

HOW TO ACHIEVE EFFECTIVE BUDGETING

The budget is the primary tool local governments use to make decisions about service priorities and fiscal policies. The quality of the decisions for allocating scarce resources depends on the quality of the process employed. By adopting best practices in budgeting, an organization can improve decision-making and operations while enhancing public accountability.

In budgeting, as in other aspects of local government operations, the organization must adopt a process well suited to its particular circumstances. While some variation is inevitable, there are four commonly recognized best practices or components of effective budgeting:

- Incorporating long-term planning
- Developing clear budget guidelines
- Establishing a link between the budget process, goals and objectives
- Involving and enhancing communication throughout the budget process

Incorporating long-term planning into the annual budget is the first component of effective budgeting. An annual budget should reflect the municipality's plan for the future. Before the annual budget process begins, a careful financial status analysis should be completed. This analysis, based on financial forecasts, should include an assessment of the current, near, and long-term financial outlook of the organization. This financial status serves as the framework within which the budget is developed by determining the level of services that can be sustained now and in the future.

A budget process involves multiple departments, decision-makers and stakeholders. *Clear budget guidelines* are crucial to ensure that the process is completed in a timely and effective manner, and to enhance department involvement in the budget process. The guidelines should be developed annually, based on the financial outlook of the organization, and should identify financial constraints, provide policy direction, and identify assumptions for departments to use in compiling budget requests.

Another key to successful budgeting is to *incorporate departmental goals and objectives into the budget process*. Goals should be general statements describing a desired state. Objectives should represent time-defined and quantifiable statements of what is to be accomplished. Improvements in organizational efficiency can best be attained when a system of mutually understood goals and objectives is in place and when policies are established to achieve those goals and objectives. These policies drive the resource allocation decisions made during the budget process.

Finally, the budget process should *involve and enhance communication with stakeholders* including citizens and the governing body. Opportunities should be sought to enhance input throughout the budget process. In addition, the budget document itself should serve as a communication tool. Effective budget documents include a summary that identifies major service level changes or shifts in priorities, major financial factors impacting the budget, and provides multi-year financial summary information.

Municipalities can improve their decision-making by implementing a high-quality budget process. Through the provision of better information and long-term planning, communities can enhance operations by aligning resources with service priorities, goals and objectives. Public accountability is enhanced by involving citizens in the process through effective communication of resource allocation.

- Stacy Anderson, Consulting Manager, Virchow Krause & Company, LLP (Reprinted with permission from Virchow Krause & Company's newsletter, *Municipal Lines*. Virchow, Krause & Company is a certified public accounting and consulting firm that specializes in public sector services. It can be reached at virchowkrause.com.)

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A BUDGET TIMELINE

Squeezing the lofty goals of the accompanying article into the reality of local budget writing is the worthwhile challenge that faces local officials every day. To help you, Manchester Manager Jeff Wilson shares below his town's schedule for budget preparation. Manchester is on a July 1 fiscal year; towns that are on a calendar fiscal year, or who have a different town meeting date, may need to adjust it to suit their needs.

April Capital Improvement Program (CIP) memo to Department Heads.

May Deadline for departmental capital requests.
June Town Manager develops CIP proposal and submits same to Selectboard.
July Selectboard holds public hearing on CIP.
August Selectboard approves CIP.
October Annual budget memo to Department Heads.
November Deadline for departmental budget requests.
Town Manager meets with Department Heads.
December Town Manager develops budget proposal and submits it to Selectboard.
Selectboard holds budget hearing.
Selectboard approves budget.
January Selectboard warns Town Meeting.
February Selectboard's budget proposal mailed to voters.
March Town Meeting approves budget.