The manual was written by Polish and U.S. consultants collaborating with the International City/County Management Association (ICMA) and the Municipal Development Agency (MDA).

Founded in 1914, ICMA is the professional and educational organization of more than 8,000 appointed administrators and assistant administrators serving cities, counties, and other local governments and regional entities around the world. As part of its mission to enhance the quality of local government and to support and assist professional local administrators in the United States and in other countries, ICMA provides a wide range of technical assistance and training activities. Under the auspices of the United States Agency for International Development's (USAID's) Local Government and Housing Privatization Project, ICMA has been involved in providing technical assistance to Polish cities since 1992.

The mission of the MDA is to provide support for Polish local governments by informing them about rules and standards for municipal functions and offering consulting services for financial management. Within this framework, the MDA, together with the City of Krakow, has created an office in Krakow to implement the USAID-financed program *Improving the Budget Process in Krakow*.⁶ The aim of the program is to develop, improve, and promote methods of preparing additional budgets for local governments (gminas). MDA/Krakow is developing a methodology of task budgeting and preparing the necessary procedures for its implementation by local governments, while providing them with consulting services.

Part one of the manual was written by Winston Evans, with contributions by Philip Rosenberg and Meredith Eisenberg. Part two of the manual (the Krakow Case Study) was written by MDA employees Jan Filas, Izabela Kozinska, and Marzena Piszczek, with the collaboration of Mr. Krzysztof Pakoński, Vice President of Krakow. The manual was edited in English by Diane Ferguson and translated by Piotr Graff. The project manager for the Poland Municipal Finance and Budgeting Project is Ann Bueche. Preparation of the manual was financed by USAID under the Local Government and Housing Privatization Project in Central and Eastern Europe, Contract # EUR-0034-C-00-2034-00, RFS 125.

Appendix 1 Polish-American Comparison

This manual presents innovative program budgeting practices from the United States with examples of how they have been adapted by Polish cities. Since the manual is written primarily from a U.S. perspective, some of the terminology used in the manual may have a slightly different meaning in a Polish context. The purpose of this comparison chart is to help you to better understand the examples from U.S. local governments found in this manual.

Concept	United States	Poland
Form of Government	Determined by State Law or a City Charter adopted by voters. Varies widely from locality to locality. Popular forms of government include Mayor/Council and City Manager.	Scope and authority of local government is determined by law. The latest revision of the local government law in 1990 allows local governments some autonomy.
City Council	Consists of 7-10 elected officials depending on the size of the jurisdiction. The City Council makes the final decision on all policy issues. The Mayor may not be elected by the Council.	Consists of 50-100 elected officials depending on the size of the council. The City Board acts as the executive decision making body. The City President or Mayor is chosen by the City Council.
Mayor	The amount of responsibility given to the Mayor varies greatly from jurisdiction to jurisdiction. The Mayor can have total responsibility for all aspects of running the city or for policy matter only. Mayors can be either full or part time.	The Mayor is elected by the Council and works full time for the City.
City Manager	A professional trained in local government management hired by the City Council to manage the day-to-day affairs of a local government. City Managers are often responsible for coordinating the budget process in U.S. cities.	Not in most Polish cities. In Krakow, the City Secretary fulfills a role similar to that of the City Manager.

Chief Executive

Manages the day to day affairs of the city. Can be the Mayor or the City Manager depending on the form of government adopted by the city.

The City President and collectively the City Board.

GLOSSARY

-A-

Activity Measure	A means of measuring an identifiable action or operation conducted or performed by an organization. Activities are performed to achieve identifiable program objectives. The two types of measures are demand measures and work load measures.
Adopted Budget	Is often less detailed than the proposed budget and provides a summary of allotments for each department.
Advisory Role	When the budget analyst checks the proposed expenditure requirements to determine their adequacy and need for changes, if any.
Allotments	Division of appropriations or allocations into periods such as quarters or months of the fiscal year covered by the approved budget. The allotment device is critical to ensuring that spending is carried out according to budget.
Analytic Role	When the budget analyst focuses upon budget requests that provide detailed program information beyond that required by the State obligatory budget format. The purpose of the review is to fully understand the program, its objectives, and the likelihood for its success.
Appropriation	The legal authority to expend up to a certain amount of funds during the budget period. For most local governments, the annual budget document is the source for all or most appropriations. The Council approves the budget by adopting an ordinance or approving a resolution depending upon legal

requirements.

Authorization The law or statute than permits spending for a specified purpose. Governments can only spend money for activities they are legally permitted to carry out.

-B-

Best Judgement or Expert Forecasting Method Relies upon a person or *Aexpert@* to forecast revenues or expenditures. There is no single technique employed in this type of forecasting, which primarily depends upon the forecaster-s subjective feelings, long-term experience, expertise, and familiarity with revenue or expenditure patterns. Long-time budget officers or treasurers often act as the forecasting *Aexpert@* in a city.

Budget Analyst A member of the budget staff who analyzes budget requests for both financial correctness and compliance with City Council priorities and stated departmental goals and objectives.

Budget Calendar Identifies the dates by which a city needs to accomplish activities to produce a budget for submission to the Council by the legally required due dates. Generally, the budget officer, working with the chief executive officer, prepares the calendar.

Budget Cycle The five steps or phases in the budget process. The phases are planning, preparation, adoption, execution, and audit.

Budget Guidelines The written directions provided annually by the Treasurer and/or the Budget Office to departments or agencies of the city on how to prepare a departmental budget request and when to submit it.

Budget in Brief A highly condensed version of the operating budget

document prepared to communicate with citizens concerning the budget.

Budget Instructions

Detailed direction on the request-s organization, the forms to use, and the information to include. Some jurisdictions- instructions are so comprehensive that they comprise a budget instruction manual.

Budget Message/Transmittal Letter

A one or two page letter that introduces the policy overview. It formally conveys the budget document to the legislative body and serves much the same purpose as a cover letter for any official report. Although not an essential ingredient, the transmittal letter may summarize key budget decisions or serve as an extensive budget message.

Budget Officer

May be the City Treasurer or head of the Budget Office. The Budget Officer is the focal point for issuing guidelines, reviewing materials, and responding to questions.

Budget Priorities

Specific program and resource allocation guidelines issued by the Council for a fiscal year. The priorities are developed before the budget itself to provide an agreed-upon direction in which the next year-s budget will be developed. Budget priorities tend to focus the attention of the budget debate upon the policy issue of whether the budget meets the program priorities and the budget guidelines established.

Budget Resolution

Approves specific income and expenditure levels for the gmina and other off budget units and establishes policies for budget execution.

-C-

Capital Outlay

Includes equipment, fixtures, and other tangible property that have an expected useful life of more than one

year and whose cost exceeds some predetermined value.

Capital Spending	Used for long-term improvements such as the purchase of land, major physical facilities, and heavy equipment. These projects are different from activities related to government operations because both the cost and the benefit of the purchase are spread out over more than one year. In the U.S., capital budgets, usually spanning three to five years, are prepared separately from the operating budget.
Chief Executive Officer	Can be the Mayor or City Manager. The Chief Executive Officer has three major roles in the budget preparation process: (1) preparing budget proposals for consideration by the legislative body; (2) explaining and clarifying current fiscal conditions, fiscal prospects, and budgetary proposals to the legislative body; and (3) implementing the budget enacted by the legislative body and monitoring performance to ensure that programmatic and fiscal policies are met.
Citizen Committees or Task Forces	Comprised of business, community, or service agency leaders who advise local governments in the U.S. on budgeting, financial forecasting, or other methods of increasing efficiency and effectiveness. In Poland, a similar function is served by committees within the City Council.
Citizen Opinion Survey	Used by municipalities to more accurately gauge public opinion on the quality and quantity of city services. A questionnaire is designed and posed to a representative sample of citizens.
City Board	The executive body of a Polish City Council, which consists of the Mayor, the Deputy Mayor, and other members elected by the Council as a whole.
City Charter	The document that dictates the form of government in U.S. cities if it is not otherwise dictated by state law.

City Manager	The appointed professional local government administrator who manages the day-to-day operations of a city.
Compliance Role	The analyst verifies that the request conforms to budget guidelines and preparation instructions of the budget office and that all requested information is included and appropriately completed.
Consolidated Summary	Displays all financing sources and uses. It includes information on revenues, transfers, debt proceeds, expenditures, and beginning and ending balances.
-D-	
Debt Service Fund	Accounts for the accumulation of financial resources to meet the principal and interest requirements of municipal bonds and debt service reserves that finance the city's capital improvement programs.
Debt Summary and Analysis	Information on both short- and long-term implications of local government debt. Information on current outstanding debt, future debt service requirements of current obligations, and analysis of current debt levels and legal debt limits should be provided.
Departmental Budget Request	Prepared according to the budget instructions issued by the chief executive officer. Budget requests for each service should include a determination of what the service is; what level of service has been provided in the current year; what level of service is needed in the budget year; what will happen if the service is reduced, discontinued, or increased; and the cost of service at the requested level.
Deterministic Forecasting	Use of other factors than time in determining projections. The most common deterministic techniques rely

Techniques	on pre-established formulae in calculating a projected revenue or expenditure. For example, to calculate a license fee revenue, the forecaster estimates the number of licenses to be issued for a year based on historical records and multiplies that figure time the applicable fee for each license.
Direct Cost	Includes all expenses needed to operate the program and to achieve the desired service or outcome. Direct expenses include personnel expenses, operating expenses and capital outlay.
-E-	
Econometric Forecasting	Combines economic principles with statistical theories. Econometric models permit the forecaster to consider the effects of several variables on a revenue or expenditure. The objective is to identify the independent variables, such as disposable income, population, prices, or inflation, that provide the best fit to project future changes in revenue that are tied to the economy, such as sales tax or income tax. Regression analysis is the most common approach to econometric forecasting.
Effectiveness Measure	A performance measure that determines how well a program meets an objective or fulfills a need.
Efficiency Measure	A performance measure that compares resources used with results obtained.
Enterprise Funds	Are fully supported by charges for services. Each fund establishes revenue-based fees and charges based on recouping the cost of services provided.
Exception-Based Forecasting System	Establishes a constant level of service budget as a base line. Department or program managers advise the forecaster of changes to this base line for future

years based on criteria given by the budget office. The detailed orientation of exception-based forecasting permits analysis of both the base and subsequent years, making better use of department staff time.

-F-

- Fiduciary Funds** Account for assets held by the city in trustee or agency capacity. For example, grants from national government or private donors would be accounted for in these funds.
- Financial Data** A section of the operating detail that provides spending detail for departments and programs. The presentation may cut across departmental lines if more than one agency is involved in administering a major program. For the performance-based budget, unit costs and performance measures are provided for each program and activity.
- Financial Management System** A computerized system that integrates budgeting, accounting, auditing, and performance measurement.
- Financial Policies** General principles that guide the financial management of a city. These principles provide the framework in which routine financial decisions are made. A city's financial policies may include not only budget policies, but also more specific sections on the operating budget, capital and debt budget, reserves, accounting, auditing, financial planning, and grants and trusts. Financial policies are rarely changed.
- Financial Summary** Summarizes information contained in the operating detail section of the budget. It may also include information not presented elsewhere in the document. Most financial summaries present a consolidated budget summary, cross-classify financial data, and

present information on revenues, expenditures, capital spending and debt.

Focus Group Interview

A technique borrowed from market research conducted by private business. The objective of the focus group interview is to determine why customers might or might not buy a product or participate in a service the city offers. This technique might be useful for municipalities when marketing a new product or service, such as recycling, or when making substantial changes to an existing service.

Formal Budget Hearing

The most common means for governments in the U.S. to solicit public input to any significant government decision that will affect citizens. Notices encourage citizens to come to City Hall to voice their opinion. Although formal budget hearings are required for certain initiatives in the U.S., they are generally considered the least effective method of gaining citizen participation because few citizens participate.

-G-

Gantt chart

Sets out a critical path for all components of a project to be completed in order to finish the project in the shortest possible time.

General Fund

The main operating fund for the city, which accounts for basic services provided to the public and revenues to support the general operation of local government.

Goal

The long-range desired outcome of specific activities. The combined goals are a definitive statement of the purpose of an organization. A goal has the following characteristics: it is general, timeless, continual, and never fully achieved. The goal of an organization is the unifying point around which all activities revolve. In a public organization, goals are associated with each of the major services offered.

-I-

Information Systems Officer

Coordinates computerized information systems for a local government.

Indirect Cost

Expenses of the program related to other agencies or departments costs of providing services to a program. These indirect costs represent the program's pro-rata share of departmental administrative expenses or city-wide central support from finance, legal, or other support departments.

Inputs

The resources needed to complete a process. Inputs may be money, staff time, equipment, or anything else that is needed to complete the project.

Issue Paper/White Paper

A written document that addresses a specific local government policy or budget issue. The purpose of an issue paper is to provide elected officials with sufficient information (i.e., background, current situation, options, and analysis of options) and a recommendation on a specific issue so they can make an informed decision.

-L-

Line-item budget

The most widely used local government budget format. Line-item budgets answer the question "what is to be bought?" Line-item budgeting is characterized by its detail and uses an "object-expense" format and control orientation in which each line limits the amount of spending to the amount authorized.

Local Area

A group of computers and associated peripherals

Network (LAN) linked by cables and sophisticated software packages. The LAN allows the user to access both the files and the peripherals of another computer in the network. Computers and communications networks transport information in electronic form among individuals.

Long-Range Forecast Covers a period 6-20 years into the future and is used primarily for capital investment and strategic planning.

-M-

Medium-Range Forecast Covers a period 2-5 years into the future. The principal uses for medium-range forecasts are budgeting, policy analysis, and legislation. In budgeting, forecasting is principally used to project gaps between anticipated revenues and expenditures during the next 2-5 years. This prompts policy decisions to close the gaps.

Mission Statement A concise statement that identifies the essential purpose of an organization; the customers, or citizens, it serves; and the expected results. A mission statement helps focus an organization on the key elements of the enterprise.

-N-

Nominal Group Technique A technique for prioritizing programs that allows group members equal input into program prioritization decisions by soliciting written votes on what is most important.

-O-

Object-Expense	The format used in line item budgets to limit the amount spent per object or item.
Objectives	Detail what departments and programs expect to accomplish during the budget period. In the best budgets, objectives are tied directly to organization-wide goals. Objectives should be specific, measurable, and sensible.
Operating Detail	Outlines the operational and spending plans for government agencies and programs. Information on the agency mission, staffing levels, performance objectives and indicators, expenditure level, and, possibly, financing sources is provided for each department or program.
Organizational and Community Profiles	Describe a government-s organizational and financial structure and include an overview of the government-s functions and programs. Agencies responsible for carrying out these functions are explained.
Output	The material or programmatic results of a project or program.
-P-	
Performance Budget	Seeks to emphasize efficiency and economy by focusing on inputs (costs) and outputs (accomplishments). Performance budgeting asks the question "What is to be done?" Performance budgeting has some of the characteristics of program budgeting. Like program budgeting, performance budgeting uses a program structure and allocates fund to programs within an organization based on overall goals and program priorities. Performance budgeting is unique because it identifies the service level upon which the budget is based. Service level is described as the use of performance measures and statistics.

Performance Measure	A qualitative measure to explain how and why a performance objective was (or was not) achieved. Some performance measures are effectiveness measures, efficiency measures, demand measures, and workload measures. One or more measures may be presented for each budget objective. Ideally, three years of data should be presented for each measure to allow for adequate comparison.
Policy Overview	A summary of the decisions made, the factors that led to them, and their implications for programs and services. The policy overview is intended to explain the numbers.
Program Audit	Determines whether the desired results or benefits are achieved, whether the objectives set by the legislature are being met, and whether the agency considered alternatives that might yield desired results at a lower cost.
Program Budget	Relates expenditures to revenues to achieve explicitly stated public goals and asks the question <i>What is to be achieved?</i> the principal characteristics of program budgeting are its: (1) program orientation, (2) allocation of resources based on priority program areas, (3) use of total cost (direct and indirect costs), and (4) focus on programs supporting organizational goals that may cross departmental lines.
-R-	
Revenue and Expenditure Summaries	Show greater detail than a consolidated summary. Revenue and expenditure summaries include prior year actual and proposed budget year revenues and expenditures, by source or revenue and major expenditure category.

-S-

Short-Range Forecast Covers a period up to one year. The principal uses of short-range forecasts are related to the development of the operating budget and cash management.

-T-

Task Budget A customized budget format used by the City of Krakow. Task budgeting allocates resources and measures results at the sub-program or task level. Task budgeting uses criteria from both program and performance budgeting.

Town Hall Meeting A variation of the formal public hearing that essentially serves the same purpose to solicit citizen input but is more informal. Town hall meetings are held in neighborhoods at dates, times, and locations that are convenient for citizens. Evening meetings are common.

Traditional Budgeting (Poland) Budgets prepared in accordance with the established set of uniform accounts and codes relating to the National Budget Law chapters, sections, and paragraphs. The budget titles resemble programs and include construction work, agriculture, transport, communication, public utilities, housing and communal services, education, culture and the arts, health care, social assistance, sport, civil defense, state and local administration, security, finances, and economic development grants. Cities in Poland must still adhere to this format; however, many cities prepare supplemental budgets in other formats for use as a policy and management tool.

Traditional Budgeting (United States) Budgets prepared using a line-item format. Costs are organized by object of expenditure. Line-item headings may vary from jurisdiction to jurisdiction but

may include headings such as personnel, supplies, equipment, insurance, etc.

Trained Observer Ratings	A form of data collection for performance measures that relies on the opinion of an impartial observer trained in the performance criteria.
Trend Line Forecasting Technique	Relies upon the year to year change of prior levels of a variable (i.e., a revenue source or expenditure) to forecast future years= revenues or expenditures. By determining the changes in the recent past, certain revenues and expenditures can be projected quite accurately into the future. Trend line forecasts are most reliable for revenues not sensitive to economic conditions, such as property taxes or water fees.

-W-

Workload Measure	A performance measure that indicates the amount of work needed to accomplish a specific task.
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CHAPTER 1

OVERVIEW

PURPOSE

The purpose of this chapter is to:

- Introduce the concept of using the budget as a policy, management, and communication tool
- Provide a broad overview of the multiple purposes of budgeting
- Describe types of budget formats
- Outline the budget preparation process
- Present a summary of the components of the operating budget.

HOW THIS CHAPTER WILL BENEFIT YOU

The budget has evolved from a reporting of numbers, a barely distinguishable and often misunderstood statement, to a multi-faceted document. For many local governments, the budget is the single policy document that articulates the government's fiscal and program policies and explains the rationale for these policies. In addition, the budget is:

- An operations guide that provides guidance to department managers and measures the department's productivity
- A financial plan that provides a comprehensive perspective of the government's financial condition over a period of time
- A powerful communication tool that brings valuable information to the citizens, business persons, those considering making investments in the community, central government officials, and others.

This chapter gives an overview of budgeting and describes the process of moving the budget from a control document to a statement of a community's fiscal and program policy. This chapter also offers you some tips on how to assemble a budget document that is a powerful communication tool.

WHAT IS A BUDGET?

Budget policy begins with budgeting, a complex and ill-understood human activity. Budget policy guides the activities of people who are budgeting. To understand budget policy and its limits, a basic question must be addressed: What is a budget? The traditional definition expressed in the literature is one that classifies the budget as a financial plan for a municipality. Budgeting is the process of preparing and implementing the locality's financial plan.

The budget function in many municipalities around the world is restricted to estimating the cost of providing current services, allocating funds throughout the organization, detailing the categories of expenditure, and monitoring specific expenditures. This *control orientation* of budgeting evolved from the desire to fix spending and taxing levels in order to constrain impulsive and unplanned spending.

Several factors have changed the environment in which local government budget practices operate, expanding the role of the budget beyond a simple control tool. These changes have resulted in increased emphasis on making the budget a vehicle to articulate municipal fiscal and program policies and to communicate these policies to a diverse audience.

In Central and Eastern Europe, many functions have been transferred from central government to local governments over the past several years. With this shift has come responsibility to raise revenue, allocate resources, and monitor government operations. The significance of the municipal budget has expanded as governments are increasingly being challenged to maximize resources and improve managerial productivity and accountability. Policy-makers, the investment community, and citizens are demanding timely and accurate information on government policies, operations, programs, and expenditures. In response to this challenge, public officials are seeking cost effective approaches to service provision, productivity improvement, and budgetary control.

More than ever before, municipal leadership must effectively allocate community resources. Chief executives, legislators, and local government staff must understand the role fiscal decisions play in serving the community. Decision-makers (mayors and city councils, department heads, and budgeteers) must respond to the following kinds of questions:

1-2 Overview

- **Given the shift in responsibility for the provision of services, how should the local government organize to accept this responsibility?**
- **What programs and services need to be initiated? What must be eliminated?**
- **Does the local government have the organizational and staff capacity to manage these responsibilities?**
- **Can the municipality afford these programs and services?**

The budget process is the forum within which these and other critical questions are posed and, hopefully, answered. Budgeting is the mechanism to debate policy options and consequently formulate policies in response to community needs and changes. The result of this effort is the adoption of the municipal budget.

Budgeting requires making difficult decisions about where to place limited financial resources among competing needs. While needs may be great, revenues will likely be insufficient to meet all those needs. Government officials must identify the current and future community environment; define needs; establish goals, priorities, and strategies to meet those needs; and wisely allocate resources.

A MOVE FROM THE TRADITIONAL BUDGETARY APPROACH

The control orientation to budgeting is reflected in the *line-item budget*. While easy to prepare, the line-item budget does not provide any information regarding activities or functions of a program, department, or city. Dissatisfaction with the line-item budget's emphasis on inputs and controls, along with increasing demand from citizens and investors to understand the services and programs provided by local government, has led many municipal officials to seek budgetary reform.

To make more informed policy decisions and communicate budgetary decisions, municipalities have increasingly adopted budgets that blend the characteristics of the budget types described below. Since each of these budget format types produces different information, selecting a budget format type is an important decision. Different perspectives on the information will prompt different questions from policy-makers about the budget. Producing a

budget with information presented in different formats improves decision-making and management and helps the budget serve multiple purposes.

Line-Item Budgeting

Line-item budgeting, also known as traditional budgeting, is the most widely used local government budget format. Line-item budgets answer the question, "What is to be bought?" Line-item budgeting is characterized by its detail and uses an "object-expense" format and control orientation in which each line limits spending to the amount authorized. Because they parallel the object code structure used in the accounting system and because they are generally organized by department, line-item budgets are easy to prepare and to follow.

In line-item budgeting, expenditures and revenues are classified by specific items, commodities, or costs. The primary classification of operating expenses usually includes personnel services, supplies and materials, services and other charges, equipment or capital outlay, and reimbursements. These can be broken down into more detailed expenditure accounts or object codes. For example, personnel services include salaries, pension, benefits, and temporary help. Supplies and materials include office supplies, utilities, fuel, or minor machinery. Revenues are also divided into primary categories by source of revenue such as taxes, licenses and permits, interest earnings, intergovernmental revenues, fines and forfeitures, charges for services, inter-fund revenue, and miscellaneous revenues. The accounting system provides a numerical coding system for each expense item and revenue source. Revenue and expense codes may number in the hundreds depending upon the size and complexity of the jurisdiction and the level of detail required in the budget and accounting to meet legal and management requirements.

Line-item budgeting is control-oriented. Its detailed construction allows control of almost every level of spending. Discretion to spend is limited to the authorizations set aside in the accounts to ensure that funds are disbursed only for the purposes stated in the adopted budget. This type of budget is easy to prepare and shows how much money is set aside for each specific item of cost. However, it does not provide information about the activities or functions of a local government's departments, programs, or activities.

Activity Budgeting

Activity budgeting asks the same question as line-item budgeting, "What is to be bought?," but at a more detailed level. Activity budgeting is organized according to department and subdivides departmental work into

subunits called activities or functions. Activity budgets focus upon the organizational working unit, not its results, and therefore should not be confused with program budgets. The key characteristics of an activity budget are its exact match to the organizational structure, narrative description of the work performed by activity, and continued use of detailed line items within each activity. For example, an activity budget for a police department might break the department into activities such as patrol, criminal investigations, special operations, staff support, and administration. Activity budgets do occasionally include specific goals and objectives for each unit.

The orientation of activity budgeting is to extend control and accountability further to specific activities. Budgets based on organizational components of departments provide the additional supporting information to explain the level of spending that ultimately is summarized into departmental appropriations. While spending limits are established at detailed levels, appropriation limits are actually controlled at the department level. Department managers are generally able to adjust appropriations between activities to respond to workloads as long as the overall department appropriation is not exceeded. This authority may vary from jurisdiction to jurisdiction depending upon local and state laws. This extension of the line-item budget to activities is relatively easy to accomplish if the accounting system has the capacity to record, store, and report the information at this level of the organization.

Program Budgeting

Program budgeting relates expenditures and revenues to achieving explicitly stated public goals and asks the question: *What is to be achieved?* The principal characteristics of program budgeting are its: (1) program organization, (2) allocation of resources based on priority program areas rather than line items, (3) use of total cost (direct and indirect costs) for a program budget, and (4) focus on programs supporting organizational goals that may cross departmental lines. Programs used in U.S. local governments include public safety, community health and environment, public works, human services, leisure services, and general government. The programs that make up leisure services might include libraries, recreation services, parks operation and maintenance, cultural and arts facilities support, zoos, and recreation programs for senior citizens.

Program budgeting emphasizes the planning aspect of budgeting and seeking choices between services based on the *output* of the service. Public goal setting is a part of the planning and prioritizing process. Allocating

resources to achieve those priorities improves the decision-making process and represents a more rational basis of allocating resources.

Program budgeting is useful in grouping similar activities together, eliminating duplication of programs and highlighting potential gaps in a city's approach to a problem. Program budgeting is more complex than line-item budgeting: the total cost of programs must be determined, and programs that are difficult to conceptualize and difficult to monitor must be defined. Computer based accounting and information systems are needed to handle accounting for program budgets. Additionally, program budgeting requires staff with analytical skills both in departments and at the central budget office to prepare and justify the supporting program budget documentation and critically review program budgets when submitted. These factors need to be considered prior to adopting a program budgeting system. It is also suggested that program budget implementation should be undertaken in small steps over three to four years consistent with available resources.

In Poland, the central government has established a uniform set of accounts and codes relating to National Budget Law chapters, sections, and paragraphs. The section titles resemble programs and include construction works, agriculture, transport, communication, public utilities, housing and communal services, education, culture and arts, health care, social assistance, sport, civil defense, state and local administration, security, finances, and economic development grants. This predisposition to organizing around programs may reduce the impact of adopting a program based budget format.

Performance Budgeting

Performance budgeting seeks to emphasize efficiency and economy by focusing upon inputs (costs) and outcomes (accomplishments). Performance budgeting asks the question "What is to be done?" Performance budgeting has some of the characteristics of program budgeting. Like program budgeting, performance budgeting uses a program structure and allocates funds to programs within an organization based on overall goals and program priorities. However, performance budgeting is unique because it identifies the service level upon which the budget is based. Service level is described through the use of performance measures and statistics. Performance measures for a Street Operations program might include the following:

Input measure:	Money
Output measure:	Street lane miles completed

Efficiency measure:	Cost per street lane mile
Outcome measure:	Percentage of streets in
satisfactory condition	

The performance budget aims to improve the management of programs as well as to control costs. The emphasis upon performance measurement and statistics is an effective tool for improving management operations. However, this method requires extensive data gathering throughout the organization, and the associated cost of gathering data should be considered in implementing such a program. Performance oriented budgets should be implemented in small steps spread over three to four years, consistent with available resources.

U.S. municipalities are generally free to choose a budget format type. But the choice is not one pure form over another; rather, budget officials are more apt to combine budget format types to suit the Council, management, and jurisdiction-s needs. The City of Krakow has developed a budget format called a task budget that uses elements from all of the above budget formats. (For more information on task budgeting, see the Krakow case study.) The ability to combine budget format types results in a more practical approach to selecting a budget format. Municipalities should use what meets their needs and works in the jurisdiction. As a noted budget scholar once said, "These formats do not exist in reality; they exist only in ideal forms and, as such, will continue to exert influence over the minds of budget makers."

In reality, there are as many budget formats as there are budgets. Budgets may blend elements of each of the budget formats described above. What is important is that the budget serve as the managerial plan of action for the municipality.

SETTING THE POLICY: EXECUTIVE AND LEGISLATIVE GUIDELINES

Budget preparation flows from the policies established to guide the budget process. Crafting a budget preparation policy includes the following elements.

At the beginning of the annual budget preparation cycle, the chief executive (e.g., mayor, chief administrative officer, city manager) or budget officer should initiate discussions with the members of the legislative body concerning the principal policies that should be reflected in the budget. To develop these policies it will first be necessary to review current fiscal conditions

and the prospects for the budget year. This *top down* approach is based on the chief executive's examination of:

- Current revenue performance and preliminary estimates of revenues for the budget year
- Current expenditures versus budget and the prospects for a surplus carry over into the budget year
- Trends in inflation and local economic conditions
- Prospects for new taxes and fees or changes in current tax and rates
- Major cost items that will fall due in the budget year.

The objective of this analysis is to develop a rough framework of the financial constraints that will be faced in the budget year.

Next, a discussion should be conducted to develop some ideas regarding the scope of services that should be reflected in the budget. Based on these discussions, some basic policies to guide budget development should be set forth. Some policies might include:

- Guidelines for budget increases due to inflation
- An indication of what service areas should be strengthened, de-emphasized, or eliminated
- A statement of tax and fee policies to be followed.

These overall budget policies should be formally endorsed by the legislative body and disseminated to all appropriate administrative officials.

The governing body or legislature should concern itself with overall budgetary and program policy. Its members can be most effective when they use the budgetary process to establish the scope and direction of municipal services. The governing body may also establish budget priorities through a goal-setting process. In adopting the budget, the legislative body sets out the policy and direction a municipality takes in its efforts to deliver services to the citizens.

PREPARING THE BUDGET

Chief Executive

The chief executive has three major roles in the budget preparation process:

- I. Preparing budget proposals for consideration by the legislative body**
- II. Explaining and clarifying current fiscal conditions, fiscal prospects, and budgetary proposals to the legislative body**
- III. Implementing the budget enacted by the legislative body and monitoring performance to ensure that programmatic and fiscal policies are met.**

In smaller local governments, the chief executive may be responsible for each of these areas. In larger municipalities, a budget officer or chief financial officer assists the chief executive to meet these responsibilities.

While the executive role in local budgeting should always encompass the above responsibilities, the manner in which the executive function is organized may vary considerably. In some local governments, department heads deal directly with the legislative body. This is particularly true where each member of the legislative body is assigned responsibility for direct oversight of a particular department. It is recommended, however, that all executive budget functions be administered by a single executive official. This will ensure that: (1) there is consistency in budget preparation and format among municipal department budget submissions; (2) legislators will have a focal point to guide the establishment of municipal policy; and (3) priorities for services will be determined from a central vantage point.

Budget Officer

The budget officer plays a key role in budget preparation by serving as a focal point for issuing guidelines, reviewing materials, and responding to questions. The budget officer's role may be of three general types. First, the budget officer may serve simply as a coordinator of budget materials. Second, the budget officer may perform a significant policy guidance function. In this role, the budget officer not only performs all the coordinating tasks, but also

becomes involved in all the programmatic and financial issues relating to the budget. He/she assumes analytical and guidance functions such as:

- Issuing guidelines to departmental officials regarding the acceptable level of service increase or decrease and expected cost limitations
- Evaluating departmental requests and adjusting them to policy guidelines
- Balancing expenditure requests with available revenues
- Making recommendations for budget action to the legislative body.

In the third type of role, the budget officer assumes responsibility for direct supervision over budget implementation. Specific tasks include:

- Ensuring that departments do not exceed budget limits by conducting periodic projections of expenditures and comparing them to available resources
- Maintaining centralized position control to ensure that personnel are hired only into an authorized position and at a salary no greater than the amount designated in the budget
- Reviewing and approving all requests to transfer funds from one budget to another
- Preparing reports on budgetary performance for the use of the legislative body, chief executive, departments, and citizens
- Closely monitoring departmental performance to determine potential problems.

Agencies and Departments

The people who manage local activities should be involved in the budgeting process. This simple principle seems obvious; however, in a number of cases a chief executive (or budget officer) prepares budget requests without much prior discussion of that budget with departmental managers who must operate under it.

Department heads must be involved in the details of budget development and implementation. Budget requests for each service should include a determination of what the service is; what level of service has been provided in the current year; what level of service is needed in the budget year; what will happen if the service is reduced, discontinued, or increased; and the cost of service at the requested level. This information can be conveyed in an informal way or through a formal statement of specific objectives and workload measures, and through presentations of alternative service levels.

Department heads must also seek to summarize these details and present information in a way that complements the legislative policy-making function. The budget requests they generate will trigger a round of budgetary policy decisions which, in turn, affect resource and spending levels and modify or alter original budgetary goals.

1. BUDGET REVIEW AND ADOPTION

Review by Municipal Officials

The chief executive (or budget officer) is in the unique position of reviewing all requests and must thus be prepared to establish priorities in light of major issues or potential fiscal problems facing the local government. The review of departmental submissions should focus on ensuring that proposals are consistent with the budget policies established at the beginning of the budget process. Beyond this, the chief executive will have to make many difficult, and often unpopular, decisions. Typically, the sum of all budget requests will exceed the total of estimated revenues plus any estimated surplus from the current year. Competition among departments and programs for access to limited governmental fund sources becomes inevitable. Tough choices will have to be made, but these choices should be made in the context of overall municipal program and fiscal policy.

The legislative body should be sure that it receives all the materials it needs to give full consideration to the budget proposals presented by department heads. For local officials to achieve the most effective policy-making role, the budgetary materials they receive should permit them to gain a comprehensive understanding of local financial conditions, revenue prospects, and alternative uses of local funds in the provision of services.

The legislative body should not concern itself extensively with the administrative and financial details underlying the budget. While poring over the details of the budget, legislators can lose sight of important programmatic and financial issues embodied in the budget proposals. In particular, the legislators should avoid becoming overly involved in considering minor expense items. Such an approach is undesirable because:

- It may foster false economy—small amounts of money may be saved, but the fulfillment of service objectives may be impaired.
- It wastes the valuable time of legislators on insignificant aspects of the budget.

A technique that some local legislative bodies have used to enhance legislative involvement in the budget process is selecting a finance committee from its members to work closely with the chief executive and department heads to develop the budget. This committee also monitors budget implementation and reports on its progress to the full legislative body.

Review by the Citizens

Since the budget is the community's policy tool, a conscious effort must be made to determine what the citizens think about current policies and services, including where they think services could be strengthened and what levels of priority they attach to various services provided. Frequently, local officials rely largely on the perceptions of departmental management or the most vocal citizens to establish budget policy and service priorities. In both cases, the real preferences of citizens may be distorted. A more systematic approach to understanding citizens' needs should be undertaken using techniques such as holding hearings on specific budget policies and service priorities.

Another method of determining citizens' needs is to go to the citizens. City staff can explain the kinds of services for which the city is responsible. They can discuss municipal fiscal and program policies and obtain feedback. As noted below, once the approved budget is assembled, the document should be made available to the citizens.

Adoption

Once the proposed budget is introduced, and reviewed by the legislative body (and the general public), it will likely undergo more changes until it is adopted by the legislative body. Adoption of the proposed budget by the legislative body establishes the legal authority for administrative officials to incur expenditures in the budget year. The adoption of the proposed budget is the culmination of an exhaustive review of budget proposals by the legislative body and the chief executive.

2. THE OPERATING BUDGET DOCUMENT

A diverse audience will be interested in the municipal budget. Besides the municipal policy-makers, staff and citizens, the investment and business communities are interested in the budget. To this audience, the budget document represents the business plan of the community. The budget document presents the community's investment strategy and financial resources. The investment and business communities want to know: What are the

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community's priorities? What economic activity will likely result from the budget? Do these investments create an environment within which a given business will prosper? How prudently is the city managing its precious limited financial resources? If properly prepared, the budget document can answer many of these questions and attract investment interest in the community.

How can the budget best be presented? In order to understand a budget, the reader needs to know what type of data the budget document contains and why these data are in the document. A suggested outline for budget presentation includes:

- Policy Overview
- Organizational and Community Profiles
- Financial Summaries
- Operating Detail.

Policy Overview

Underlying the budget's myriad of financial data, statistics, and narrative are decisions concerning program, revenues, and spending priorities. The policy overview explains the numbers. It is a summary of the decisions made, the factors that led to them, and their implications for programs and services. This section of the budget articulates issues and problems of special concern to the municipality, describes budget goals and priorities, links past and future budget activities to the current budget, and discloses the assumptions upon which budgetary decisions and estimates have been made.

Many different assumptions underlie budget decisions and estimates. Assumptions are an integral part of revenue estimates. For example, locally generated revenues are based, in part, on how much a particular tax base will expand or contract during the budget year. Budgets should disclose assumptions associated with this growth and decline. Policy-makers can then decide whether such assumptions are reasonable. Budgets also should disclose assumptions underlying major policy and spending decisions. For example, budgets should disclose changes in service demand or economic vitality that result in major shifts in service levels.

Budgets are not created in isolation: they are influenced by prior budgets and serve as a precursor to future ones. The best budget documents highlight the historical significance of prior years' plans and set forth both short-term objectives and long-term goals and strategies. If properly prepared, the short- and long-term views will establish a bridge between budget years.

The actual content of a policy overview will vary considerably from one year to the next. As a result, there is no specific formula for preparing a good overview. The following items are, however, common to most overviews.

- **The budget message/transmittal letter.** This is a one- or two-page letter that introduces the policy discussion. It formally conveys the budget document to the legislative body and serves much the same purpose as a cover letter of any official report. Although not an essential ingredient, the transmittal letter may summarize key budget decisions or serve as an extensive budget message. A comprehensive budget message can satisfy all of the objectives of the policy overview. A simpler message can serve as an executive summary for the document. The best budget messages, however, always articulate goals and priorities. They describe fiscal and program strategies to address pressing issues and help a government fulfill its mission. In an executive budget, the budget message outlines the chief executive's budget agenda.
- **The time perspective: short-term objectives and long-term goals.** The budget should be presented in the proper context, and its connection with past trends, current events, emerging issues, and future directions should be explained. Generally, financial or programmatic goals have either a short- or long-term focus and relate to single programs or an organization as a whole. It is uncommon for a significant budget issue to have a life span equal to a single budget year. Major issues, such as economic downturns and privatization of housing, are likely to span several budget cycles.

Budget goals come in many forms, including annual goals and objectives, key issues, program strategies, strategic plans, and financial policies. As appropriate, the budget also should identify multi-year policies that seek to achieve broad goals (e.g., to maintain and enhance the employee work force by providing appropriate pay, training, and technology support to maximize employee productivity) and vary little from year to year.
- **Organize along major themes.** Successful policy overviews are constructed around major themes that are action-oriented statements. For example, one theme in a budget message can be "Making Our City a Better Place To Do Business." Another theme might be "Improve the Health and Safety of Our Citizens." Effective themes link separate and distinct parts of the budget into a cohesive document. For example, the "Making Our City a Better Place To Do Business" theme would be highlighted in the budget message and then detailed in individual agency and program narratives. If carefully prepared, budget themes can communicate both issues and goals to a wide range of audiences.
- **Illustrate with graphics.** Graphics can make a strong message even more powerful. Where appropriate, themes should be illustrated with graphs and charts. They reinforce messages through a visual depiction of trends,

projections, and current conditions. Policy themes should be backed by appropriate economic, financial, and program data. For example, a fiscal austerity theme could be best supported by details on the economic and financial events or trends that led to those consequences. Sometimes a simple reference to data and statistics contained elsewhere in the document is sufficient. In other cases, including a summary table may be appropriate.

