

BUDGETING

1. Nature and purposes

1. Budgeting is viewed in many ways by different people.
2. Fundamentally it involves money:
it is the process through which all governmental activities are funded.
3. But, budgeting is also at the core of the political process:
 - Many of the most important policy decisions are made in the budget process.
 - Budgets are established within a restricted financial environment.
 - Every decision involves potential benefits and opportunity costs.
 - Choices have to be made among competing alternatives.
 - People request more money than is available.
 - The actual choices represent policy decisions.
 - The arena where these decisions are made is called public budgeting.
 - The main decisions are made through politics.
 - Analysis is only ammunition in the decision.
 - Decisions often involve complex conflicting values.
 - Presentations sometimes make no difference because the program is politically weak.
 - Budgets can be strongly influenced by the political causes of the day - energy, environment, inflation, etc.
 - The outcomes of political struggles are reflected in the budget.
4. Budgets express relative priorities in fairly specific terms:
 - it represents the chief executive's legislative program.
 - the budget reveals relative priorities and the gov't's level of commitment to various programs.
 - the completed process is a statement of priorities.
5. Budgets can also be viewed as a device for managerial planning:
 - it is a means of balancing revenues and expenditures.
 - it is also the principal vehicle for developing government's plans and programs.
 - can be viewed as a work plan with dollar signs attached.
 - may state goals and policies as well as specific activities and programs designed to attain those goals.
 - translates financial resources into human purposes and intended behaviors.
6. Budgets can be viewed as a means of ensuring executive accountability.
 - Legislature holds executive depts. accountable by reviewing their budgets, setting appropriation levels the people want, and by telling agencies how the people want their money spent; legislature also audits expenditures and thereby oversees operation of executive branch.

7. Can also be viewed as a device for managerial control:
 - Chief Executive and agency executives can use to control own operations internally.
 - Can use to ensure that goals are being met and there is no overspending.
8. Can be viewed as an instrument of good management or as a means of ensuring efficiency.
 - To ensure that personnel are effectively utilized.
 - Emphasis may be on achieving the most policy returns for a given sum of money.
9. Budget may also be regarded as a contract between the legislature, the chief executive and the executive departments.
 - Legislature and the Chief Executive promise to supply funds under specified conditions and the agencies agree to spend the funds in certain ways.
10. A budget in the technical sense is:
 - A request for funds to run the agency.
 - This request is normally made by the chief executive to the legislature.
 - It states revenues needed to balance suggested expenditures.
 - The document sent to the legislature by the chief executive is the "budget" while the plan used by bureaucrats during the budget year is called "the operating budget".
 - Budgets focus on a specific time period called the Budget Year or Fiscal Year.
 - They are estimates of resources required.
 - Budgets usually compare FY requests against past years and Current Year obligations or expenditures.
 - Decision-maker can focus on differences.
 - Legislators can't analyze all programs from the ground up.
 - Budgeting therefore tends to be incremental.
 - The budget focuses on a given year (FY) but preparation, execution and evaluation takes place over several years (The budget cycle).
 - Preparation of the FY 1984 budget begins in 1983 while evaluation won't occur until 1984.
 - Budgets are emotionally charged: Decisions to fund or not fund programs affect people's lives.
 - Public budgeting represents big bucks.

Budgets can be broken down by goals, programs, activities and line items:

1. To provide a minimum standard of living for all Americans (Income Security).
2. Food Stamp Program.
3. Eligibility determination.
4. Investigators, Typewriters, etc.

11. Definition:

A budget is a plan for the accomplishment of public policy objectives through the operation of certain programs over a definite period of time, including an estimate of the resources required as well as the resources available compared with one or more past periods and showing future requirements.

A budget is a planning and a controlling device.

THE BUDGET PROCESS

The Budget Cycle

The four phases of the budget cycle are:

- Budget Preparation (Planning and analysis)
- Approval
- Execution
- Audit and Review (Evaluation)

All programs need authorizing legislation first.

The Fiscal Year occurs at the execution phase of the cycle.

- FY for federal Gov't: Oct 1 - Sept. 30
- FY for NYC: July 1 - June 30
- FY is identified by year in which it ends.

The entire cycle can run for three years.

- At any one time, the Gov't. can be involved in four different cycles.
- Take May 1982:
 - Budget preparation for FY 84
 - Approval phase for FY 83
 - Execution phase for FY 82
 - Review phase for FY 81

Generally, a series of deadlines have to be met.

- But if deadline missed, not too serious: legislature can pass a continuous appropriations bill which authorizes agencies to continue to spend at old levels.

Preparation phase:

- Chief Executive officer is ultimately responsible for formulating the requests that he wants the legislature to approve.
- He has to balance his own policy preferences with available resources and policy preferences of agencies.
- Chief Exec. gets economic estimates and revenue estimates; also gets expenditure estimates (cost of funding current programs in target FY).
- Mayor makes broad policy decisions as to overall levels of spending; these will serve as ceiling.

