

BUDGETING

In the previous chapter it was shown that the program-planning process precedes the actual budget-making activity. Since, under this process, specific objectives have already been established and programming has been completed, the time has now come to put a price tag on human and material resources programmed to achieve the agency's objectives. While this is budgeting understood in a very narrow or literal sense of the term, it is all the same a very important and essential undertaking. The purpose of this chapter is to present a brief summary of the actual budget preparation and adoption. The purpose here is to provide some general guidelines with regard to some of the more important aspects of budget preparation. The ensuing discussion should be read in conjunction with the material provided in Part Two of this book because of the close relationship between the two.

ESTIMATING BUDGET NEEDS

There are a number of general approaches to the process of any agency's preparation of budget estimates or requests. Moak and Killiam " have suggested several different types of approaches to needs estimating which are in general practice among budgeteers; of these the following may be noted:

1. Open End Budgeting--Line officials are permitted to submit unlimited budgets according to their best judgment as to optimum program for agency.
2. Fixed Ceiling Budgeting--A Dollar ceiling is established for each department or agency before the preparation of the budget.
3. Work Measurement and Unit Costing --Estimates based on units of program product or service desired based on per unit cost.
4. Increase v. Decrease Analysis--Items requiring increases and decreases in comparison with prior year's budget are sorted out and analyzed.
5. Priority Listings--Requests are submitted in order of priority.
6. Item-by-Item Control--Each item is questioned and justified in terms of its essentiality and desirability.
7. Alternative Proposals--Basic budget plus skeleton plans for alternative amounts and analysis of consequences for each alternative.

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8. Historical Analysis--Requests for non-personal services items are based on past experience and current trends.

The approach--or a combination of approaches--to budget estimating selected usually depends upon the subject matter under consideration. For example, in determining personnel needs, work measurement is the primary factor to be considered, and the method used is usually a combination of *work measurement*, *unit cost*, and *historical analysis*. On the other hand, when the budgeteer is estimating the cost of materials and supplies, a combination of historical analysis and work measurement is the key. In instances of determining equipment needs, agencies tend to use the *fixed ceiling* approach under which a dollar ceiling is established either for the agency as a whole or each department within the agency, prior to the preparation of the budget.

Personal Services

In most agencies and organizations this is probably the largest item in the budget and thus requires much analysis and study. In general, the estimates in this regard are based on any one or more of the following: (1) prior years experience; (2) workload trends; (3) staffing patterns indicated on existing organizational charts; and (4) quesstimates.

Depending upon the size of the agency and the multiplicity of its programs, Moak and Killian suggest the following additional factors to take into consideration in estimating the cost of personal services:" (1) department manning tables; (2) workload trends; (3) the classification plan; (4) estimates of salary savings; (5) the use of overtime and premium time; (6) management studies; (7) sick and annual leave; (8) quality of the working force; and (9) impact of new capital facilities.

With the sole exception of extremely large organizations, the concept of manning tables is not too relevant to the typical voluntary agency. Workload trends, on the other hand, can be an important factor

following factors usually affect workload trends and therefore should be kept in mind: (1) new agency policies or changes in existing policy; (2) planned program changes as a result of the program-planning process described earlier; (3) workload consolidations resulting from changes in programming; and (4) changes in systems and/or procedures.

Salary Savings. Experience tells us that, as a rule, the full amount put in the budget for personal services will not be used during the budgeted period for a variety of reasons. Therefore, it is common practice to have an item called "Salary Savings" [or "Personnel Turnover Factor"] to be deducted from the total estimate for personal services. The standard method used in computing this figure is past years' experience--the percentage of gross personal services budgeted which was unused during the current period adjusted by any known factors of change.

Overtime and Premium Time. Good management entails optimal use of human resources available to agencies:"

Few operations move in such measured cadence that management can avoid some 'non-productive' time or can avoid the necessity for 'overtime' to help meet peaks in workload.

Many persons view overtime as an evil in itself and a thing to be avoided. However, overtime has long been associated with well-managed operations. The problem is to keep it in proper relationship and control.