A well-written policy overview recounts decisions made during the budget process and expresses them in a coherent and concise manner. However, even the best-written overview cannot compensate for short-sighted policies or budgetary inaction.

Organizational and Community Profiles

Certain factors consistently influence the budget. Some are internal, such as organizational structure and the budget process itself; other are external, such as the economy and demographics. Factors that have a major influence on the budget from one budget period to another should be highlighted separately within the document.

Organizational and community profiles describe a government's organizational structure and staffing; explain a government's financial structure and budget process; and highlight the demographic, economic, and cultural features of the community served by the government. A combination of graphics, statistics, and text can be used to achieve the objectives of this section of the budget. The essential features of an effective profile include:

- **An organizational chart.** The most common means of displaying organizational structure is the organizational chart. These charts help the reader visualize the government's structure and the relationships within it. Staffing summaries, which identify personnel or position counts for each department or program, also may be included.
- **Community profiles and statistics.** The budget should profile the community served by the government. Some categories that may be included in the profile include:
 - Brief history of the community or government
 - Form of governance
 - Land area
 - Population
 - Income and employment trends
 - Land use
 - Major employers
 - Condition of housing stock.

The biggest challenge in preparing organizational and community profiles is determining the proper amount and placement of the information. In many cases, profiles are treated as an afterthought. Statistical information, in particular, is often used inappropriately. All too frequently, statistical information is chosen because of its availability, not its relevance. In addition, this data usually ends up at the end of the budget because there is no other place to put it. Since the intent of these presentations is to allow the reader to quickly grasp the major issues, trends, and choices addressed in the budget, it is recommended that profiles underscoring the significant aspects of the budget policy adopted be integrated with the transmittal letter.

Financial Summaries

The financial summary section of government budgets summarizes information contained in the operating detail section. It also may include information not presented elsewhere in the document. At a minimum, most financial summaries present a consolidated budget summary, cross-classify financial data, and present information on revenues, expenditures, capital spending, and debt.

The four basic types of financial summaries found in budgets are consolidated summaries, revenue and expenditure summaries, capital spending summaries, and debt summaries. For each type of summary there are many variations. Presented below is a brief description of each type.

- **Consolidated summary.** This summary displays all financing sources and uses. It includes information on revenues, transfers, debt proceeds, expenditures, and beginning and ending balances.
- **Revenue and expenditure summaries.** These types of summaries show greater detail than a consolidated summary. Revenue and expenditure summaries should include prior year actual, current year budget or estimated current year actual, and proposed budget year revenues and expenditures, by source of revenue and major expenditure category.
- **Capital spending summary.** Major capital projects benefit a government and community as a whole and require a long-term commitment of funds. In the United States, many local governments budget separately for capital improvements such as the purchase of land, major physical facilities and heavy equipment. These projects are different from activities related to government operations. Some characteristics of capital projects are reflected in the ways that local governments budget for them:

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- Most capital projects not only involve substantial expenditures but take several years to complete. The purchase of a site or signing of an architectural contract implies greater expenditures in subsequent years for construction, equipment, and furnishing.
- Most localities have the capacity to finance only a limited number of capital projects in a given year. For example, the community may be able to budget for street or sewer construction in only one neighborhood in a given year, even though it recognizes that other neighborhoods have needs that are almost as pressing.
- The capital budget tends to be an important element of the locality's long-range planning and development. The capital budget's future year implications are critical to factors such as future operating expenses and community growth and change.

Each of these characteristics of capital projects tends to require multi-year orientation of the capital budget to a greater degree than most local officials feel is required, or even possible, with respect to the operating budget. The important role played in capital budgeting by multi-year planning usually results in the preparation of both a single-year capital budget and a multi-year capital program for the succeeding three to six years.

As a result, capital spending information is shown separately from the operating detail. The capital spending summary should include the following information:

- A brief description of major capital projects authorized in the budget
 - Budgeted appropriations for these capital projects, including sources of financing such as taxes, user fees, central government loans and grants, and borrowing from banks or other lenders
 - A brief description of the capital planning and budgeting process and its relationship to the operating budget
 - The estimated fiscal impact of these capital projects on current and future operating budgets.
- **Debt summary and analysis.** The last significant element of the financial summaries section is the debt summary and analysis. Debt has a long-term impact on the budget because it commits current and future funds over the life of the debt instrument. Thus, information on both the short- and long-term implications of this indebtedness should be provided in the budget. In addition, information on current outstanding debt, future debt service requirements of

current obligations, and analysis of current debt levels and legal debt limits should be provided.

The best budget documents include narratives along with tables to explain the significance of the financial summaries. Narratives should address significant financial trends, overall municipal financial conditions, long-term budgetary impacts, and major shifts in budget priorities.

Operating Detail

The budget operating detail is usually the longest section of the budget document. This section outlines the operational and spending plans for government agencies and programs. Information on the mission statement, staffing levels, performance objectives and indicators, expenditure levels, and possibly, financing sources is presented for each department or program.

The budget's operating detail meets three important objectives, which are to:

- **Allocate resources among departments and programs.** Probably the most important function of the budget's operating detail is to show authorized spending levels for government departments and programs. The core of the operating detail is each agency's or program's spending plan.
- **Establish performance objectives and measures.** Another important function is to set performance objectives for departments and programs. These are specific objectives to be achieved during the budget period; they must be tied to the mission statement and should describe the method to be used in measuring performance against the objectives.
- **Report prior-year operating results and accomplishments.** The operating detail should offer information on results and accomplishments of prior years. This is usually accomplished by listing expenditures and performance data for three successive budget years (e.g., prior year's actual, current year's estimates, and budget year's proposed). Some budgets also list the accomplishment by department or program during the prior year.

Standard features of the operating detail include the following:

- **Departmental/program mission statements.** A mission statement, describing functions and activities of each department or agency, should be included. Some budgets include mission statements for both departments and their sub-units (e.g., divisions, bureaus).

- **Performance objectives and measures.** While the policy overview sets organization-wide budget goals, the operating detail section establishes specific performance objectives for departments and programs. These objectives detail what departments and programs expect to accomplish during the budget period. In the best budgets, objectives are tied directly to organization-wide goals.

Objectives should be specific, measurable, and sensible. For example, an objective for a housing program might be to privatize 200 housing units in the budget year. This objective is explicit about what is expected and what data must be collected to measure performance results. In this example, the objective is measured quantitatively by the number of units privatized within the budget year.

A performance objective may use a qualitative measure to explain how and why an objective was (or was not) achieved. In the above example, a reduction in the agency's ability to privatize the expected number of units could be due to redeployment of agency staff.

One or more of these measures may be presented for each budget objective. Ideally, three years of data should be presented for each measure to allow for adequate comparison.

- **Financial data.** The heart of the operating detail section is the spending detail for departments and programs. As with performance data, three years of data (i.e., prior year actual, current year budget or estimated current year actual, and budget year proposed) should ideally be presented.

The format for presenting financial data is guided by the overall budget format. If the budget is a line-item budget, the emphasis of the presentation will be on spending categories, or objects of expenditure, including salaries and wages, fringe benefits, supplies and services, and equipment. If the budget is a program budget, the presentation will classify expenditures by program, not by objects of expenditure. This type of presentation may cut across departmental lines if more than one department is involved in administering a major program. For example, APublic Safety® may include expenditures made by the police, fire, and public health departments. For the performance-based budget, unit costs and performance measures are provided for each program and activity.

- **Staffing and organizational structure.** The last major piece of information included within the operating detail is the level of authorized staff

for departments and programs. Because personnel costs are a major portion of spending for most governments it is important to provide information on the number and type of positions assigned to specific functions.

There are many of ways to display staff information. The budget should include information on the number of full-time equivalent (FTE) positions assigned to a particular department, program, or activity. Converting part-time positions to FTEs avoids the problem of grouping full-time and part-time positions together. Staffing information may be summarized on a table elsewhere in the budget so that interdepartmental comparisons can be made. Organizational information in the form of organizational charts also may be included at the departmental level.

Because of its sheer volume, the operating detail takes the longest to prepare. Some suggestions for preparing operating detail are outlined below.

- **Determine level of detail.** How much information to include about each department or program is the main question. The answer will be determined by several factors:
 - Legal requirements. These will dictate, in part, the level of operating detail needed. Depending upon the type of government, central government laws or local ordinances may specify how much information is presented. The prior year's budget is the best guide on how to meet specific legal requirements.
 - Executive and legislative preferences. The chief executive or administrator may prefer a certain level of budget detail because of its impact on budgetary decisions. The legislative or governing body may make an agreement with the chief executive on the level of detail presented in the budget.
 - Placement of information. Detailed budget information need not be presented exclusively in the operating detail. Instead, certain detailed information may be shown in summary tables. Governments may also choose to exclude certain details from the budget document entirely and instead include them in supplemental documents made available to decision-makers upon request or as the need arises.
 - Type of document. Another factor to be considered is the type of budget document being prepared. To facilitate budget deliberations,

proposed or draft budgets must present more detailed information than do adopted budgets, which may only include summary data.

- **Design consistent formats.** Budget document users will find it much easier to comprehend financial and program data that is presented in a consistent format. Only one set of budget categories should be used for similar programs or fund types. Ease in reading and making comparisons between programs should naturally follow. The same format should be used for program narrative and tables for similar departments and programs. The format selected also will determine whether data or narrative will be emphasized. Some budgeteers may choose to make their points with data for ease of reading. Narrative may be used to emphasize priorities and link the chief administrator's priorities to the departmental objectives. An attractive, easy-to-read format should be selected to enhance the presentation of budget information. Liberal use of white space and headings can contribute to the budget's readability.
- **Determine order of presentation.** The order in which departmental operating detail is presented may not seem like a major concern, but it does contribute to the utility of the budget document. A few simple guidelines can assist with this task. For example, departments or programs should be presented alphabetically. Alphabetical order makes it easier for a reader to locate a particular budget and avoids the perception of showing preference to departments or programs presented at the beginning of the section. Another guideline is that the policy overview and financial summaries should precede the operating detail, since the operating detail is the longest section of the budget and flows from organization-wide policies and finances.
- **Prepare tables and narrative.** Actual preparation of financial schedules or tables is made easier by keeping tables as simple as possible. Financial data should be combined with performance objectives and data only if they will not clutter the table. Operating detail narrative may include mission statements, performance objectives, and possibly, a discussion of prior-year accomplishments. To the extent possible, narrative should be integrated with financial, performance, and personnel data to make for a more cohesive document. The success of the budget narrative will depend largely on clarity and persuasiveness.

The Final Document

The budget document is the final product of a lengthy process. The budget's quality depends largely on the quality of that process. At each stage of development, the budget takes on a different form. Proposed budgets are usually the most comprehensive and largest

versions because they contain critical decision-making information. The adopted or final budget, on the other hand, may be a smaller summary document used to communicate final policies and appropriations.

Regardless of form or size, budget documents have three purposes: (1) to integrate diverse, and sometimes competing, revenue-raising and spending proposals; (2) to encourage debate and thoughtful deliberations over important issues; and (3) to communicate budget decisions in an accurate and clear manner.

The budget is a decision-making document: it is the basis for important fiscal and policy decisions. An effective document encourages debate and proper consideration of budgetary issues by delineating the issues and informing participants on the implications of specific actions or inactions.

A useful budget document communicates budget decisions accurately and clearly. At different stages of development, the budget reflects decisions made by department heads, the chief executive, and finally, the governing body. The budget must accurately reflect the results of this process. The budget serves as the official action plan for managers and staff charged with carrying out government functions and programs.

The document should be printed and formatted in such a way as to enhance understanding and utility of the budget to the lay reader. It should be attractive, consistent, and oriented to the reader's needs. To this end, the budget document should include reader guides, budgets in brief, and graphics that will communicate these policies and priorities effectively. The budget should be able to provide its audience with an understanding of the services being provided, the cost of these services, and the benefits to be obtained from providing these services.

No two budget documents are alike, even if they are prepared for the same local government. A number of factors contribute to such diversity and variation. Three of these factors are:

- Laws and traditions, which affect both the process and the budget document, vary considerably from country to country and from one jurisdiction to another.
- Turnover among administrators and elected officials, whose ideas and preferences influence the budget makeup, can alter the look of a budget.
- Budgeting remains more an art than a science, and like other works of art, the budget document is unique to the artist.

3. CLOSING THOUGHTS

1-16 Overview

Each government is unique. Budget documents vary in size, format, and length depending on the preference of the governing body or elected officials. In some cases, municipalities may have to develop both a control and a policy budget: the former to satisfy reporting requirements of the central government and the latter to satisfy the policy-makers' desire to communicate to the public and business community what the municipality hopes to accomplish. Ultimately, the budget document is the vehicle for informing the public, the business and investment communities, the central government, and others regarding the community's investment policies and priorities.

CHAPTER 2

PREPARING FOR PROGRAM BUDGETING

PURPOSE

The purpose of this chapter is to enable you to:

- \$ Describe the characteristics unique to program budgeting
- \$ Understand the steps needed to prepare a program budget
- \$ Determine the total cost of a program
- \$ Identify other organizational impacts inherent in program budgeting.

HOW THIS CHAPTER WILL BENEFIT YOU

State laws and city charters in the United States establish general requirements for local government budgets. These requirements vary from jurisdiction to jurisdiction. For example, the city charter in Dallas, Texas, specifies the position responsible for preparing the budget; the date the budget should be submitted to Council; the start and end dates of the fiscal year; and the budget powers of the City Council, which include approving the budget, setting tax rates, approving fees, incurring debt, and amending the budget, if necessary. Cities, with their home rule powers, are fairly independent entities with considerable authority and latitude to control their own destiny. Budget format type, content, organization, and overall style are determined by local government officials. This explains why no two U.S. local government budgets are the same. Local government budgets reflect the needs and requirements of the communities they serve.

This chapter discusses different budget format types used in local governments and emphasizes program budgeting. While central governments in Eastern Europe continue to require cities to produce a budget structured by national account codes for control and reporting purposes, supplemental budget format types can be introduced and developed by municipalities to meet other budget purposes, such as public communication, management accountability, operational effectiveness, or financial planning. This chapter explores that possibility and provides guidance in developing a program budget format.

STEPS FOR PREPARING A PROGRAM BUDGET

A budget process that is planning oriented, like program budgeting, first plans programs and then develops budgets. To prepare a program budget, six steps are necessary:

Determine Overall Goals and Spending Objectives

The Council plays a major role in the program budget process at this step by providing formal guidance to management¹ on goals and program priorities. Goals represent strategic direction as to what is important. For example, the Council sets the tone or direction for the budget by indicating that the budget may not increase more than a specified percentage over the current year or that taxes will not be increased in the next year. Alternatively, the Council might establish a list of programs where improvements and additional funding or funding reductions are needed.

With this guidance and other information about the economy, management develops more definite program guidance for departments, establishes departmental fiscal targets, and refines general assumptions for use in the budget.

Assign Objectives to Operational Programs

At this step, management develops the required programs and an overall program structure to respond to the Council's guidance. This may entail developing new programs, adding to programs, or restructuring existing programs. Programs are included in the program structure with other complementary activities without regard to organizational location. This structure aids in identifying the purposes of spending for Council and the public.

If the previous budget was a line-item budget, it needs to be recast into a program structure. A chart comparing the old budget with the new budget is prepared to translate line items to program configuration and allocate line-item costs to programs.

Plan the Budget

Management is responsible for planning and preparing the budget. Budget instructions, prepared by the budget office, guide the departments in planning the program budget. This guidance includes fiscal targets, program priorities, key assumptions, and instructions for preparing program plans and performance measures. The focus of this effort is to develop budget plans that respond to Council direction and allocate resources to bring about

¹In the U.S., the management authority enjoyed by the executive board is handled by the chief executive, who is the city manager or the Mayor (depending on the city's form of government).

2-4 Preparing for Program Budgeting

change in the future. By identifying program priorities and allocating funds to them, a series of annual funding decisions can produce results in a subsequent year.

Calculate Financial Requirements

Budget office instructions also include specific directions for calculating the financial requirements of each program budget. They specify how fixed costs are allocated and what rate changes might be applicable to a department. Fixed costs might include rents, contracted services, and utility charges and suggestions for allocating these costs among programs. The budget instructions also provide a uniform approach for determining the total cost of programs, handling inflation assumptions, providing for salary and benefit raises, and providing a uniform framework for developing departmental budgets. This standardization of instructions and forms eliminates unnecessary work by the program manager in preparing the budget and makes reviewing the budget easier because it includes a standard package of information from each program/department manager.

Measure Effectiveness

Program budgeting's overall criterion is effectiveness: how successful the program was in achieving its objectives. Once financial requirements are complete, the program manager prepares performance measures for the program. The effectiveness indicators for a program budget might include improvement and change in conditions that result from programs; percent of client satisfaction; or the extent that a problem or need has been met. Other indicators might include: quality of service delivery (degree of excellence), accessibility, equity of distribution of services among economic groups, and a cost/effectiveness ratio that determines the expenditure per unit of achieved results. These measures represent feedback on performance and are critical to evaluating a program's effectiveness.

Audit Programs

Traditionally, audits address financial control and compliance. The use of program budgeting suggests that the traditional audit should be redefined. In program budgeting, an audit of a program reviews and evaluates results. The performance audit determines whether the desired results or benefits are achieved, whether the objectives set by the legislature are being met, and whether the agency has considered alternatives that might yield desired results at a lower cost. Some auditors have expanded their staff's capabilities to include this approach to auditing programs.²

²In Poland (and in other European countries, like France), financial audits are carried out by regional audit chambers (*izba skarbova*). In the U.S., the audit is usually carried out by a private accounting firm contracted by the city.

DETERMINING TOTAL COST OF A PROGRAM

A principal characteristic of program budgeting, in addition to its structure, is its total cost orientation. Total costs are determined by the program manager and consist of direct and indirect costs.

Direct costs include all expenses needed to operate the program so as to achieve the desired service or outcome. These include three types of expenses: personnel expenses, operating expenses, and capital outlay. Personnel expenses are salary and wages, pension and fringe benefits, and expenses for temporary help. Operating expenses are the usual, ordinary, and incidental expenditures for contracted services, commodities, and supplies of a consumable nature; fixed obligations; and fixed charges. Capital outlay includes equipment, fixtures, and other tangible property that has an expected useful life of more than one year and whose cost exceeds some predetermined value.

Indirect costs are expenses of the program related to other agencies= or departments= cost of providing services to a program. These indirect costs represent, for example, the program=s pro-rata share of departmental administrative expenses or city-wide central support expenses from finance, legal, and other support departments. The budget office determines how indirect costs are distributed for budget purposes.

To estimate the total cost of a program for program budget purposes, the following steps are suggested:

- \$ Ensure that the program objective is clearly stated.
- \$ Determine the number of units of service or work to be accomplished in the fiscal year.
- \$ Determine the number, classification, and salary or wage scale of the personnel needed to accomplish the program for the fiscal year to meet the stated objective and calculate the program=s personnel costs. Determine whether any of the personnel are less than full time employees or will work less than a full year. An easy way to calculate these totals is to develop a salary worksheet using a computer spreadsheet program that will permit all the variables to be considered for each person and produce an estimated salary cost for the program.
- \$ Using rates from the budget office, determine employee fringe benefit costs, pensions, and need for temporary help.

2-4 Preparing for Program Budgeting

\$ Use budget office estimated rates, usage, and allocation schedules to determine the program's cost for utility services (gas, electricity, and water consumption) and other fixed costs.

\$ Estimate the costs of other operating expenses such as supplies, commodities, and services (i.e., cleaning, vehicle use and maintenance, or office supplies).

Note: Budget offices may specify the method used to calculate the above operating expenses. For example: a *unit cost* method compares the volume of work anticipated to the items needed to complete the work, and funds are budgeted to purchase these items. A *predetermined charge* may be specified to cover costs for property and liability insurance, maintenance of equipment, janitorial services, computer services, or central supply stocks. A *standard cost* table may be developed to forecast expenses of predetermined items such as standard costs of supplies for a new position, furniture complement needed for a new position, costs of maintaining a building, cost of operating a government vehicle per kilometer, etc.

\$ Determine the need for new or replacement equipment. Expenses related to purchase of equipment are naturally a part of the total cost of the program; however, large one-time purchases may distort the program cost from year to year. Budget offices usually provide direction on this issue so that it is handled uniformly across the city.

\$ Calculate indirect costs. Generally, the department or the budget office makes these determinations and advises program managers of the basis for calculating them. Distributing the cost of department overhead among programs simply means calculating the cost of the department's secretarial, clerical, and administrative support and spreading the cost among the several programs based on a formula. A formula is determined after analyzing the nature of overhead services provided to each program and determining the most appropriate basis for allocation. These costs might be allocated on the basis of personnel staffing, personnel cost, work load, or other means. Budget offices may specify how these costs will be allocated for all departments for uniformity purposes.

\$ Add direct costs (personnel, operating expenses, and capital outlay) and indirect costs to produce the program's total cost for the fiscal year.

The budget office may request that program costs be developed within target amounts or may provide costs based on current service levels and request options to decrease

costs or increase service. These requests for alternative service levels, reflecting Council priorities, are generally included in the budget office's overall instructions to departments.

ORGANIZATIONAL IMPACT

Program budgeting has impacts on other aspects of the organization. It depends upon a decentralized budget development and management process and requires the roles of the budget office staff and budget analysts to change. Addressing these issues early in the preparation process is critical to implementation success.

Decentralization

Delegation of responsibility for budget preparation and program management is a critical element of program budgeting. Program budgeting requires that detailed information be prepared to justify each program. This information includes goals, objectives, outcomes, action plans, costs, performance measures, and staffing. This information is not available in the budget office. It resides with the program manager in a department. To make program budgeting work, the responsibility for budget development should rest with a department manager.

Program budgeting also requires increased management accountability. If the program manager prepares and recommends the budget for an activity, then he or she should also be accountable for the results. When the organization is divided into smaller, separate, and identifiable programs, the scope of work is narrower and there are fewer actors; therefore, it is easier to identify a person responsible for the performance of a program. Program budgeting thus places increased management accountability where it is most useful—in the direct delivery of service to the public.

Furthermore, program budgeting increases the number of personnel involved in the overall process. These personnel need to be trained in the new budget process. The finance department/budget office staff normally assume responsibility for designing and conducting the training for these personnel. The finance department/budget office's preparation of the budget instructions makes them the most likely candidate to conduct training on budget preparation. In developing the training, the size of the organization and the amount of detail requested in the budget instructions are important considerations in designing a training program and determining who should be trained. Training programs should be geared to the participants involved in the budget and may require separating directors from program managers and analysts. Also, it is important to remember that many of these personnel have never prepared a program budget before now. Training should be placed early in the schedule to allow time to train all the people involved and still leave them enough time to perform their new responsibilities.

2-4 Preparing for Program Budgeting

On the other side, decentralization of management and budget preparation may have a cost. To require departments to assume more responsibility in budgeting may require more personnel, or personnel with different skills. Departments should assign a person to plan and coordinate the budget preparation and execution process. In smaller departments, this may be an additional responsibility added to one person's other administrative duties. In larger departments, the scope of responsibilities may require that a full-time budget analyst be assigned this duty. Similarly, the added responsibilities placed upon program managers for budgeting and managing for results may be beyond the capabilities of the incumbent, who may not have the management skills to effectively carry out these new responsibilities. Management needs to consider these two issues as program budgeting concepts are implemented.

Generally, the benefits of decentralized program budgeting exceed the costs, and organizations that implement decentralized program budgeting increase their efficiency, effectiveness, and accountability.

New Roles

Traditionally, the Treasurer/budget staff focused their efforts upon financial control and monitoring expenditure levels of departments and gmina agencies, verifying the accuracy of budget requests and the proper coding of the proposed expenditures in the accounting classification system. There was no emphasis upon analyzing the efficiency or effectiveness of a program nor a review of a program justification. With program budgeting and the increased amount of information contained in the budget requests, there is a need to expand and change the role of the budget office. The budget office is now responsible for translating Council policy priorities into department instructions and guidelines, providing training for the department management and budget personnel, ensuring that instructions are followed, conducting budget reviews, and finally, consolidating and publishing the final budget.

With a changed budget office, the role of budget staff changes, too. The budget examiner no longer simply verifies that the expenditures are properly coded or determines that the budget request is mathematically correct. Now that person is assigned specific departments and is engaged in critically reviewing department budgets, giving constructive criticism, and providing advice to improve program analysis and descriptions. After the budget is adopted, the budget analyst not only monitors budget execution but works closely with program managers as they report to the City Board on program implementation. This involvement with the program managers also provides the analysts with information they can use to prepare the next budget.

While the role of the budget staff has changed in the budget office, there is also a need to employ an analyst role in departments. These analysts are responsible for planning the budget process, overseeing the request preparation, and monitoring execution. The analyst is also a key link to the budget office in passing down instructions as well as funneling questions to the budget office to resolve department issues. The department budget analyst facilitates the flow of information and ensures an efficient budget planning and execution process.

CHAPTER 3

MISSIONS, GOALS, OBJECTIVES, AND MEASURES

PURPOSE

The purpose of this chapter is to enable you to:

- Define and understand the differences among missions, goals, objectives, and measures and their use in budgeting
- Write and evaluate mission statements, goals, objectives, and performance measures
- Prepare mission statements, goals, objectives, and performance measures for your jurisdiction.

HOW THIS CHAPTER WILL BENEFIT YOU

To make rational decisions, elected officials are seeking more information about their local government and the type and quality of services it provides. Including mission statements, goals, objectives, and performance measures in a budget, combined with financial information, is an effective way to meet the information needs of elected officials and the public. This chapter will introduce mission statements, goals, objectives, and performance measures and define them as they are used in budgeting. An example will be provided with an exercise at the end of the chapter to practice this aspect of budgeting.

DEFINITIONS

The use of goals and objectives is usually associated with a Management by Objectives® approach to budgeting, or *program budgeting*. Program budgeting is a technique that relates revenues and expenditures to public goals by asking:

- What is to be achieved?
- What are the programmatic consequences of expanding, reducing, initiating, or terminating a program?

The use of mission statements, goals, objectives, and performance measures in

a program budget can provide the answers to these questions.³ The following describes these concepts in more detail.

Mission Statement

A mission statement is a concise statement that identifies the essential purpose of an organization, the customers or citizens it serves, and the expected results. A mission statement helps focus an organization on the key elements of the enterprise.

For example, the mission statement of the Dallas Water Utilities (DWU) is:

To provide services vital to the health and safety of Dallas citizens and our customers, as well as to the City's efforts toward economic development, environmental protection, and enhancement of the quality of life. DWU is a City-owned enterprise providing regional water and wastewater services, and works in support of the goals of the City of Dallas, while striving to provide excellent responsiveness to the needs of our customers at a fair and reasonable cost through our operations, customer service, maintenance, and support functions.

Goal

A goal is the long-range desired outcome of specific activities. The combined goals are a definitive statement of the purpose of an organization. A goal has the following characteristics: it is general, timeless, and continual. The goal of an organization is the unifying point around which all activities revolve. In a public organization, goals are associated with each of the major services offered. Goals provide a framework within which the organization operates.

For example, the program goals of DWU's Water Operations are:

- To continually provide, at an appropriate pressure (35 p.s.i. minimum) and volume, high quality water to meet the demands of both retail and wholesale customers.
- To ensure adequate water pressure for fire protection.

³Task budgeting is based upon the idea that all activities can be defined as concrete units. Each task is assigned a goal, mission, and effectiveness and efficiency output measures. For more information on how tasks are used in budget management, please see Chapter One of the Krakow Case Study.

Objective

An objective is a clearly described target for achievement within a specified period of time that represents an interim step or measured progress toward a goal. There should be at least one objective for each program or activity. An objective should not only be achievable with committed resources and consistent with established goals, but also challenging and should, if possible, represent improvement.

Objectives should be stated in terms that permit quantitative measurement of their achievement so that the impartiality and objectivity of the decision-making process are enhanced. Quantitative measurement of objectives is very important, and every effort should be made to meet this requirement. Examples of objectives for water operations include:

- To provide aesthetically pleasing water that meets customer demands for water quality and regulatory standards
- To perform water distribution system maintenance efficiently and effectively, minimizing the impact on customers= water delivery
- To maintain water system pressure at or above legal requirements
- To provide timely and accurate analysis to ensure that all regulatory requirements are met.

Measures

A measure is a means of indicating the extent, dimensions, or capacity of anything. In budgeting, a measure is a means of determining whether an objective (and eventually a goal) is being achieved. A measure indicates at any point in time the progress made toward reaching an objective. Measures can be classified as either activity-based or performance-based.

An *activity-based measure* is a means of measuring an identifiable action or operation performed by an organization. Activities are performed to achieve identifiable objectives of a program. There are two types of activity-based measures used in budgeting.

- **Demand measures** quantitatively indicate *work to be done* by assessing the severity of a problem or scope of the work to be performed. The demand measure is helpful in showing the size of a problem to be addressed.
- **Workload measures** quantitatively indicate how much *work is accomplished*, which represents the simple counting of the units of work completed. This indicates the size of a program by measuring the number of units involved. For a multi-year program, the workload measure shows how

much will be accomplished in one year. Workload measures can serve as the output side of an efficiency measure.

A *performance-based measure* is a way to measure by *efficiency or effectiveness* the achievement of an identifiable action, operation, or program performed by an organization.

- **Efficiency measures** indicate the accomplishment of desired results relative to the cost of the activity. They measure how economically resources are being utilized using a *ratio of input* (costs or resources) to the *ultimate output* (service or units of production). Efficiency measures are usually expressed as cost per work unit produced, cost per customer, cost per employee hour, units produced per hour, or as some other relationship between production and resources. Measures of efficiency do not usually provide an indication of the quality of the product.

Efficiency measures can also be expressed in terms of accepted standards within an activity, for example in the case of Water Operations:

- Cost per million gallons treated
- Cost per mile of main maintained
- Cost per million gallons pumped
- Cost per sample analyzed.

Efficiency measures for other government services might include:

- Cost per 1,000 residents (instead of cost per resident)
- Cost per metric tons collected
- Cost per million liters processed
- Cost per revenue passenger
- Operating cost per substation
- Cost per inspection
- Cost per kilometer of streets swept or cleaned
- Cost per kilometer of sewer cleaned

Efficiency measures are *process oriented*, not results oriented. Efficiency measures are useful in comparing one jurisdiction's per unit costs to those of other cities or private contractors.

- **Effectiveness measures** indicate the value or *quality of the product or service* provided. Effectiveness measures provide an indication of how successfully government programs are applied to perceived problems, needs, or

3-6 Missions, Goals, Objectives, and Measures

objectives. Effectiveness measures tend to be more subjective than efficiency measures because value judgments are involved. However, effectiveness measures should be quantifiable whenever possible. Effectiveness measures focus not on the process, but on results.

Some examples of effectiveness measures (with a quality objective shown in parentheses) for Water Operations include:

- Percentage of water samples meeting federal standards (health hazards)
- Percentage of citizens who rate the City supplied water as satisfactory in appearance, odor, and taste (aesthetic quality)
- Percentage of persons who made a complaint or requested service and were satisfied with the response by type of request or complaint (service adequacy and responsiveness)
- Percentage of fire hydrants surveyed that meet static water pressure requirements (flow adequacy)
- Percentage of samples analyzed accurately within a specific number of days (service adequacy and responsiveness).

Some other effectiveness measures for local government might include:

Solid Waste

- Percentage of citizens satisfied with service (pleasing aesthetics)
- Rate of injuries to waste collectors (employee safety).

Transportation

- Percentage of citizens who rate public transport as satisfactory or above when asked about their ability to arrive at their destination within a reasonable amount of time (accessibility)
- Gross number of deaths and injuries caused by traffic accidents and the rate per 1,000 population (safety)
- Percentage of streets with road surface conditions rated as satisfactory (comfort)
- Percentage of residents not within a specific distance from public transit service (accessibility of service).

CRITERIA FOR EVALUATING MEASURES

The measures described above differentiate between activity-based and performance-based measures. Activity-based measures are easier to develop than performance-

based ones, and the data are more readily available. For city staff who have never used goals, objectives, and measures, the process of developing goals and objectives and then producing basic demand and workload measures for programs will be a major undertaking. In the first year of developing a program/performance-based budget, establishing goals and objectives with demand and workload measures would be a substantial achievement. It should be noted that the work completed will be useful in later stages of budget development because workload measures can be used as the output side of an efficiency measure. However, activity measures have limitations. For example, these activity indicators do not answer questions about the efficient use of resources that unit cost indicators might, nor do they measure the level of citizen satisfaction with a particular service that a customer opinion survey might demonstrate. Despite their limitations, activity-based measures are a starting point in the process of creating clearer and more specific performance-based measures in the future.

When designing performance-based measures, the following criteria and/or questions should be considered.

Efficiency Measures

- Does the measure provide a ratio of input units (cost or full-time equivalent workers) to a unit of outputs (workload)?
- Does the measure focus on process rather than results?
- Is the measure expressed in accepted standard units within a program? For example:
Cost per 1000 residents
Cost per 1,000,000 liter processed
Cost per cubic meter collected.

Effectiveness Measures

- Is the measure results oriented, rather than process oriented?
- Does it measure progress toward a stated government goal or objective? (purpose)
- Does the measure relate to an objective of that service? (appropriateness)
- Does it measure the degree to which customer need is met? (validity)
- Does it measure a characteristic that no other measure encompasses? (uniqueness)
- Does the measure cover all the objectives listed? (completeness)
- Is the measure simple and easy to understand? (comprehensibility)
- Are cost and staffing requirements for collection reasonable? (costs)
- Does the measure reveal problems soon enough that they can be fixed? (timeliness of feedback)
- Can accurate and reliable data be obtained? (accuracy)

EXAMPLES

Exhibit 3-1 at the end of this chapter contains an example of general objectives and suggested effectiveness measures for a municipal service.

PRACTICAL EXERCISE

Using your jurisdiction's budget, select a service department and complete the following:

Prepare a mission statement for that department.

List at least three major services or programs within that department.

1.

2.

3.

Write a goal and three objectives for each program.

Program A: _____

Goal:

Objectives:

1.

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- 2.
- 3.

Program B: _____

Goal:

Objectives:

- 1.
- 2.
- 3.

Program C: _____

Goal:

Objectives:

- 1.
- 2.
- 3.

Select one of the programs and its three objectives and prepare one efficiency and one effectiveness performance measure for each objective.

1.
 - a.
 - b.

2.
 - a.
 - b.

3.
 - a.
 - b.

Be prepared to present your mission statement, goals, objectives, and measures to the group. Demonstrate how your performance measures meet the criteria discussed for efficiency and effectiveness performance measures.

Exhibit 3-1
Example of Effectiveness Measures○**Solid Waste Collection**

CHAPTER 4

FINANCIAL/BUDGET POLICIES AND PRIORITY SETTING

PURPOSE

The purpose of this chapter is to enable you to:

- Understand why it is important for the Council to establish policies and program priorities for the budget process⁴
- Identify various ways to set policies and priorities
- Learn how other municipalities have accomplished this process
- Participate in a priority setting process.

HOW THIS CHAPTER WILL BENEFIT YOU

All too often, the budget debate begins two or three months before the new fiscal year and after the chief executive has submitted the proposed budget to the Council for consideration and approval. By this time, most decisions have been made and all the resources allocated. In this scenario, Council members universally complain that their priorities have not been considered and that the budget is not responsive to the needs of their city or community; and they are usually right. What often results is a detailed scrutiny of the traditional line-item budget as it has been presented to the Council. Haphazard suggestions are offered to reduce various line items in an attempt to make up for the perceived budget shortcomings, but these suggestions are made without any understanding of their impact on the organization. The result is not well thought out and rarely satisfies anyone. A better, more rational, and more focused process is needed.

This chapter and manual offer a different approach to budgeting. Traditional budgeting is focused on control and purchases and entails a line-item approach without much indication of what is to be done or achieved in the delivery of city services. Traditional budgeting does not concern itself with the budget as a policy document and therefore generally does not address financial policies and budget priorities. On the other hand, the program budgeting model suggests that one of the budget's purposes is to be a policy document, and therefore financial or

⁴The City of Krakow has found that the task format is more transparent for City Council members than the traditional budget format. For more information on the political ramifications of task budgeting in Krakow, please see Chapter Two of the Krakow Case Study.

budget policies and program priorities should be an integral part of it. These policies and priorities establish the framework and direction for the Council and city staff. This chapter will discuss financial policies and budget priorities and show you how you can incorporate them into an expanded budget process.

POLICIES AND PRIORITIES

Establishing financial policies as well as budget priorities is an essential part of a good budget process. These policies and priorities constitute the foundation upon which the budget is built and contribute to the effective management of the city's financial resources. They can also link past and future budgets with the current budget and disclose assumptions that are critical to understanding current budget decisions. Often these policies and priorities are assumed to be in place. However, a closer examination reveals that local governments have rarely formalized their policies and priorities in an ordinance or resolution or created a process to review them on a regular basis. Generally, officials cite national laws or practices that have been institutionalized over the years as their budget policies and program priorities. The statement "that's the way we have always done it" generally describes their policies and budget priorities. With increased responsibilities for service delivery being given to local governments, a more formal and explicit statement of financial policies and budget priorities is needed.

Financial Policies

Financial policies are general principles that guide the financial management of the city. These principles provide the framework or set parameters in which routine financial decisions are made. They may also represent long-term financial goals for a government. A city's financial policies may include not only budget policies, but also more specific sections on the operating budget, capital and debt budget, reserves, accounting, auditing, financial planning, and grants and trusts. The subjects included in a specific budget are largely left to the individual jurisdictions and vary from one to the other depending upon the jurisdiction's needs.

Financial policies have some common characteristics. They tend to:

- Be more general and long-term (than budget priorities)
- Change rarely
- Represent a framework in which routine financial decisions are made
- Be formally adopted by Council action
- Be reviewed periodically (every three to five years) to ensure that they are current.

4-4 Financial/Budget Policies and Priority Setting

For example, the City of Dallas⁵ adopted its statement of financial management policies in 1978. The policies, referred to as *Financial Management Performance Criteria*, comprise a framework in which all of the City's financial decisions are made. In recent years some changes have been made to the criteria to accommodate new financial practices and techniques, but generally the criteria have not changed significantly in 18 years. Because the criteria were written and formally adopted by the Council, they demonstrate to the public, investors, and rating agencies (which evaluate the credit-worthiness of the City's municipal debt) the way that the City of Dallas will conduct its financial affairs now and in the future. The criteria provide a foundation for managing Dallas's financial resources and a context for evaluating changes in the financial operation of the City. In part, the adoption and conservative construction of Dallas's statement of financial management has contributed to the City's strong financial condition and high credit rating for its municipal debt.

Exhibit 4-1 contains the City of Dallas's *Financial Management Performance Criteria*. The current status of the criteria is reported to the Council with the annual budget submission to show how the annual budget complies with the criteria. Any deviation from the criteria in the annual budget submission would be a policy issue of significant proportion and would be debated. Needless to say, deviations are extremely rare. Should there be a need to revise the criteria, it would be addressed in an *Issue Paper*, which will be discussed in Chapter 7.

⁵Dallas, Texas, USA.

As mentioned previously, U.S. cities have considerable independence in developing financial policies because of the nature of the U.S. government system and emphasis upon local autonomy and self-rule. Exhibit 4-2 contains an extract of the fiscal policies from the City of Bozeman.⁶ The fiscal policies of Bozeman include policies on the budget, as well as on revenues, expenditures, reserves, debt management, and accounting and financial reporting. Note that Bozeman's budget policies (Exhibit 4-3) encompass both decision-making (e.g., maintenance and replacement of capital assets) and procedural policies (e.g., availability of the budget document) and also include a rationale for each item. The rationale explains why the policy is needed.