- Spending decisions may relate to economic conditions:
- Budget requests themselves are made on an agency by agency basis.
 - The chief exec. could not prepare detailed estimates (lacks knowledge).
- The central budget office has respons. for overseeing and coordinating the preparation of the budget.
 - interprets policy to agencies.
 - judges validity of agency requests.
- The cycle begins when OMB sends out a budget call to the agencies detailed guidance and instructions on formulation of new budget .
- The units submits its request to the departmental budget office.
- The department makes its own recommendations and modifies the unit's budget requests.
- Agencies can oppose determination of OMB by appealing directly to the Mayor.
- OMB arrives at its recommendations.
- The Mayor may revise some of OMB's recommendations.
- Once the budget has been approved by the Mayor, it is submitted to the Board of Estimate and the approval phase begins.

Execution

- Agencies can now spend or obligate funds (sign contracts involving payment in future fiscal years).
- The money is usually allotted in quarterly payments (fear that agency may spend entire appropriation in first few months).
- Chief exec. in some jurisdictions can impound funds (refuse to let agency spend for certain items).
- If an agency runs short funds due to an unanticipated development, it can request a supplemental appropriation (these kinds of appropriations are under less scrutiny than original appropriations and are easier to get).

Audit, Evaluation and Review:

- Legislature checks to see if money was spent properly, legally and in accordance with intended purposes.
- There is now a movement toward program evaluation; assessment of performance and effectiveness.

APPROACHES TO BUDGETING

1. The Line Item or Object of Expenditure Budget

- Main purpose of this type of budget is to enhance accountability and control.
- By breaking down an agency's money requests to the smallest detail, you facilitate control over spending.
- If an uniform classification of items is used across agencies, it facilitates interagency comparisons.
- This is the most common type of budget in use today.
- Amount of detail presented varies but almost all will have breakdowns of the amounts proposed for salaries, travel, equipment and supplies, etc.

2. The Performance Budget

- The main purpose of this type of budget is to emphasize economy and efficiency.
- It attempts to relate inputs to outputs for each major activity.
- Here, not how much is spent on each item, but how much is spent on each activity in relation to outputs.
- Sometimes attempt is made to measure unit cost of activities: cost per fire, cost per arrest. (Need data on total workload and total cost.)
- Can make interagency comparisons and comparisons over time to assess efficiency.
- But some things can't be measured in any meaningful way.
- May lead to development of meaningless work measures simply because work measures are required (i.e., no. of exams per year).

3. Program Budgeting or PPBS

- Here the emphasis is on effectiveness and on improved decision-making.
- Impetus for PPBS came from Fed. gov't. particularly Dept. of Defense.
- Emphasis is on evaluation of programs to choose the programs that best support the agency's goals.
- Process provides cost/benefits analysis of program alternatives and projections of costs and benefits over time.
- But, sometimes difficult to estimate benefits or even costs.
- Some activities impinge on several programs: Where should the costs be allocated? (I.e., spinoffs from space program).
- It is expensive and consumes resources.
- In most cases PPBS has not really altered the decision-making process.

4. MBO

- Not a budgeting approach in itself but can be linked to budgeting.
- Sees budgeting as part of the managing process.
- There is usually a matrix table with MBO objectives and activities.
- Each activity must be directly linked to the attainment of objectives.
- Usually calls for monitoring progress by setting up milestones and standards.

5. Zero-based Budgeting-ZBB

- Each budget year's activities are judged in a self-contained fashion.
- Every program has to be judged on its merits from the ground up.
- Consists of preparing budget proposals and alternate levels of spending which are grouped into decision packages.
- Decision packages are ranked in the order of priority.
- Depending upon the total funding available, those with the lowest priority don't get funded.
- Most users don't really estimate various levels of impact of no funding. (Not really zero-based.)

Revenue and expense budgets: spells out plans for revenue and operating expenses in dollar terms. May deal with individual items of expense as P.S. - personnel services and OTPS - other than personnel services. PS items include direct labor, supervision, clerical. OTPS include materials, rent, heat, etc.

Time, space, material and product budgets - expressed in physical rather than in monetary terms - includes direct labor-hours, machine hours, units of materials, square feet allocated and units produced, more significant in planning and control when dealt with in physical terms.

Capital expense budgets - outlines specifically capital expenditure for plant, machinery, equipment, inventories - usually high cost long lived items - associated with long-range planning.

Cash Budgets - a forecast of cash receipts and disbursements against which actual cash experience is measured.

Balance sheet budgets - forecasts the status of assets, liabilities and capital account as of particular times in the future. Since the sources of change in balance sheet items are the various other budgets, this budget proves the accuracy of all other budgets.

Budget summaries - complete balance sheet budgets are a form of budget summary. Can be in detail or in summary showing only the principal items of revenue, expense, loss, and profit. It reflects the principal items of the balance sheet.

Variable budgets - used to offset dangers of inflexibility in budgets and to promote maximum efficiency. They vary as the volume of sales, production or services varies and are largely limited to expense items - determines how individual costs should vary with volume of output, includes standby or fixed costs (supervision, administration, insurance, depreciation, taxes) and variable costs (direct labor, materials, etc.).

Alternative budgets - another method of obtaining variable budgeting is to establish alternative budgets for alternative eventualities. Sometimes budget for a high, medium and low level of operation are established.