Contractual Services

Many voluntary agencies increasingly purchase services on a contractual basis. Usually contractual services are bought because of either cost considerations, degree of specialization of the task to be performed or because of board decisions to keep the number of permanent staff as low as possible. Also, depending upon the agency, seasonal or intermittent workload factors play an important role in opting for contractual services as opposed to permanent employees.

in the estimating process because there is a direct relationship between the trend in workload and the number of people needed to do the job. The

The types of contractual services budgeted are usually of a professional or technical nature. The

chart of accounts (series 8000) provides examples of the types of services generally contracted for by voluntary agencies.

Materials, Supplies and Equipment

The purpose here is to determine the agency's needs for the type, quality and quantity of materials, supplies and equipment required to carry out the purposes of the organization.

In determining the agency's needs for materials and supplies, the following key factors should be taken into account: (1) review of current inventory and agency policies governing inventory in light of current conditions; (2) price levels; (3) changing patterns in the use of materials; and, (4) changing rules in relation to methods of producing results.

Budgeting for equipment from operating funds is concerned primarily with equipment replacement; however, some portion of the annual equipment budget . . . represents a net increase in the inventory of equipment. These two the aspects of equipment requirements should be considered separately at all stages of the budget process. Of course, the line of demarcation becomes obscure when the replacement item is a substantial improvement over the replaced item."

The purpose here is to determine the type, the quality and the quantity of equipment required by the agency to achieve its objectives. The basic tools in this regard are: (1) the maintenance of an inventory system and (2) equipment replacement schedules. The standard inventory system includes the following types of information: (1) date of purchase; (2) purchase price; (3) location; (4) description; (5) condition [in terms of maintenance cost and volume of hours of usage]; (6) quantity on hand; (7) life expectancy; and, (8) classification code number of

ESTIMATING PUBLIC SUPPORT AND REVENUE

Writers in the field of revenue estimating (primarily for municipal government purposes) have identified six different methods for the preparation of revenue estimates:"

1. Automatic Method--Projected revenues equal revenues for the most recent completed fiscal year; also known as the "rule of the penultimate year."
2. Method of Averages--Estimates based on a three to five year average of increases and decreases.
3. Empirical Judgment Method-- Estimates based exclusively on personal judgment and relies entirely on the competence of the estimator.
4. Method of Direct Valuation--Revenue forecast is made a few days after beginning of the fiscal year.
5. Conditioned Judgment Method--Judgment based on analysis.
6. Systematic Methods:
 - a. Correlation Analysis--Estimates based on an equation reflecting the past relationship between the tax and economic series.
 - b. Questionnaire Sampling -- Taxpayers are asked to compare anticipated tax liabilities with taxes paid in the current year.

Of the methods listed above, the one most applicable

equipment, if any.

Equipment replacement policies involve consideration of: (1) definition of the work to be done, measured in terms of the number and type of equipment required and their planned maintenance; (2) permanent inventory and maintenance records; and (3) procedures for inspection to insure that the item is truly in need of replacement

incorporated in the budgeting tools in Part Two), can serve as a useful tool for estimating agency income' on an item-by-item basis. The major public support and revenue captions are classified as follows:

PUBLIC SUPPORT AND REVENUE

DIRECT PUBLIC SUPPORT

Contributions

Contributions to Building Fund

Special Events

Legacies and Bequests

INDIRECT PUBLIC SUPPORT

Collected through Local Member Units

Contributed by Associated Organizations

Allocated by Federated Fund-Raising Organizations

Allocated by Unassociated & Non-Federated Fund-Raising Organizations

FEES FROM GOVERNMENTAL AGENCIES

GRANTS FROM GOVERNMENTAL AGENCIES

OTHER REVENUE SOURCES

Membership Dues---Individuals

Assessment & Dues---Local Member Units

to the voluntary agency field is the "conditioned judgment method." This method combines the use of personal judgment with a methodical analysis of data on general economic trends and trends in allocations policies of funding bodies such as local United Ways and foundations.