Financial policies, once adopted, benefit a city in a variety of ways. They can:

- Provide a framework in which financial decisions are made more routine
- Align Council and management and improve communication on financial management issues
- Help focus policy issue debates when anticipated actions indicate future violations of existing financial policies
- Provide a basis to periodically assess a city's financial status during the year
- Provide information needed to prepare a new budget proposal.

Budget Priorities

Budget priorities are more specific than financial policies and are established by the Council for a fiscal year. These priorities could take several different forms. *Program priorities* are Council guidelines indicating that one program's budget needs to be increased more than others= by allocating additional funds or reallocating existing funds from other programs. For example, Council may indicate that street cleaning and repair programs should receive additional funding before park and road maintenance needs or that maintenance needs should be met before investing in new facilities. *Resource priorities* might favor use of fees and charges in lieu of general property taxes or might stipulate that any increase must be funded from cost reductions in other service areas. The purpose of establishing budget priorities before the budget itself is developed is to provide an agreed-upon direction in which the next year's budget will be developed.

Budget priorities naturally vary from jurisdiction to jurisdiction but have some common elements. Budget priorities tend to be:

- Short-term Usually one budget year

⁶Bozeman, Montana, USA.

4-6 Financial/Budget Policies and Priority Setting

- Informally arrived at by the Council or Board (through informal discussion or a straw poll)
- Changed more often than financial policies
- Reviewed and set annually.

Budget priorities tend to be less structured than financial policies but are no less important. Establishing a dialogue with the Council to arrive at budget priorities and guidelines can significantly improve the budget development process because this dialogue:

- Improves communication with the Council
- Eliminates surprises
- Involves the Council members early in the process so their issues can be incorporated into the budget
- Focuses the attention of the budget debate upon the policy issue of whether the budget meets the program priorities and budget guidelines established
- Allows management to alert the Council to important upcoming issues in the budget.

Budget priorities and guidelines focus on the upcoming budget year. They can be drawn from a variety of sources. For example, some cities have extensive multi-year strategic planning or community planning processes in place. Taking into consideration the next year's priorities makes the development of budget priorities relatively easy. Other cities may use Council workshops convened early in the year to discuss these issues, review the status of programs, and determine budget priorities. Still others may rely on informal discussions with individual Council members to determine their priorities. Regardless of the method used, it is essential to determine budget priorities and guidelines early in the budget process. Exhibit 4-4 provides an example of budget priorities and guidelines for the City of Lublin. The budget guidelines for the City of Krakow are found in Exhibit 3 of the Krakow Case Study.

Adopting financial policies and setting budget priorities and guidelines are important first steps in the budget development process. Together they provide the framework and specific direction to build a budget that will meet the needs of the community and elected officials.

PRIORITIZING TECHNIQUE

In a group process, how often does the person who speaks the most, has the most authority, or is the most emotional usually get his/her way regardless of how the other group members might feel about an issue? This situation often creates a feeling among group members that their issues will never be addressed. This can lead to a lack of commitment to resolve the issue selected and usually results in working first on an issue that may not be the most

crucial. What is needed is a systematic way to select the issue that is the highest priority for the group. This section will acquaint you with the *nominal group technique*, which tries to give everyone in the group an equal voice in issue or program prioritizing. The steps in the process are as follow:

- Have each member of the work group write or say the issue or program that he/she thinks is the most important.
- Collect the responses and record them on a blackboard or chart paper.
- Consolidate similar responses so that they are not duplicated.
- Ask the work group to list on a separate piece of paper the letters corresponding to the number of issue statements the work group produced. For example, if a group of 15 produced 10 programs or issues, then they would list A-J on their paper.
- Make sure the master list of programs or issues has letters, too. Ask the work group members to prioritize the issues. For the most important issue, they should write A10@ next to the letter, A9@ for the next most important, etc. For example, the problem list might look like this for the first five items for one person:

A.	Cleaning the streets	10
B.	Picking up the garbage	7
C.	Maintaining the parks	3
D.	Providing public lighting	5
E.	Rebuilding the city's infrastructure	8
- Have each participant rank the issues from 10 (the highest) to 1 (the lowest) on his/her paper and report the ranking from A to J.
- Add up the ranking for each issue. The issue with the highest number is the one most important to the work group.
- The result is a listing of the group's priorities.

Note: If there are many issues to be considered, an alternative method is needed that limits the number of issues by applying the rule of $\frac{1}{2}$ plus one. Under this rule, you rank only one half of the items plus one. For example, if 30 issues were generated, the work group would rank only 16 of them.

PRACTICE EXERCISE

You are asked to write what you think is the most important problem confronting your city in the next budget year and share it with the group. The instructor will use the nominal group technique to determine the relative priority of the group's issue statements. The group will discuss the merits of this type of prioritizing exercise from the participants' perspective and relate it to working with Council members.

Exhibit 4-1
City of Dallas
Financial Management Performance Criteria

**Exhibit 4-1
CITY OF DALLAS
FINANCIAL MANAGEMENT PERFORMANCE CRITERIA
FY 1995B96 PROPOSED BUDGET STATUS
[EXCERPT]**

Operating Programs	Status						
1. Current revenues will be sufficient to support current expenditures.	Current revenues are sufficient to support current expenditures in all operating funds in FY 1995B96.						
2. The year-to-year increase of actual revenue from the levy of the ad valorem tax will generally not exceed 8%:	The percent change in base revenue (from FY 1994B95 to FY 1995B96) is 1.18%.						
<ul style="list-style-type: none"> • excluding taxable value gained through annexation or consolidation; • excluding the value gained through new construction; • excluding expenditure increases mandated by the voters or another governmental entity; and • not excluding the valuation gained through revaluation or equalization programs. 	<p>Adjusted revenues cannot exceed 8% greater than Abase@ revenues.</p> <p>Base revenues = 1994B95 budgeted revenues from current tax roll (in 000's)</p> <p style="text-align: right;">\$275,790</p> <p>1995B96 Ad Valorem Tax revenue</p> <p style="text-align: right;">\$287,000</p> <p>Less:</p> <p>Voter Mandated/Debt</p> <table border="0" style="width: 100%;"> <tr> <td>Service</td> <td style="text-align: right;">\$3,644</td> </tr> <tr> <td>Growth from Annexation</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>Growth from New Construction</td> <td style="text-align: right;"><u>\$4,322</u></td> </tr> </table> <p>Adjusted revenue recommendation:</p> <p style="text-align: right;"><u>\$279,034</u></p> <p>% Change from base revenues:</p> <p style="text-align: right;">1.18%</p>	Service	\$3,644	Growth from Annexation	\$0	Growth from New Construction	<u>\$4,322</u>
Service	\$3,644						
Growth from Annexation	\$0						
Growth from New Construction	<u>\$4,322</u>						

- | | |
|---|---|
| 3. Debt will not be used for current expenses. | No debt is programmed in the Operating Budget to fund current expenses. |
| 4. All retirement systems will be financed in a manner to systematically fund liabilities. The City will ensure that sufficient funds are provided to pay current service plus interest on unfunded liabilities plus amortization of the unfunded liabilities over a programmed period. No less than annual reviews will be provided to Council by the pension funds. | Employees Retirement Fund and Police and Fire Pension Fund are in compliance. |

Operating Programs (cont-d)

Status

- | | | | | | | | |
|---|--|---|----------------|--------------------------|----------------------|------------------------|----------------------|
| 5. Actuarial analysis will be performed annually on all retirement systems. Adjustments in benefits and contributions will be authorized only after meeting the test of actuarial soundness. | In compliance. | | | | | | |
| 6. Each enterprise fund of the City will maintain revenues that support the full (direct and indirect) cost of the utility. | In compliance. | | | | | | |
| 7. An Emergency Reserve shall be maintained in the General Fund at a level sufficient to provide for temporary financing of unforeseen needs of an emergency nature, unanticipated fluctuations in revenue and individual judgment/settlement payments exceeding a \$5,000,000 liability reserve cap. The Emergency Reserve will be maintained at a | <p>Reserves are fully funded after the adoption of the FY 1995B96 Budget.</p> <table border="0"> <tr> <td>3.0% of FY 1995B96 General Operating Budget (less debt service)</td> <td style="text-align: right;">\$17.0 million</td> </tr> <tr> <td>Fund Balance (projected)</td> <td style="text-align: right;"><u>\$8.1 million</u></td> </tr> <tr> <td>Minimum Level Required</td> <td style="text-align: right;"><u>\$8.9 million</u></td> </tr> </table> | 3.0% of FY 1995B96 General Operating Budget (less debt service) | \$17.0 million | Fund Balance (projected) | <u>\$8.1 million</u> | Minimum Level Required | <u>\$8.9 million</u> |
| 3.0% of FY 1995B96 General Operating Budget (less debt service) | \$17.0 million | | | | | | |
| Fund Balance (projected) | <u>\$8.1 million</u> | | | | | | |
| Minimum Level Required | <u>\$8.9 million</u> | | | | | | |

level that when added to the end-of-year unreserved, undesignated fund balances of the General Fund is not less than 3% nor more than 4% of the General Operating Fund less debt service.

Emergency Reserve Level	
9/30/95 (projected)	\$13.5 million
General Fund	
Appropriation	\$0.0 million
Fund Balance	
(projected)	<u>\$8.1 million</u>
Proposed Emergency Reserve	
Level available at	
10/1/96	<u>\$21.6 million</u>

8. To provide for unanticipated expenditures of a non-recurring nature, a General Fund contingency reserve shall be established at a level not to exceed 1% of the General Fund budget nor less than \$2 million.

Proposed Contingency Reserve level is \$3,330,000. The Contingency Reserve is funded from the following sources: FY 1995B96 appropriations of \$1,330,000; FY 1994B95 surplus of \$900,000; and the end of FY 1994B95 balance of \$1,100,000.

Operating Programs (cont-d)

Status

9. A Risk Reserve shall be maintained at a level that together with purchased insurance policies, adequately protect the City's assets against loss. An analysis shall be conducted every three years or when the deductible level of the City's property insurance is modified (whichever is earlier) to determine the appropriate level of this reserve.

The adopted Risk Reserve Level is \$1,250,000. The projected balance at the end of FY 1994B95 is \$1,250,000. No additional funds will be required in FY 1995B96.

10. To provide for outstanding current and forecasted future liabilities, a General Fund liability reserve shall be established with an individual judgment settlement cap of \$5,000,000. The emergency reserve will be accessed should the cap be exceeded. An independent

FY 1995B96 is the seventh year for the liability reserve. The reserve level is \$12,179,607 and is funded from FY 1994B95 estimated year-end balance \$3,936,797; General Fund surplus of \$6,203,307; and appropriations of \$2,039,503 in other funds.

actuarial analysis shall be conducted every two years to determine the appropriate level of this reserve.

11. Operating expenditures will be programmed to include current costs of fully maintaining City facilities, including parks, streets, levies, vehicles, buildings, and equipment. The deferred maintenance program began in FY 1982B83 and was terminated in FY 1986B87. (Revised by the City Council on 09/03/85). Normal maintenance will be funded through the operating budget.

Normal maintenance is funded through the operating budget.

12. An annual review of selected fees and charges will be conducted to determine the extent to which the full cost of associated services are being recovered by revenues. All fees and charges will be reviewed at least once every four years.

An annual review of selected fees and charges was conducted as part of the budget development process.

**Accounting, Auditing, and
Financial Planning**

Status

36. The City will establish and maintain a high degree of accounting practices; accounting practices will conform to generally accepted accounting principles as set forth by the authoritative standard setting body for units of local government.

In compliance.

37. An annual audit will be performed

FY 1993B94 Annual Audit is complete.

by an independent public accounting firm with the subsequent issue of an official Annual Financial Statement.

- | | |
|---|---|
| 38. Full disclosure will be provided in the annual financial statements and bond representations. | In compliance. |
| 39. Revenues and expenditures will be projected annually for at least five years beyond the current budget projections. | In compliance. |
| 40. Financial systems will be maintained to monitor expenditures, revenues, and performance of all municipal programs on an ongoing basis. | In compliance. |
| 41. Operating expenditures will be programmed to include the cost of implementing service of the capital improvements, and future revenues necessary for these expenditures will be estimated and provided for prior to undertaking the capital improvement. | In compliance. |
| 42. A report reflecting end of fiscal year status of performance against these criteria will be prepared within 60 days after official presentation of the Comprehensive Annual Financial Report to the City Council. A pro forma report reflecting proposed budget status will be submitted with the City Manager's Proposed | Budget Status reports were prepared. End of year report of performance against criteria was prepared immediately upon completion of the Comprehensive Annual Financial Report. |

Budget each year.

Exhibit 4-2
City of Bozeman, Montana
Fiscal Policy Extract

CITY OF BOZEMAN, MONTANA FISCAL POLICY EXTRACT

The overall goal of the City's fiscal policy is to establish and maintain effective management of the City's financial resources. Formal policy statements and major objectives provide the foundation for achieving this goal. Accordingly, this section outlines the policies used in guiding the preparation and management of the City's overall budget and the major objectives to be accomplished. In addition, the rationale that led to the establishment of the fiscal policy statements is also identified.

BUDGETING

- 1. A comprehensive annual budget will be prepared for all funds expended by the City.**

Rationale: State law provides that no money shall be drawn from the treasury of the municipality, nor shall any obligation for the expenditure of money be incurred except pursuant to the appropriation made by the Commission. Inclusion of all funds in the budget enables the Commission, the administration, and the public to consider all financial aspects of City government when preparing, modifying, and monitoring the budget, rather than deal with the City's finances piece by piece.

- 2. The budget will be prepared in such a manner as to facilitate its understanding by citizens and elected officials.**

Rationale: One of the stated purposes of the budget is to present a picture of the City government operations and intentions for the year to the citizens of Bozeman. Presenting a budget document that is understandable to the citizens furthers the goal of effectively communicating local government finance issues to both elected officials and the public.

- 3. In addition to required public hearings, the Commission will hold work sessions on the budget that will be open to the public.**

Rationale: Work sessions provide all citizens with a forum for meaningful participation in the budget process. Work sessions enable citizens to obtain an understanding of the budget that cannot be acquired from the document itself; provide public input to the proposed budget; and monitor the Commission's changes to the proposed budget.

4. Copies of the proposed budget will be made available to citizens and elected officials prior to the work sessions.

Rationale: Providing citizens with copies of the proposed budget in advance of the work sessions enables the public to become better informed on the issues facing the Commission and the administration during the budget work sessions.

5. Budgetary emphasis will focus on providing those basic municipal services that provide the maximum level of services, to the most citizens, in the most cost effective manner, with due consideration being given to all costs—economic, fiscal, and social.

Rationale: Adherence to this basic philosophy provides the citizens of Bozeman assurance that their government and elected officials are responsive to the basic needs of the citizens and that their government is operated in an economical and efficient manner.

6. The budget will provide for adequate maintenance of capital, plant, and equipment and for their orderly replacement.

Rationale: All governments experience prosperous times as well as periods of economic decline. In periods of economic decline, proper maintenance and replacement of capital, plant, and equipment is generally postponed or eliminated as a first means of balancing the budget. Recognition of the need for adequate maintenance and replacement of capital, plant, and equipment, regardless of the economic conditions, will assist in maintaining the government's equipment and infrastructure in good operating condition.

7. The City will avoid budgetary practices that balance current expenditures at the expense of meeting future years= expenses.

Rationale: Budgetary practices such as postponing capital expenditures, accruing future years= revenues, or rolling over short-term debt are budgetary practices that can solve short-term financial problems; however, they can create much larger financial problems for future administrations and Commissions. Avoidance of these budgetary practices will assure citizens that current problems are not simply being delayed to a future year.

8. The City will give highest priority in the use of one-time revenues to the funding of capital assets or other non-recurring expenditures.

Rationale: Utilizing one-time revenues to fund on-going expenditures results in incurring annual expenditure obligations that may be unfunded in future years. Using one-time revenues to fund capital assets or other non-recurring expenditures better enables future administrations and Commissions to cope with the financial problems when these revenue sources are discontinued, since these types of expenditures can more easily be eliminated.

9. The City will maintain a budgetary control system to help it adhere to the established budget.

Rationale: The budget passed by the Commission establishes the legal spending limits for the City. A budgetary control system is essential in order to ensure legal compliance with the City-s budget.

10. The City will exercise budgetary control (maximum spending authority) through City Commission approval of appropriation authority for each appropriated budget unit.

Rationale: Exercising budgetary control for each appropriated budget unit satisfies requirements of state law. It also assists the commission in monitoring current year operations and acts as an

early warning mechanism when departments deviate in any substantive way from the original budget.

- 11. Reports comparing actual revenues and expenditures to budgeted amounts will be prepared monthly.**

***Rationale:* The City-s budget is ineffective without a system to regularly monitor actual spending and revenue collections with those anticipated at the beginning of the year. Monthly reports comparing actual revenues and expenditures to budget amounts provide the mechanism for the Commission and administration to regularly monitor compliance with the adopted budget.**

REVENUES

- 1. The City will seek to maintain a diversified and stable revenue base.**

***Rationale:* A City dependent upon a few volatile revenue sources is frequently forced to suddenly adjust tax rates or alter expenditure levels to coincide with revenue collections. Establishment of a diversified and stable revenue base, however, serves to protect the City from short-term fluctuations in any one major revenue source.**

- 2. The City will estimate revenues in a realistic and conservative manner.**

***Rationale:* Aggressive revenue estimates significantly increase the chances of budgetary shortfalls occurring during the year resulting in either deficit spending or required spending reductions. Realistic and conservative revenue estimates, on the other hand, will serve to minimize the adverse impact of revenue shortfalls and will also reduce the need for mid-year spending reductions.**

- 3. The City will pursue an aggressive policy of collecting revenues.**

***Rationale:* An aggressive policy of collecting revenues will help to ensure that the City-s revenue estimates are met, all taxpayers are**

treated fairly and consistently, and delinquencies are kept to a minimum.

EXPENDITURES

1. Ongoing expenditures will be limited to levels that can be supported by current revenues.

Rationale: Utilization of reserves to fund ongoing expenditures will produce a balanced budget; however, this practice will eventually cause severe financial problems. Once reserve levels are depleted, the City would face elimination of ongoing costs in order to balance the budget. Therefore, the funding of ongoing expenditures will be limited to current revenues.

2. Minor capital projects or recurring capital projects, which primarily benefit current residents, will be financed from current revenues.

Rationale: Minor capital projects or recurring capital projects represent relatively small costs of an ongoing nature, and therefore should be financed with current revenues rather than utilizing debt financing. This policy also reflects the view that those who benefit from a capital project should pay for the project.

3. Major capital projects, which benefit future as well as current residents, will be financed with current revenues as well as other financing sources (e.g. debt financing).

Rationale: This policy reflects the view that those who benefit from a capital project should pay for the project.

RESERVES

1. Reserves will be established for funds that are not available for expenditure or are legally segregated for a specific use, in accordance with Governmental Accounting and Financial Reporting Standards (GAFR).

Rationale: The City's policy is to manage and account for its financial activity in accordance with Generally Accepted

Accounting Principles (GAAP), as set forth by the Governmental Accounting Standards Board (GASB). This policy is consistent with GASB requirements.

- 2. A designation of fund equity will be maintained in the general fund, sufficient to meet cash flow needs from July 1st through November 30th of each fiscal year.**

***Rationale:* Property taxes represent the City's primary source of general fund revenue. Property taxes are collected in November and May of each fiscal year. Since the City's fiscal year begins on July 1st, the City must maintain an adequate cash balance in order to meet its expenditure obligations between July 1st and the commencement of the collection of property taxes in November. The designated operating reserve ensures that adequate cash balances are maintained to meet the expenditure obligations during the first five months of the fiscal year.**

- 3. A designation of fund equity will be maintained for accrued employee payroll benefits payable, which are not shown as a liability in that fund.**

***Rationale:* Accrued employee payroll benefits represent a bona fide obligation of the City. The establishment of a designation of fund equity provides assurance that the City will be able to meet this expenditure obligations.**

ACCOUNTING AND FINANCIAL REPORTING

- 1. The City will manage and account for its financial activity in accordance with Generally Accepted Accounting Principles (GAAP), as set forth by the Governmental Accounting Standards Board (GASB).**

***Rationale:* GASB is recognized as the authority with respect to governmental accounting. Managing the City's finances in accordance with GAAP and in accordance with the rules set forth by GASB provides assurance to the citizens of Bozeman that their public funds are being accounted for in a proper manner.**

- 2. The City will maintain its accounting records for general government operations on a modified accrual basis, with revenues recorded when available and measurable, and expenditures recorded when services or goods are received and liabilities incurred. Accounting records for proprietary fund types and similar trust funds will be maintained on an accrual basis, with all revenues recorded when earned and expenses recorded at the time liabilities are incurred, without regard to receipt or payment of cash.**

Rationale: Adherence to this policy will enable the city to prepare its financial statements in accordance with Generally Accepted Accounting Principles as set forth by the Governmental Accounting Standards Board.

- 3. The City of Bozeman will prepare a Comprehensive Annual Financial Report (CAFR) in conformity with Generally Accepted Accounting Principles (GAAP). The report will be made available to the general public. The CAFR shall be prepared in accordance with the standards established by the Government Finance Officers Association (GFOA) for the Certificate of Achievement for Excellence in Financial Reporting Program.**

Rationale: The Certificate of Achievement represents a significant accomplishment for a government and its financial management. The program encourages governments to prepare and publish an easily readable and understandable comprehensive annual financial report covering all funds and financial transactions of the government during the year. The CAFR provides users with a wide variety of information useful in evaluating the financial condition of a government. The program also encourages continued improvement in the city's financial reporting practices.

Exhibit 4-3
City of Bozeman, Montana
Budget Policy Direction
[extract]

Exhibit 4-4
City of Lublin, Poland
Budget Priorities and Guidelines

CHAPTER 5

CITIZEN PARTICIPATION IN THE BUDGET PROCESS

PURPOSE

The purpose of this chapter is to enable you to:

- Understand the need for local governments to involve citizens in the decision-making process
- Identify techniques to increase citizen participation in the budget process
- Identify the advantages and disadvantages of various citizen participation techniques.

HOW THIS CHAPTER WILL BENEFIT YOU

Changes occurring in local governments require increased citizen involvement in local government decision-making. These changes are pressuring local governments to conduct city business, provide services, and communicate with citizens differently than in the past. This chapter will describe the new environment in which local governments work and how interaction with citizens can be incorporated into the budget process. Interaction will take different forms and potentially produce differing results.

NEW ENVIRONMENT

The transition from state socialism in the Newly Independent States and Central and Eastern Europe has created an opportunity for new political, economic, and social structures. Reformed governments, economies, and social institutions have directly impacted local governments by devolving new powers and responsibilities to them. Local governments must assume these responsibilities quickly and manage the resources that have been entrusted to them as efficiently and effectively as possible for the benefit of their citizens.

Citizens play a crucial role in a democratic government system. Through free elections, citizens select the government leaders at the national and local levels. These leaders in turn make decisions on behalf of the citizens and are accountable to them. Within the democratic system, citizen involvement in the governing process is paramount because governments rule only with the consent of the governed. Leaders who choose to ignore the citizenry may soon find themselves voted out of office.

Under the system of local government democracy established in Poland in 1990, citizens are free to vote out city councils and city administrations that do not respond to the needs of the citizenry. To avoid the potential for turnover, elected officials need to recognize the new power that resides with the citizenry and create the means to involve citizens in a dialogue with the government over issues in which they both have a vested interest. The development of the annual budget, which establishes the priorities and funding for a given period, is an important event that requires public input early in the process. No longer are budgets conceived in an office in the capital and passed down to the gmina for local citizens to accept. No longer is the budget process closed to citizens. The process now springs from the citizenry, and the role of governments is to meet the citizens' needs. A citizen participation process that responds to this new environment is essential.

CITIZEN PARTICIPATION TECHNIQUES

Five citizen participation techniques used in the budget process will be discussed in this chapter:

- **Formal budget hearings**
- **Town hall meetings in the community**
- **Citizen opinion surveys**
- **Focus groups**
- **Committees or task forces.**

Formal Budget Hearings

Formal hearings are the most common means for U.S. local governments to solicit public input to any significant government decision that will affect citizens. In many cases, formal public hearings may be a legal requirement. Some decisions that may require hearings include zoning and land use decisions or annual budget decisions. Formal budget hearings are normally held after the budget is presented by the executive officer to the Council, while the Council is considering the budget. Public notices are published in a local newspaper announcing the date, time, and location that budget hearings will be held by the Council. Notices encourage citizens to come to City Hall to voice their opinion. This process will usually attract a few citizen speakers and meet the legal requirement to hold a public hearing, but generally does not produce effective input to the budget.

To improve the formal budget hearing process, local governments have tried other tactics. One jurisdiction tried to maximize citizen input by providing two formal budget hearings during regular Council meetings at the very beginning of the budget process, i.e., six to nine months before the budget was presented to

the Council. In this manner, the public is notified that a budget will be developed, and organizations and individuals are invited to participate in the process. The additional lead time allows Council and staff to research and address issues presented and develop policies that reflect citizen interest and can be considered for funding in the subsequent year-s budget. The public is involved at the beginning of the process rather than at the end after all the decisions have been made.

The Cities of Krakow and Lublin have not established a formal hearing in their budget process. They do, however, permit citizens to address the Council on budget and other issues throughout the year at regularly scheduled citizen forums during City Council meetings.

While formal budget hearings satisfy the legal requirement to hold such hearings and are inexpensive, they are generally the least effective techniqueCespecially if they are held after the budget is presented to the Council for approval, because citizen input cannot then be easily incorporated.

Town Hall Meetings

A variation of the formal public hearing is the town hall meeting, which essentially serves the same purpose as a formal hearingCto solicit citizen inputCbut is more informal. In the U.S., town hall meetings are held in neighborhoods at dates, times, and locations that are convenient for citizens. Evening meetings are common. Sometimes dates and times are negotiated with neighborhood associations to maximize attendance and comments at the meetings. The agenda focuses only on the budget, and the comment session is preceded by a city staff briefing on the budget to provide a common informational basis for citizens in attendance. Members of the budget staff and other service departments take part in the session to answer questions and take notes for future budget preparations. Elected representatives are usually present and moderate the discussion.

The same town hall meeting technique is used again by elected Council members after they receive the proposed annual budget from the chief executive. The technique provides the Council with one more opportunity to review the city-s proposed financing plan with the citizenry before the budget is adopted for the next fiscal year.

Because town hall meetings are informal, closer to the public, and more focused on the budget, they tend to provide a broader and more effective mechanism for including public input in the budget. Town hall meetings promote empowerment of citizen groups. They allow staff an opportunity to answer questions and resolve problems before a formal hearing and action by the Coun-

cil. The logistics of setting up and conducting public meetings outside City Hall and the usual need to hold multiple meetings in different parts of the community may be viewed as disadvantages to this technique. However, from a different perspective these obstacles can be viewed positively. If the bureaucracy is seen as generally being out of touch with the citizenry, holding town hall meetings can be a perfect opportunity for the local government to get out in the community and demonstrate its commitment.

Citizen Opinion Surveys

Citizen opinion surveys are a technique used by municipalities to more accurately gauge public opinion on the quality and quantity of city services. A survey is designed and posed to a representative sample of citizens. Usually a private firm is engaged to assist the city in preparing and conducting the survey and evaluating the results. Surveys can be conducted by telephone, in person, or by mail. The more personal the survey methodology, the more expensive, but hopefully the more accurate as well. The results are used to determine the citizens= priorities for services, to evaluate existing services, and to investigate citizens= willingness to support tax increases. By conducting surveys on a recurring basis (every two to three years) using similar questions, the city can determine changes in public opinion and whether actions taken by the city in the interim have been effective in influencing public opinion.

The City of Krakow has experimented with citizen opinion surveys. In 1993, the city faced two issues related to citizen involvement: advertised meetings resulted in little turnout, and many of the government programs offered by the previous system bore no relationship to customer demand. The solution was to design and conduct an opinion survey to determine citizen interest on specific city issues. The City and the long-term advisor designed a telephone survey similar to ones used by several U.S. cities. In January 1994, they contacted 287 households by telephone. The survey focused on the 14 largest programs and asked the citizens about: (1) satisfaction with service provided, (2) desire for increases or decreases in service levels, and (3) willingness to pay more taxes or charges for program increases. The intent was to establish a link between service level and customer demand. The survey also asked the public-s opinion on the priorities of programs and some of the more politically difficult issues in the budget.

A copy of the summary of responses for the Krakow survey is included as Exhibit 5-1. The survey revealed some interesting insights into public opinion and provided objective information about citizens= opinion of city services. For example:

- **The program with the highest community satisfaction was Culture (77 percent) followed by Primary Education (72 percent) and Central Heating (60 percent). The lowest scoring programs were Streets (19 percent) and Financial Assistance to the Needy (25 percent—many thought this program should improve its means testing), and Water and Sewer (34 percent).**
- **Sixty-four percent supported service increases in Water and Sewer; 58 percent in Solid Waste, 57 percent in Streets, and 54 percent in Parks. However, only in Primary Education, Water and Sewer, and Parks were the majority of supporters willing to pay more.**
- **Eighty percent supported the City Board's top priorities of Streets, Housing, and Schools.**
- **On issues that were politically difficult, 81 percent believed that the City should contract out programs to reduce costs, and 97 percent believed that utility rates should be based on actual use, rather than everyone paying the same rate.**

Citizen opinion surveys can provide valuable, objective information about the public's perception of service quality and service priorities. This information can be very useful in influencing decision-makers in developing program priorities for the budget. Surveys tend to be expensive in terms of both staff time and financial cost; however, they produce more objective findings to guide decisions affecting the budget and city services.

Focus Group Interviews

Another technique used in the U.S. to gauge citizen opinion is the focus group interview. The focus group technique has been borrowed from market research conducted by private business. The objective of the focus group interview is to determine why customers might or might not buy a product or participate in a service the city offers. This technique might be useful for municipalities when marketing a new product or service, such as recycling, or when making substantial changes to an existing service.

A focus group includes approximately ten people, representing a cross-section of the intended customers. The people selected know that they will be learning about a new service that the city is considering. The group is then asked questions in an objective manner about the proposed service. The session is either recorded by audio tape or with extensive written notes so that the proceedings can be analyzed later. The focus group interview is repeated three or four times with different groups to gather comparative information.

Focus group interviews can provide valuable information about a specific service from a group of potential customers that a city may expect to serve. This technique can produce good results provided that the right questions are asked and that the group is representative of the intended customer base. The fact that the focus group interview is usually focused on a single service may limit its use for broader budget or city-wide service policy decisions.

Citizen Committees or Task Forces⁷

Another technique used to solicit citizens' involvement in the decision-making process of local government is using business, community, or service agency leaders to advise local governments on budgeting, financial forecasting, or other methods of increasing efficiency and effectiveness. Asking citizens to serve on a citizen committee or task force to review the budget and funding levels has several benefits. First, these citizens bring their own private business or service agency experience to the local government. Secondly, involving them in the process tends to improve communication between the city, elected officials, and community leaders. As the budget is developed and reviewed by an increasing number of diverse interest groups and people, these key leaders can be influential when the Council is faced with critical decisions.

For example, one U.S. municipality put the citizen committee technique to good use in planning for capital improvements. The Mayor and City Council appointed 100 citizens to a citizens' committee to develop a capital improvements program. The committee was divided into four sub-committees to address drainage, transportation, parks, and public safety issues. These committees met over a three month period, conducting field trips, debating needs, and setting priorities. In the end, their recommendations for the final capital improvements program were substantially smaller than the estimates of city staff.

⁷Larger city councils (75 members as opposed to 7-10) and a ward or neighborhood committee system that has over 400 representatives provide substantial opportunities for citizen involvement in Krakow. Due to the large number of citizens holding elective office, much of the work done by non-elected citizen committees in the U.S. is done by council and ward committees in Krakow. For a more complete description of the city government in Krakow, please see section 3.2 of the Krakow Case Study.

The preliminary work done by the committee made the task of the City Council much easier. In the next round of reviews, a select Steering Committee made up of the sub-committee chairs worked with the City Council to pare the program further. When the program was adopted by the Council, the Steering Committee formed a Citizen Committee for City Bonds to sell the program to the voters.⁸ The Citizen Committee for City Bonds involved almost all of the members who had worked on the capital improvements program development in the campaign to support the bond referendum. Each member of the committee contacted ten families to encourage voting to support the bonds. In addition, the committee members conducted town hall meetings and spoke at service clubs. They also conducted brown bag lunches with City employees, developed an election brochure to educate and attract voters, and created a telephone hot-line to respond to citizen questions. News releases and access television were also used to publicize the issues.

In addition, the citizen committee played a significant role in fund raising. Their efforts were responsible for successfully raising private donations in the community to fund a telephone bank, signs, brochures, postage, advertising for early voting, the contacting of ten families per member, and the soliciting of endorsements for the bond package by business groups, economic development agencies, and other associations. The result of this citizen effort was that early voting increased over 150 percent, and the total voter turnout was three times that of the previous bond election. All issues passed on an average of four to one.

EXAMPLES

An illustrative questionnaire for a household park and recreation survey is included as Exhibit 5-2.

PRACTICAL EXERCISE

The group will break into five smaller groups of approximately equal size. Each group will be assigned a specific citizen participation technique. The groups are assigned to brainstorm on ways to maximize the advantages of the specific citizen participation technique and to minimize its inherent disadvantages. Comments from each participant should be written on chart paper under the specific pros and cons of each technique. The group should select

⁸Note: General Obligation bond programs customarily must be approved by a majority of the voters in an election before the city can issue municipal bonds.

what they believe are the best ideas from each resulting list. Each group will select a spokesperson who will report their group's consensus list at the end of a set time (15 minutes).

Exhibit 5-1
Summary of Results
Krakow Citizen Survey

Exhibit 5-2
Citizen Opinion Survey, Park and Recreation

Source: Harry P. Hatry, et al. *How Effective Are Your Community Services, Procedures for Measuring Their Quality*, second edition. Washington, DC: The Urban Institute and ICMA, 1992.

CHAPTER 6

PREPARING A BUDGET CALENDAR

PURPOSE

The purpose of this chapter is to enable you to:

- Identify the five phases of the budget cycle
- Know what a budget calendar is and what it includes
- Describe the benefits of preparing a budget calendar
- Prepare a budget calendar for your jurisdiction.

HOW THIS CHAPTER WILL BENEFIT YOU

In this chapter, you will receive an overview of the process by which a budget is prepared for local governments. While each city in Poland must comply with certain legal requirements, formats, and dates, the process can be supplemented to improve the planning process and input to the budget to better reflect the needs of the community and local government. The process outlined here uses the expanded *program budget model calendar* to illustrate changes from the traditional budget calendar. An expanded budget calendar will:

- Increase the amount of time allocated to the beginning of the budget preparation process for planning the budget and analyzing budget requests in order to reduce time pressure involved in developing the budget
- Involve the Council and citizens early in the budget preparation process so that budget policies and priorities can be set and attention focused on key decisions
- Give departments early direction on Council priorities.

BUDGET CYCLE

Public officials (Council) and government managers need to be familiar with the process of developing budgets to administer an efficient local government. In addition, they must be ready to participate in these processes by preparing and presenting their own department budget or the budget of the entire city to the Council. They must take into account not only their own financial and

management perspective, but also overall considerations such as political, social, and economic issues affecting the community.

The budget process can be divided into five phases or steps in the process, usually termed the *A*budget cycle.⁹ These phases are planning, preparation, adoption, execution, and audit.

Planning

This is the important first step. The Mayor or City Manager is responsible for planning the budget cycle. Ideally, the planning phase would include: (1) adopting financial policies (if not already completed), (2) establishing Council priorities, (3) developing a budget calendar with key dates in the process in which the Council wishes to participate, and (4) providing a systematic process to review issues and policies that need to be addressed in the next year-s budget.

Preparation

Departments prepare budget requests based on guidelines and instructions provided by the Mayor, city manager, treasurer,⁹ or budget director. Once submitted, the chief executive, budget staff, and the city board review and adjust the budget to reflect available resources, new policies and programs, and other high priorities. The result of this balancing act is a recommended budget.

Review and Adoption

Once the budget is recommended by the executive board, the Council-s role is to review it, hold legally required public hearings, modify the budget to reflect needs that have not been addressed, and vote to adopt or reject the budget effective at the beginning of the fiscal year. The budget becomes a legally binding document only upon passage by the legislative body (Council).

Execution

After the adoption of the budget by the Council, the next step is the execution of the budget or the implementation by the chief executive and the city staff. The ideal budget represents a policy document, a financial plan, an operations plan, and a communication device incorporated into one document. Now the job of the chief executive is to put those multiple plans into action within the resources given. Since the budget document is a plan and based upon estimates, close monitoring is needed to ensure that the anticipated revenues are received and

⁹In Poland, the treasurer often plays the role of budget director as well as chief financial officer.

expenditures stay within the limits imposed by the Council. Generally, the chief executive or budget officer will control the use of these funds through a trimester allotment process.

Audit

This is the final step in the budget process. It provides a way to check the budget execution phase to ensure that it was handled honestly and within the budget and legal requirements.

BUDGET CALENDAR

One of the first steps in planning a budget is preparing a budget calendar. The budget calendar identifies the dates by which the city needs to accomplish activities so that it can produce a budget for submission to the Council by the legally required due date. Generally, the budget officer, working closely with the chief executive, prepares the calendar. The budget calendar must take into account the start of the fiscal year, the legal budget submission and public hearing requirements, publication dates for public reading of the budget ordinance, dates for reporting the budget to the central government, and other considerations of the Mayor and the Council.

A budget calendar has many benefits. It organizes the entire budget process from beginning to end. It identifies critical milestones and budget deadlines that must be met. It helps show the public and other external agencies the process used to prepare the budget and the ways in which they can have input. It provides a means to open the budget process to the public. The planning, preparation, adoption, and execution phases of the budget process typically involve the year round effort of many city staff at all levels in the organization. The staff are involved in identifying service needs, developing strategies for meeting those needs, and developing detailed revenue and expenditure plans to execute strategic plans. The budget calendar allows them to see the big picture and their role in that process.

The budget calendar contains specific activities that generally will be required by all jurisdictions at some time in the process. These include:

- **Making preliminary revenue estimates**
- **Preparing and distributing instructions and forms**
- **Receiving completed budget request forms**
- **Analyzing budget requests (central budget office)**
- **Completing the budget review and making final budget decisions (chief executive)**

- **Submitting the recommended budget to the Council**
- **Conducting public hearings**
- **Reviewing and determining the Council's changes (if any) to the recommended budget**
- **Adopting the final budget ordinance (Council)**
- **Approving or vetoing the adopted budget (chief executive)**
- **Completing administrative and financial transactions for finalizing budget appropriations**
- **Specifying the commencement of the fiscal year.**

HOW TO MAKE A BUDGET CALENDAR

Making a budget calendar is relatively simple if you observe the following:

- **Start with the end date in mind (beginning of the new fiscal year) and work backward**
- **Add the legal requirements**
- **Add public hearing and publication requirements**
- **Leave sufficient preparation time between the final decisions of the chief executive and the submission of the budget to the Council in order to produce a quality product**
- **Add other key activities and dates leaving enough time for adequate preparation and review**
- **Review prior year budget calendars and adjust where needed to improve the process**
- **Coordinate the preliminary calendar with the chief executive**
- **Adjust schedules accordingly**
- **Finalize the budget calendar.**

EXAMPLES

Budget calendars may vary significantly depending upon local requirements and the level of detail they include. Deadlines are a key element in any calendar. Exhibit 6-1 shows an example of a budget calendar developed by the City of Krakow for the 1996 budget.

A sample budget calendar is shown as Exhibit 6-2. For comparative purposes, an example of a budget calendar from a U.S. county is included in Exhibit 6-3.

PRACTICAL EXERCISE

To give you a better awareness of the budget calendar development process, a simple exercise has been designed to give you experience in this area. Using your own city as a model, prepare a one to two page detailed budget calendar with dates, major activities, and responsible persons for each activity. Be prepared to present your calendar to the group.

**Exhibit 6-1
City of Krakow
Sample Budget Calendar**

Exhibit 6-2
Sample Budget Calendar
Adoption by December 31

**Exhibit 6-2
Sample Budget Calendar
Adoption by December 31**

- July 15** Budget office makes first estimates of revenues, inflation, central grants, subsidies, and tax rate maximums.
- July 20** Council holds public hearing for citizen input.
- August 1** Council passes resolution on budget policies and priorities.
- August 15** Budget office distributes budget instructions and forms to departments; provides departments with uniform assumptions as basis for their budget requests.
- September** Departments submit budget request to budget office for review and analysis (Discussions with departments, revision of requests).
- October 10** Budget office revises estimates of revenues, inflation, central grants, subsidies, and tax rate maximums.
- October** Mayor and city board review budget office recommendation with Treasurer and budget staff.
- Nov. 1-5** Department appeals; final city board decision made. Print board's recommended budget and distribute to public, press, and Council.
- Nov. 15** Council budget commission holds public hearing on city board's proposal, begins review of board's proposal.
- December 1** Final Budget office revision of estimates of revenues, inflation, central grants, subsidies, and tax rate maximums.
- Dec. 10-15** Adopt budget. Set property tax rates, rents, user fees (for transportation, water, sewer, and garbage collection).
- March 31
(Next Year)** Adjust budget based on final central government factors.

**Exhibit 6-3
U.S. County
Sample Budget Calendar**

Exhibit 6-3

ARLINGTON COUNTY, VIRGINIA FISCAL YEAR (FY) 1996 BUDGET CALENDAR

The following schedule outlines the process and significant steps through which the County's fiscal year budget is developed and finalized. Through this calendar, the County's staff and citizens are able to better recognize key events that must take place for the County to develop and implement a balanced and complete budget.

AUGUST 1994

County Manager holds the budget kickoff for departmental staff. This kickoff includes policy and line item direction, including fiscal parameters for developing requests.

OCTOBER

County Manager holds a public hearing to seek input in the preparation of the FY 1996 Proposed Budget.

FY 1996 budget planning estimates for program, budget, spending, and taxing are presented by the County Manager to the County Board.

NOVEMBER

Departments submit budgets to the Department of Management and Finance, Management and Budget Section.

County Board adopts FY 1996 budget planning estimates for taxing and spending parameters for the County Manager and the School Board.

DECEMBER 1994/JANUARY 1995

County Manager holds a series of budget discussion meetings with departments. During these meetings, the County Manager and the departments finalize the departments' proposed budgets to be presented to the County Board.

JANUARY

School Superintendent submits to the School Board the Superintendent's Proposed Budget.

FEBRUARY

County Manager submits County Manager's FY 1996 Proposed Operating Budget and FY 1996 Pay-As-You-Go Capital Program to the County Board.

School Board adopts FY 1996 Proposed School Budget and submits its proposed budget to the County Board.

County Board approves the advertisement of the proposed Calendar Year (CY) 1995 real estate tax rate.

MARCH

County Manager submits to the County Board FY 1995 mid-year review of expenditures and revenues. This review assists the County with its ending FY 1995 projected fiscal year status, which allows for better preparation for the FY 1996 Proposed and Adopted Budgets.

County Manager submits to the County Board FY 1996BFY 2001 Capital Improvement Program.

MARCH 14

County Board holds a public hearing on the proposed FY 1996 County Manager and School Board expenditure budgets (at Kenmore Middle School, 200 South Carlin Springs Road, 7:00pm).

MARCH 16

County Board holds a public hearing on the proposed calendar year (CY) 1995 real estate tax rate, and other taxes. (Kenmore Middle School, 200 South Carlin Springs Road, 7:00pm)

MARCH 18

County Board adopts the CY 1995 real estate property tax rate.

FEBRUARY/MARCH/APRIL

County Board holds a series of budget work-sessions with each County department, Constitutional Office, and also with the School Board to reach determinations on the FY 1996 Adopted Budget.

APRIL 29

County Board adopts FY 1996 Budget and Appropriations Resolutions for the County government and the public schools, FY 1996 Pay-As-You-Go Capital, and other proposed taxes and fees.

MAY 4

School Board adopts the Arlington Public Schools Capital Improvement Plan for FY 1996BFY 2001.

JUNE 10

County Board adopts FY 1996BFY 2001 Capital Improvement Program.

JULY 1

FY 1996 begins.

CHAPTER 7

PREPARING AND PRESENTING ISSUE PAPERS

PURPOSE

The purpose of this chapter is to enable you to:

- Understand the value of a separate process to analyze, discuss, and decide policy issues and/or budget priorities at the beginning of the budget process
- Describe the steps to organize an issue paper process
- Delineate the benefits and costs of an issue paper process.

HOW THIS CHAPTER WILL BENEFIT YOU

In this chapter you will learn how an issue paper process can help clarify the budget process. Since 1990, increased responsibility for service delivery has been thrust upon local governments from the central government. Local governments have been given new powers and responsibilities to set local policies and to adopt budgets that support them. However, these changes are being superimposed on existing budget processes and time schedules that are inadequate. To deal with these new and increased responsibilities and powers, a revised process and schedule are needed. Local elected officials and city staff should be given more time to consider and decide important policy issues at a time apart from the annual budget process. With the increasing complexity of local issues, it is impossible to manage both processes well simultaneously. Currently there is no specialized forum or process for dealing with policy issues except at budget time. This chapter offers you an alternative process that will increase the time and order of the budget process, improving both policy-making and budget preparation. You will also learn the steps necessary to establish an issue paper process and know what costs and benefits can be expected.

ISSUE PAPER PROCESS

An issue paper is a written document that addresses a specific local government policy or budget issue. The purpose of an issue paper is to provide elected officials with sufficient information (i.e., background, current situation, options, and analysis of options) and a recommendation on a specific issue, so they can make an informed policy decision.

The issue paper process described herein intentionally separates the policy decision-making process from the budgeting process. Separating the two provides time for policy issues to be discussed, deliberated, and decided, without having the pressure of budget deadlines looming. Once the policy decision is made, the budget decision is less controversial since it has been agreed to previously. The budget process of funding these new policies and programs becomes an issue the Council is already aware of at budget time.

The steps in the issue paper process are:

- **Identify issues.** Within a month after the fiscal year close, the chief executive officer and department directors identify and list potential issue paper subjects. From this list, the departments prepare a brief description (three or four sentences) about each issue.
- **Determine priorities.** At a Council planning workshop, the chief executive officer shares and reviews the list with the Council, which augments it and prioritizes the issues that are considered important for further analysis and discussion prior to the next year-s budget process.
- **Organize the process.** The chief executive officer organizes the agreed upon issue papers into a presentation schedule and prepares instructions for the departments to follow in preparing and presenting the papers.
- **Prepare and present the issue paper.** Department directors prepare the issue papers based on the directions and sample outline format provided by city management. When the papers are completed, department directors brief the city management and present the papers to the Council. Copies of the issue papers are sent to Council members prior to the presentations so that they have sufficient time to read them. All-day workshops are planned for the formal presentations.
- **Receive Council direction.** After the Council has reviewed and discussed the recommendations, city management is advised what policy the Council wishes to pursue on specific issues and how the policy will be funded.
- **Implement decision.** Department directors and the chief executive officer develop the service plans and funding necessary to implement the policy decisions and incorporate them into the proposed budget for the subsequent year.

BENEFITS AND COSTS

The issue paper process should provide more time to deal with policy formulation apart from the pressure of budget deadlines. The separation of policy formulation from the funding process also has other benefits including:

- **Reduction of pressure on elected officials and staff at budget time because many difficult policy decisions have been decided**
- **Improved communication with the Council because it has been involved in making key policy decisions that are now included in the budget**
- **Enhanced budget quality because policy issues are linked with budget proposals.**

In contrast, there are costs that will be incurred to facilitate the process. A separate issues development and analysis process requires staff with the knowledge and skills to identify and analyze issues and to determine alternative policies and funding sources. If staff with these skills are not available, they will have to be hired or trained. Additionally, the issue paper process extends the budget timetable because it is one of the first budget planning steps. The process may redirect resources from other activities normally accomplished during this period, which may cause other service disruptions if not carefully managed. Furthermore, the process will take more Council and staff time for workshop planning and preparation as well as briefings for issue paper presentations and discussion.

CHAPTER 8

FORECASTING REVENUES AND EXPENDITURES

PURPOSE

The purpose of this chapter is to enable you to:

- Understand the importance of forecasting
- Identify the uses of forecasting in budgeting
- Identify and describe the tools and techniques employed in forecasting
- Employ these tools and techniques to improve your forecasting capabilities.

HOW THIS CHAPTER WILL BENEFIT YOU

Budgeting is the craft of allocating scarce resources to benefit the many. Preceding chapters on budget planning have emphasized the need for financial policies, which provide a framework in which routine budget decisions are made, and budget priorities, which specify how the Council wishes scarce resources to be allocated to meet public needs. This chapter will add one more dimension to the planning process—forecasting.

Forecasting in local governments is an important management tool for Council and management to anticipate and plan for potentially adverse financial events. During budget planning, forecasting can help shape the Council's understanding of the financial limitations under which the next year's budget will be developed. Annual forecasts of revenues and expenditures are the basis of the adopted budget. Once the budget is adopted and implemented, forecasts are made throughout the year to project revenue collections and program expenditures to year-end, thereby ensuring a balanced budget and avoiding a deficit. This chapter reviews the uses of forecasting and its important role in budgeting. The tools and techniques employed in forecasting are discussed and are applied in a practical exercise at the end of the chapter.

USES OF FORECASTS

Forecasting is the process of determining what a future situation will be, given certain assumptions. In local government budgeting, forecasting is indispensable. Local budgets are tied to the national economy and experience the same changes in the economic cycle. Forecasts can be classified based on their length: short-range (up to one year), medium-range (2-5 years), and long-range (6-20 years). For annual budgeting, short- and medium-range forecasting are more useful than long-range forecasting and will be the focus of this section.

Short-Range Forecasting

Short-range forecasts cover a period of up to one year. The principal uses of short-range forecasts are related to the development of the operating budget and to cash management. In developing the operating budget, annual forecasts of revenues and expenditures are needed for the next year's budget. These forecasts may be made at different times. Initial estimates of the next year's revenues and expenditures are used for setting priorities and budget guidelines. These estimates are continually updated and ultimately included in the budget. In cash management, forecasts of monthly cash inflows and outflows are used during budget development to project interest earnings on available bank balances. They are also made to identify the potential for monthly cash shortfalls and the need for interim financing during these periods.

Another use of short-range forecasting is for monitoring budget implementation. It is prudent to monitor the budget after adoption to forecast the actual performance of revenues and expenditures. If significant variations from budget are forecast based upon actual operating results, swift management actions may be needed to bring the budget back into balance.

Short-range forecasting helps management prepare a budget for the following year based on reasonable assumptions. By identifying variances from expected performance early in the fiscal year, short-range forecasting provides time for management action rather than crisis management. Finally, short-range forecasting is a tool for monitoring the budget and ensuring compliance with legal appropriations. When problems are identified, corrective actions can be initiated to eliminate them.

Medium-Range Forecasting

Medium-range forecasts cover the period 2-5 years into the future. Medium-range forecasts are principally used for budgeting, policy analysis, and legislation. In budgeting, forecasting is principally used to project gaps between anticipated revenues and expenditures during the next 2-5 years. This prompts policy decisions to close these gaps. If decisions are implemented, the actual revenues and expenditures will not be the same, and the forecast gap will not be the same. The altered level will be the result of actions taken in response to the forecast.

Forecasting is also used to aid policy analysis. For example, wage negotiations in a multi-year contract will have fiscal implications beyond the current year. Decisions regarding funding capital improvements from own-source revenues reduce the availability of funds for operating expenditures and increase operating costs when the facilities are completed. These impacts are important

elements in making capital improvement project decisions. Issuing debt to finance new capital facilities, likewise, has multi-year implications both in long-term funding of debt service and in operating the facilities when they are complete. Each of these factors needs to be considered, with the multi-year impact identified at the time decisions are made. Once the decision is made, the financial impact is included in the medium-range forecast.

Medium-range forecasts are useful in determining the fiscal impact of legislation, especially tax or revenue legislation. For example, changing an allocation formula for sharing revenues with local governments will have multi-year impacts. Forecasting the multi-year cost impacts of this change in the law upon local governments and presenting this information to the legislative body is one way to forestall or reduce the adverse impacts upon the jurisdiction.

Medium-range financial forecasts help management and policy-makers identify financial trends that will require management/Council action to avoid potentially disastrous financial results. Being prepared eliminates surprises and reduces management by crisis. Forecasts also promote more efficient operations of local government.

METHODS OF FORECASTING

This section will focus on methods of forecasting revenues and expenditures 2-5 years into the future. Four general methods will be discussed, varying from the simple to the complex.

Best Judgment or Expert Method

The **best judgment** method relies upon a person or **expert** to forecast revenues or expenditures. There is no single technique employed in this type of forecasting, which primarily depends upon the forecaster's subjective feelings, long-term experience, expertise, and familiarity with revenue or expenditure patterns. The key ingredient in this method is finding the **expert**. Long-time budget officers or treasurers often act as the forecasting **expert** in a city.

The **expert** or best judgment method may produce reasonably accurate forecasts. It is also relatively inexpensive. One of the drawbacks of the method is that the lack of a standard technique makes it difficult to determine what was right or wrong with the forecast analysis. The method is also dependent upon a single individual, and a jurisdiction's effectiveness may be hampered if that person leaves.

Trend Line Techniques

The trend line techniques rely entirely upon the year-to-year change of prior levels of a variable (i.e., a revenue source or expenditure) to forecast future years' revenues or expenditures. By determining the changes in the recent past, certain revenues and expenditures can be projected quite accurately into the future.

A review of the year-to-year change of a variable (revenue source or expenditure) can produce different conclusions about the type of change that has occurred and how that information will be used for projections. There are three possibilities: if a variable did not change in the past, the variable may be assumed not to change in the projection period; if the variable increased by a constant amount each year in the past, it is reasonable to assume that it will increase each year by the same absolute amount from prior years; and if the variable increased each year by approximately the same percentage, then that percentage rate of increase (or decrease) may be used as a constant growth rate in the future as it has been used in the past. For example, if a revenue source increased 9 percent each year for the last five years, one can assume that next year's increase will be approximately 9 percent. Note that trend lines assume that the past is a good predictor of the future. Unfortunately, that is not always true.

To enhance the usefulness of this technique, the following should be considered:

- \$ The accuracy of the trend line forecast will improve when a longer history of the revenue or expenditure is used. Generally, forecasters rely on the most recent five annual increments of a revenue source or expenditure for forecasting, but a six to ten year base is not uncommon and enhances the reliability of projections based on the trend line.
- \$ One-time occurrences should be identified and removed from the variable to avoid skewing the results.
- \$ Trend line forecasts are most reliable for revenues not sensitive to economic conditions, such as property taxes or water fees.
- \$ Trend line techniques are not good predictors of turning points for a variable.

To determine the percentage rate of change or growth rate of a variable (revenue or expenditure) between time periods, use the following formula:

Install Equation Editor and double-click here to view equation.

where g equals the percentage growth rate of a variable, V is the variable, and t is the period of time.

To use the formula with multiple years, calculate the growth rate for each year, total the rates and divide by the number of years to produce an average annual compound growth rate. To apply the growth rate to the next year's projection: convert the annual compound growth rate to a decimal by dividing by 100, add 1.00, and multiply that sum by the latest period amount to arrive at the next period's projected revenue or expenditure. Repeat the process for the next period.

Deterministic Techniques

Deterministic techniques use other factors than time in determining projections. The most common deterministic techniques rely on pre-established formulae in calculating a projected revenue or expenditure. For example, to calculate a license fee revenue, the forecaster estimates the number of licenses to be issued for a year based on historical records and multiplies that figure by the applicable fee for each license. The result is the projected revenue for that source.

Deterministic techniques can also be used for projecting expenditures. For example, to estimate the cost of staffing a new facility, the following should be considered: the estimated number of persons to be hired based on other comparable facilities, the average salary for a full-time equivalent (FTE) position at a comparable facility, and the portion of the year that the facility will be in use in its first year. Multiplying the number of positions times the average salary per FTE times the fraction of the year the facility will be open will produce a projection of the staffing cost for the opening year of operation. Subsequent years' costs will be based on a full year's staffing.

Deterministic techniques are a relatively simple, straightforward, and inexpensive means of forecasting. They are limited, however, by dependence upon assumptions based upon past experience.

Econometric Forecasting

Econometric forecasting combines economic principles with statistical theories. Econometric models permit the forecaster to consider the effects of several variables on a revenue or expenditure. The objective is to identify the independent variables, such as disposable income, population, prices, or inflation, that provide the best fit to project future changes in revenue that are tied to the economy, such as sales tax or income tax. Regression analysis is the most common approach to econometric forecasting.

Econometric forecasting is the only methodology that lends itself to projecting revenues or expenditures based on changes in the economy. Econometric forecasting using statistical theory can be more accurate than the other techniques because, unlike the best judgment method, it is based on behavioral relationships that can be measured and evaluated; it is not limited to forecasting in one direction like trend line techniques; and it considers multiple variables in making projections rather than the single variables used in deterministic techniques.

The disadvantages of econometric forecasting are the complexity of economic and statistical modeling, the relative costs compared to the other simpler methods, the need for personnel trained in economics and statistical theory to operate models and interpret the analysis, and the cost and quality of data collection, especially in terms of input to the computer models. Inaccurate data can ruin the analysis.

Before undertaking a multi-year (medium-term) forecasting project, a jurisdiction should consider the needs of the jurisdiction, the applicability of different forecasting methods, the specific revenues and expenditures to be forecast, the availability and accuracy of prior years= data, the cost associated with each method, and the skills of personnel doing the forecasting.

FORECASTING PROCESS

This section will suggest methods for preparing medium-term revenue forecasts.

Organization

Defining the audience, purpose, and scope of the forecast is the first step in organizing the forecast. The Chief Executive Officer writes the instructions for the forecasting project. At a minimum, these instructions should answer the following questions:

- \$ Who is the audience? Is the forecast for internal or external¹⁰ use?**
- \$ What is the intended purpose of the forecast?**
- \$ How many years are to be projected?**
- \$ When is the forecast due?**
- \$ Why do it? What benefits are expected?**

¹⁰Internal use means for city staff use only. External use means for use outside City Hall (i.e., the forecast is being prepared for an outside business or for the central government).

- \$ What resources are committed for the project and are they adequate? Staff, computers, other?**
- \$ Who is responsible for the forecast project? Finance, budget, treasurer or city management?**

Once these questions are answered, other issues need to be addressed. These include:

- \$ Will the forecasts be prepared centrally or by departments for their respective areas? or a combination of both? Centralizing the preparation offers advantages: consistent assumptions, fewer highly skilled people involved, and a uniform methodology applied to similar subjects. The disadvantages are: the central office may not have the data, knowledge, or experience to make accurate forecasts.**
- \$ Will the forecast project aggregate revenues or individual ones? Although it is possible to forecast in the aggregate, separate forecasts of each revenue source provide better control of the variables and allow more opportunities for analysis.**
- \$ Will the forecast project expenditures by accounting classification, departmental organization, or program, or use a combination?**
- \$ What major assumptions that must be applied uniformly are included in the forecast? How will that be done?**
- \$ What data and information sources will support the project? Are they current, accurate, and available?**

Forecasting Revenues

Forecasting revenues is accomplished either by a central office (i.e., budget or treasurer-s office) or by individual departments. Hereafter, the term **Aforecaster@** will refer generically to the office responsible for the forecast.

The following steps need to be completed by the forecaster:

- \$ Identify the revenue sources to be forecast.**
- \$ Gather historical dataCactual revenue collected for each source for at least the last five years and a description of the revenue source and its legal authority (one page for each revenue source).**
- \$ Ensure that the sum of the individual revenues still equals the actual grand total revenues at year-end.**
- \$ Adjust data to eliminate rate changes, base changes, or other one-time events (i.e., large refunds). Retain the documentation of adjustments made to clean the data and the reasons that they were necessary.**
- \$ Analyze data and characteristics of the revenue source to determine the most appropriate forecasting methodology. Select the appropriate forecasting**

method and apply it to the data series to project the revenue for the applicable years.

- \$ Determine if the revenue projection appears reasonable in the current context, then adjust it for known changes in the revenue source or the economy that may impact the revenue.**

When all the revenues sources are projected, the forecaster adds the revenues by year. The result is a forecast of a jurisdiction's base line revenues for future years. To this can be added alternative scenarios that change assumptions for revenues, economic base, or rate structures to project alternative revenue streams in future years.

Forecasting Expenditures

Determining how a forecast is organized is the first step. There are three options: organization by accounting classification, by organizational structure, or by program. Forecast organization is important because it is the basis for gathering information from the central budget office or departments. Using the accounting classification system alone organizes the expenditure forecasts by personnel services, materials, services, transfers, and equipment. Shown at a city-wide level, this forecast is relatively easy to accomplish. With only five or six categories of expenditures to forecast, a deterministic or trend line approach is appropriate and can be done by the central budget office. While relatively simple, this framework provides no basis to analyze why expenditures are increasing or decreasing other than to reflect past years' trends or the assumptions made in a deterministic model. Dividing these major classifications into other expenditure sub-classifications provides more detail, more elements to forecast, and a potentially more accurate forecast. However, organization by accounting classification provides little explanation for the increase or decrease in an expenditure or which city program contributed to it.

Another way of organizing expenditure forecasting is to use an organizational approach based on the hierarchy of departments and divisions combined with existing accounting classifications. This orientation provides more detail to the forecast because expenditures are projected by department, division, and accounting classification rather than being projected city-wide. A deterministic or trend line method is also appropriate in this approach. Forecasts built organizationally provide detailed information for analysis that is not available in a simple accounting classification approach. A key disadvantage of the departmental hierarchy organization is that it does not reflect information on a program basis.

A third approach organizes expenditure forecasts based on the program budget model. This approach forecasts for programs within departments. It is useful because one can see which programs are driving departmental budgets. A

deterministic or trend line approach is appropriate here, too. This approach utilizes existing processes, involves the same personnel who develop the budget, gathers sufficient detail to analyze changes, and utilizes the experience of front line program managers in forecasts. Disadvantages include the increased work of the detailed program orientation.

Once the forecast approach is decided, the next step is to determine the amount of detail to be developed. Two alternatives are considered here. The first alternative is to prepare a complete, detailed projection for each program by forecast year using the appropriate projection methodology selected. The advantage of this alternative is that its detailed development permits extensive analysis capabilities. The disadvantage is complexity. Staff and time are insufficient to accomplish this task at this level of detail.

A second alternative is to prepare an exception-based forecasting system in which the forecaster establishes a constant level of service budget as a base line. Department or program managers advise the forecaster of changes or exceptions to this base line for future years based upon instructions received from the budget office. The detailed orientation of exception-based forecasting permits analysis of both the base line and changes in subsequent years, makes better use of department staff time, gathers critical information from knowledgeable sources about future year changes, and involves department personnel in the forecasting process. The disadvantage continues to be considerable staff time needed to develop forecasts of expenditures. Because the exception-based system is a more effective method of forecasting expenditures, more time is devoted to this alternative.

The forecaster develops a base line, constant level of service budget. Using the current year budget as a starting point, the forecaster adjusts the current budget so that it represents a true base line. One-time purchases of capital equipment, supplies, and contracted services are subtracted. Other items removed include one-time personnel expenses of retiring or terminating employees (i.e., payment for unused vacation, sick leave, or severance pay). Items added to the base are annualization of salary for employees who were funded for part of the base year and merit pay for a portion of employees. With these adjustments, the forecaster sets the base budget for each department/program and sends it to departments for their review and projected future year program adjustments.

The forecaster includes an explanation of how the base year number was determined with the instructions and forms for departments to use in providing their input to the forecasting process. The forecaster requests department/program managers to provide detailed descriptions of the changes by category by year that have already been approved in some manner. For example:

- \$ Mandated service level changes or costs due to national or state law changes**
- \$ Mandated service level changes or costs due to local ordinances or policy changes**
- \$ Productivity increases approved by Council or city management**
- \$ Funding for costs of operating new capital facilities scheduled to be opened**
- \$ Funding for costs of services due to extensions of service area**
- \$ Funding for new and replacement equipment.**

Once the information is prepared by the departments, it is sent to the forecaster. If acceptable, the forecaster adds it to the appropriate future year-s base line to produce the future year-s projected expenditures. Note that the underlying assumption is that the base line current service level remains unchanged and that factors that might impact a rapidly growing city (population, service connections) are generally constant. Similarly, while inflation is always a consideration, it is not built into the scenario by departments. If necessary, it will be applied uniformly at a later time. Cities must consider individual situations carefully in applying assumptions that will drive the forecasts.

Management reviews the projections of future expenditures. They decide which additions and changes are ultimately included in the expenditure forecast to best represent future years- current service committed costs. All approved changes are added to the respective base line budget by respective year and totaled. The resulting fiscal year totals represent projected expenditures. Items requested but not included in this forecast are shown on a separate list of unfunded needs.

Combining the Forecasts

The forecaster prepares a table or chart showing the totals of projected revenues and expenditures and creates a balance for each period. The purpose of the table is to focus attention upon the revenue shortfall or *Agap*.[®] The forecaster can show what types of policy changes need to be considered to close the gap. Using various assumptions about changes in the economy, tax rates, fees, and expenditure levels, the forecaster can illustrate the nature and magnitude of those changes. These changes generally should be actions or policies that are within the local government-s authority. For example, delaying the opening of capital facilities can defer operating expenditures; increasing the property tax rate or service fees can produce additional revenues.

Once the base line budget and projections are made, the forecaster can produce an unlimited number of *What if*[®] scenarios. These show the impact of applying various changes in policy on the revenue and expenditures for future years. These scenarios may also include changes in inflation (high, most likely, and low) or changes in the growth of the economy (vigorous, most likely, none,

and decreasing) over the forecast periods. The value in producing multi-year forecasts is to help the Council anticipate and plan for potentially adverse financial events and to provide policy options that result in decisions made early enough to avoid adverse effects.

EXAMPLES

The City of Dallas's 1995 Medium-Range Financial Forecast is included as Exhibit 8-1.

PRACTICAL EXERCISE

This exercise has three parts:

1. Using your city's budgeted revenues for the current year, which forecasting method would you use for each of the largest five revenues and why? Use the following format:

<u>Revenue</u>	<u>Proposed Forecast Method</u>	<u>Rationale</u>
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2. Using your city's budgeted expenditures for the current year, which forecasting method would you use for each of the three largest expenditures and why? Use the following format:

<u>Expenditure</u>	<u>Proposed Forecast Method</u>	<u>Rationale</u>
--------------------	---------------------------------	------------------

3. You have completed your first multi-year forecast, and it shows that your city is facing a 25% revenue shortfall in the first year, a 35% revenue shortfall in the second year, and a 50% shortfall in the third year. What steps would you take to prepare management and the Council for this fiscal problem?

**Exhibit 8-1
City of Dallas
Medium-Range Financial Forecast**

Exhibit 8-1

Medium-Range Financial Forecast (MRFF)

A Three Year Financial Forecast

May 22, 1995

Purpose

- Review the current service level GAP for FY 1995 - 96
- Present additional expense requirements and revenue changes for the next three Fiscal Years
- Calculate a GAP for the next three Fiscal Years

GAP Assumptions

- The GAP assumes twelve month funding for all programs in place in 1994-95 (Full or Partial Year).
 - The GAP provides for new or expanded programs and services that are:
 - - Mandated by law
 - - Council endorsed
 - - Capital Program O&M costs
 - - Other needs
- ◆ The GAP is:
General Fund44.5
Debt Service(1.0)
Total43.5

Revenue Summary (\$ in millions)

•FY 1994-95 Adopted Budget

- - General Fund538.8
- - Debt Service104.5
- Total643.3

•FY 1995-96 Outlook

- - General Fund547.8
- - Debt Service106.3
- Total654.1

•FY 1995-96 Revenue Changes

- - General Fund9.0
- - Debt Service 1.8
- Total10.8

Expenditure Summary (\$ in millions)

◆ FY 1994-95 Adopted Budget

- - General Fund538.8
- - Debt Service104.5
- Total643.3

◆ FY 1995-96 Outlook

- - General Fund592.3
- - Debt Service105.3
- Total697.6

•FY 1995-96 Expenditure Changes

- - General Fund53.5
- - Debt Service .8
- Total54.3

GAP - General Fund v. Debt Service (\$ in millions)

General Fund	44.5
Debt Service	<u>(1.0)</u>
Total	43.5

General Fund GAP Summary for 1995-96 (\$ in millions)

1994-95 Budget Expenditures	538.8
Full/Partial Year Adjustments	3.2
Category	15.6
Category	225.3
Category	31.1
Category 4	<u>18.3</u>
Subtotal	592.3

1994-95 Revenues	538.8
Revenue Changes	<u>9.0</u>
Subtotal	547.8

GAP 44.5

Expenditure Categories

- 1: Mandated by law
- 2: Council endorsed
- 3: Capital Program O&M costs
- 4: Other needs

Category 1: Mandated by Law

EPA Landfill Regulations 5.4
ADA - City Pools 0.1
ECI - Environmental Costs 0.1

Subtotal (in millions) 5.6

Category 2: Council Endorsed

McCommas Training Center 0.3
Police 5% Pay Increase 6.9
Fire 5% Pay Increase 4.0
EMS Modernization/Trauma Plan 0.8
Increase in Jail Contract 1.2
Contingency Reserve 2.0
Liability/Claims Fund 10.1

Subtotal (in millions) 25.3

Category 3: Capital Program O&M Costs

New and Expanded Parks 0.2
Fire Station Royal & Zodiac 0.8
Fire Maintenance Facility 0.1

Subtotal (in millions) 1.1

Category 4: Other Needs

GIS Implementation Costs	0.3
Contract Wrecker Service	0.5
Property Management	1.2
Civilian Pay Market Maintenance (5%)	7.1
Equipment Replacement	1.1
Major Facility Maintenance	4.6
Fleet Replacement	3.3
Pavement Management	0.1
Brownfields Grant	<u>0.1</u>
Subtotal (in millions)	1.1

General Fund Changes in Revenues (\$ in millions)

Sales Tax	4.1
Property Tax	1.9
Franchise Fees	1.8
Full Year of Fire Registration Fees	1.0
Increased Interest Earnings	1.0
Impoundment & Preservation Fees	<u>(0.8)</u>
Subtotal General Fund	9.0

Debt Service GAP/Surplus Summary for 1995-96 (\$ in millions)

1994-95 Budget Expenditures	104.5
Increases	<u>0.8</u>
Subtotal	105.3
1994-95 Revenues	104.5
Revenue Changes	<u>1.8</u>
Subtotal	106.3
GAP/(Surplus)	(1.0)

Three Year Summary

Assumptions

- ◆ Sales Tax revenue is projected to grow by 2% over this year-s estimate, and 2% thereafter.
 - ◆ Property Tax base growth of .99% in 1995/96, flat thereafter.
 - ◆ All other revenues are assumed to be stable.
- ◆ Expenditures include recurring 5% pay increase for Police, Fire & Civilians per year.
- ◆ Other expenditures are at level to maintain current services.

Three Year MRFF Summary (\$ in millions)

95-96 96-97 97-98

Revenues

General Fund 547.85 550.95 54.0

Debt Service 106.31 101.91 100.5

Total 654.16 52.86 54.5

Expenses

General Fund 592.36 12.96 33.4

Debt Service 105.31 101.49 9.9

Total 697.67 14.37 33.3

GAP (43.5) (61.5) (78.9)

Options for Addressing Shortfalls

- ◆ Streamlining
 - Increased Productivity
- ◆ Cost and Service Reductions
 - Pursue Outside Sources
- ◆ Privatization & Alternative Service Delivery
 - ◆ Revenue Enhancement Options

Next Steps

- ◆ Mid-June: Gap Reduction Options
- ◆ Mid-August: Presentation of Budget to City Council
- ◆ End of September: Adoption of 1995-96 Budget

Revenue Enhancement Option Requiring Additional Research

Street Utility Fee\$3.0M

- To support street programs, cities have implemented "Transportation Fees" or "Street Utility" fees. These are collected monthly from all utility customers.
 - The fees are charged based on how much traffic a certain type of property generates.
- In Dallas, \$1 per month per residential customer would generate \$3.0 million.
 - Non-residential rates need to be determined.

Exhibit 8-1, page 13

•Provide Update in Mid-June.

Recap

- The GAP is:

- General Fund44.5
- Debt Service (1.0)
 - Total43.5

- Next Steps

- - Mid-June: GAP Reduction Options
- - Mid-August: Presentation of Budget to City Council
- - End of September: Adoption of 1995-96 Budget

CHAPTER 9

PREPARING BUDGET GUIDELINES AND INSTRUCTIONS

PURPOSE

The purpose of this chapter is to enable you to:

- Understand the need for budget guidelines and instructions
- Differentiate between guidelines and instructions
- Know what would be included in budget guidelines and instructions
- Prepare budget instructions and guidelines for your jurisdiction.

HOW THIS CHAPTER WILL BENEFIT YOU

Traditionally in Poland, there has been very little use of budget instructions by cities to involve departments in the decision-making process of financing local governments. The reasons for this are varied: (1) the central government controlled most aspects of the budget process; (2) the budget generally served as a means of financial control for the central government; (3) the central budget department prepared the budget without formally receiving a department-s budget request; (4) departments were rarely involved in budget decisions, but rather were told what resources they would receive.¹¹

Local government reform is transforming the budget process. The *program budget model* being used by some jurisdictions changes the traditional budget process. The program budget approach decentralizes the budget development process in part by involving departments in the early stages of budget preparation. This approach has the benefit of promoting good management practices and ensuring financial accountability. In this chapter you will learn how the use of budget guidelines and a budget instruction manual can systematically involve departments in the budget development process in support of the local Council and management priorities.

BUDGET GUIDELINES

¹¹For an explanation of the role of the line-item budget in Krakow, please see Chapter One of the Krakow Case Study.

General guidelines from the Mayor or chief executive officer that outline the Council's priorities for the next year set the tone for the budget and constrain the size and scope of departments' budget requests. Budget guidelines are developed early in the budget process.

BUDGET INSTRUCTIONS

Budget instructions are the written directions provided annually by the treasurer and/or the Budget Office to departments and agencies of the city on how to prepare a departmental budget request and when to submit it.¹² Budget preparation instructions provide detailed direction on the request's organization, the forms to use, and the information to include.

The treasurer is generally responsible for translating Council priorities into specific instructions and economic forecasts into assumptions for the departments to use in their budget requests. Priorities and their corresponding instructions might indicate Council preferences such as increasing spending for one department over another, funding preferences such as increasing revenues from fee supported programs instead of general taxes, or limiting the increase in government spending to the level of annual inflation. Instructions also specify the assumptions that are to be used in all departmental budget submissions, such as the forecast for annual inflation, prices mandated by the central heating provider, rent, or mandates regarding salary adjustments for employees. Instructions provide a uniformity in assumptions underlying the budget requests. They can be modified quickly should the treasurer determine a need to revise an assumption based on a later and more accurate forecast of the next year's economy.

Some jurisdiction's instructions are so comprehensive that they comprise a budget instruction manual. The preparation of a detailed budget instruction manual follows closely after the general guidelines. The manual represents the treasurer's and budget office's directions to the departments in preparing the budget request. The manual shows how the budget request is to be organized, what it should contain, what forms are to be used, how they are to be completed, what chart of accounts will be used, and how much narrative description and justification are required. The manual also describes the process for requesting new programs, personnel, or equipment so that these options can be considered separately. A copy of the table of contents from the City of Dallas's budget

¹²Section 4.4 of the Krakow Case Study describes the process of developing budget guidelines. Section 4.5 describes and provides examples of task planning.

instruction manual is provided in Exhibit 9-1 to illustrate the comprehensive nature of a manual.

An important consideration in preparing a budget instruction manual is the need for uniformity. The requirement of uniformity in the budget submission process saves valuable staff time when reviewing the submitted budget, making decisions on new programs and requests, and consolidating final decisions into a comprehensive budget. The budget instruction manual can also be structured to highlight Council priorities as well as other management priorities in order to save time for the department and budget office staff because they will consider only programs meeting pre-established priorities.

Preparing budget guidelines and a comprehensive budget instruction manual is critical to a decentralized budget development process. The more thinking you do at the beginning of the process about what is to be included in the budget request and how it will be used, the better prepared you will be to evaluate budget requests consistently and fairly. You will also be better prepared to make sound financial decisions, which will ensure the financial health of the city through the years.

EXAMPLES

Exhibit 9-2 contains an example of budget guidelines and instructions used by the City of Lublin. Chapter Four of the Krakow Case Study contains examples of task planning guidelines and forms.

PRACTICAL EXERCISE

Prepare a list of items that you would include in budget guidelines for departments in your city to make the budget request more uniform. Prepare a one-page topic outline of your city's comprehensive budget instruction manual for 1997. Be prepared to discuss your proposals in the training workshop.

**Exhibit 9-1
City of Dallas
Budget Instruction Manual
Table of Contents**

Exhibit 9-1

CITY OF DALLAS BUDGET INSTRUCTION MANUAL 1995-1996

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Exhibit 9-2
City of Lublin
Budget Guidelines and Instructions

CHAPTER 10

REVIEWING AND ANALYZING BUDGET REQUESTS

PURPOSE

The purpose of this chapter is to enable you to:

- \$ Understand the changing roles and responsibilities of the treasurer and budget staff in budget reviews**
- \$ Understand the differences between U.S. and Polish budget reviews**
- \$ Identify three perspectives from which a budget request will be reviewed**
- \$ Identify issues that need to be considered in reviewing department budget requests.**

HOW THIS CHAPTER WILL BENEFIT YOU

A department budget request is not easy to prepare. The department director must develop a request that is not only compatible with the local government's budget policies and guidelines but also that meets the needs of the department. The department director must also submit a feasible request and be able to justify and defend the request.

It would be ideal if there were sufficient revenue to cover all budget requests. Unfortunately, that is rarely the case. Because most departments are not responsible for revenue generation, they tend not to be constrained in their budget requests. Nor do citizens feel constrained by revenue constraints when making budget requests. This means that needs always significantly exceed the resources available, and a review process is needed to determine which needs will be funded and which will not.

This chapter discusses the budget review process and changes that are occurring in it. It compares U.S. and Polish budget reviews, identifies the different perspectives under which budget requests will be scrutinized, and closes with a list of items that need to be considered in conducting a budget review. Like other parts of the budget planning and preparation process, the budget review process needs to be managed to produce a good budget.

ROLES AND RESPONSIBILITIES

Preparing a local government budget is a significant undertaking involving many participants: elected officials, appointed executives, department directors

and managers, and budget staff.¹³ Size and complexity of the organization are factors in deciding whether the annual budget is prepared centrally by the treasurer and budget staff or decentralized with city departments and enterprises formally submitting budget requests to the treasurer and budget staff for consideration. With the continued shift of additional responsibilities to gminas and elected and appointed officials= interest in improving operations and efficiency through the budget process, city departments and enterprises will continue to play a important role in the budget process. This chapter focuses on a decentralized budget development and review process.