The classification scheme for public support and revenue provided in the chart of accounts in the United Way of America's Accounting Guide (and

there is an annual report compiled by United Way of America on Local United Way allocation, which may be of some use to these agencies in looking at trends in funding similar programs in comparable communities. Similarly, major foundations publish annual reports and studies which may provide some guidelines of the types of programs funded. As for fees and grants from governmental agencies, various sources of funding are available at different governmental levels. Voluntary agencies should carefully analyze their prospects of funding from these sources and the consequences attendant on such funding.

BALANCING THE BUDGET

The concept of balancing the budget is a logical outcome of matching resources to proposed expenditures and reserves. There is general agreement among budgeteers on the desirability of balancing a proposed budget by either bringing revenues up to expenditures or bringing expenditures down to revenues.

The question arises whether, in the balancing act, provisions should be made for contingencies and whether appropriations should be made for reserves. On this issue, Moak and Killian suggest:"

... in line with current thinking and practice, a 'balanced' budget in all probability will not be one in which the amount of projected expenditures is exactly equal to the amount of anticipated revenues. Budget projections are at best estimates. Some provision for flexibility should be built into the proposed budget when local conditions permit. This flexibility is provided by an amount set aside as a reserve

Program Service Fees

Sales of Supplies & Services to Local
Member Units

Sales to Public

Investment Income

Gain on Investment Transactions

For those voluntary agencies that receive financial support from local United Way organizations--or those deficit expecting to receive support for the first time--

spending in the current year, are two problems encountered by almost every budgeteer.

Surpluses

The term "surplus has been defined by the National Committee on Governmental Accounting as the excess of resources over the obligations of a fund." In many municipalities and other not-for-profit organizations, surplus is an important factor in balancing the budget. In some instances, amounts accrued from unexpended appropriations and unanticipated revenues are transferred at year-end to a reserve fund, rather than treated as surpluses.

Deficits

The term "deficit" is defined as the excess of obligations over resources in a fund." Theoretically, voluntary agencies funded by central funding bodies such as local United Ways should not have any deficits to speak of if they are funded on the principle of "deficit-financing." As a rule, these funding bodies do not assume responsibility for unauthorized deficits. Potential deficits should normally be anticipated and discussed with funding bodies. If reasons for modifying original estimates seem justified, an additional appropriation may be made to meet the revised estimates.

To conclude this brief discussion on surpluses and deficits, the following recommendations of Moak and

for contingencies.

However, in the case of agencies funded by central funding bodies, it would be prudent to ascertain whether such reserves for contingencies are permissible under the "allocating policy" of the funding source in question.

SURPLUSES AND DEFICITS

The use of actual or estimated surpluses and the provision of funds in the budget to cover any

early months of the year is greater than is likely to be collected from revenues

2. The amount of a reasonable reserve which will enable the municipality to do a good job of fiscal management especially in order that temporary losses in income or occasional genuine expenditure emergencies may be met and still avoid a cumulative deficit position.

Once these two items have been determined, the finance officer should be in a position to develop a desirable policy for his city concerning the amounts of surplus which should *ordinarily* be carried over from year to year. He can conclude that no surplus is needed or he may conclude that surplus should be provided for (2) and not for (1). But the determination should be deliberately made.

The principles outlined above for municipalities may provide at least some insight or guideline for voluntary agency budgeting. However, these guidelines should be read in conjunction with specific agreed upon policies established by funding bodies where they exist.

CONCLUSION

It will be obvious to the reader that the system of budgeting proposed in this book for voluntary agencies

Killian are worth noting despite the fact that they are made for government budgeteers:

. . . it is desirable for a municipality to have some flexibility in the management of surpluses and deficits.

To be specific, it is recommended that each municipality make two determinations:

1. The amount of cash that may be necessary to carry forward as surplus in order to avoid frequent recourse to short-term bank loans because the cash needed in the

heavily emphasizes the program-planning aspects of the budgetary process. consequently, only summary comments and observations are made with regard to the actual mechanics of budgeting, i.e., assigning numbers to the words in the budget. Since these mechanical aspects of budget-making are closely tied to the day-to-day operation or management of the agency, their in-depth discussion falls outside the purview of this book. Additionally, the considerable number of budget forms, supporting schedules and worksheets provided in the next chapter are themselves important aids in the budget preparation process.