In Poland, the city treasurer and budget staff are responsible for reviewing and analyzing budget requests. In a decentralized budget development process and with some cities requiring departments to prepare budgets with additional program and performance information, the responsibilities of the city treasurer and budget staff are increased. The treasurer-s increased responsibilities include:

- \$ preparing budget instructions for departments to follow in developing budget requests,
- \$ analyzing detailed department and program budget requests and performance information,
- \$ managing an expanded budget review process,
- \$ maintaining close coordination between the Mayor, City Board, budget staff, and department directors, and
- \$ compiling the City Board-s proposed budget for submission to the full City Council.

The treasurer requires a dependable and well trained budget staff to carry out these responsibilities. The treasurer should consider the capabilities of the existing budget staff that supports the process in view of additional demands placed upon it. He or she may conclude that the budget staff should be increased, retrained, or both. Budget staff-s additional responsibilities in a decentralized budget development process include:

- \$ analyzing department budget requests based on Council priorities and the effectiveness of department operations,
- \$ providing the treasurer and City Board with detailed and specific information about department activities,

¹³For a complete description of the roles and responsibilities of the participants in the Krakow budget process, please see Chapter Four of the Krakow Case Study.

10-4 Reviewing and Analyzing Budget Requests

- \$ serving as a liaison to specific departments for budget matters,**
- \$ serving as experts on city finances and statutory budgetary requirements, and**
- \$ serving as budget and management analysts for the treasurer or budget officer.**

In developing a decentralized process, the close involvement of departments in the budget process is essential. For the budget staff, the department and enterprise directors are the best source of information about the city's financial history and the persons best suited to identify service needs. From the department perspective, the budget process is a useful way to advise the Mayor, City Board, and Council about their programs, alternative approaches to providing services, and special problems facing the department.

REVIEWING BUDGET REQUESTS

Budget Review in the United States

In U.S. cities, departments prepare budget requests based on Council budget priorities; estimated resources for the following year; and detailed budget instructions issued by the budget office, Mayor, or City Manager. These instructions provide forms and examples for departments to prepare budget requests and require certain information on every request to ensure uniformity and review efficiency.

A budget request is reviewed many times before it is approved as a part of a comprehensive city budget. Department directors conduct the first review in determining the department's initial budget request and response to City program priorities and budget guidelines. The budget staff conduct the second review, the Chief Executive (Mayor/City Manager) conducts the third, and the legislative body—the Council—conducts the last. Knowing that the request undergoes such scrutiny, department directors need to be prepared to defend the requests at subsequent review sessions. Experience has shown that only fully justified budgets and adequate preparation can survive the process. Budget reviews tend to be formal presentations followed by questions from the reviewers. A written record of budget decisions is made at each step in the review process and used to track the status of the budget request from beginning to end.

Budget Review in Poland

In gminas, few budget instructions guide departments in preparing budget requests. Rather, the Mayor may have a meeting with department directors and

discuss issues that he or she senses are Council priorities, although there usually has not been any formal Council resolution to that effect.

The result is that the department budget requests submitted to the treasurer may be based upon different inflation assumptions and economic factors. There is no common format to help budget reviewers compare workloads and other information across different departments (or within departments.) Specific budget requests may be supported with varying degrees of information, but such information is generally sparse. Aside from using the State's uniform chart of accounts, different department's requests may have little in common, making it difficult for the gmina leaders to compare task efficiency and effectiveness. Much of the background information is presented orally, and there is no recorded basis for decision-making.

As a result, the budget review is based upon elements common to all department submissions. The department submission contains a listing of revenues (if any) and expenditures using two digit section account codes and four digit chapter account codes. The narrative is sparse and consists mainly of descriptions for account headings. Review of department budget requests is limited to verifying that the request is coded to the correct budget classification, that it is mathematically correct, and that it complies with instructions (if any) provided by the treasurer. Generally, a calculation is performed to show the increase/decrease of the request by account code over the prior year budget plan. More in depth analysis is not performed due to lack of information and supporting justification, a very short time frame for budget review, and a lack of staff trained to analyze budgets for efficiency and effectiveness.

To change this situation and to make local government more efficient, some gminas are using the budget process to improve decision-making and the delivery of city services. Detailed budget instructions are prepared to guide departments in developing the budget request. This usually increases and standardizes the information supporting the department's request and significantly aids the review process conducted by the treasurer/budget staff.

Additionally, some gminas require departments to prepare a budget request based on minimum operating costs. Included in minimum operating costs are mandatory expenditures (obligatory and delegated assignments from the central government) and base or current service expenditures of a department's continuing operations (gmina responsibilities by law) plus an inflation adjustment. Other discretionary costs or budget requests (enhancements in operations) are identified in a budget supplement. Preparing department budget requests based on written instructions and requiring that they be based on minimum operating costs enhances the ability of the city to review budget requests and helps management make better decisions. Separating enhance-

ments from the base service level permits these items to be more thoroughly analyzed and added to the budget based upon individual merit.

For a budget review to be effective, the reviewer strives to obtain full understanding of the budget request. That can be done by reviewing and verifying the budget request and discussing issues and questions with the department. A reviewer should be able to obtain from the budget request the following information:

- \$ services to be performed by the department for the citizens
- \$ detailed explanation of the program inputs and outputs
- \$ planned program emphasis and changes in emphasis
- \$ computerized links between budgeting formats (crosswalks)
- \$ program and financial plans.

To get the maximum benefit from a budget review, the department director should be permitted to present the departmental budget request in a formal budget review. The focus of this review is to gain an understanding of existing and planned management policy changes as reflected in the budget request. Budget reviewers use this opportunity to obtain additional clarifying information about a budget request, and the department should provide oral or written answers to the request.

The review process allows the reviewer to obtain all the necessary program information needed to evaluate the request as well as gain a real insight into the budget request. The reviewers should not limit themselves to the budget request but should use other sources of information, too. No one source of information is adequate, and reviewers may need to make many inquiries to gather the information from the department. Once the review process is completed, the reviewers help package the request for management review and decision-making. The reviewers may be requested to produce further analysis of the request or make recommendations for management's consideration of the budget request. A subsequent section of this chapter provides a detailed checklist of items to be considered in reviewing a budget request.

PERSPECTIVES ON BUDGET REVIEWS

Once the department submits its budget request, it will be reviewed by different bodies with different perspectives. The bodies are the treasurer/budget staff, the City Board, and the Council through its budget review committee. It is important to understand that regardless of perspective, certain areas of the budget request are more likely to attract the attention of a reviewer. Close attention is paid to expenditures that are:

- \$ **discretionary rather than mandatory**
- \$ **large rather than small**
- \$ **increasing, rather than decreasing or stable.**

This means that a request for a large, discretionary increase in a department budget will in all likelihood receive in-depth scrutiny, while a small, recurring, or mandatory item may not.

Treasurer/Budget Staff Review

As the complexity of the budget increases, so does the importance of the treasurer and budget staff in reviewing and preparing the budget. The budget staff not only have to keep the needs of the departments in mind when reviewing budgets, but must also consider the City Board and the Council guidance.

The treasurer and budget staff must also be aware of the financial and budget policies and guidelines of the organization, the financial condition of the local government, and the political climate that influence budget recommendation. The budget guidelines set by the Council and City Board help the treasurer and budget staff review department requests. The guidelines reduce the volume of requests, as they guide the department requests and save time and money when the budget staff do not have to review requests that are not within the guidelines.

A budget reviewer is usually assigned to assist a group of departments in the budget development process. In the budget development process, the reviewers are to establish a close working relationship with the department and provide training and technical assistance. After the budget request is submitted, the reviewers assist the treasurer by analyzing the request based on Council, treasurer, and budget office guidelines and instructions. The reviewers take their direction from management and may perform different roles in reviewing budget requests.

- \$ In a *compliance* role, the reviewer verifies that the request conforms to budget guidelines and preparation instructions of the budget office and that all requested information is included and appropriately completed. For example, the reviewer ensures that proposed expenditures are coded to the correct standard accounting classification code and that the request is mathematically correct.
- \$ In an *analytic* role, the reviewer focuses upon budget requests that provide detailed program information beyond that required by the State obligatory budget format. This may be the task budget approach used in Krakow or additional program detail as used in Lublin or Szczecin. Detailed budget

information including program descriptions, expenditures, and performance measures is assessed and analyzed. The purpose of the review is to fully understand the program, its objective, and the likelihood for its success. The analyst is encouraged to ask management questions and analyze these requests for compatibility with overall priorities and objectives established by Council.

\$ In an *advisory* role, the reviewer checks the proposed expenditure requirements to determine their adequacy and need for changes, if any. It is understandable that mandatory expenditures are uncontrollable and must be funded in the budget. The reviewer normally analyzes these requests to ensure that the department programs have sufficient allocations. For base or current service expenditures, the reviewer analyzes requests to ensure that there are no increases in these items without sufficient justification. The reviewer checks discretionary items more closely than either mandatory or base expenditures. These are the items that are funded only if resources are available.

When the review is complete, the reviewer assists the budget officer to present the program expenditure issues and background for further consideration by the treasurer. When all reviews are complete, the treasurer prepares a draft budget based on department and program requests and priorities for the City Board's consideration.

City Board Review

In Poland, the City Board is appointed by the Council to direct the operations of the city and is responsible for preparing and recommending an annual budget plan. In the budget development process, the City Board approves budget assumptions and budget guidelines. In the budget review process, the Board's role is to carry out the policy and program priorities of the legislative body, the Council. This is usually accomplished by the City Board working closely with the treasurer and budget staff to ensure that the policies and directives are included in department budget requests.

Once the budget staff and treasurer have completed the reviews, the treasurer prepares a draft budget and submits it to the City Board for review. The City Board reviews the draft budget and makes the final budget decisions based on Council and management priorities and available resources. The treasurer and budget staff adjust the draft budget based on these decisions and return it to the City Board for submission to the Council.

In addition to ensuring that the recommended budget includes the Council's program priorities, the City Board's review should also focus upon other aspects of the budget; specifically, ensuring that the budget recommendations are appropriate and take into account all the financial and management policies/directives addressed earlier in the budget development process by the Council and later in budget reviews. This serves as a check to make sure all policies are being adhered to.

City Council Review

The Council's review and ultimate approval of the budget depends upon (1) the quality of the City Board's review and resulting recommendations and (2) the way in which these recommendations are submitted to the Council.

The Council needs budget information from the City Board that can be easily understood. Few gminas have large Council staffs to research budget issues independently. Therefore, clarity and brevity of the budget information is essential. If the City Board has performed its role properly in the budget preparation and review process, then the Council should be comfortable with the budget as presented.

Nevertheless, Councils are reluctant to approve any City Board's budget recommendation in its entirety. Therefore, Council adjustments to the budget are expected. These adjustments are usually in discretionary areas and do not generally adversely impact the budget.

The Council wants to see how the budget priorities they developed early in the budget process were included in the budget. This means not only city-wide budget priorities but may also include specific Councilors' priority projects for certain constituents or geographical areas.

Finally, the Council wants a controversy-free budget process. If there are any controversial items, the Council should be informed of these to avoid being surprised when the budget is presented.

BUDGET REVIEW CONSIDERATIONS

The treasurer and budget staff are charged with the responsibility to review and analyze department budget requests and to recommend and draft a budget plan for the City Board's review. Budget staff, who are responsible for reviewing departmental budget requests, need to perform more than compliance checks against budget guidelines and instructions. The budget staff should act as budget and management analysts, asking management questions and analyzing

budget requests. Following are some questions that the budget staff and budget officer should keep in mind as department budgets are reviewed.

General

- \$ Do the proposed performance and service levels justify the budget request?**
- \$ Are the spending requests credible? Are they based on valid assumptions?**
- \$ Is the proposed approach to a particular service the best way to achieve the stated objective?**
- \$ If choices must be made between competing budget requests, what is the relative importance or value to the community of the new spending programs proposed by the various departments?**
- \$ By spending more on a particular service during the next fiscal year, will the gmina save money in the long run?**
- \$ Is there duplication of work between departments? Can services be improved or costs reduced by changing staffing patterns or other revisions?**
- \$ Is the proposed level of financing adequate for each service?**
- \$ Will the estimated revenues that will be available to the city during the next fiscal year be sufficient to fund basic services at an acceptable level? Should the Council consider increasing revenues?**

Programs

- \$ Have programs been defined?**
- \$ Have the objectives of new and expanded programs been clearly defined?**
- \$ Have all significant increases or decreases been explained?**
- \$ Have efforts been made to reduce costs through improved work methods, automation, or better personnel utilization?**
- \$ Have priorities been assigned to new and expanded programs and to equipment?**

10-4 Reviewing and Analyzing Budget Requests

- \$ Have fees and charges for rendering services been compared to the cost of providing the service or enforcing the regulations?**
- \$ Have major problems encountered during the year been explained?**
- \$ Have economies achieved during the past year by improving work methods been explained?**
- \$ Are there any recommendations for further reducing costs and increasing the efficiency of the operation?**
- \$ Are there any recommendations regarding changes in the level of services?**
- \$ What were the effects of budgetary limitations last year, if any?**
- \$ What is the programmatic consequence of increasing or decreasing, establishing or eliminating a particular program or activity?**

Personnel

- \$ To what extent do the requested positions relate to defined activities and programs? Does an evaluation of duties and responsibilities support the need for new positions?**
- \$ Have provisions been made for delay in filling new and vacant positions?**
- \$ Does the opening of new facilities justify the need for the personnel in the operating budget?**
- \$ Have employee turnover, overtime, seasonal personnel, leaves of absence, and the need for related appropriations been considered?**

Services

- \$ Have expenditures and workload data of previous years been carefully examined for contractual services?**
- \$ For each specific service to be rendered, is the need and the manner of pricing explained? Has the level of service been examined to evaluate present methods?**

- \$ Are contributions to non-governmental agencies based on requests supported by detailed information about the service being provided? Has the effectiveness of such services been evaluated?**

Materials and Supplies

- \$ Is an analysis of the expenditures and consumption of previous years included with requests for material and supplies?**
- \$ Have price increases and supplies required by additional personnel been considered? Does the need for additional supplies relate to increased workload or new and expanded programs? Have inventories been reviewed?**
- \$ Are there inventory or other controls over the use of supplies? Have work methods been evaluated along with the type and quality of supplies?**

Equipment

- \$ Has equipment been proposed that will increase or decrease operating costs next year and beyond? Which equipment investments have the highest priority?**
- \$ Has equipment been identified as replacement or new? Has the condition of the equipment being replaced, as well as its potential trade-in value, been reviewed? Have inventories of existing equipment been checked to determine the need for new equipment?**
- \$ Have work methods, as well as the experience of other gminas in using special types of equipment, been reviewed? Are requests for new equipment compatible with expanded work programs or possible savings?**
- \$ Have equipment needs of new personnel been considered?**
- \$ Have repair costs, along with the advantages of leasing, been analyzed?**

Reserves

- \$ Has the amount of the reserve fund (i.e. the amount of uncommitted money expected to be left over at the end of the next fiscal year) been reviewed?**
- \$ Is the amount of the reserve fund adequate? Should additional funds be set aside for emergencies?**

After considering these items for each budget request and the budget in general, the treasurer and budget staff should be able to prepare a draft budget for the City Board bringing together estimated revenues and proposed expenditures for the next fiscal year into a comprehensive budget for the gmina.

PRACTICAL EXERCISE

For the following program, examine the information and explain the questions that should be raised and why they should be raised. All costs have been adjusted to remove inflation impact.

1. In a senior citizen-s folk dance program sponsored by the Department of Culture, the following cost and attendance information was gathered:

<u>Year</u>	<u>Cost</u>	<u>Attendees</u>
1990	20,000 zł	700
1991	21,250 zł	740
1992	23,750 zł	760
1993	25,000 zł	755
1994	30,000 zł	750
1995 budget	35,000 zł	745
1996 proposed	45,000 zł	C

2. In the same type of program, a similar gmina had the following costs and attendees for the same years:

<u>Year</u>	<u>Cost</u>	<u>Attendees</u>
1990	17,500 zł	200
1991	25,000 zł	1,200
1992	25,000 zł	1,080
1993	26,250 zł	1,200
1994	26,875 zł	1,300
1995 budget	26,875 zł	1,800
1996 proposed	30,000 zł	C

What tentative conclusions seem warranted? What follow-up questions seem appropriate?

CHAPTER 11

PREPARING THE BUDGET DOCUMENT

PURPOSE

The purpose of this chapter is to enable you to:

- \$ Identify differences between U.S. and Polish budget systems and documents
- \$ Determine what elements should be included in the budget document
- \$ Compare your budget document against criteria for distinguished budget presentations.

HOW THIS CHAPTER WILL BENEFIT YOU

Much of the material presented so far has dealt with budget planning and preparation. This chapter provides general guidance for preparing the most important product of the budget process: the budget document. For comparative purposes, a brief discussion of U.S. and Polish budget systems and documents is included with suggestions for items that should be included in the document. These differences are pointed out to help you understand what degree of flexibility gminas have in revising their budget practices and documents.¹⁴ Lastly, the chapter includes a series of questions to determine how your jurisdiction's budget meets criteria for evaluating budget documents. This assessment is helpful in identifying what aspects of your budget document could be improved and how those improvements could be accomplished.

BUDGET DOCUMENTS: A COMPARISON

Budget Documents in the United States

Local government budgets in U.S. cities must comply with certain local and state laws. A budget document format may be designed to meet the needs of the local government and the community it serves. Some general characteristics follow:

- \$ Budgets are required by local and/or state laws rather than the central government.
- \$ Operating expenses and investment expenses are separated into two documents: an operating budget and capital budget.

¹⁴For a description of the legal and administrative constraints to budget reform faced by Polish gminas, please see Chapter One of the Krakow Case Study.

\$ The operating budget is composed of various types of funds that relate directly to accounting standards required of local governments. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other resources together with all related liabilities, obligations, reserves, and equities that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

\$ The operating budget includes the following types of funds: General, Debt Service, Enterprise, and Fiduciary. A brief definition follows:

General Fund: This is the main operating fund for the city. It accounts for basic services provided to the public and revenues that support the general operation of local government.

Enterprise Funds: These funds are fully supported by charges for services. Each fund establishes revenue-based fees and charges based on recouping the cost of services provided.

Debt Service Funds: Sometimes referred to as Interest and Sinking Funds, these funds account for the accumulation of financial resources to meet the principal and interest requirements of municipal bonds and debt service reserves that finance the city's capital improvement programs.

Fiduciary Fund: This fund accounts for assets held by the city in a trustee or agency capacity. For example, grants from the national government or private donors would be accounted for in these funds.

\$ The budget document format is generally left to the discretion of local government officials, not prescribed by law.

\$ The budget serves as a policy document, financial plan, and operations guide and a communication device.

\$ The budget document includes program descriptions, multi-year comparisons, and performance measures to explain the budget, provide historical cost comparisons, and meet the information needs of different audiences.

\$ Budget documents that meet certain criteria are recognized with an award by an association of government finance officers. For GFOA Award Criteria, please see Exhibit 11-1.

Budget Documents in Poland

11-4 Preparing the Budget Document

During the last five years in Poland, the structure of local government and its relationship to the central government have changed considerably. These changes have transferred powers from the central government to local self-governments; reshaped the legal forms for city organizational units, including budgetary units and enterprises; and encouraged decentralization of administration, financial, and management systems.

Traditionally, gmina budget documents adhere to the central government's budget law regarding document format and content. Some of these requirements or characteristics include:

- \$ Budgets are prepared in accordance with central government budget law.
- \$ Operating expenses and investments are combined into one budget document.
- \$ A single fundCa General FundCaccounts for income and expenditures of the gmina. This includes grant funds received from central government and user fees and other revenues from local services.
- \$ The budget document serves only as a financial plan. Gminas prepare the document using a format and standard accounting classification codes required by the central government to meet their budgeting and accounting requirements.¹⁵ Few narrative descriptions and multiple year comparisons are provided to help explain and justify the budget. Comparisons of annual revenues and expenditures are generally limited to the current year and the proposed budget year.
- \$ There are no external incentives or means of recognizing improved budgeting practices or documents.

Some municipalities, notably Krakow, Lublin, and Szczecin, have chosen to use the budget as a management and policy tool to bring about positive change in the operation of the municipality. Some of these improvements are reflected in the budget document. For example:

- \$ The budget includes narrative descriptions and performance measures in a task based budget document (in addition to complying with the obligatory state budget requirements). Developing the budget at a lower level (i.e., task) is designed to improve the allocation of scarce resources and help department managers improve the effectiveness and efficiency of city services. Exhibit 11-2 illustrates the budget information included in the Krakow budget for a specific task. The Krakow Case Study (in the final section of this manual) will illustrate the benefits of this approach in more detail.

¹⁵The City of Krakow is still required by law to prepare the budget as mandated by the Polish government. Chapter Two of the Krakow Case Study compares task budgeting with the nationally required line-item format.

- \$ The budget includes a message from the Mayor in the budget document. The budget message briefly describes the environment in which the budget was developed, the assumptions made in the budget, and recommendations included in the budget. It may also indicate the impact of those recommendations. The message usually includes a summary of revenues and expenditure levels with explanations of year to year changes. Exhibit 11-3 shows the Budget Message included in Krakow's budget.
- \$ Including budget charts and graphs in the document can be an important aid to the reader. It helps the reader understand important relationships, stimulates interest, and can focus the reader's attention on specific points of information. See Exhibit 11-4 for Lublin's use of pie charts in describing the sources and uses of funds.
- \$ Preparing a highly condensed version of the operating budget document (sometimes called the Budget in Brief or Citizen's Guide to the Budget) is an effective way to communicate with citizens concerning the budget. It can also reduce the cost of producing a more costly budget document. This condensed version does not replace the Council approved budget document but only summarizes it. Exhibit 11-5 includes the Budget in Brief prepared by the City of Szczecin.

These are a few of the examples of budget improvements already made in selected budgets. Ideally, all municipal budgets should contain the basic elements of an effective budget presentation.

PREPARING THE BUDGET DOCUMENTWHAT IS INCLUDED?

After submitting the draft budget document to the City Board and receiving adjustments and corrections, the treasurer prepares the final draft budget for City Board review and recommendation to the Council.

The program budget, as this manual has emphasized, is more than a financial plan. The budget should also serve as a policy document, an operations guide, and a communication device. To achieve the multiple purposes of budgeting, the following should be included in the budget document:

- \$ **Table of contents.** This helps the reader quickly locate items in the document
- \$ **Budget message.** A message from the Mayor summarizes major revenues and expenditure proposals, explains significant changes (financial or programmatic) from the current year to the budget year, and describes recommendations to address major issues and problems faced by the local government.

- \$ **Financial policies and budget guidelines for the budget year.** Policies and guidelines define the financial framework in which budget decisions are made and show how the current budget responds to those decisions.

- \$ **Organization chart.** This chart is one of the most common ways to depict an entire organization's structure. It may be helpful to provide unit or departmental organization charts within the organization if needed to clarify the relationships between the overall organization and component units.

- \$ **Financial summaries and tables.** These include:
 - Chart of the organization of the total budget
 - Chart comparing sources and uses of funds
 - Brief explanation of each major source of revenue
 - Brief explanation of each major use of funds
 - Summary table of revenues by source (at least three years)
 - Summary table of expenditures by program (at least three years)

- \$ **Operating budget detail--program/task descriptions.** The document should describe the programs/tasks carried out by the budgetary units or departments. Programs/tasks should include an goal/objective, cost information, performance measures, and staffing required. Explanation of changes from prior years is desirable.

- \$ **Investment program detail.** The document should contain program/project descriptions and sources of funds.

- \$ **Appendix.** This should contain a glossary of terms used in budget, finance, and accounting activities and a profile of the community served by the gmina including:
 - History of the community and gmina
 - Demographics (land area, land use, population, median age, racial/ethnic composition, climate)
 - Economics (major employers, unemployment rates, taxes, etc.)
 - Public service statistics (airport, housing units, parks and green spaces, schools, etc.).

PRACTICAL EXERCISE

Exhibit 11-6 contains a series of questions to evaluate your gmina's budget document. Read the questions and choose the appropriate response. At the end, add up the total points and check them against the scores at the end of the sheet. Answer the following questions and be prepared to discuss.

What part of your budget document rated the highest?

What part of your budget document needs the most improvement?

Do you agree with the evaluation? Why or why not?

Will you use this evaluation document to make changes in the budget document?

Exhibit 11-1
GFOA Award Criteria

GFOA Distinguished Budget Presentation Award Criteria

A. Policy Document

1. The document should include a coherent statement of organization-wide financial and programmatic policies and goals that address long-term concerns and issues.
2. The document should describe the organization's short term financial and operational policies that guide the development of the budget for the upcoming year.
3. The document should include a coherent statement of goals and objectives of organizational units (e.g., departments, divisions, offices or programs).
4. **MANDATORY:** The document shall include a budget message that articulates priorities and issues for the budget for the new year. The message should describe significant changes in priorities from the current year and explain factors that led to those changes. The message may take one of several forms (e.g., transmittal letter, budget summary section).

B. Financial Plan

1. The document should include and describe all funds that are subject to appropriation.
2. **MANDATORY:** The document shall present a summary of major revenues and expenditures, as well as other financing sources and uses to provide an overview of the total resources budgeted by the organization.
3. **MANDATORY:** The document shall include summaries of revenues, and other sources and expenditures for the prior year actual, current year budget and/or estimated current year actual, and proposed budget year.
4. **MANDATORY:** The document shall describe major revenue sources, explain the underlying assumptions for the revenue estimates and discuss significant revenue trends.

5. The document shall include projected changes for governmental funds included in the budget presentation, including all balances potentially available for appropriation.
6. The document should include budgeted capital expenditures and a list of major capital projects for the budget year, whether authorized in the operating budget or in a separate capital budget.
7. The document should describe if and to what extent capital improvements or other major capital spending will impact the entity's current and future operating budget. The focus is on reasonably quantifiable additional costs and savings (direct or indirect) or other service impacts that result from capital spending.
8. The document shall include financial data on current debt obligations, describe the relationship between current debt levels and legal debt limits, and explain the effects of existing debt levels on current and future operations.
9. **MANDATORY:** The document shall explain the basis for budgeting for all funds, whether GAAP, cash, modified accrual, or some other statutory basis.

C. Operations Guide

1. The document shall describe activities, services or functions carried out by organizational units.
2. The document should provide objective methods (quantitative and/or qualitative) of measurement of results by unit or program. Information should be included for prior year actual, current year budget and/or estimate, and budget year.
3. **MANDATORY:** The document shall include an organizational chart for the entire organization.
4. **MANDATORY:** A schedule(s) or summary table(s) of personnel or position counts for prior, current and budgeted years shall be provided, including descriptions of significant changes in levels of staffing or reorganizations planned for the budget year.

D. Communication Device

1. The document shall provide summary information, including an overview of significant budgetary issues, trends and resource choices. Summary information should be presented within the budget document either in a separate section (e.g., executive summary) or integrated within the transmittal letter or other overview instructions.
2. The document should explain the effect, if any, of other planning processes (e.g., strategic plans, long-range financial plans, capital improvement plans) upon the budget and budget process.
3. **MANDATORY:** The document shall describe the process for preparing, reviewing and adopting the budget for the coming fiscal year. It should also describe the procedures for amending the budget after adoption. If a separate capital budget process is used, a description of the process and its relationship to the operating budget should be provided.
4. **MANDATORY:** Charts and graphs shall be used, where appropriate, to highlight financial and statistical information. Narrative interpretation should be provided when the messages conveyed by the graphs are not self-evident.
5. The document should provide narrative, tables, schedules, cross-walks, or matrices to show the relationship between different revenue and expenditure classifications (e.g., funds, programs, organization units).
6. **MANDATORY:** The document shall include a table of contents to make it easy to locate information in the document.
7. A glossary should be included for any terminology (including abbreviations and acronyms) that is not readily understood by a reasonably informed lay reader.
8. The document should include statistical and supplemental data that describe the organization and the community or population it serves, and provide other pertinent background information related to the services provided.
9. The document should be printed and formatted in such a way to enhance the understanding and utility of the document to the lay reader. It should be attractive, consistent, and oriented to the reader-s needs.

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Exhibit 11-2
City of Krakow Budget
Operating Budget Detail
Task Budget Description
[extract]

Exhibit 11-3
City of Krakow Budget
Budget Message - 1994 & 1995

Exhibit 11-4
City of Lublin 1995 Budget
Revenue and Expenditure Pie Charts, Bar Graphs, and Tables
[extract]

Exhibit 11-5
City of Szczecin Budget
Citizen-s Guide to the Budget

Exhibit 11-6
Budget Document Scorecard
How Does Your Budget Compare?

Exhibit 11-6

BUDGET DOCUMENT EVALUATION HOW DOES YOUR BUDGET COMPARE?

Choose the appropriate response for each question. Add up the corresponding points and check them against the scores at the end of the scorecard.

As a Policy Document

3. Which of the following are included in your budget?
 department or program objectives for the budget year (3 points)
 organization-wide goals that span more than one budget (6 points)
 both of the above (9 points)
4. What is included in the budget message?
 summary of major revenues and spending proposals (3 points)
 recommendations to address major issues and problems confronting your gmina (6 points)
 themes that link policy issues with budget proposals (9 points)
 all of the above (12 points)
5. What fiscal policies are included in your budget document?
 financial policies that span more than one budget (e.g. debt policies) (3 points)
 fiscal or budget guidelines pertaining to the current budget (6 points)
 both of the above (9 points)

As a Financial Plan

6. What debt information is included in the budget?
 estimate of current outstanding debt (3 points)
 analysis of current debt capacity and its implication for the budget (6 points)
 both of the above (9 points)
7. Which of the following financial summaries are included in your budget?
 consolidated summary of revenues and expenditures for all budgeted funds (3 points)
 summary of expenditures by department or program within fund type (6 points)
 both of the above (9 points)
8. What type of revenue analysis is included in the document?
 description of major revenue sources (3 points)
 discussion of significant revenue trends and underlying assumptions for revenue estimates (6 points)
 both of the above (9 points)

9. How detailed is the spending information presented for individual departments or programs?
___ more than five line items or objects of expenditure (1 point)
___ less than five line items or objects of expenditure (3 points)
___ expenditures by activity only (6 points)
10. What information does your operating budget include on major investments?
___ list of investment and their cost for the budget year (3 points)
___ estimated impact of investment projects on current and future operating budgets (6 points)
___ both of the above (9 points)
11. How many years of data are included in the financial summaries or program schedules?
___ one year (1 point)
___ two years (3 points)
___ three years (6 points)

As an Operations Guide

12. How much information on department and program responsibilities is provided?
___ mission statement or statement of purpose for each department or program (1 point)
___ mission statement or statement of purpose for each major activity within a department or program (3 points)
13. What measures of performance are provided for departments or programs?
___ discussion of prior budget results and accomplishments (3 points)
___ one or two years of quantitative or qualitative performance data (9 points)
___ three years of quantitative or qualitative performance data (12 points)
14. What information is included in your budget on personnel or staff levels?
___ number of full-time equivalent positions by department or program (1 point)
___ number and type of full-time equivalent positions by department or program (3 points)
___ number and type of full-time equivalent positions for each of three years (6 points)
15. What is included in the organizational chart?
___ department (1 point)
___ department and programs/activities (3 points)
___ department, programs/activities, and position counts (6 points)

As a Communication Device

16. Which of the following reader aids are included in your budget?
___ table of contents (1 point)
___ table of contents and glossary (3 points)
___ table of contents, glossary, and index (6 points)

17. What type of information is provided on the budget process?
- description of budget phases and timetable (1 point)
 - description of budget phases, timetable, and roles of key participants (3 points)
 - description of budget phases, timetable, roles of key participants, and related financial planning systems (e.g. long-term investment plan) (6 points)
18. What type of visuals are included in your budget?
- graphs (e.g. line graphs, bar charts, pie charts) (1 point)
 - graphs and maps (3 points)
 - graphs, maps, and photographs (6 points)
19. Where are the graphs placed within the document?
- grouped together (1 point)
 - interspersed throughout the budget (3 points)
20. What information is provided on the community of population served by your jurisdiction?
- economic, demographic, or social statistics (1 point)
 - economic, demographic, or social statistics by geographic area or population sector (3 points)
21. What is included on the budget cover?
- title only (1 point)
 - title and artwork (e.g. design or photos) (3 points)
 - title and artwork in more than one color (6 points)
22. How is your budget summarized?
- summary within the budget document (1 point)
 - separate budget in brief or summary budget (6 points)
- Total Score

Document scores (Maximum score: 141 points)

37 to 67	Requires a major overhaul
68 to 98	Some sections may need major revisions
98 to 128	Could use some fine-tuning
+129	Looks like a budget award winner

CHAPTER 12

COMPUTERS IN FINANCE AND BUDGETING

PURPOSE

The purpose of this chapter is to enable you to:

- \$ Identify uses of computers in information processing
- \$ Understand the value of computers in the workplace
- \$ Identify uses of computers in local government finance and budgeting.

HOW THIS CHAPTER WILL BENEFIT YOU

Computers are revolutionizing the way private and public organizations do business. Local governments, too, as public organizations, are applying computer technology in new and exciting ways every day to anticipate and solve many common local government problems. Computerized financial systems can apply advances in computer technology that will provide information to a larger group of people, on a more timely basis, and with increased efficiency. If properly prepared, the information generated by such a financial system can improve the quality of decision-making.

This chapter provides an overview of the use of computers in information processing and of computers= value and use in local government finance and budgeting. It describes briefly how computer applications have been applied to the finance and budget processes to improve the availability and timeliness of information and the quality of decision-making.¹⁶

USES OF COMPUTERS IN INFORMATION PROCESSING

Computers are used to perform six information processing tasks in local government finance and budgeting:

Record-Keeping

Record-keeping is a primary and elementary task performed by computers. Record-keeping involves the entry, updating, and storage of data. For example, the record-keeping function includes maintaining and updating files on citizen requests for service, personnel, or businesses, or

¹⁶For a detailed description of the integrated computer management system used by the City of Krakow, please see section 3.3 of the Krakow Case Study.

files for financial information such as payroll, property tax records, accounting, inventory, or fixed assets.

Calculating and Printing

Computers can arrange, select, calculate, and print stored data to produce specific information needed for a report, in any pre-determined format or timeframe. For example, computers are used extensively in the U.S. to process payroll, send bills to customers, prepare mailing lists, and prepare budgets. They have automated the process of preparing spreadsheets, replacing manual calculations for such time-consuming projects as calculating a department's employee salary and benefit costs, debt schedule amortization, and cash flow projections.

Record Searches

While computers have significant data storage capabilities, they can also access and retrieve records with speed and accuracy. Computers can search thousands of records in fractions of a second to find a specific one or set of records that meet specific parameters. This quick response benefits customers by reducing wait time and increasing the efficiency of the person waiting on them. For example, customer service representatives use computers to access a customer's account instantaneously and to respond to a customer inquiry about a payment's status on the telephone or in person within seconds.

Record Restructuring

Restructuring is the process of disassembling, reorganizing, and reassembling data in a new structure. It may also include an analysis of information. For example, the computer can use a crosswalk or matrix system to convert data from one type of budgeting format to another, i.e., from a state-required report format to a management-oriented, task budgeting format.

Analysis

Computers programmed to manipulate data with multiple interrelated variables provide organizations with a useful analytic tool. The use of multiple regression modeling to forecast revenues is a specific example of computer analysis. Using statistical software to determine correlation between variables and then using the results of this analysis to plot trend lines of specific revenue sources is another example of using the computer as an analytic tool.

Control Processes

Computers are used to monitor and control systems. The computer is given data that establish the parameters of the system monitored and is given instructions to initiate certain actions when those parameters, or limits, are reached. The computer may be programmed to shut down an operation to avoid a fire, explosion, or other catastrophe in an emergency situation. In

less critical situations, such as budgeting, computers monitor appropriations. Computers are programmed to reject expenditure transactions that if approved would exceed appropriations, or to suspend the transaction until further approval or instructions are received from accounting or budget officials. In other ways, control processes improve the integrity and accuracy of the data in the financial system by screening transaction data to ensure that they meet certain pre-determined criteria and rejecting transactions with data that do not.

VALUE OF COMPUTERS IN THE WORK PLACE

The increasing investment in and proliferation of computers in business and government has generated discussion about the value of computers and the degree to which they contribute to increased efficiency, effectiveness, and productivity of the employee.

Traditional claims of the advantages of using computers and information processing are numerous and varied. Computers are assumed to benefit organizations by:

- \$ reducing costs and staffing due to the reduced need for personnel to manipulate data manually and repetitively,
- \$ processing large volumes of information that would have been impossible before computerization,
- \$ providing better information to managers and decision-makers,
- \$ improving the ability of supervisors to supervise the work of subordinates,
- \$ facilitating long-range organizational planning and analysis, thereby enabling the organization to prepare for future demands, and
- \$ facilitating innovation adoption by transferring computer technology to other departments of an organization or to another organization (such as a local government).

Although many computers have been purchased and installed with the expectation that savings and increased productivity would result, the degree to which all these claimed advantages have been achieved is somewhat unclear. To clarify the issue, a survey of computer users in selected city and county governments in the U.S. was conducted. The survey asked local government computer users about these traditionally assumed advantages. The findings from that survey provide a different perspective of what actually happens when computers and information processing are installed in local governments.

- \$ **Reduced personnel?** The survey revealed that staff reductions were the exception rather than the rule. What normally happened is that the staff remained the same, but the number of transactions processed by the staff increased after computer installation.

- \$ **Reduced cost?** The assumption that installation of computers will reduce cost is linked to the above item in which personnel are reduced. What often happens is that computer usage leads the organization to undertake new activities that it was not able to perform previously. The new activities generally absorb any cost reductions.

- \$ **Better information for managers and decision-makers to improve decisions?** The survey revealed that computer information, properly used, could improve the quality of information available to management and the actual quality of decisions. However, computer information systems tend to grow over time and provide additional data that may lead to information overload for decision-makers. Also, while information systems can aggregate and summarize data easily, the ease and speed of data retrieval cannot compensate for inaccurate or poor quality data. Users of computer information need to be concerned about the quality and accuracy of the data entered into the computer if they are to rely on the output.

- \$ **Enhance supervisors= ability to monitor subordinates?** The survey confirmed that computers could enable a supervisor to monitor a subordinate's activities and performance more closely. However, there may be adverse consequences: the employee may experience alienation and resentment because of this new oversight, and these feelings may negate the benefit.

- \$ **Do computer information systems facilitate planning for organizational needs?** Actually, information systems add requirements for the organization to hire and retain qualified personnel to maintain an ever-increasing array of complex information systems. The survey revealed that numerous restrictions on local governments limit their ability to respond to these organizational needs. For example, state government restrictions limit hiring, promotions, and salary levels in the U.S. Often these restrictions make local government salaries non-competitive with the private sector market. Without competitive salary structures for computer trained personnel, local governments can only retain mediocre technical staff who do not effectively respond to the information processing needs of the organization.

- \$ **Are innovative computer software programs transferred to other organizations to reduce duplication of effort?** The survey indicated that such transfers rarely occur among local government organizations. The major reasons that software is not transferred are inadequate documentation, different city requirements, and incompatible computer systems.

In summary, installing computers in the workplace has produced a somewhat different set of benefits than traditionally claimed. Computer usage enables personnel to produce more work at lower unit cost, manipulate larger volumes of data and produce more information than was pos-

sible before computers, and improve the quality of information available to management and policy-makers to guide their decisions.

USE OF COMPUTERS IN FINANCE AND BUDGETING

Computerization continues to increase throughout U.S. local governments, and in finance departments specifically. In 1977, almost all U.S. cities and counties with a population over 100,000 used computers in their local government, and over 50 percent of the cities and counties with a population over 10,000 used them. Personal computers, integrated financial accounting systems, networks, improved software, and lower costs have increased the number of computer users in local governments and have allowed smaller local governments to purchase computers and integrated financial accounting systems for the first time.

The accounting system has been one of the primary uses of computer technology in local government. Accounting systems continue to grow in complexity and command a significant portion of the computer resources as additional accounting and finance sub-systems are integrated into the basic system. Modern integrated financial accounting systems now enhance the basic accounting system with modules for payroll, fixed assets, accounts payable, accounts receivable, budget reporting, encumbrance/purchase order, and external database interface systems. The user can choose modules to form a complex or simple accounting system according to the government's accounting needs. Computer software vendors have also continued the integration trend by linking the financial accounting system with other major systems such as revenue management, human resources, and material management. When systems are integrated, the financial accounting system works with the others to share data and functions without duplication. Integration of the financial system is important to computer use in local governments because it eliminates redundancy, resulting in reduced computer data storage space; easier access to detailed data; and timely, more accurate information. Properly used, more timely information leads to improved decision-making.

Benefits to local governments from integrated financial information and accounting systems increase when computers are linked together with local area networks (LANs). A LAN is a group of computers and associated peripherals linked by cables and sophisticated software packages. The LAN allows the user to access both the files stored in and the peripherals attached to another computer in the network. Computers and communications networks transport information in electronic form among individuals.

Information is the essence of many government services. Employees need large quantities of information to perform their jobs. To gain access to and process information, local government employees have an increasing number of devices, such as fax machines, desktop and laptop computers, mainframe computers, handheld computers, stationary and mobile telephones, and pagers. Only when information is made available to others who can use it does it become valuable. Making information available to anyone who needs it, regardless of location or time of day, is the mission of computing/communication networks.

12-4 Computers in Finance and Budgeting

Computers and telecommunication networks are used in everyday financial management. Some of these uses are described below:

Revenue Administration

Revenue administration uses all of the six capacities of computers: record-keeping, calculating and printing, record searching, record restructuring, analysis, and process control. Customer records are maintained by account for each revenue source or tax source. Based on these records, bills are calculated, printed, and sent to customers. If bills are sent out at different times and in groups to maximize cash flow, the computer needs to search for records and prepare bills for the billing period. Additionally, records are searched to determine a list of high dollar delinquent accounts that are given priority in delinquent collections. Records restructuring is used to relate customer records from one revenue file to the same customer of another revenue source. For example, a citizen may have separate records for a vehicle, a water account, and a small business. For collection purposes, it would be beneficial to know that these three accounts are for the same individual. Analysis is used to forecast long-range revenue trends. Statistical modeling and regression analysis are used to forecast revenue sources based on economic trends. Lastly, process control is used in systematically updating revenue receipts and monitoring collections against expected levels of performance. This control system provides an early notice of potential revenue shortfalls, should collections not reach expected levels.

Budget Planning and Analysis

Budget planning uses records retained for other purposes, restructures them, uses financial tools to manipulate variables, and forecasts future revenues based on the results of analysis. Using the computer for these tasks significantly aids long-range financial planning.

Budget Preparation

Almost all local governments use computers in budget preparation. The computer-assisted tasks vary with each government. Budget offices use the computer to:

- \$ Create budget forms on which departments submit data to the budget office,
- \$ Receive information from departments. This means that budget information is keyed into the computer only one time at the department and is then transferred electronically over telephone leased lines or fiber optic cable or on diskette to the budget office.
- \$ Print the budget document and aggregate summary data quickly and accurately.

Some local governments, using a budget preparation module in an integrated financial accounting system, create alternative budget scenarios. This module provides the capability to

construct a new budget based on historical budget or actual data. A budget worksheet can be created based on these data and then modified on a percentage basis (to allow for inflation, for example) or by adding or subtracting specified amounts. Once the budget is approved, the module automatically converts the budget worksheet into budget entries and loads them directly into the accounting system without re-keying.

Budget Presentation

Many of the latest microcomputers now have sufficient memory to handle graphics software. Including tables, charts, and graphs in the budget can enhance the budget's attractiveness and readability. Software is also available to convert the budget into a formal presentation, complete with 35 mm slides or overhead transparencies and presentation handouts.

Budget Implementation

Annual appropriations are divided into monthly or quarterly allotments in the U.S. This is done to plan the orderly expenditure of monies consistent with available revenues. When revenues are received, these monies may be transferred to departments in proportion to their allotment. Computers programmed with these allotment percentages make the necessary calculations and transfers quickly and accurately.

Computers also support budget implementation and monitoring processes. Spending is monitored through an accounting system to ensure that expenditures do not exceed the appropriation established by the Council. The monitoring process is largely made possible through the use of the computer. Furthermore, computerization of the accounting system makes possible the accurate storage and rapid retrieval of large volumes of detailed financial data. With computerized information systems, data break-out and summaries needed in the budget implementation phase can be provided easily.

Auditing

Computers can assist in the random selection of records or items to be physically matched with electronically stored data. For instance, a computer-assisted random selection may select vouchers that may then be examined along with computerized records on expenditures to make sure that the physical and electronic records are in agreement.

Program Evaluation

To evaluate programs, record-keeping of files on program inputs and outputs is necessary. Computerized statistical analysis facilitates the linking of inputs to outputs to determine if programs are having the desired effect.

Budget Reform

12-6 Computers in Finance and Budgeting

Most budget reforms such as program budgeting would be difficult, if not impossible, to implement without computerization. Program budgeting has attempted to increase the effectiveness and efficiency of the budget process. Programs require the manipulation of large volumes of information, which would not be feasible in the timeframe of the annual budget cycle without computers. Since most governments in the U.S. use program budgeting in addition to object of expenditure budgeting, computerized crosswalk routines are needed to rapidly restructure budget information from one format to the other. The situation in Krakow is similar, as Krakow's use of task budgeting requires a computerized crosswalk routine to connect with the state's obligatory budget format.

FUTURE USES OF COMPUTERS

Computers continue to revolutionize local government finance and budget processes. The impact of computerization will continue to be felt throughout local government in future years.

Personal computers, improved software, and extensive networks will facilitate the dissemination of information and computer technology throughout local government. Because personal computers are becoming more powerful, more user friendly, and less costly, they will be more widely used and will become an essential tool for all analysts. Computerization will fundamentally alter the power structure in the budgetary process and in local government itself.

The budget office will not be the only department with personal computers. Operational departments will have computers to maintain their own records, which can be used to develop their budget and, if needed, verify the information of the budget office. Power will be more decentralized than in the previous years. Participation, however, should also be decentralized, increasing the amount and quality of information available to all budget process participants. Equally significant, efficiency and accountability of the budget process should increase.

EXAMPLES

These examples of various computer and spreadsheet applications for budgeting are drawn from Polish and U.S. cities.

Exhibit 12-1 illustrates the use of a Microsoft⁷ Excel spreadsheet to track year-to-date revenues and to represent them graphically.

Exhibit 12-2 illustrates the use of a computer spreadsheet to track a city's historical tax collection performance. This information is used to calculate a three or four year average collection percentage. The resulting collection average is applied to total property taxes to determine the amount that will be collected in the next budget year and included in the budget. Prior year taxes,

penalties, and interest are also projected for budget purposes based on historical collection experience.

Exhibit 12-3 illustrates the use of a computer spreadsheet to record historic monthly sales tax payments from the state. Using a historically based collections percentage and dividing that percentage into the amount of current collections will produce a estimated projection of sales tax revenues to be received by year end.

Exhibit 12-1
Year-to-Date Revenues

Exhibit 12-2
City of Dallas
Property Tax Revenue Projection Worksheet

Exhibit 12-2

**CITY OF DALLAS17-Nov-95
PROPERTY TAX REVENUE PROJECTION WORKSHEETPAGE 1**

MONTH	FY 90-91	COLL %	FY 91-92	COLL %	FY 92-93	COLL %	FY 93-94	COLL %	FY 94-95	COLL%
OCT	5,447,051	1.89%	1,613,297	0.58%	652,221	0.23%	3,650,198	1.34%	3,181,116	1.16%
NOV	19,381,159	6.72%	10,216,872	3.68%	11,119,859	4.00%	10,509,755	3.85%	10,789,036	3.93%
YTD	24,828,210	8.60%	11,830,169	4.26%	11,772,080	4.24%	14,159,953	5.18%	13,970,152	5.09%
DEC	55,247,898	19.14%	66,355,371	23.89%	65,909,702	23.73%	64,959,860	23.78%	77,322,685	28.17%
YTD	80,076,108	27.75%	78,185,540	28.15%	77,681,782	27.96%	79,119,813	28.97%	91,292,837	33.26%
JAN	101,991,440	35.34%	93,818,214	33.77%	98,943,803	35.62%	111,282,067	40.75%	113,734,976	41.44%
YTD	182,067,548	63.09%	172,003,754	61.92%	176,625,585	63.58%	190,401,880	69.72%	205,027,813	74.70%
FEB	89,936,586	31.16%	92,326,819	33.24%	87,385,209	31.46%	69,315,387	25.38%	59,122,803	21.54%
YTD	272,004,134	94.25%	264,330,573	95.16%	264,010,794	95.04%	259,717,267	95.09%	264,150,616	96.23%
MAR	5,588,984	1.94%	4,387,906	1.58%	5,165,885	1.86%	4,557,259	1.67%	3,801,568	1.39%
YTD	277,593,118	96.19%	268,718,479	96.74%	269,176,679	96.90%	264,274,526	96.76%	267,952,184	97.62%
APR	3,164,148	1.10%	1,594,409	0.57%	2,412,934	0.87%	2,951,377	1.08%	1,252,952	0.46%
YTD	280,757,266	97.28%	270,312,888	97.31%	271,589,613	97.77%	267,225,903	97.84%	269,205,136	98.08%
MAY	1,865,924	0.65%	1,441,220	0.52%	1,293,237	0.47%	1,271,185	0.47%	1,295,798	0.47%
YTD	282,623,190	97.93%	271,754,108	97.83%	272,882,850	98.23%	268,497,088	98.31%	270,500,934	98.55%
JUN	1,606,680	0.56%	2,127,545	0.77%	1,623,562	0.58%	1,420,571	0.52%	1,188,333	0.43%
YTD	284,229,870	98.49%	273,881,653	98.59%	274,506,412	98.82%	269,917,659	98.83%	271,689,267	98.98%
JUL	1,711,607	0.59%	1,945,715	0.70%	1,414,560	0.51%	1,338,398	0.49%	1,063,317	0.39%
YTD	285,941,477	99.08%	275,827,368	99.30%	275,920,972	99.33%	271,256,057	99.32%	272,752,584	99.37%

AUG	1,228,218	0.43%	758,409	0.27%	909,084	0.33%	1,070,217	0.39%	911,594	0.33%
YTD	287,169,695	99.50%	276,585,777	99.57%	276,830,056	99.65%	272,326,274	99.71%	273,664,178	99.70%
SEP	762,300	0.26%	635,144	0.23%	558,174	0.20%	361,503	0.13%	328,820	0.12%
YTD	287,931,995	99.77%	277,220,921	99.80%	277,388,230	99.85%	272,687,777	99.84%	273,992,998	99.82%
ACC	<u>668,837</u>	<u>0.23%</u>	<u>564,134</u>	<u>0.20%</u>	<u>407,456</u>	<u>0.15%</u>	<u>426,870</u>	<u>0.16%</u>	<u>493,355</u>	<u>0.18%</u>
YTD	<u>288,600,832</u>	<u>100.0%</u>	<u>277,785,055</u>	<u>100.0%</u>	<u>277,795,686</u>	<u>100.0%</u>	<u>273,114,647</u>	<u>100.0%</u>	<u>274,486,353</u>	<u>100.0%</u>

**CITY OF DALLAS
PROPERTY TAX REVENUE PROJECTION WORKSHEET**

MONTH	FY 94-95	COLL%	AVG%	BUDG PROJ	VAR FM PROJ	YR END EST	BUDG (VS) EST
OCT	3,181,116	1.16%	1.01%	2,785,015	396,101	315,003,824	39,223,119
NOV	10,789,036	3.93%	4.56%	12,578,729	(1,789,693)		
YTD	13,970,152	5.09%	5.57%	15,363,744	(1,393,592)	250,765,584	(29,015,121)
DEC	77,322,685	28.17%	22.64%	62,423,972	14,898,713		
YTD	91,292,837	33.26%	28.21%	77,787,716	13,505,121	323,660,395	47,879,690
JAN	113,734,976	41.44%	36.37%	100,299,142	13,435,834		
YTD	205,027,813	74.70%	64.58%	178,086,858	26,940,955	317,500,772	41,720,067
FEB	59,122,803	21.54%	30.31%	83,586,369	(24,463,566)		
YTD	264,150,616	96.23%	94.88%	261,673,227	2,477,389	278,391,656	2,610,951
MAR	3,801,568	1.39%	1.76%	4,856,779	(1,055,211)		
YTD	267,952,184	97.62%	96.65%	266,530,006	1,422,178	277,252,243	1,471,538
APR	1,252,952	0.46%	0.90%	2,495,529	(1,242,577)		
YTD	269,205,136	98.08%	97.55%	269,025,535	179,601	275,964,816	184,111
MAY	1,295,798	0.47%	0.52%	1,445,327	(149,529)		
YTD	270,500,934	98.55%	98.07%	270,470,862	30,072	275,811,367	30,662
JUN	1,188,333	0.43%	0.61%	1,673,432	(485,099)		
YTD	271,689,267	98.98%	98.68%	272,144,294	(455,027)	275,319,598	(461,107)
JUL	1,063,317	0.39%	0.57%	1,580,753	(517,436)		
YTD	272,752,584	99.37%	99.25%	273,725,047	(972,463)	274,800,939	(979,766)
AUG	911,594	0.33%	0.35%	977,437	(65,843)		

YTD	273,664,178	99.70%	99.61%	274,702,484	(1,038,306)	274,738,323	(1,042,382)
SEP	328,820	0.12%	0.21%	569,539	(240,719)		
YTD	273,992,998	99.82%	99.82%	275,272,023	(1,279,025)	274,499,316	(1,281,389)
ACC	<u>493,355</u>	<u>0.18%</u>	<u>0.18%</u>	<u>508,682</u>	<u>(15,327)</u>		
YTD	<u>274,486,353</u>	<u>100.00%</u>	<u>100.00%</u>	<u>275,780,705</u>	<u>(1,294,352)</u>		

Exhibit 12-3
City of Dallas
Sales Tax Collection Monitoring

Exhibit 12-3

CITY OF DALLAS
SALES TAX COLLECTION MONITORING

MONTH	FY 88-89	COLL%	FY 89-90	COLL%	FY 90-91	COLL%	FY 91-92	COLL%	FY 92-93	COLL%
DEC	6,576,324	5.72%	8,285,860	6.78%	8,426,398	6.94%	7,773,329	6.20%	8,904,106	6.54%
JAN	7,591,393	6.61%	7,753,163	6.34%	8,091,963	6.66%	8,322,426	6.64%	7,719,518	5.67%
YTD	14,167,717	12.33%	16,039,023	13.12%	16,518,361	13.60%	16,095,755	12.84%	16,623,624	12.20%
FEB	16,303,771	14.19%	15,870,244	12.99%	15,684,825	12.91%	14,969,224	11.94%	18,050,034	13.25%
YTD	30,471,488	26.52%	31,909,267	26.11%	32,203,186	26.51%	31,064,979	24.78%	34,673,658	25.46%
MAR	6,917,792	6.02%	7,465,818	6.11%	7,228,947	5.95%	7,851,018	6.26%	8,440,347	6.20%
YTD	37,389,280	32.54%	39,375,085	32.22%	39,432,133	32.46%	38,915,997	31.04%	43,114,005	31.65%
APR	6,055,058	5.27%	7,656,370	6.27%	8,861,501	7.29%	8,661,264	6.91%	8,353,856	6.13%
YTD	43,444,338	37.81%	47,031,455	38.48%	48,293,634	39.75%	47,577,261	37.95%	51,467,861	37.79%
MAY	12,833,553	11.17%	13,970,435	11.43%	12,854,900	10.58%	13,200,627	10.53%	15,422,535	11.32%
YTD	56,277,891	48.98%	61,001,890	49.92%	61,148,534	50.34%	60,777,888	48.47%	66,890,396	49.11%
JUN	7,080,319	6.16%	8,251,750	6.75%	9,416,441	7.75%	9,207,258	7.34%	8,954,910	6.57%
YTD	63,358,210	55.15%	69,253,640	56.67%	70,564,975	58.09%	69,985,146	55.82%	75,845,306	55.68%
JUL	7,662,496	6.67%	7,963,281	6.52%	8,635,361	7.11%	8,572,599	6.84%	9,089,933	6.67%
YTD	71,020,706	61.82%	77,216,921	63.18%	79,200,336	65.20%	78,557,745	62.65%	84,935,239	62.36%
AUG	13,627,978	11.86%	14,672,129	12.01%	13,047,677	10.74%	14,503,518	11.57%	16,014,004	11.76%
YTD	84,648,684	73.68%	91,889,050	75.19%	92,248,013	75.94%	93,061,263	74.22%	100,949,243	74.11%
SEP	8,118,897	7.07%	7,861,427	6.43%	8,022,536	6.60%	9,251,993	7.38%	9,349,290	6.86%
YTD	92,767,581	80.74%	99,750,477	81.62%	100,270,549	82.54%	102,313,256	81.60%	110,298,533	80.98%
OCT	8,201,381	7.14%	9,333,524	7.64%	8,267,396	6.81%	8,355,496	6.66%	9,684,810	7.11%
YTD	100,968,962	87.88%	109,084,001	89.26%	108,537,945	89.35%	110,668,752	88.26%	119,983,343	88.09%
NOV	13,921,563	12.12%	13,124,588	10.74%	12,942,687	10.65%	14,714,017	11.74%	16,226,181	11.91%
YTD	114,890,525	100.00%	122,208,589	100.00%	121,480,632	100.00%	125,382,769	100.00%	136,209,524	100.00%

CITY OF DALLAS
SALES TAX COLLECTION MONITORING

MONTH	FY 92-93	COLL%	AVG%	BUDG PROJ	VAR FM PROJ	YR END EST	BUDG (VS) EST
DEC	8,904,106	6.54%	6.41%	8,053,991	850,115	138,908,643	13,262,239
JAN	7,719,518	5.67%	6.56%	8,245,682	(526,164)		
YTD	16,623,624	12.20%	12.97%	16,299,673	323,951	128,143,588	2,497,184
FEB	18,050,034	13.25%	13.01%	16,342,543	1,707,491		
YTD	34,673,658	25.46%	25.98%	32,642,216	2,031,442	133,465,830	7,819,426
MAR	8,440,347	6.20%	6.09%	7,646,407	793,940		
YTD	43,114,005	31.65%	32.07%	40,288,623	2,825,382	134,457,802	8,811,398
APR	8,353,856	6.13%	6.43%	8,084,631	269,225		
YTD	51,467,861	37.79%	38.50%	48,373,254	3,094,607	133,684,445	8,038,041
MAY	15,422,535	11.32%	10.93%	13,730,636	1,691,899		
YTD	66,890,396	49.11%	49.43%	62,103,890	4,786,506	135,330,295	9,683,891
JUN	8,954,910	6.57%	7.00%	8,798,252	156,658		
YTD	75,845,306	55.68%	56.43%	70,902,142	4,943,164	134,406,235	8,759,831
JUL	9,089,933	6.67%	6.78%	8,522,312	567,621		
YTD	84,935,239	62.36%	63.21%	79,424,454	5,510,785	134,364,253	8,717,849
AUG	16,014,004	11.76%	11.54%	14,504,448	1,509,556		
YTD	100,949,243	74.11%	74.75%	93,928,902	7,020,341	135,037,343	9,390,939
SEP	9,349,290	6.86%	6.88%	8,632,660	716,630		
YTD	110,298,533	80.98%	81.63%	102,561,562	7,736,971	135,124,834	9,478,430
OCT	9,684,810	7.11%	7.06%	8,872,307	812,503		
YTD	119,983,343	88.09%	88.69%	111,433,869	8,549,474	135,286,298	9,639,894
NOV	16,226,181	11.91%	11.31%	14,212,535	2,013,646		
YTD	136,209,524	100.00%	100.00%	125,646,404	10,563,120		

CHAPTER 13

BUDGET APPROVAL AND EXECUTION

PURPOSE

The purpose of this chapter is to enable you to:

- \$ Understand what role the Council plays in the budget process
- \$ Identify elements that should be included in a budget resolution
- \$ Identify and describe the stages of budget execution
- \$ Identify tasks needed to control expenditures and monitor the budget.

HOW THIS CHAPTER WILL BENEFIT YOU

Planning, preparing, and improving the budget process is a significant undertaking. However, these efforts will be wasted unless the approved budget is used to guide spending throughout the fiscal year. The budget guides spending in two ways: it limits certain program expenditures and at the same times authorizes spending for new or existing programs and activities. It is also important to remember that the budget is a plan based on estimates. Because estimates can be inaccurate, close monitoring of the budget plan's execution is essential.

This chapter briefly discusses the Council role in the budget approval process. It reviews basic elements of budget execution and emphasizes the importance of control and management of the process. The chapter lists the procedures and tasks needed to accomplish budget execution and provides examples of monitoring reports used in other gminas.

COUNCIL REVIEW AND APPROVAL

Upon receiving the recommended draft budget from the City Board, the Council reviews it, makes changes as needed, and ultimately approves it. Approval of a budget resolution establishes the legal authority for the gmina to incur expenses in the new fiscal year.

To review the draft budget, the Council refers the document to the budget committee of the Council. If a standing committee of the Council does not exist, the Council may appoint a budget review committee. The committee reviews the draft budget to ensure that it responds to Council budget guidelines and program priorities and determines if any changes are needed before it is considered and approved by the Council. If the budget is acceptable, the committee recommends

that the Council approve the budget resolution as is, or if not, the committee recommends that the Council approve the budget resolution with changes.

The Council considers the budget resolution at a regularly held public meeting. The Council's approval of the budget resolution completes the preparation phase of the budget cycle and adopts an Annual Plan of Income and Expenditures for the city effective January 1. The Council approves a budget resolution and attachments detailing the budget as prescribed by Polish budget law. The attachments detail the gmina's plan of income and expenditures using the central government's standard classification of account codes (sections, chapters, paragraphs, etc.).

BUDGET RESOLUTION

The budget resolution, approved by Council, serves two purposes. First, it approves specific revenue and expenditure levels for the gmina and other off-budget units. Second, it establishes policies for budget execution.

More specifically, the approved budget resolution details the revenue (including subsidies and grants) and expenditure levels of the gmina's operations for the new fiscal year. It specifies investment plans and contingency reserve levels. Furthermore, the resolution approves the revenue and expenditures of enterprise units carrying out activities outside the budget.

The budget resolution may also provide the City Board with additional flexibility and authority to execute the budget within limits and with policy guidance to manage the budget throughout the fiscal year. For example, the Krakow City Council budget resolution authorizes the following:

- \$ a target reserve fund to respond to district council priorities, tasks of pilot programs, and investment initiatives and procedures for accessing the funds**
- \$ funding for programs that are demand sensitive (children involved in physical education and recreation associations) with stated distribution formulas**
- \$ establishing the authority of the City Board concerning increased funding of investment and renovation projects**
- \$ establishing the City Board's authority to financially obligate the gmina**
- \$ delegating specific authority to the City Board to execute the budget within limits set by Council**
- \$ establishing a requirement for the City Board to report on actions delegated by Council and the status of the gmina budget and finances semi-annually**

\$ setting the number of authorized positions in Krakow City Hall and some exceptions.

With these additional provisions, the Council provides the City Board with specific policy guidance on budget execution. This is extremely helpful to management because of the clarity it brings to managing the budget execution process. Exhibit 13-1 contains the full text of the Krakow budget resolution for the 1995 budget. This resolution contrasts with the simpler budget resolution from the small gmina of Miedzna in Exhibit 13-2.

BUDGET EXECUTION

Approval of the budget resolution opens, at the start of the fiscal year, the budget execution phase. The budget execution phase focuses upon control in carrying out the budget plans approved by the Council and City Board. The treasurer is responsible for establishing procedures to ensure that expenditures comply with the budget, are properly authorized and accounted for, and are monitored against the budget plan.

Under the treasurer's direction, the budget and finance departments prepare the gmina for the start of a new fiscal year from a financial standpoint. This usually means:

- producing copies of the approved budget for Council and City Board and departments responsible for monitoring budget execution
- preparing a budget summary for the public and media
- distributing other copies of the budget to organizations and enterprise units responsible for delivering services to the public
- loading the budget plan into the city's accounting system as soon as possible after the start of the fiscal year and initiating a budget monitoring system.

Although these tasks are mundane, they are an essential part of starting the fiscal new year and putting the budget control systems in place.

Budget execution practices and terminology may vary among local governments, but the basic elements of budget execution do not. Most gminas use these budget execution tools on an everyday basis to manage the budget. Budget execution usually consists of five stages:

\$ Authorization is the law or statute that permits spending for a specified purpose. Governments can only spend money for activities they are legally permitted to carry out.

- \$ Appropriation is the legal authority to expend up to a certain amount of funds during the budget period. For most local governments, the annual budget document is the source of all appropriations. The Council approves the budget by adopting an ordinance or approving a resolution depending upon legal requirements.**
- \$ Allocations may be used by the City Board to provide further detail to the appropriation approved by the Council. The Krakow budget resolution, for example, appears to grant authority to allocate funds to certain programs based on a formula or other means.**
- \$ Allotments divide appropriations or allocations into periods such as quarters or months of the fiscal year covered by the approved budget. The allotment device is critical to ensuring that spending is carried out according to the budget. Allotment also helps ensure that monies are available to fund operations throughout the fiscal year. Finally, the use of allotments provides an early warning system when spending does deviate from the plans approved at the beginning of the fiscal year.**
- \$ Adjustments may be necessary as revenues and/or expenditures vary from projections contained in the budget document. Procedures for making adjustments (or transfers of budgetary funds) vary from gmina to gmina. For example, the Krakow City Board is authorized by budget resolution to carry out transfers of budgetary funds between chapters and paragraphs with some exceptions (see Exhibit 13-1).**

EXPENDITURE CONTROLS AND MONITORING

After completing the start-up tasks at the beginning of the fiscal year, the accounting and finance department staff support the treasurer in controlling and monitoring budget execution by establishing procedures and accomplishing the following tasks:

- \$ establishing monthly allotments of central government subsidies to appropriate organizational units**
- \$ ensuring the correct execution of the budget by reviewing the applications of departments concerning activation of funds and ensuring that units account correctly for funds allocated**
- \$ preparing resolutions for Council and City Board consideration/approval regarding changes in the budget or transfers of funds for unit activities**
- \$ reporting actual expenditures against the budget plan semi-annually or more frequently as directed by the City Board**

- \$ reporting progress on accomplishments of task objectives and results semi-annually or more frequently as directed by the City Board
- \$ monitoring and reporting revenue receipts against the budget plan and instituting procedures should a revenue Ashortfall@ be forecast to occur.

EXAMPLES

Extracts of selected cities= budget monitoring reports are included as Exhibit 13-3, City of Lublin; and Exhibit 13-4, City of Szczecin.

PRACTICAL EXERCISE

Participants will be divided into three groups and asked to discuss and answer the following questions and report their answers to the group.

Group I

- \$ What advantages are there to preparing a budget status report as shown in Exhibits 13-3B13-5?
- \$ What are the disadvantages?

Group II

- \$ From a budget management perspective, would you change the report? Create a new one?
- \$ If so, how would you change the report? What would you include in a new report?
- \$ Why?

Group III

The instructor will provide additional direction to Group III regarding the following questions.

- \$ What information and tools would you need to implement a different budget reporting and management system?
- \$ What advantages are there to the new budget reporting and management system?
- \$ What are the disadvantages?

13-4 Budget Approval and Execution

**Exhibit 13-1
Krakow City Council
1995 Budget Resolution**

**Exhibit 13-2
Miedzna City Council
1995 Budget Resolution**

**Exhibit 13-3
City of Lublin
Budget Monitoring Report
September 30, 1995
[extract]**

**Exhibit 13-4
City of Szczecin
Budget Monitoring Report
June 30, 1995
[extract]**

**Exhibit 13-5
City of Krakow
Budget Monitoring Report
[extract]**

CHAPTER 14

INTEGRATING BUDGETING, ACCOUNTING, AND OTHER FINANCIAL SYSTEMS

PURPOSE

The purpose of this chapter is to enable you to:

- \$ Identify the components of an integrated financial management system and list its benefits
- \$ Explain the linkages between budgeting and other financial systems
- \$ Identify strategies to implement an integrated financial management system
- \$ Determine how your jurisdiction rates in its degree of integration.

HOW THIS CHAPTER WILL BENEFIT YOU

Most of the material presented to you in this manual focuses on budgeting. Budgeting is an important part of local government decision-making; however, there are related parts of the financial management system that you should be aware of. Understanding the inter-dependency of these parts is important, as changes in one usually impact others. This chapter introduces you to the concept of an integrated financial management system and its benefits. You will also learn how budgeting and the other parts of the system are linked together. Understanding how these are interdependent will increase your understanding of the financial management system of local government.

FINANCIAL MANAGEMENT SYSTEM INTEGRATION OVERVIEW

Throughout this chapter, the term *Afinancial management system@* is used to refer to a computerized system. As local governments in Poland and other countries become responsible for a wider range of tasks and services to budget for and manage, it will be preferable to look toward a computerized system in order to take full advantage of available technology and to facilitate the full integration of the financial management functions.¹⁷ The particular computerized financial management system that your local government uses will depend upon

¹⁷For a detailed description of the financial management system used by the City of Krakow, please see section 3.3 of the Krakow Case Study.

the resources and needs of your jurisdiction. Resource constraints may limit the initial implementation of a full system, but having a plan for full implementation will help guide the step-by-step acquisition and use of equipment so that separate segments can be integrated as they are added.

What Is an Integrated Financial Management System?

Local government can improve financial management by bringing four financial functions together as an integrated system. An integrated financial management system consists of four functional components:

- \$ **Budgeting**—The process that allocates scarce resources among competing demands and prepares and implements a local government's financial plan.
- \$ **Accounting**—The basic financial record-keeping and expenditure control tool of local government that records, analyzes, and summarizes financial transactions and communicates the results of transactions for government.
- \$ **Performance Measurement**—The evaluation of public service delivery by establishing and monitoring targets for program performance. It often includes a focus on increasing productivity.
- \$ **Auditing**¹⁸—The process of evaluating the locality's fiscal and service operations. Auditing provides vital feedback to managers to improve control, management, and budgeting.

These represent the four basic elements of the planning and control system through which local government operates to deliver basic services. These elements are interrelated as part of the overall planning and control system shown in Exhibit 14-1. The overall system has the following components:

- \$ **Decision-making**—The process begins with planning and analysis to make decisions about priorities, levels of program funding, work to be accomplished, and funding. Budgeting is the key component.
- \$ **Implementation**—Management and control determine the operation of government during implementation. In this component, control systems keep expenditures within pre-defined limits, and managers stay informed about the delivery of public services. There are two control systems:
 - o **Accounting reports to management on actual expenditures to ensure that they are within budget, and**

¹⁸In Poland (as in other European countries), financial audits are carried out by a regional auditing body.

- **Performance reports to management on operations to ensure that service delivery is as expected.**

\$ Assessment/Evaluation takes place after the activity is complete or at the end of a defined period to report to management whether results adhered to the targets. Two types of audits are used: financial compliance and program performance. Both are necessary for full evaluation.

This is how these components of an integrated financial management system are interrelated with the planning and control system through which a local government decides what to do, carries out its decisions, and modifies them based on feedback.

Why Is Integration Needed?

Often, these four functions (budgeting, accounting, performance measurement, and auditing) are not adequately integrated, which causes problems in financial management. Some of the more common problems include:

- \$ The system is fragmented. Staff are concerned only with their area of influence. Budget staff are concerned with budget preparation and expenditure control and have no interest in performance aspects of the budget. Accountants deal only with expenditure control and correct account codes.**
- \$ Decision-making is hampered by lack of information about program performance. Program information may not be gathered or is not adequate.**
- \$ Department and program managers are usually told what they can spend—not given what they need. While these limits are observed and generally enforced, the externally-imposed limits on spending tend to delay reporting and correction of emerging problems.**
- \$ Department and program managers generally are not told what they are expected to achieve. Performance is not measured, reported, monitored, or related to costs.**
- \$ The financial system may be periodically evaluated by financial and compliance audits, but there are rarely program performance audits.**

Financial management problems have arisen because each function has evolved independently. Also, the purpose of local government financial management has been limited to expenditure control and reporting to higher

levels of government. Creating functions that primarily serve the needs of local government has often been neglected.

Is Financial Integration Feasible?

Integrating four functions into an effective planning and control system is not an easy task, but it is feasible. Other jurisdictions have accomplished it. Following are some observations from others who have undertaken the task of integrating their financial system:

- \$ Top management support is essential.**
- \$ A significant commitment of resources is necessaryCstaff, consultants, hardware, and software.**
- \$ A substantial amount of time will be required.**
- \$ Expect resistance at all levels of the organization. People do not like change, and integration adds work for departments and agencies.**

It is important to note that an integrated financial management system is more than a *financial* management system. When finances are integrated with performance, and decision-making with implementation, the result is an overall management (planning and control) system. There are many advantages of an integrated financial management system, but few of them come automatically. They depend on managerial efforts to maximize the benefits of an integrated system.

Why Should a Local Government Invest Its Limited Resources in the Development of an Integrated Financial System?

Any significant investment of scarce staff, time, and money resources is an important decision, and the benefits of such an investment need to be quantified and considered prior to deciding. The benefits of an integrated financial system include:

- \$ Increased opportunities to improve decision-making**
- \$ More effective expenditure and performance control**
- \$ Improved program management**

- \$ Improved financial capabilities to meet increased reporting requirements from internal and external sources (program performance management, full cost recovery of user fees, or credit rating agencies)**
- \$ Increased discipline imposed upon finances and program performance**
- \$ Improved collection of historical program costs, effectiveness, and performance to support future spending decisions.**

INTEGRATING BUDGETING AND OTHER FINANCIAL SYSTEMS

Budgeting is the cornerstone of a financial management system because it is the process of allocating scarce resources among a host of competing demands and is the central element in decision-making. The previous chapters covered the various aspects of budgeting: phases of the budget cycle, multiple purposes of budgeting (control, management, planning and communication), and budget format types (line item, activity, program, and performance).

This section discusses the increased interrelationship of the budgeting function to accounting, performance management, and auditing. The evolution of budgeting from an emphasis on expenditure control to multiple purposes—control, management, planning, and communication—increases the complexity and magnitude of demands placed upon the other three financial management functions. This increased interrelationship requires that each of these separate functions produce a higher quality product. To do otherwise impacts the total financial management system. As more local governments adopt program and performance budgeting to improve decision-making, the interrelationships become more critical.

Budgeting and Accounting

Accounting performs two functions for budgeting: (1) it provides most of the information needed to monitor expenditures against the budget, and (2) it provides a control on spending to verify that expenditures are valid and comply with accounting policies and procedures of the local government. Each function has a significance for budgeting.

The information function. After the budget is adopted, the annual appropriations are entered into the accounting system. As transactions are recorded, they are posted to the appropriate accounting records and to the budget. The accounting system records transactions daily throughout the year and provides information reports on a regular basis (monthly) to present the status of revenues and expenditures to date versus budget. Without this

information, budget staff would not be able to act on potential revenue shortfalls or the over-expenditure of appropriations. The accounting system and staff are responsible for providing this **Budget versus Actual** information for all revenues and expenditures on a monthly basis.

The accounting system must also provide current and past year information on program expenditures and costs that a manager might need for preparing the next year's budget. To carry out the reporting function, the accounting system must be capable of collecting and displaying this information in a form that budget staff can readily use. Unfortunately, not all accounting systems are flexible enough to produce reports for different purposes in different formats. Accounting systems tend to produce numbers and reports to show what was done with the money and to meet audit requirements. Budgeting, on the other hand, focuses on the functional programs or purposes for which the money is to be used.

Program and performance budgeting add significant complexity to the accounting system. For manual accounting systems, it is not feasible to record and keep track of another set of accounts while still fulfilling legal reporting requirements. In theory, these new budget demands can be accommodated in a computerized accounting system but that assumes considerable flexibility in accounting systems. Generally speaking, accounting systems have only had that flexibility built into them in the last five to ten years. Now, with the advent of PC based accounting systems, flexibility is a built-in consideration in most systems.

In some jurisdictions, accounting information has limited value to budget administration because it is not provided promptly, it is not available in the right categories to be useful, it is not timely because of significant delays in internal service billing or **Afloat** between departments and central accounting, and it does not capture contract obligations not paid **Cumbrances**. These problems result in budget reports that are misleading and that understate expenditures.

The control function. The control of expenditures to ensure that appropriations are not exceeded is the responsibility of the accounting staff rather than the budget office in most instances. The accounting system provides additional control over contracts, purchase orders, and payroll so that invoices/bills will not be paid unless there is an available appropriation sufficient to cover the transaction. The accounting staff in reviewing and processing each transaction also ensure that each transaction is charged to the correct appropriation and account code and that they have properly approved and documented it. This control of transactions by the accounting staff ensures that information prepared from the accounting system records is accurate and reliable.

Budgeting and Performance Management

A financial plan outlines what a local government expects to buy during a fiscal year and where the resources are going to come from. The resources are earmarked for a specific category: salaries, supplies, etc. In some cases resource allocation may be subdivided further into a specific program use: street cleaning, park maintenance, etc. The budget office's concern is to ensure that expenditures do not exceed available appropriations and that the overall budget stays within the existing limits. The focus is upon ensuring that these financial objectives are achieved at the end of the year.

A different but still important aspect of budgeting is to determine how the appropriated funds are used and what they achieved or produced. Resources might have been allocated to pave 25 kilometers of streets. If the 25 kilometers of streets were not paved as planned, then this too is considered not meeting a budget objective of a program. Failure to meet either a financial objective or a performance objective is reason for management to consider corrective action.

Modern budgeting requires performance measures to help assess whether missions of public departments or agencies are accomplished. Linking performance measures to budget accounts is the most straightforward way to accomplish this assessment. Jurisdictions that have not added performance measures to the budgeting system are overlooking a significant part of a modern budgeting system.

Budgeting and Auditing

Budgeting and auditing operate in two different time frames. Budgeting looks forward in time; auditing looks back to see what happened. The relationship of these components stems from these different time frames. There are two different kinds of audits that relate to the budget—the financial audit and the performance audit.

Financial audit. The compliance or financial audit is more traditional in local government. It may be performed by an internal auditor or regional auditing authority, or the services of an external auditor may be engaged. The financial audit's scope of work usually includes determining whether financial transactions have been properly reported and classified, whether internal controls are sufficient to justify confidence in the reports generated, and whether legal requirements have been met in the expenditure of funds. From these audits, management and the budget office gain useful insights into areas where procedures can be improved and controls tightened. Financial audits also

provide assurance to elected officials, management, and the public about the soundness of the financial system.

Performance audit. The performance audit, also known as a management audit, is a relatively new type of audit. The performance-oriented audit examines whether public programs have met their performance objectives and determines how funds were applied to meet program objectives. The audit also provides the budget office with an independent assessment of a program's performance for future years. A performance audit usually recommends that changes be made to program operations to improve the effectiveness of the program or utilization of funds. Management and the budget office consider these recommendations in subsequent years' funding requests. Action plans are prepared by management to respond to audit recommendations.

STRATEGIES FOR INTEGRATING FINANCIAL SYSTEMS

This section offers some general observations and suggestions related to developing or installing an integrated financial system. These apply both to local governments with financial management systems that only need minor system improvements and to those that may be developing an integrated financial management system for the first time. Each local government requires a strategy to successfully integrate its financial system.

Organize the Project

Financial management is the center around which other management systems should be developed. As such, developing a financial management system should not be left only to the budget and accounting staff. Some suggestions for organizing the system development project include:

Set up a financial management committee or task force. This committee is purposely structured to include a wide range of participants: the budget officer, the finance officer, the auditor, a member of the executive management team, the information systems officer, and representatives from major operating departments. It also may be beneficial to include the Chair of the Council Finance Committee or a similar representative from the Council. The mission of the committee is to develop policies and strategies, determine priorities, review proposed projects, and monitor progress of the system development project.

A broad based committee can be very beneficial. It involves departments who have a vested interest in the project, those most affected by changes in workload,

and executive management and political leadership. When problems arise with the project, the committee has a knowledgeable decision-maker to consult with and assist in resolving the issue. A committee is also an excellent way to maintain communication with the principals of the departments involved in the project throughout the local government.

Staff the project. Development or installation of a financial management system is a major undertaking. Depending upon an already over-committed existing staff is certain to be unsuccessful. Successful installations dedicate staff from accounting and budget offices to work on the project full-time. Also, full-time staff from Information Systems are needed throughout the project for computer systems support. Additional staff will be required as specific components are undertaken. If resources are limited, put fewer staff on the project. You should be aware, however, that having fewer staff to do the work results in slower progress on the project and may delay the system start date.

Use consultants. If local staff are limited, one solution is to hire additional consultants with the necessary skills. For many aspects of financial management system installations, local staff do not have the skills required. Most local governments installing a financial management system require consultants to supplement time and skills available from local staff.

If hiring consultants is the organizational strategy chosen, here are a few practical suggestions:

- \$ Identify at least three qualified firms or individuals for consideration and solicit proposals from all three.**
- \$ Request references from the consultant on work done for other comparable sized government installations and check their performance with those officials.**
- \$ Conduct interviews with the principals of the consultant-s firm to discuss scope of work, cost, time frames, possible problems, and options.**
- \$ Include staff training, where appropriate, in the contract.**

Identify Needs, Problems, Opportunities, and Issues

With financial management systems, as with anything else, it is easier to get attention focused on an issue if the public believes there is a problem or a need. Since these systems are generally out of the public view, their problems and shortcomings may only be known to the people who use the system on a daily

basis. This section tells you what to look for in determining if there is a problem with the existing financial management system.

Some of the financial problems might be known to the finance and management staff. These include:

- \$ Failure to meet financial management reporting requirements for a program**
- \$ Deficiencies identified in a financial audit**
- \$ Spending in excess of appropriations in some programs**
- \$ Significant variances from budget in actual revenues or expenditures**
- \$ Complaints of long delays or suspension of contractor payments**
- \$ High delinquencies in major revenue sources.**

Some financial problems will only become known with further investigation. These include:

- \$ Substantial funds in non interest bearing accounts**
- \$ Delays in receipt and deposit of funds**
- \$ Unknown amounts of contractual obligations incurred but unpaid.**

Another common problem is inadequate information on expenditures. This problem most often becomes apparent when public attention is focused on performance or service problems of a specific program or service. In such a case, you may request expenditure information on a specific program to see if you can determine where the problem lies. You will know that your system's information on expenditures is inadequate if your request is returned with the answer, *That information is not available in the financial system,* or if the workload needed to find the answer means that critical city operations will come to a halt.

Another way to identify problems or needs of your financial management system is to ask the users of the system. Financial systems are usually designed to meet the accounting and reporting needs of the accounting staff. The needs of operating departments and program managers are rarely considered. When you ask these departments about their needs for a financial management system, you receive a different perspective. Operational needs should be considered as well.

Local governments need to identify opportunities to initiate changes in financial management systems if needed. These opportunities may be disguised as problems, but the response to the problem may be the opportunity. For example, a response to a serious financial debacle or scandal affecting the city or a program may require a systemic solution. A change in political or administrative leadership may create an interest in management reform and an opportunity for improving financial management systems.

It is also necessary to identify the deficiencies in the existing financial system, whether they are current problems or not. One way to do that is to compare the existing system capabilities to those of an integrated financial management system used by other similar sized jurisdictions. Another way is to identify two or three contractors who sell integrated financial management systems for governments and develop a list of capabilities for comparison based on their systems. A third and possibly the easiest way to identify deficiencies is to use the elements of the integrated financial management system checklist included in Exhibit 14-2.

The completed inventory of problems, needs, and opportunities is used in documenting the need for an integrated financial management system, determining priorities, and developing a plan of action. If sufficiently detailed and documented, this step provides the justification for developing a financial management system.

Develop a Plan

At this stage, few local governments are able to define a detailed development plan. However, it is important to establish a working framework of what must be accomplished and when. At a minimum, the initial plan should include the following:

- \$ An outline of the first steps, to be taken over the next year.**
- \$ An indication of how these steps are related to the elements of the financial improvement effort to be undertaken in subsequent years.**
- \$ A comprehensive outline of how the plan is to be accomplished (contractor, local staff, combination) and the time frames involved.**
- \$ Preliminary costs and expected recoveries and benefits; also, the needs and problems to be resolved.**

The above lays out an initial plan, but there are many ways to accomplish initial planning. It is important to develop a plan consistent with the needs and procedures of your local government. The initial plan should be refined and detailed over time to adjust for unanticipated events. Following are some of the considerations which should be included in developing a plan and strategy:

- \$ Avoid taking on more at any one time than can be done effectively.**

- § **Concentrate individual steps in specific departments or functions. Concentrated efforts are more likely to be productive than government-wide approaches.**
- § **Give priority to areas where there are known problems or opportunities.**

Each local government should consider its own needs, priorities, and opportunities in deciding where to begin to improve the performance of its financial management system. Some possible strategies are offered for consideration:

Install a comprehensive financial management system. Sometimes a financial debacle or crisis gives elected officials and management the impetus to make the significant investment needed to fix their problems by developing a complete financial management system. Some local governments need a crisis to be prompted into action. Other local governments identify needs and problems before they become a crisis and act to develop a comprehensive financial management system in the normal course of improving government operations.

Install one department at a time. Installing a system one department at a time has the advantage of making the job more manageable and makes it easier to interrelate budgeting, accounting and performance management in that one department. Departments with supportive directors and competent staff can serve as pilot programs and help debug the system before it is extended to other departments. However, this approach means that two different systems need to be accommodated—the new system in the pilot department and the old one in all others.

Install critical systems first. In U.S. local governments, the most critical financial systems are budgeting, purchasing, and the general ledger accounting system. The strategy of installing these systems first recognizes the interdependence of budgeting, purchasing, and accounting. With this strategy, only one system is maintained at a time, and all departments are on the same system. Other modules of the integrated financial management system can be added at a later time as the organization adjusts to these improvements and is ready for enhancements like performance management. In a large organization, this installation of critical systems can be a significant undertaking depending upon the degree of decentralization.

Install budget first. Usually, budgeting is suggested as the place to start modernizing the financial management system. This strategy may achieve early improvements in decision-making if the accounting system can accommodate the changes. However, the changes envisioned for the budget (i.e., program

budgeting) probably cannot be accommodated by the existing system and necessitate a new financial accounting system that can accommodate varied reporting requirements. Often, when system reform begins with budgeting, it also stops there.

Begin with auditing. This is a unique approach that begins by conducting a comprehensive independent audit. The audit results in a report outlining specific recommendations for improving the financial management system. Using an independent auditor to determine the need for these improvements commands a high degree of immediate creditability because of the auditor's independence and the relationship between audit findings and status of the city in financial markets. A disadvantage of this approach is that some executives may be uncomfortable with public exposure of financial management problems.

Begin with performance management. Starting here places emphasis on areas where there may be significant interest from the public and Council. However, unless there are strong linkages to the budgeting and accounting systems, starting here may require developing stand-alone reporting systems, defeating the purpose of an integrated financial management system.

Project by project. It is possible to begin a financial management improvement program by addressing needs, project by project, that are not necessarily closely related; however, the organization must consider how these will eventually tie together at a later date. The advantage of this approach is that it allows you to implement improved financial management systems where there is the likelihood of the greatest savings or where politically important problems are addressed. The major disadvantage is that these dispersed efforts must ultimately be integrated into an overall comprehensive program.

Implement the Plan

Assuming that the preparatory work received the approval of management and Council, attention turns to implementing the plan. Some strategies are offered to ensure that the plan is executed as scheduled.

Continue the financial management system committee. The committee, with its broad based membership, should remain active. Its mission should now focus on policy issues, monitoring implementation, resolving unanticipated problems, and keeping management and Council advised of the status of the project. The committee should meet regularly to stay informed of project changes and to act swiftly when problems come up.

Develop a Gantt chart. A Gantt chart sets out a critical path for all components of a project in order to complete the project in the shortest possible time. Developing a financial management system that affects all departments in a city is a significant undertaking. The complexity of the project is increased by the number of organizations involved, the number of people needing training, the number of different modules of a financial management system being developed and installed, the need for new equipment, and the time allotted to complete the project. Determining the optimum schedule for initiating and completing these activities is critical to a successful installation. A delay in any one area may significantly affect every other step thereafter and cause the project to miss critical deadlines.

Establish a comprehensive training program. It is critical that you emphasize training. Training plans need to consider who will conduct the training, who will train the trainers, what the training will consist of, who will develop training materials, where and when the training will be conducted, how many people will be trained on which systems, and how much time is required to accomplish the training. Ideally, a separate training facility should be set up. It should include both classroom and practical training using a prototype system. Training should be accomplished as close to the system change-over date as possible so staff will remember the training when the new system is installed and operational.

PRACTICAL EXERCISE

Exhibit 14-2 contains a checklist to assess whether your jurisdiction is making progress toward a fully integrated financial management system.

Meeting the demanding standard of a fully integrated financial management system is not an easy task. First, the four component systems of budgeting, accounting, performance measurement, and auditing must be in place and operating. Second, the links between these basic functions are also considered in the assessment.

Do not be surprised if your jurisdiction fails to receive a high score on any one of the components—especially if there has not been an effort to connect the systems. While the number of jurisdictions that have integrated financial systems is growing, few jurisdictions can claim to meet all these standards. What is important is to use the checklist as an indicator of how your jurisdiction compares against a demanding standard so that you can determine how much more you need to do to reach an integrated status.

Exhibit 14-1
Financial Management Inter-Relationships

Exhibit 14-1

FINANCIAL MANAGEMENT INTER-RELATIONSHIPS

Budgeting

Decision-Making
(Planning and Analysis)

Accounting
Performance
Management

Implementation
(Management and Control)

Auditing

Assessment
(Evaluation and Feedback)

Exhibit 14-2
Financial Management System Checklist

Exhibit 14-2

FINANCIAL MANAGEMENT SYSTEM CHECKLIST

The purpose of this checklist is to evaluate a local government financial management system's degree of integration of the budgeting, accounting, performance management, and auditing functions.

Directions: Read each question and circle **Yes** for those activities that your jurisdiction currently performs and **No** if your jurisdiction does not or if you do not know.

Budget

- | | | |
|--|-----|----|
| 23. <i>Comprehensive Budget Coverage.</i> Does the budget cover all the funds expended by the local government? | Yes | No |
| 24. <i>Budget Staff.</i> Is there a professional budget staff person or unit responsible to the chief executive that works for him/her in preparing the executive budget? | Yes | No |
| 25. <i>Operating Budget: Revenues.</i> Is there an established procedure for developing and periodically updating estimates of revenues? | Yes | No |
| 26. <i>Operating Budget: Expenditures by Program.</i> Is the operating budget formulated in terms of programs and activities (defined in terms of major purposes) rather than solely by organizational unit or objects of expenditure? | Yes | No |
| 27. <i>Budget Analysis.</i> In the review of proposed department budgets, does the budget staff person or unit: | | |
| Analyze program costs per unit of workload or service delivered? | Yes | No |
| Evaluate program benefits against costs? | Yes | No |
| Estimate future year expenditures for proposed new programs and activities? | Yes | No |

- | | | |
|--|-----|----|
| 28. <i>Capital Budget.</i> Is there a separate capital budget or separate capital component of a consolidated budget that lists individual capital projects and provides basic financial data on them? | Yes | No |
| 29. Does the capital budget include estimates of the future impact of projects on the operating budget? | Yes | No |
| 30. <i>Multi-Year Fiscal Planning.</i> Does the executive budget include a multi- year financial plan that covers: | | |
| The Operating Budget? | Yes | |
| No The Capital Budget? | Yes | No |
| 31. <i>Legislative Review.</i> Does the process leading up to the adoption of the budget(s) include examination of the executive budget by a fiscal staff person or unit responsible to the local legislature? | Yes | No |

Budget Administration and Accounting

32. <i>Budget Allotments.</i> After the budget has been approved, is spending authority allotted by periodic intervals (e.g. quarterly) during the fiscal year so that departments know their spending limits?	Yes	No
33. <i>Responsibility Centers.</i> Are funds appropriated or allocated to the heads of organizational units so that financial and managerial authority are clearly integrated?	Yes	No
34. <i>Budget Modification.</i> Are department heads or program managers authorized to reallocate funds within program appropriations (without coming back to the chief executive, budget staff, or legislative body for each change)?	Yes	No
35. <i>Budget Control.</i> Are there periodic reports to the chief executive and local Council on actual expenditures, encumbrances, and revenues against the adopted budget plan?	Yes	No
36. <i>Accounting Basis.</i> Does the accounting system operate on an accrual basis (modified as appropriate) for both revenues and expenditures?	Yes	No
37. <i>Municipal Enterprises.</i> Does the municipality have full accrual accounting for its independent revenue-supported enterprises?	Yes	No
38. <i>Internal Controls.</i> Are there written accounting procedures that clearly set forth a system of internal controls?	Yes	No
39. <i>Accounting Schedule.</i> Are the financial reports of the government certified by a professional financial management association?	Yes	No
40. <i>Flexible Account Structure.</i> Does the accounting system have the capacity to provide data on expenditures and encumbrances not merely for each appropriation but also for:		
Program elements and activities used in budget analysis and presentation?	Yes	No
Projects financed under special grants?	Yes	No
Major organizational divisions?	Yes	No
Major geographic divisions of the locality?	Yes	

No

41. *Common Database.* Does the accounting system produce data on expenditures and encumbrances for the programs, activities, and projects for which performance measurement data are collected? Yes No

42. *Cost accounting.* Is there a capacity to generate the data required to determine the full costs of individual programs, activities, and special projects? Yes No

Performance Management

43. *Central System.* Does the locality have a performance management system covering the activities of all or most of its operating departments? Yes No

44. *Component Systems.* If there is not a comprehensive system, is there a system that covers one or more individual departments? Yes No

45. *Contents of Systems.* Does the performance management system contain the following items:

Measures or indicators of workload for relevant programs, activities, and projects? Yes No

Measures or indicators of output for relevant programs, activities, and projects? Yes No

Measures or indicators of effectiveness or quality of performance? Yes No

46. *Management Plan.* Is there a regularly produced plan that sets forth the performance/productivity targets on an annual or more frequent basis? Yes No

47. *Performance Reporting.* Is there periodic reporting on progress against the targets set in the annual performance plan?

To the chief executive? Yes No

To the public? Yes No

- | | | |
|--|-----|----|
| 48. <i>Management Projects and Assistance.</i> Are there staff assigned to help local departments undertake special improvement projects and activities? | Yes | No |
| 49. <i>Executive Management Participation.</i> Does the chief executive play an active part in reviewing the results of the performance/productivity program and in requiring department adherence to targets? | Yes | No |
| 50. <i>Linkages to Budgeting.</i> Is the performance management system integrated with the budget process? | Yes | No |
| 51. Are performance data systematically used in budgeting analysis and reported with expenditure data in the budget? | Yes | |
| No1. Are performance targets and objectives related to recommended appropriations included in the budget? | Yes | No |

Audit

52. <i>Periodic Audit.</i> Are the municipal accounting system and its records and procedures audited annually by an independent public accountant?	Yes	No
53. <i>Financial Audit.</i> In addition to the annual independent audit, does the local government retain qualified auditors (on a staff or consulting basis) to conduct periodic, in-depth reviews of the financial operations of selected municipal activities?	Yes	No
54. <i>Performance or Management Audits.</i> Does the municipality have a continuing program of audits (operated on a staff or consulting basis) of the economy and efficiency of performance and the results achieved in selected municipal activities?	Yes	No
55. <i>Audit Response.</i> Has a standard procedure been established for responding to financial and performance audits to ensure that there is adequate feedback into the budgetary process?	Yes	No
56. <i>Audit Planning.</i> Is a statement specifying scope and coverage prepared in advance of each audit?	Yes	No
57. <i>Budget Involvement.</i> Do the budget staff participate in planning or propose subjects for inclusion in the program of selected financial and/or performance audits?	Yes	No
58. <i>Accounting System Audit.</i> Does the annual independent audit provide for an assessment of the adequacy of the municipality's accounting system and the related internal controls?	Yes	No
59. <i>Performance Audit.</i> Is there a program for the periodic or selected audit of the performance management program?	Yes	No
Total	—	—

From: Hays, Frederick O.R., *Linkages: Improving Financial Management in Local Government*. Washington, D.C.: Urban Institute Press. 1982.

**TASK BUDGETING IN POLAND:
KRAKOW CASE STUDY**

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INTRODUCTION

This study of the budgeting system of the City of Krakow arose from the transition that began four years ago and that has been consistently implemented since then. The Krakow case study is the result of collaboration between the Municipal Development Agency and the Krakow City Hall and has been undertaken in order to promote the concept of task budgeting.

We would like to share with representatives of local government our experience in constructing, implementing and executing a complex budgeting system, which we regard as a tool for efficient management of communal finances. We would also like to point out those areas of the system that because of the lack of previous experience have not been fully perfected and that represent a challenge for further work.

In presenting this alternative approach to budgeting policy, we hope above all that it will help decision makers, budgeting personnel and other concerned individuals understand task budgeting, become aware of the shortcomings of the old budgeting system and become motivated to develop and enhance management tools.

The manner in which we are presenting the issues we have chosen will permit readers to learn about the concept of task budgeting in simple but realistic terms and to consider the possibilities of its implementation. We have included large amounts of data and practical tips so that those who are interested in the new system can avoid errors that might impede, derail or destroy their innovations.

CHAPTER ONE

RAMIFICATIONS OF CHANGES IN THE FINANCIAL MANAGEMENT SYSTEM

1.1 THE STARTING POINT

At the outset, we will explain the motives for introducing innovations in the system of local management. Our focus will be on both external or macroeconomic factors and internal motives resulting from assessment of local financial management. The radical changes in the budget preparation process result from such critical analysis.

Motivating factors for change may be classified as follows:

- the legal framework for local government;
- the social environment;
- the administrative environment in which the actual management process takes place.

1.1.1 Legal Framework

The change in the administrative authority of gminas in 1990 empowered local communities. The scope of authority of the local government is defined by law, and it includes ²autonomous activities as well as tasks mandated by the State administration. However, the lawmakers, taking into consideration the fact that the financial system of the country is still in transition, have declined to determine precisely the scope of autonomous tasks for gminas. The consequence is that the financial commitment of gminas to their locally determined activities is increasing as the laws and regulations are changing and new social needs arise.

The most important aspect of the legal framework for local government is the legislation concerning financial management. It is this legislation that determines the budget's role in achieving independent and rational asset management. The most notable characteristic is that legislation on local finances is dispersed

among multiple laws and regulations. As a result, there is a lack of consistency in legislation on such crucial issues as the distribution of revenue sources between State and local governments, the separation of local assets or the status of utilities. Terse clauses, such as *Alocal government is independent in its financial management based upon budget*³ (in Article 51 of the Law concerning territorial government), do not clearly define the scope of local financial independence. Also, the legal provisions concerning local financial management are not reflected in Constitutional principles and are therefore subject to arbitrary modifications by the State through amendments to local level legal regulations.

The legal framework also includes restrictions concerning the ability of local government to generate revenue. This type of restriction during a period when public funds are scarce makes it difficult to satisfy the growing needs of a local community.

1.1.2 Social Environment

As we consider the social environment and its role in determining changes in objectives and financial policy, we must emphasize the impact of the growing needs of local communities. The people expect that their representatives in local government will not only take care of their interests but also provide them with the opportunity for direct participation in shaping policy as it is ultimately reflected in the final budget document. Moreover, since the financial management must by law be transparent, the local community expects the budget to be understandable, so that citizens have access to its contents and can find needed information easily.

Budget accessibility and an appropriate level of detail in the budget data are also important for specific interest groups. For businesses and potential investors, the budget document represents the *Abusiness plan*³ of the community and will likely answer a number of questions of concern to them. If businesses and potential investors are able to discern the strategy of the local government and ascertain how the budget revenue resources are allocated, they will certainly be able to decide whether the activities, as well as the investments made by the local government, provide the appropriate climate for the development of their own investment.

Collaboration between the public and private sectors in a local community may lead to increased revenue generation if those responsible for local financial policy undertake efforts to:

³ Task Budgeting in Poland: Krakow Case Study

- facilitate public participation in the development of local policy;
- validate decisions contributing to budget preparation;
- enable collaboration of local government with the business community through appropriate budget policies.

1.1.3 Administrative Environment

In discussing the administrative environment and evaluating the quality of the process of local management, it is important to mention the existing organizational structure of local authorities and particularly the composition of executive agencies participating in budget preparation. In the context of the new local government system, those agencies are not very effective. At the same time, there is little trust in the competence of lower level staff responsible for budget development and implementation. As a result, new approaches should be sought. This implies the necessity of restructuring both the budgetary system and local government organization and agencies.

1.1.4 Budgetary Reform

Familiarity with the above mentioned factors and with the general condition of State finances permitted certain conclusions concerning desirable changes in the budgetary system of Krakow. In the first place, it is necessary to make the budget policy reflect above all the autonomous tasks of the local government. In reality, until recently the budget was not considered a financial management tool; instead, it served mainly external purposes (categorization of data for use in national statistics), and its main function was oversight. This situation contradicted the generally accepted premise that the basic objective of the budget is the implementation of financial policies and management of local assets (allocation of material, human and financial resources).

The second conclusion is drawn from an assessment of the legal environment, or the degree of financial autonomy enjoyed by the local government. This assessment can be summarized by saying that for all practical purposes, the local government has no opportunities for autonomous control of its revenue

policy. This lack of autonomy results from the distribution of income sources by the State as well as from the conspicuously privileged position of the State government, which retained control of the most fiscally productive taxes. Moreover, local governments are not given authority to structure those taxes that they do collect—they are not authorized to determine whom, what or how much to tax.

Realizing that local governments lack control over revenue sources, we must conclude that the restructuring of the budget system should focus on broad and decisive rationalization of *budget expenses*. This is the only way to save resources and to *commit them more effectively* in carrying out the growing scope of local government responsibilities.

The next conclusion deals with the basic premise of how to build an effective system of local government financial management. It is based upon a widely used benchmark for assessment of all kinds of business activities. The benchmark is called *effectiveness indicators*,⁵ which means that for any task, including those carried out by local governments, we assess the ratio of expenditures to results measured by any means, not just by financial criteria. If the local government cannot assess to what extent its financial policy objectives have been achieved, then it has no way of finding out whether it is fulfilling its obligation to its constituency as defined by law. During the ongoing reform process, conclusions concerning the social environment have been crucial. The main objective of a modern system of financial management on a local level should be to elicit the broadest possible commitment by the constituency to each phase of budget development and implementation. Such commitment should be reflected, above all, in continuous feedback between the constituency and the local government and accommodation of citizen initiatives in defining the objectives of financial and social policies.

The fifth and last conclusion concerning the desirable direction of change in local government budgeting systems refers to the management and organization of executive agencies in Krakow's local government. Krakow has decided to make efforts toward delegating more responsibility to lower levels of management while selecting staff members who are competent and training them to identify and make appropriate use of the new sources of information and then to choose optimal solutions.

1.1.5 Tool for Implementing Budgetary Reform

Based upon the above analysis and conclusions concerning the condition of Krakow's local government, we had to choose the best tool to satisfy the needs for reform discussed above. We wanted to choose a budget type that would guarantee rational and effective cost-based resource management and encourage organizational transformation resulting in a decentralized management process.

There are two basic types of budget from which to choose. The criterion for selection is: Which type of budget generates more useful information, a line item budget or a task budget.¹⁹

The line item budget is a relatively simple tool. It classifies the goods and services that will be procured by local government during the fiscal year into standard groups or line items. This classification is simple and easy to integrate with the bookkeeping system. Its disadvantages are that it cannot be customized for rational resource allocation and that it focuses attention on revenues and expenses rather than on results. Arbitrary classification of revenues and expenses does not reflect the activities of the local government and makes it impossible to verify the validity of financial decisions made during budget preparation.

The other type of budget is the opposite of the line item variety. While it takes more effort to develop and implement, it generates much more substantive information, thus offering better support for the complex tasks of management. Above all, a task budget emphasizes the importance of effectiveness. It measures the degree of goal achievement by implementing the principle of effectiveness indicators, and it discloses the relationship between expenditures and results of local government activities. It is thus an efficient tool that is more appropriate for modern local government in Poland.

It might be argued that the line item budget, which currently prevails in Poland, could be adapted to incorporate the changes outlined above. However, we believe that this is not warranted based upon the above arguments as well as on practical evidence, which will be presented in the forthcoming pages.

1.2 TASK BUDGETING AS A FINANCIAL MANAGEMENT TOOL

Krakow is the first city in Poland to select task budgeting as its goal. In this section we discuss Krakow's experience in adapting this concept to Polish

¹⁹*Editor's note:* Task budgeting, Krakow's adaptation of program budgeting, combines elements from performance, program, and line item budgets.

conditions. We outline the origins of the task budget concept and discuss the experience of Rochester, New York, on which the Krakow reform was based.

The name *task budget* is related to the practice of public finance, where the concept of a task is encountered daily. We hear about the scope of State and local government tasks. We classify local government tasks into autonomous and mandated tasks. The concept is so ubiquitous that we almost forget to define it. As conceived in the task budget, a task is a basic unit representing a fairly standard activity that is performed by a local government in order to achieve a defined objective. All local government activity can be expressed formally in terms of quantifiable units called *tasks*.³ Each task is defined in terms of its substantive scope or contents.

Tasks are broken into manageable units because of the necessity to manage by output. A task budget assigns indicators to each unit that allow assessment of its effectiveness and efficiency. Each budget task is planned, approved and implemented during a fiscal year based upon individually calculated costs and objectives (defined in terms of quantity and quality) that must be achieved by committing public resources. In addition to documenting the activities undertaken and verifying their feasibility within the allotted time frame (typically during a fiscal year), action plans are developed similar to those used by businesses. An action plan describes and schedules the activities.

New analytical techniques and broadened access to information generated during the development of each task enable the implementation of a task budget. During budget preparation, we no longer use the familiar principle of allocating resources to departments⁴ because it has proven inflexible and ineffective as well as conducive to waste of assets, labor and money. With a task budget, money is no longer allocated according to bargaining power and arbitrary decisions but based upon objective calculations of expenses and results of each endeavor. As experience with task budgeting is gained, each unit is assigned definite parameters called effectiveness indicators. Essentially, what the indicators measure is the effectiveness of an activity in terms of cost-per-unit of a constituent service. This measurement is made by relating the total cost of a task to its total planned effect (described as a quantitative parameter.) Task efficiency is assessed in terms of whether the commitment of public resources has served the desired purpose. Limited assets should be allocated where they are most needed so that they satisfy public expectation to the highest possible degree. Therefore, all tasks related to a given field are ranked, and local financial policy is prioritized accordingly.

The task budget, as developed in Krakow, is modeled on the program budget of Rochester, New York, which is Krakow's sister city. U.S. cities have almost 20 years' experience in constructing budgets based upon objectives and programs

³ Task Budgeting in Poland: Krakow Case Study

Improved Budgeting Practices Manual for Poland, October 1996, prepared by the Municipal Development Agency

and using them as a management tool. Each program consists of tasks that are implemented each year and that constitute elements of a broader vision for each programmed area. Long term programming of development and of local government activities is supported by careful feasibility studies and financial plans extending five to ten years into the future. Any changes in internal or external factors that might have an impact on the actual implementation of programs are accommodated in the annual updating of task planning (during budgeting for the next year).

Applying such changes to the budget system of a gmina has broad ramifications. These innovations involve not only financial transformation, but also broad based changes in the organizational structure and in distribution of responsibilities among managerial functions. Therefore, budgetary reform is a long process. Krakow decided to adopt activities relevant to task performance as the first phase of the reform. In the future Krakow will work toward extending the stability of the system with more components. Those components will involve long term programming of community development according to a comprehensive socio-economic plan; customized operating budget programming (to account for special needs in such fields as art, education, health care and welfare services); and an investment plan covering five to ten years.

CHAPTER TWO

COMPARISON OF TRADITIONAL AND TASK BUDGETING

In this chapter, we shall compare the two types of budget commonly used in Poland to help justify the choice between them. It is important to juxtapose each element of the budget now required of local governments with the corresponding element in the task budget proposed here. We shall begin with a brief outline of task budget development to make it easier to evaluate the differences between the two types.

As we remarked in Chapter One, the Krakow task budget reflects local government activities as elementary budget units, referred to as tasks. These are formulated according to priorities determined by the Council. Based upon priorities contained in the adopted budget guidelines, on projected revenues and on verified measures of last year's performance, the budget office develops instructions for tasks managers establishing what resources will be available for financing their tasks. The crucial phase in budget development is the appropriate definition of tasks proposed by each department (parameters, scope of procurement, costs and schedules) and their prioritization in a ranking list. The ranking list indicates the significance of each activity to be undertaken or continued in the budget year. Tasks are ranked from most to least important so as to allocate limited funds according to the defined priorities. It is worthwhile to mention that a task project, when justified, may be developed in several alternative versions with different procurement and cost schedules. The availability of alternative versions makes the choice easier for the decision makers. Planned and approved tasks have codes matching the budgetary classifications enforced in Poland in order to meet the formal requirements of the budget laws. However, coding or fitting the budget into the classification framework is secondary to the procedures outlined above. Sections, chapters or paragraphs are assigned to each task only after its cost has been calculated (cost calculation will be discussed in more detail below).

Implementation of the approved budget involves recording the costs of each task and preparing status reports. Bookkeeping in Krakow is handled in two parallel systems based on a custom-designed Budgetary Unit Accounting and Bookkeeping System (Polish abbreviation FKJB). The dual system is necessary to generate two sets of information, one for the task model and one for the traditional budgetary model. The task model is primary while the traditional model of budgetary classification is secondary both for budget development and implementation.

The two systems for keeping financial records are necessary to satisfy the internal needs of program managers and the external reporting needs as required by laws and regulations. Business ventures also commonly have two sets of needs. Each modern company managed by an independent decision making process must report on its finances separately for financial and management purposes. Each system has a separate purpose. The two sets of records in Krakow City Hall serve the purpose of management through the budget as a means of implementing a multi-purpose, complex policy. The recording of costs or expenditures assigned to each task generates information concerning budget objectives and allows for the measurement of the actual cost of each constituent service. On the other hand, matching the tasks with sections, chapters and paragraphs and then regrouping them according to budgetary regulations serves purposes of compliance. This system permits the generation of information necessary for mandatory budget implementation reports, such as annual reports and semi-annual statements as well as reports on task implementation in either summary or analytical format. This system is thus superior to the simple but uninformative formats used by other local governments. It makes this system a comprehensive tool for decision makers.

This brief description of task budgeting, which will be expanded later, serves as the basis for a comparative analysis. We assume that the reader is familiar with the current line item type of budget and will therefore describe it only to the extent needed for purposes of comparison. For the sake of simplicity and in order to avoid any ambiguity, we shall refer to the task budget as the Anew@ budget and to the line item budget as the Aold@ budget.

2.1 FORMAT

The old system deserves criticism mainly because of its format. An Aold@ local budget looks like a barely readable spreadsheet, and it does little to facilitate the management of local government activities. The information contained in it is incomprehensible to the average reader, and even an informed government staff member can draw few conclusions from it without a great deal of additional information. The reason for using this format can be traced back to the aims of those who developed the system originally. We believe that the underlying intention of the old budget format was to make it uniquely a tool of formal cash flow oversight. Because of this, the old budget format is focused on revenue collection and expenditures without any emphasis on why revenue is collected and what effect public spending has.

The intention of the new budget is different. The new budget format's main merit is that it emphasizes the purpose of activities. The task format requires more work to formulate, organize and document the budget but emphasizes the

planning and management function. The task-oriented format asks the following questions: What is to be achieved? How best can it be achieved? Exactly how much will it cost? Because the task budget format is transparent, each user of the new budget may form his or her own opinion concerning the choices of social objectives and the manner of their realization. He or she may also understand why the budget is not arbitrary.

2.2 FLEXIBILITY

The next comparison relates to budget flexibility. The old budget format is rather detailed and therefore not very flexible. In practice, this feature of the old budget often allows the expenditure of resources that were misallocated to begin with. This misallocation occurs because items in the old budget used to be planned with a contingency margin of safety. The old budget neglects real local needs while protecting formal compliance.

The new system provides for flexibility by allowing a task manager to initiate adjustments within the task as a basic unit of the budget. The manager knows best when small but by no means minor changes are necessary, as they will also be reflected in classification subdivisions such as paragraphs. Moreover, the flexibility of the new system allows for discontinuation of tasks during a fiscal year if the results are obviously disappointing. This makes assets available for other tasks that would otherwise be constrained by lack of funds.

2.3 INFORMATION

Another significant comparison related to the scope of information generated by each type of budget can be seen in the process of adopting the budget as the *Aeconomic constitution*³ of the gmina. As we know, adoption of the budget proposed by the executive organ elicits the most intense emotions among politicians. Therefore, objective justification of the suggested budget is what counts most during this phase. It is noteworthy that with the old budget's scarcity of useful information it was usually difficult to avoid controversy and accusations of irrational planning of expenditures. The controversy occurred because the Board could not convincingly explain the real contents of the budget spreadsheet and its rows of numbers.

In the new budget, activities of the local government stand out clearly as a set of tasks. Each change suggested during the budget debate concerning the reallocation of means within a classification is reflected in shifts between tasks themselves. It is thus easier to explain the effect of each apparently minor change on the accomplishment of any given task or set of tasks. It is also easy to

³ Task Budgeting in Poland: Krakow Case Study

determine whether the budget changes suggested by the Board are feasible, i.e., whether they are realistic. If they are not feasible, the task format offers the advantage of selecting another previously prepared version of the task, for example with a lower cost projection.

2.4 RESPONSIBILITY

Another important difference between the traditional budget and the task budget is the allocation of responsibility for implementing the intended activities of the local government. If expenses are based on the traditional budget, the responsibility for implementing each part of the budget is imposed on its manager. We use the term *imposed* because, as we know, department managers or directors of local agencies cannot obtain the precise information necessary to make multiple financial decisions. By responsibility for implementation we mean both project development and project coordination including the ability to react quickly to the need for change in the structure of expenses. A typical result of such an imposition of responsibility without financial control is that managers tend not to exercise any initiative to modify the original budget plan. As well, they lack incentive to improve performance and fear non-compliance with budget regulations.

With a task budget, the problem of assigning responsibility has been solved based upon the principle mentioned above of delegating responsibility to the level of actual task implementation. Planning, coordination and reporting of task implementation are the responsibility of staff personnel in departments and agencies. This promotes enhanced performance by the executive branch. The function of directors in Krakow City Hall is to coordinate implementation of the budget and to settle disputes. Staff members responsible for each task can take independent decisions because they have sufficient information and authority to do so.

2.5 SUMMARY

The best way to summarize this comparative analysis and to propose the final conclusion of this chapter is to point out that the new budget is an instrument for rational management of the activities of the local community to a much greater extent than the old budget. As a document with a higher informational content the new budget also does a better job of meeting the requirements for bond issuance. It can thus be an important aid for gminas interested in financing local growth through public debt.

CHAPTER THREE

INTRODUCING THE TASK BUDGET

In the first part of this chapter we present background information on the gmina of Krakow that may be useful for those interested in implementing budgetary reform. The material includes basic statistics characterizing the potential of Krakow and general information concerning its elective bodies, and a presentation of improvements already implemented in the organizational structure of the Krakow City Hall.

Later, we discuss the implementation of budget reform, including preparatory activities for introducing the new budgeting system and the process of local government task budget preparation, and the results of introducing task budgeting in Krakow.

3.1 BACKGROUND DATA ON THE GMINA OF KRAKOW

3.3.1 Demographics and Employment

- 800 million inhabitants; 2,279 persons per square kilometer.
- Labor force 45 percent of total population (47 percent men, 53 percent women).
- Area of 327 square kilometers, equal to 0.1% of the area of the country and 10.1% of the area of the district.

3.3.2 City Finances²⁰

²⁰Based upon the Krakow city budget for 1996.

- City revenues for 1996 are projected to be 601,913,127 Zł and total expenses are projected to be 661,110,627 Zł.
- The projected budget deficit of 59,197,500 Zł is caused by the necessity for urgent municipal investment in transportation, education and sports as well as city infrastructure. The deficit will be financed by:
 - a budget surplus for 1995 in the amount of 14,037,500 Zł
 - bank credits and the first issuance of municipal bonds of the city of Krakow totaling 44,960,000 Zł
 - a loan from the District Environmental Protection Fund of 200,000 Zł.

Main Sources of Revenue of the City of Krakow

I. Taxes	405,306,098
II. Revenue from assets	28,100,000
III. Payments by municipal agencies	22,432,000
IV. Other revenue	5,190,400
Total non-grant revenues (I+II+III+IV)	461,028,498
V. Grants for autonomous tasks	--
VI. Subsidy	100,473,075
VII. Total grants for mandates plus 1995 pilot study	40,411,554
Total subsidies and grants (V+VI+VII)	140,884,629
TOTAL REVENUES	601,913,127

3.2 ELECTIVE BODIES AND OTHER PARTICIPANTS IN THE BUDGET PREPARATION PROCESS

3.2.1 City Council (RMK)

In accordance with the charter of Krakow, the Council is a body that establishes and oversees the activities of the Board, with the exclusion of issues decided by election or referendum.² The Council has 75 members whose function is to represent their constituents and maintain regular contact with them. Council members receive constituent requests in order to present them to municipal agencies for consideration.

² Task Budgeting in Poland: Krakow Case Study

Council members have the following responsibilities:

- **definition of the city's development strategy and its sectoral policies as well as selection of the basic tools for their implementation;**
- **construction of master plan and investment programs and support for local initiatives;**
- **management of non-routine assets;**
- **approval of multi-year plans for municipal utilities (including rate structures and investment programs);**
- **determination of priorities and adoption of multi-year plans for city development;**
- **approval of the budget as the annual action plan embodying the assumptions and priorities of the Council.**

The Council has advisory committees responsible for formulating opinions on specific issues, filing motions and exercising oversight within their scope of competence.

The Council usually meets once a month. If urgent matters arise, Council members hold meetings each week.

3.2.2 City Board (ZMK)

The Board selected by the Council includes: the City President, who presides at the Board meetings; four vice-presidents and two Board members. Their responsibilities include:

- **preparation of draft resolutions for RMK and description of the means of their implementation;**
- **management of communal assets;**

- budget implementation;
- negotiations on behalf of the city with outside entities;
- oversight of current City Hall performance;
- public communication policy and public relations.

The Board, as an executive body, works as a collective, deciding matters within its competence by resolution.

3.2.3 Auxiliary Administrative Units

The City of Krakow is divided into 18 wards functioning as auxiliary administrative units. They do not generate their own budgets but have a total of 6,300,000 Zł at their disposal²¹ to allocate for local priority objectives. The executive body for each ward is its Board, presided over by a Chairperson.

Ward Councils have 446 council members whose functions are to:

- advise on zoning issues for construction, urban planning and recreational facilities;
- advise on municipal investment and transportation issues (as a part of the Social and Economic Plan, investment section, adopted by the City Council);
- assess performance of all municipal services and contractors doing work within the wards;
- maintain community relations;
- participate in competition juries to choose school principals and serve on procurement committees for priority ward projects.

3.2.4 City Hall (UMK)

²¹Based upon A1996 Budget Preparation Guidelines.®

The organization and rules of operation of Krakow City Hall (UMK) are defined in the charter proposed by the Council and adopted by the Board. City Hall performs tasks mandated by the law on local government, by agreements between the President and the manager of the appropriate regional agency (concerning delegation of selected authority by State administrative agencies) based upon other laws and by the charter of the City of Krakow.

3.3 CITY HALL'S NEW APPROACH TO CITY MANAGEMENT

As the executive agency of the gmina, the essential mission of City Hall is to undertake activities aiming to satisfy certain needs of the local population. Because the scope of those needs increases each year, it became necessary to create an organizational structure and operational procedures that would allow for greater efficiency and speed in issuing administrative decisions.

In 1993, a reorganization of the management structure was undertaken based upon the program entitled *A Vision of Krakow City Hall in the Year 2000*.³ The reform involved the following actions:

- Requirements were defined concerning the submission of applications as well as the principles of operational cooperation between departments.
- It was decided that important tasks of city operation would be handled by special task forces, while tasks of lesser importance and scope would be managed by an appointed coordinator.
- An integrated information system and a multi-layer digital map of the city were constructed under the MSIP project (Special Information Project for Southern Poland).
- Most communal enterprises have been transformed or privatized.
- To enhance the efficiency of City Hall activities, a new division of responsibilities was introduced to manage and coordinate the work of each department. Organization and oversight of all departments' activities is now the responsibility of the Director of City Hall. In turn, the City Secretary now has a more visible function, consisting of coordinating cooperation among the Council, Board and City Hall as well as supporting external relations of the city.

- **Programs to promote local initiatives were developed, allowing for implementation of city policy concerning:**
 - **infrastructure development (providing matching funds to those collected by citizen groups);**
 - **artistic and cultural initiatives (subsidizing special events);**
 - **subsidizing trips, international contacts and sports activities for elementary and secondary schools.**

- **A new way of constructing the city budget in the task format was developed.**

As can be seen from the above description, introducing the new task budget was only a part, albeit a crucial one, of the entire reorganization program for City Hall. Introducing and continuously upgrading the program demonstrates the necessity of implementing principles of efficient management, such as evaluation of alternatives, enhanced effectiveness and justification of the endeavors undertaken by gmina agencies.

3.4 IMPLEMENTING BUDGET REFORM IN KRAKOW

The task budget for the City of Krakow was developed for the first time in 1994. The inspiration for the local government in Krakow was the budget system of the U.S. city of Rochester, New York, which has, as mentioned above, over 20 years of experience in developing and implementing program budgets.

What made this undertaking difficult for Krakow is that the city was an absolute pioneer in Poland in this type of budget development. With the aid of U.S. consultants, Krakow prepared a completely new type of local budget. It must be emphasized that the new budget continues to be developed and perfected based upon the ongoing experience of the personnel involved.

3.4.1 Preparation for Introducing Budget Reform

Preparation for budget reform included:

- **establishment of the task force;**

- **creation of the Budget Office;**

- implementation of an integrated computer system for city management support;
- organization of training for decision makers and budget staff;
- development of an efficient bookkeeping system including cost accounting and posting of expenses in both program and traditional modes.

Establishment of the Task Force. A task force was established to formulate the new principles of city budget preparation in Krakow, utilizing the U.S. experience in program budgeting but with due consideration of the ability and needs of the gmina of Krakow. The task force focused on developing the principles of cost accounting and expenditure tracking for the tasks implemented by city departments and agencies. The Polish-U.S. expert group included the following persons:

- The *vice president* responsible for organization of budget preparation activities;
- The *treasurer* of the gmina of Krakow;
- *Analysts* from the Budget Office;
- A *budget consultant* from ICMA;
- A *training consultant* from ICMA;
- A *research team* from the Academy of Economics in Krakow.

The diversified composition of the team reflects the fact that the work on implementing the new method of budget preparation required expertise in both public finance and management. We must emphasize the wholehearted involvement of the budget personnel, who contributed greatly to the introduction of reform by developing new tools used in the budget process, most notably training of personnel in task planning.

Creation of the Budget Office. Adoption of a different manner of budgeting required the establishment of a separate administrative unit to coordinate all budget preparation activities. For this purpose, a Budget Office was established within the Finance Department with responsibility for developing new procedures and budget tools. The Office included two separate sub-units, Budget Planning

and Reporting. The scope of activities performed by the budget personnel also changed: they became responsible for developing two versions of the budget, the task format and the traditional format, in accordance with the budget classifications in effect.

Budget Office personnel are now responsible for:

- development of budget task planning instructions;
- drafting of suggestions for budget preparation;²²
- organization and implementation of budget training.

As of 1996, a principle was adopted to specify that tasks included in the city budget must be planned by designated persons known as task coordinators.²³

Budget Training. Training sessions on task definition and planning and on preparation of budget submissions were organized for department and agency managers and for budget analysts and task coordinators. Contents of the training included directions for planning budget tasks, creation of a budget calendar and a report card on the status of task implementation. The subject matter of training remained the same for all groups but was presented from varying viewpoints depending upon the audience:

- **Managers** - presentation of the budget as a tool enabling appropriate management and coordination of work in a department or agency; presentation of the level of planning changes introduced each year and of the manner of task definition;
- **Budget analysts** - discussion of the principles of consolidating budget submissions from a department or agency;
- **Task coordinators** - detailed presentation of the principles of budget task planning, form completion and preparation of reports on task implementation status.

²²These will be discussed in more detail in Chapter Four.

²³This will be discussed in more detail in Chapter Four.

At the end of each session, the participants performed an exercise in budget task planning. Each participant was given a description of a situation occurring in a department in gmina X, as well as basic data used in the planning process (gmina X's priorities, the quantified needs of its population, and financial information such as the cost of one hour of labor, etc.). Based on that information, the participants were asked to formulate detailed objectives, to define tasks based on those objectives and then to prepare an action plan and to determine to what degree the objectives were achieved as a result of task implementation based upon performance indicators.

Use of an Integrated Computer System for City Management Support. Introducing and establishing an efficient and continuously active information system can facilitate the decision making process, especially if the process depends on detailed, consistent, comprehensive and updated information. The integrated system of city management support used in Krakow is designed for record keeping and for satisfying information needs of local citizens as well as for management of databases that provide analytical information and serve as a support tool for city management.

The Board of the gmina of Krakow ordered the introduction of a complex information system in order to improve the implementation of City Hall objectives including efficient public services and effective gmina management. Moreover, certain other benefits were envisaged. The information system (IS) is expected to contribute to increased revenue (for example, by better property tax collection) as well as to decreased expenses (for example, by shortening the time it takes to register a business from two visits to one, thereby saving personnel time). The IS is also expected to contribute to better asset management. By creating an information base for decision making, IS is expected to increase the comfort level of the decision makers and to protect them from often unfair accusations of citizens, thereby also increasing citizen satisfaction with City Hall services.

As a result of IS implementation, it is hoped that the following objectives will be achieved:

- retrieval of consistent and current information from a variety of sources;
- ability to serve users without delay in such matters as registration of business activity, vehicle registration, issuance of certificates, provision of immediate information, etc.;
- capability of obtaining immediate information on the status of an application;

- support for decision makers by providing comprehensive, detailed and summary information;
- improvement of collection activities;
- ability to monitor city finances in real time;
- ability to monitor budget and operational planning in real time.

A municipality that would like to introduce IS must begin by examining the environment and functionality of its operation. Most importantly, all employees should become involved in streamlining the flow of documents, setting standards for the tasks implemented by the agency and creating common information resources for use by all personnel. There are important factors beyond the control of local government including lack of political stability, lack of permanence of relevant regulations, limited flexibility in rewarding employees financially according to their efforts, and the time required for implementation of the complete endeavor. All these factors add elements of risk, and they can derail the effort to introduce computers to City Hall. An additional impediment in Krakow was the requirement that the system be accessible to users working in each of the seven separate buildings housing City Hall agencies. Some of those buildings were supposed to become hubs of the information system supporting the work of City Hall. The system architecture involved applications based on a geographically dispersed database and installed on a sufficiently broad hardware base. To provide a logically unified database processed from multiple remote sites, it was necessary to configure this system as a single wide area network with multiple servers, allowing for data transfer at rates required by the selected database management system (ORACLE SERVER 7.1). City Hall's system resides on six servers (HP9000 series 800, models F10 and Gx0) serving a group of users and peripherals interconnected through local networks. The servers are Unix based. The system is safe and stable and provides continuous server operation. Even huge overloads do not shut the system down but only make it slower for users already logged on.

ORACLE SERVER 7.1 was selected because this software has all the mechanisms necessary for asynchronous support of a dispersed database, especially for distributed transactions and asynchronous symmetric replication. Other advantages include a mature data protection system and the possibility of on-line interaction with some other databases. As a supplementary tool for clerical support, the UNIPLEX system was used.

The complex task of bringing information technology to City Hall required the creation of an appropriate organization to introduce subsequent elements of IS. A

hierarchy of reporting and authority was created to carry out this task. The following bodies were established:

- ***Project Committee for Project Oversight*** - including high ranking representatives of the contractor and City Hall.
- ***Project Manager*** - the person directly managing all implementation tasks.
- ***The Task Force for City Hall Computerization*** - the team collaborating with the contractor in the implementation of the system.
- ***Implementation Team*** - the group of people delegated by the contractor to implement system elements on City Hall premises.
- ***System Administrator*** - the person administering already implemented elements on behalf of the contractor.
- ***Subsystem Owners*** - City Hall employees representing main subsystem users. Their task is to test the software and provide feedback to the contractor.

Certain standards have been adopted for all software concerning the execution of applications, data retrieval, certain features of application architecture and data processing operations as well as printouts. This makes it easier to use the system, even if certain functions are changed. Each new definition is shared by all applications. Moreover, the system provides full integration of data in text bases, their links to graphics bases, data safety and access restrictions (both internal and external), multiple access to the same data from all sites and on-line service wherever applicable. Other IS functions include logging of correspondence and utilization of the RISS subsystem. Internal transfer of information is supported by the UNIPLEX software package, which is mainly used for keeping records of City Council and Board resolutions and directives sent to offices and departments. Finally, IS supports planning and budgeting. In 1994-1995, two basic accounting and bookkeeping subsystems, FKJB and FKORG, were introduced, and information on the status of expenses was made available to those responsible for task implementation. The next step will be the integration of subsystems KADRY (human resources) and PLACE (payroll). Also, the PLBUD subsystem will be installed to assist in the municipality's budget planning process.

Development of the New Bookkeeping System. To provide information that would support the task budget, it was necessary to develop a bookkeeping system able to track the costs of tasks as they are implemented. The fundamental impediments to developing a financial and accounting system for a budgetary

unit⁸ (FKJB) have been legal limitations imposed by the law on accounting and the lack of models to emulate.

The assumptions described in Exhibit 2 were adopted to streamline the process of recording and tracking budget expenses in the task format and to ensure the budget's compliance with laws and regulations.

3.4.2 Development of the Draft Task Budget

New Procedure for Resource Allocation. One feature that separates traditional budgets from task budgets is allocation of funds to the entities that will actually spend them (Aspenders⁸). What used to be assignment of resources based upon performance during the previous reporting period is now replaced in the task budget by a definite procedure to allocate funds where they are most needed and are likely to be used in the most rational manner.

This procedure is based on dividing activities into the following phases:

Activity	Person/Agency Responsible
Phase I: Definition of General Objectives and Means	
General Objectives	City Council
Revenue Assessment	Financial Department
Debt Policy	Strategic Department, Financial Department
Proposed Amounts for Aspenders ⁸	Budget Office
Phase II: Task Definition	
Survey of Needs	Department Directors
Determination of Detailed Objectives	Department Directors
How to Achieve Objectives - Tasks	Department Directors
Phase III: Task Planning by Coordinators	
Task Activities Plan	Task Coordinator
Cost Schedule	Task Coordinator
Performance Indicators	Task Coordinator
Budget Classification	Task Coordinator
Phase IV: Disbursement Plan	

List of Department Tasks	Department Director
Phase V: Budget Verification, Review and Approval	
Verification	Budget Office
Review	City Hall Director & Treasurer
Approval	City Board and Council

Phase I. The first step in planning is to define priorities for action and to project local government revenue for the forthcoming fiscal year. Identifying objectives and priority areas for the local community is based upon community need surveys and upon proposals presented by political groups and lobbies.

Until 1995, the general priorities were included in annual guidelines approved each year for the City Council for the development of the budget. At that time the following activities of the local government were regarded as high priorities:

- promotion of Krakow and increasing accessibility to the city;
- ward tasks (newly established in 1994);
- Alocal initiatives@;
- road improvement and other environment-friendly infrastructure investments;
- building and acquisition of housing and infrastructure development;
- building and repair of schools;
- administrative reform to improve city services.

In addition, more resources were allocated to culture and to the improvement of the City Hall-s information policy.²⁴

Priorities for local government activities in 1996 are contained in the annual Economic Program, based upon the long term social and economic plan and the long term local government revenue forecast. Adoption of long term strategic plans as the basis for priority definition each year has served to translate the overall guidelines of the long term local policy into the current operations

²⁴Based upon A1995 Budget Preparation Guidelines.@

undertaken by City Hall departments and agencies. Priorities contained in the programs have been presented in a more detailed manner than in previous years. This has resulted from a broader availability of information, a program approach to issues and feasibility analyses.

Phase II. Based upon the priorities adopted and amounts proposed for *Aspenders*® (departments and agencies), detailed objectives are defined and become the basis for the division of gmina activities into individual tasks. Task definition is based upon the gmina's mandatory activities, delegated government functions, priorities contained in the socioeconomic program and needs of the population. The crucial part of task definition is to describe in qualitative and quantitative terms the anticipated result. A responsible person, called a task coordinator, is assigned to each task thus defined.

Phase III. Tasks defined in each department and agency are subsequently planned by task coordinators based upon the following documents:

- instructions for budget task planning;
- guidelines for budget preparation.

Special forms are prepared for each task to present the following information:

- Result (detailed objective) to be achieved by task implementation.
- Gmina residents' needs expressed in terms of numbers and the planned degree of their satisfaction.
- The material scope of the task.
- The scope of activities and endeavors that are part of the task and the manner of their implementation (by the agency or a contractor).
- Workload (i.e., number of hours necessary to accomplish each activity).
- Number of full-time employees necessary to accomplish the task.
- Total cost - each task has costs assigned to it, both direct and indirect, such as maintenance of buildings, job site equipment, and other items necessary to support the task.

- Performance indicators.
- Budget classification: section, chapter, paragraph.

Phase IV. As a result of the planning of all tasks by those responsible in each department or agency, a disbursement plan is prepared.

In each department, a list of planned tasks is prepared reflecting their relative importance. Priority tasks are placed at the top of the list. In most departments, two versions of the list, varying in cost, are submitted for the budget. One version is a response to the expenditure amounts proposed by the Budget Office, and the other version is based upon the assessment of needs as prepared by the department.

Phase V. The task lists prepared by each department and agency are verified by the Budget Office and reviewed by the City Hall Director and the Treasurer. After analysis of the materials submitted, the City Board approves the proposed set of tasks.

Based on the above activities, the tasks selected are those that the local government has determined to be the most important, feasible and affordable for the city. In this manner, the City Task Budget is created. As for the mandatory budget classification, the budget in the format required by law is prepared by adding together expenses in accordance with the classification labels that were assigned earlier within the individual task plans. After the budget is approved by the Board, the scope and cost tasks are ultimately approved in what is called the executive budget format.¹¹

3.5 RESULTS ACHIEVED BY INTRODUCING TASK BUDGETING

Since the effects of implementing task budgeting were discussed in the first part of this manual, we will only summarize here. The following effects have been noted in Krakow:

39. Enhanced independence, coordination and responsibility of employees for substantive tasks.
40. Reduction of task costs because alternative versions of their implementation were considered.
41. Better communication between the City Council and the local community.
42. Easier and less ambiguous embodiment of the Council guidelines in the budget.
43. Streamlining of the budget approval process.

44. Availability of accurate, complete information concerning the present status of task implementation.

CHAPTER FOUR

ORGANIZATION OF THE BUDGET PROCESS AND PREPARATION OF BUDGET DEVELOPMENT TOOLS

This part of the manual presents practical suggestions for organizing the work involved in developing the task budget.

First of all, we shall describe the scope of responsibilities of a budget analyst and task coordinator. The issue of *Decentralization of management*² will be discussed, as it is one of the basic assumptions underlying the reform of local government budget.

In subsequent parts of the chapter, tools for budget planning will be presented, such as a budget calendar, budget preparation guidelines, and task planning instructions. These tools should be regarded as examples. Based upon them, one may get an idea of the variety of possible solutions.

The authors of the Krakow Case Study would like to point out the need to modify and adjust these tools to individual needs. Only when these tools are customized will they perform their functions. It should be remembered that every organization is subject to continuous internal modification of its structure (both formal and informal) and outside impacts (such as changes in legislation). Therefore, preparation of instructions, training programs, calendars, etc. may not be a one-time job. These tools must be improved and customized according to the changing environment and circumstances.

4.1 THE BUDGET ANALYST

Introduction of the task budget in Krakow increased the responsibilities of those involved in budget planning and implementation. As soon as the task budget was introduced, it became necessary to present a broader range of data concerning implemented tasks, their costs, the methods for implementing them, etc. Therefore, it became necessary to change the basic approach of the budgeting department, which until then had been focused on financial supervision of revenues and expenses.

It was also essential to create within the Budget Office an efficient team of budget analysts responsible for creating an initial evaluation of budget submissions and serving as consultants for departments as they made financial decisions. To establish appropriate collaboration between the Budget Office and

departments with respect to budget planning, *departmental budget analyst* positions were added and given responsibility for the *Abudget@* of their own departments or agencies.

4.2 THE TASK COORDINATOR

Department and agency directors were asked to designate from among their employees those individuals who would plan and supervise the implementation of budget tasks. It was decided that only *one* person would be responsible for *each* task implemented by the department or agency. This person is called the task coordinator. Before the task coordinators were designated, the director of a department or agency had full responsibility for budget implementation. This system failed to ensure that the tasks would be effectively implemented or that the goals would be achieved.

The designated coordinators have comprehensive knowledge of all matters related to the tasks assigned to them. Their responsibilities include:

- planning of budget tasks;
- supervision of current implementation;
- shifting of resources within tasks;
- reporting on implementation status.

As a result of this process, employees designated as task coordinators have become *responsible for their own decisions*.

Because of this new approach, the role of budget office employees has radically changed. Previously, they were supposed to account for all that went wrong with task implementation. Now, this function has been taken over by coordinators who are responsible for providing all explanations concerning the method of task realization or spending of resources. On the other hand, Budget Office analysts are now monitoring the quality and comprehensive nature of materials submitted by departments and are supervising changes suggested during task implementation for compliance with established policies and regulations.

4.3 BUDGET CALENDAR

Preparing a budget calendar allows for appropriate organization of budget development work both within the departments and in the Budget Office, as well as proper coordination of all activities in the budget process. The calendar includes the most significant information concerning:

- phases of budget preparation during a fiscal year;
- participants in the budget development process, including decision makers and support personnel;
- the scope of responsibilities of all participants;
- types of activities and documentation;
- deadlines.

The calendar was prepared as a flow chart that was appended to the instructions on budget task planning (see Exhibit 3-1 of this manual). This procedure has been praised as a good way of presenting the budget process. It has the following benefits:

- **Continuity** - The process of budget preparation is represented as a series of events where any delay means failure to meet the next deadline. Those involved in budget development are thus motivated to meet their deadlines;
- **Compactness** - Thanks to the use of acronyms, all information necessary in the process of task planning can fit on a single sheet.

Legend for calendar acronyms:

RMK	Krakov City Council
ZMK	Krakov City Board
DM	Director of City Hall
FK-OP	Department of Finance Tax Section
FK-BB	Department of Finance, Budget Office Section
KR	Accounting and Bookkeeping Department
SR	Strategic Planning and Growth Department
OG	Support Services Department

4.4 GUIDELINES FOR BUDGET PREPARATION

Guidelines approved by the City Council are included in a document containing general rules and assumptions (predicted inflation; increases in salaries, prices and fees) that should be taken into account during the process of budget task planning. In addition, this document contains a list of conditions that must be met by individual tasks included in the budget. The guidelines require that budget task planners use the same cost assumptions based on forecasts of inflation, prices and fees and pay increases so that assumptions in all budget submissions are compatible. Those assumptions may be subsequently adjusted if the forecasts change. Guidelines for 1996 budget preparation are shown in Exhibit 3.

4.5 INSTRUCTIONS FOR THE PLANNING OF BUDGET TASKS

Instructions for task planning are the basic tool used by coordinators while developing the budget. The instructions have two main functions:

- providing general information:**
 - defines the most important parts of the budget task;**
 - provides a budget calendar chart;**
 - presents a method of defining and planning budget tasks.**

- controlling the scope of information required in a budget submission:**
 - provides a set of forms for presenting each planned task and its costs.**

Instructions contain the following parts:

- an introduction, preceded by the President-s letter to responsible task coordinators and decision makers;**
- presentation of the basic principles and definitions relevant to task budgeting;**
- a description of draft budget development phases with special focus on the phase of defining budget tasks and the phase of task planning by its coordinator;**
- guidelines for filling out the forms for budget submissions.**

4.5.1 Work Schedules

The instructions present consecutive phases of draft budget development:

- *Phase I* - at the gmina level, including the definition of general goals and means as well as the development of tools to be used later in the budget development process.
- *Phase II* - at the level of department or agency, in which the Director defines detailed goals and tasks based on the general goals.
- *Phase III* - at the task level, when the task is planned by the person responsible for it.

4.5.2 Preparation of Budget Submission

The person responsible for each task must plan all included activities and endeavors in order to evaluate the work hours necessary to carry out the task, calculate each element of the plan and assign each one its correct budget classification label. Planning a task or preparing a budget submission can be reduced to the preparation of two forms:

Form #1, Task Description (see Exhibit 4), contains a complete description of the assigned task, including the task name, the detailed goal to be achieved by its implementation, the scope of the task with quantitative indicators and a description of public needs that will be satisfied by task implementation.

Form #2, Action Plan for the Budget Task (see Exhibit 5) is a schedule for planned task implementation aiming at the achievement of the goal. The plan enumerates all endeavors and planned activities to be accomplished within the task, whenever possible as a series of sequential events. This permits evaluation of each activity's compatibility with previous assumptions (such as its planned deadline). Based upon this information, the person preparing the action plan should be familiar enough with the needs of community residents to be able to suggest the optimum manner of task implementation.

4.5.3 Benefits of an Action Plan

1. The action plan, by including full information on the planned task, ensures that achieving the goal or result defined by the task is feasible.
2. It provides a schedule for task implementation for use by decision makers.
3. It identifies those responsible for each phase of task implementation.
4. It facilitates coordination of labor among departments (for cases when a department can do its work only if another one has already done its job).
5. It creates a link between expenses and actual work done during task implementation.
6. It allows precise determination of the number of employees to be assigned to the task.
7. It allows timely monitoring of task implementation and facilitates quick decisions in emergencies, such as shifting deadlines or resources.

4.5.4 Task Cost Calculation

Each action plan item has a cost assigned to it based upon hourly wages for each department or agency, current prices for goods and services and allowances based on cost increase forecasts. The cost of one hour of labor carried out by the department's own employees is used for this purpose.²⁵ This parameter is calculated based on expenses previously planned by the Accounting and Bookkeeping Department for wages, department overhead and facilities maintenance overhead planned by the Office Services Department. It should be pointed out that these costs must be borne by all departments no matter which tasks they implement. To make it easier for task coordinators to calculate activities performed by local employees, the cost-per-person-hour is generated for each department by the Accounting and Bookkeeping Department and by the Budget Office.

4.5.5 Effectiveness Indicators

²⁵*Editor's Note:* The labor cost for a department is an average of all department employees' hourly wages. Overhead is added in to calculate an average burdened rate used in determining task costs.

For each task, effectiveness indicators are calculated as the ratio between expenses and results achieved. The same kind of information is also reported in task implementation report cards.⁶ These indicators permit analysis of whether the expenses have been lower, higher or the same as planned. Improvements in efficiency can be achieved by lowering costs while the scope or level of achievement achieved remains the same, or the scope of achievement can be broadened while the costs remain as planned.

After the tasks have been planned by their coordinators, budget analysts in each department and agency complete the two remaining forms:

Form #3, Annual Revenues of Department/Agency, presents the relationship between revenues, if any, generated by each task and expenses.

Form #4, Summary of Task Costs, includes a list of all department/agency tasks with their costs.

Complete budget submissions developed by task coordinators (with the help of budget analysts in the department/agency) may be prepared in two versions:

- *Version I* - The response of the department/agency to the Budget Office's proposed funding allocation for specific tasks. Therefore, this version includes only those tasks whose total cost is within the assigned funding.
- *Version II* - A backup list of tasks expressing the actual needs of the department/agency (for example, expanded, more costly tasks).

Lists of tasks planned for implementation in the next fiscal year are submitted to the Budget Office, which verifies all applications in detail.

CONCLUSION

This case study provides an overview of the concept and guidelines for budget development for the local government of Krakow. Those interested in task budgeting may learn about the model presented as well as the costs and effects of implementing similar reforms by reading both the practical and theoretical parts of the manual.

Periodically, assumptions are verified and research work refocused as the reform process in Krakow advances, contributing to the continuously increasing efficiency of the overall system now in place. As we gain experience from observing how the instruments and procedures work, we are able to propose a number of recommendations for local governments interested in the discussed methodology.

A local government intending to adopt the task budget format first of all must create or improve the instruments and procedures discussed here and make sure, by means of research surveys, that they will work properly. It is also necessary to consider the final form of the information management system that will provide the basis for the accounting subsystem. Local governments should not attempt to build a bookkeeping system too early in the budget reform process (unfortunately, Krakow did so, and this is still the source of many problems and costs). Even though accounting software is available in the Polish marketplace, before purchasing it a local government should consider whether, early in the reform process, it can define its specific expectations concerning the required functions and information to be provided to decision makers as well as the cost of their acquisition. This, as well as an understanding of the time required to accomplish the reform, is key to creating a complete financial system for an efficient local government.

During the first year of budget reform, the simplest thing to do is to implement procedures that will bring objectivity to budget planning and prioritizing. If instructions for expense planning are used even before a task format is implemented, it will then be easy to start using these procedures in the task format. If problems arise, asking for expert opinions may help (Krakow did so a few years ago), as may organizing a series of training programs for local government employees.

The next step must be an early evaluation of results followed by appropriate modifications (possibly including organizational restructuring of the municipal office) so that coordinators have the competence and authority they need for efficient realization of tasks. Such evaluation will allow all participants in the

budget planning and implementation process to expand their knowledge. The evaluation will indicate new areas where decision makers require additional information. It will also be the appropriate moment to begin work on the assumptions for the bookkeeping system.

After introducing cost tracking in the task format and providing coordinators with access to financial information, further improvement of financial management should be considered. As an example, Krakow is now attempting to implement several subsystems, the most important of which is PLBUD, aimed at eliminating paper documentation in task planning.

It should be emphasized that the scope of the necessary changes in assumptions underlying the proposed budgets will vary greatly depending upon the size of a local government, its organizational structure, efficiency of procedures already in place and the ability to secure support from employees. For all these reasons, introduction of a task budget may take approximately one year for small and medium sized local governments or well over a year for a major metropolitan area.

The final factor to consider during the reform process is the creation of a special team to monitor the process. Appropriate selection of team members is essential, as is determining the team's size based upon the scope of necessary work. The team, in addition to monitoring the reform, must interact effectively with employees (for example by counseling and helping in resolving questions) and must provide periodical training for analysts and task coordinators as well as formulate proposals for changes and improvements in the system.

Budget Assumptions

Exhibit 1

Exhibit 1

Budget Assumptions

I. Methodological assumptions - how expenses are allocated to each task and how they are tracked, defined and monitored in each phase of the bookkeeping process.

1. There are four groups of tasks:

- A. Direct**
- B. Indirect**
- C. Department-specific**
- D. Technical support**

A. Direct tasks. Those tasks implemented by gmina and City Hall agencies and departments having a direct impact on satisfying the needs of the population. One example of a direct task is **ACity Parks and Lawn Maintenance.**[@]

B. Indirect tasks. Those tasks that have indirect impact on satisfying the needs of the population. They support direct tasks performed by other departments. Indirect tasks are planned and implemented by the Support Department (OG) and they involve administrative services. Depending upon circumstances, selected tasks of other departments can be regarded as indirect tasks; for example, **AMaintenance of Job Sites.**[@] The total costs of OG tasks are then added to tasks implemented by other departments on a prorated basis. Both direct and indirect tasks belong to the task budget.

In order to track expenses that cannot be assigned to any specific direct or indirect task since they benefit multiple departments or multiple tasks by a single department, a sub-category of auxiliary tasks was defined. They are regarded as extra-budgetary in the present classification. The following auxiliary tasks can be identified:

C. Department tasks. Those tasks created for each department. They involve overhead costs incurred for several tasks of the same department which thus cannot be assigned to any specific direct tasks. Therefore, it is necessary to apply a bookkeeping algorithm which allows for recording those costs initially on a departmental task and subsequently charging them in a uniform manner to all direct tasks of that department. As examples, we can mention business travel inside the country and abroad, local public transportation use of personal vehicles, training, professional publications etc.

D. Technical support. These are miscellaneous expenses that benefit multiple departments. Depending upon needs, new technical tasks can be created. Currently, there are the following technical tasks:

- **Tasks collecting expenses related to building maintenance**
- **The technical task involving expenses for building repair**
- **Motor pool expenses**
- **The technical task involving expenses related to payroll and benefits of all employees.**

The following rules for each task are applied when classifying expenses:

- **If the task can be assigned to a respective department, then the expense should be recorded directly for that task; for example, buying license plates (task AVehicle Registration@);**
 - **If the expense has an impact on multiple tasks but all are within the same department, then it should be recorded as a departmental task;**
 - **If the expense is relevant for many departments, it should be classified as a technical task in accordance with the above rules;**
 - **If there is a group of expenses which should be treated in a different manner from any existing ones, then a new technical task can be created.**
- 2. It is assumed that the total cost of all direct and indirect tasks is equal to the sum of the city budget expenses.**
 - 3. It is assumed that task accounting is a two phase process, wherein**
 - **Phase one includes the tracking of technical and department tasks. As a result, expenses assigned to the accounts of those tasks (technical and departmental) are transferred to direct and indirect task accounts.**
 - **Phase two involves the tracking of indirect tasks which are later redistributed to the accounts of direct tasks.**

As a result of this process, the total cost of implementation of each task is accounted for. This accounting system has the added benefit of recording information not only about where the costs are incurred, but also what kind of costs they are, which makes it easier to analyze and monitor them.

II. Organizational assumptions - concerning changes in the organizational structure of City Hall and the division of labor among its departments. It also defines the responsibility and function of the new Accounting and Bookkeeping Department (WKR).

Task-related expenses are tracked at the same time by two budgeting teams which are UMK departments. The first one is WKR. Its main job is to track technical and departmental tasks related to administrative services (expense accounts 89 and 91). This new unit had to be set up because it was necessary to aggregate administrative expenses in the particular format required by the task budget and because the recording process involves a great deal of bookkeeping work. The second unit, the Financial Department (WF), does bookkeeping mainly for direct tasks. In addition, WF is also responsible for tracking indirect departmental and technical tasks.

The basic functions defined in the FKJB subsystem (Budgetary Unit Accounting and Bookkeeping System) are:

- reconciliation of bank statements**
- reconciliation of cash receipts**
- reconciliation of expenses for budget-based agencies**
- implementation of expenses from the Registry of Source Bookkeeping Documents**
- implementation of other expenses (payroll, depreciation, etc.)**
- filing of reconciled bookkeeping evidence**
- creation of consolidated balance sheets**
- reconciliation of reports received**
- tracking of indirect costs of all tasks**

In addition to FKJB, there is a bookkeeping system for the organ FKORG which supports consolidated bookkeeping of all departments and agencies of the local agency. The existence of those two basic bookkeeping systems is compatible with the requirement that a local government must create a system of accounting records both for the gmina as a financial organ and for its budget-based units, budget-based agencies and auxiliary activity centers. The functions of FKORG involve:

- **review of budget implementation for compatibility with the plan**
- **cash flow reconciliation**
- **filing of bank statement data**
- **filing of accounting evidence**
- **flow of resources to budgetary units**
- **filing outgoing reports to budgetary units and tax offices**
 - **filing of reports in ascending order from the beginning of each fiscal year**
 - **listing and recording transactions for the most recent recording period**
- **daily filing and reconciliation, creation of balance sheet**
- **creation of reports**
- **recording of money received from budgetary units**
- **recording of money received from tax offices (personal and corporate income taxes, fixed-amount business taxes, inheritance and gift taxes)**
- **recording of income for contracts**
- **recording of income for subcontracted tasks**
 - **recording of income pertaining to piloting**

In 1996 a subsystem will be provided to users that will support planning and auditing of local government budget implementation. This new subsystem will allow for planning of budget income and expenses, both in the task format and in the mandatory budget classification format. It will allow for a more effective budgeting process and will eliminate paper documents. Thanks to the PLBUD system, those who actually spend budget money will be able to have current

information about the plan, expenses and debt on the gmina and individual departmental level. Access to this information will make it possible to follow task implementation in real time. PLBUD will thus become a new tool facilitating the decision making process.

Exhibit 2
Budget Guidelines
[Excerpted from A1996 Budget Preparation Guidelines@]

Exhibit 2

Budget Guidelines

I. General Principles of Budget Preparation

- **The required format of the draft budget is a detailed list of tasks.**
- **Funds for current expenses (salaries, media fees, services, repairs, etc.) must be calculated based upon 1996 assumptions for State budget preparation.**

II. Guidelines for Task Selection

Tasks to be implemented in 1996 should be selected according to the economic program for the City of Krakow for fiscal year 1996 (with listed priorities) as accepted by the Krakow City Council.

III. Additional Criteria

The operations budget will be drafted in the task format.

When deciding which tasks shall be included in the budget, priority should be given to those that meet the following conditions:

- 1. Tasks initiated in the past year or earlier that must be continued in order to obtain the desired result.**
- 2. Tasks that will bring about a decrease in current expenses relatively quickly by lowering costs or labor expenses, thereby allowing for quick savings.**
- 3. Tasks that, if implemented, will generate new income for the city.**
- 4. Tasks that can obtain outside financing (credit, equity), thus leveraging the extra capital that the city must invest in their implementation.**
- 5. Tasks providing necessary services for large numbers of residents.**
- 6. Tasks that can be implemented by community service.**

Investment expenses must be part of the long term investment plan of the local government.

Exhibit 3
Form #1, Task Description

Exhibit 3

Form #1 TASK DESCRIPTION

1. Task name

MAINTENANCE AND CONSERVATION OF PARKS AND LAWNS

2. Results to be achieved by task implementation

Conservation of city green areas by systematic and timely maintenance

3. Responsible entity (name, type of organization):

Public Works Department

4. Task description:

a) Total needs of the local government or residents (expressed in numbers):

- green spaces requiring maintenance and conservation - 56.84 hectares
- green spaces where grass is mown and leaves are collected and taken away - 37.75 hectares x 3 times per year = 113.25 hectares
- lawn space requiring restoration during a year = 0.5 hectare

b) sources of information concerning needs:

- systematic inspection of green areas
- calls from residents, from the City Sanitation Department and the Electric Utility Department

c) degree of need satisfaction resulting from task implementation:

- 655 of local needs are satisfied by task implementation

d) scope of the task with quantitative indicators:

Green spaces to be maintained - 34.5 hectares

- Number of trees maintained each year - 250
- Number of benches maintained each year - 410

Green spaces where grass is mown and leaves are collected and taken away - 37.75 hectares x2 times per year = 75.5 hectares

Lawns restored during the year = 0.5 hectares

- the number of trees removed each year as necessary - average 50 trees
- numbers of pots and planters planted and maintained (twice per year) = 300

5. Task type:*

City responsibility / city responsibility based on local law / mandated by the State administration / new - resulting from the department-s job description / continued from previous year.

*mark appropriate selection

6. Sources of task financing:

Budget of the City of Krakow

Exhibit 4
Form #2, Action Plan for the Budget Task

Exhibit 4

ACTION PLAN FOR THE BUDGET TASK

Name and number of the budget task

NO. 5 MAINTENANCE AND CONSERVATION OF CITY PARKS AND LAWNS

FORM #2

Person responsible for the task

Jacek Kowal

Lp.	List of planned activities and endeavors	Implemented by SW - internal resources ZZ - contract Z - purchase	Unit of measurement	Amt.	Work hours per unit	Total work hours (SW)	Total planned amount	Approx. start date and completion date	Classification: chapter, section, subsection	Person responsible for implementation
1	2	3	4	5	6	7	8	9	10	11
1	Issuance of bids for tender for parks and lawns maintenance and conservation	SW	tender	8	56 h	448	4,480	I - III 1996		J. Kowal
	a) preparation of bidding materials and choice of bidders	SW	offer	8	32 h	256	2,560	I 1996		
	b) preparation and signing of contracts	SW	contract	8	24 h	192	1,920	I - III 1996		
2	Implementation of contracts by bidders	ZZ					150,000	IV-XI 1996		J. Kowal
	a) tree removal									
	b) lawn repair and maintenance									
	c) bench maintenance									
3	Tree maintenance	SW	pieces	250	2 x 3 h	1,500	15,000	III - VI 96 . IX - XI 96		M. Białek
4	Planting and maintenance of planters	SW	pieces	300	2 x 3 h	1,800	18,000	III - VI 96 IX - XI 96		M. Białek
5	Current monitoring of contract	SW				292	2,920	IV-XI 1996		J. Kowal

implementation										
a) on-site monitoring	SW	monitoring	24	8 h	192	1,920	IV-XI 1996			
b) validation of cost estimates and invoices	SW	invoice	100	1 h	100	1,000	V-XI 1996			
6 Collaboration with City Hall departments concerning parks and lawns maintenance and conservation	SW	submission	30	3 h	90	900	current		N. Zapałek	
7 Responding to citizen complaints and suggestions concerning lawns and parks	SW	petition	200	2h	400	4,000	current		N. Zapałek	
8 Procurement: plant materials, benches, fuel	SW	pieces	100	2 h	200	2,000	IV-X 1996		J. Kowal	
	Z					45,000				
9 Administrative support for task	SW				1,450	14,500	current		J. Kowal	
					TOTAL:	6,180	223,800	Amounts by classification		

Parameters calculated from the action plan:

a) number of full-time equivalents: 3.5

b) task effectiveness indicators: maintenance of 1 tree = 30 Zł 10
cost of caring for 1 planter = 3 10
Zł