Supplementary budget - usually referred to as supplementary monthly budget - a basic or minimum budget is prepared then a supplementary budget is prepared each month on the basis of volume forecasts for that month.

Break-even point analysis - control device referred to as break-even chart. Chart shows the relationship of sales and expenses in such a way as to show at what volume revenues exactly cover expenses. At lesser volume a loss occurs, at greater volume a profit.

Milestone or milepost budgeting - used in controlling, engineering and development - breaks a project down into controllable pieces and then carefully follows them.

Value analysis - a systematic analysis of each component of a product and of the operations performed on each to determine whether the value contributed by each is great enough to justify the cost.

Cost-benefit analysis - a type of feasibility study to determine if the benefits to be derived from an asset or operation justify the cost.

BUDGETING EXAMINATION

1. Cost-benefit analysis

- (A) can always be expressed in dollars
- (B) can seldom provide complete answers
- (C) should always have a single criterion for evaluation
- (D) should be restricted to factors that can be quantified.

2. Which measure among the following fails to relate programs to government objectives?

- (A) Accident rates on highways.
- (B) Mortality rates.
- (C) Number of firemen per 1,000 population.
- (D) Unemployment rate.

3. The most difficult type of activity measurement is that of

- | | |
|-------------------|-----------------|
| (A) economy | (C) performance |
| (B) effectiveness | (D) production. |

4. Assuming adequate authority and funds to support the decision, what would normally be the best method of coping with poor performance by units within a department?

- (A) Appointing staff aides to the unit head, who can install better methods.
- (B) Assigning a team of administrative analysts from the central office to improve methods.
- (C) Replacing the unit head whenever a unit performs inadequately.
- (D) Training existing personnel in better management methods.

5. Of the following programs for methods improvement, the program that is likely to be most effective is

- | | |
|--------------------------------|-----------------------------------|
| (A) employee suggestion awards | (C) time study |
| (B) production standards | (D) work simplification training. |

6. The task of developing data necessary for intelligent budgeting should be shared by the line department and the central budget agency. The central budget agency should provide data on

- | | |
|--------------------------|-----------------------------|
| (A) manpower utilization | (C) personnel needs |
| (B) operating costs | (D) price and wage factors. |

7. PERT is most closely related to:
- (A) Critical Path Method
 - (B) Efficiency and Economy Studies
 - (C) Operations Research
 - (D) Organization and Methods Studies.
8. A properly administered budget should provide assurance that certain conditions will prevail. Which of the following is not appropriate to this statement?
- (A) All agency heads will express their financial assumptions in the same terms.
 - (B) Diverse statements of expenses will be reviewed and coordinated by responsible officials.
 - (C) The agency head will be able to look to the budget director, after final acceptance of the budget, to defend and support his individual role and contribution to the overall budget plan.
 - (D) It will be possible to review and analyze variances between anticipated and actual financial results to determine what (if anything) went wrong.
9. In the analysis of processes we are concerned with three types of variables: input, process, and output. Which of the following is a process variable?
- (A) Social adaptation
 - (B) Student-teacher ratio
 - (C) Student time in classroom
 - (D) Teaching personnel.
10. Which one of the following may best be considered an objective of both the public and private sectors of the economy?
- (A) Increasing the national income.
 - (B) Maintaining a smoothly running free enterprise system by preserving competition.
 - (C) Provision of public goods.
 - (D) Redistribution of income.
11. Which of the following methods of dealing with incorrect decisions on the part of subordinates is most constructive for the erring employee?
- (A) Correct mistakes when they are found and say nothing.
 - (B) Correct mistakes and warn the subordinate to be more careful.
 - (C) Help the subordinate discern the nature of his errors.
 - (D) Order the supervisor to review all decisions of his subordinates.
12. In dealing with subordinates, some supervisors tend to issue orders which cannot be questioned or discussed. This method of supervision is likely to
- (A) encourage open discussion and new ideas
 - (B) insure that subordinates clearly understand directions
 - (C) make the supervisor occasionally question his own decisions
 - (D) result in considerably faster action in completing an assignment.

32. The major value of performance budgeting is that it
- (A) distinguishes between programs and performance
 - (B) enables program planning
 - (C) relates output to input
 - (D) requires the participation of top officials.
33. The success of a budget allotment program depends primarily on the budget examiner's knowledge of
- (A) departmental accounting procedures
 - (B) departmental budget codes
 - (C) seasonal patterns of departmental expenditures
 - (D) work flow charts of departmental activities.
34. Costing of programs becomes most difficult when
- (A) a program is conducted jointly by more than one agency
 - (B) performance cannot be measured in terms of end product
 - (C) salaries account for a major part of the program
 - (D) work standards do not exist.
35. In analyzing the costs and benefits associated with a proposed municipal program, a budget examiner encounters certain factors which cannot be measured in dollar terms. His best course of action should be to
- (A) assume that the non-measurable costs and benefits will balance out against one another
 - (B) give them weight equal to the weight given to measurable costs and benefits
 - (C) ignore such factors
 - (D) list them and describe what he believes their importance to be.
36. In analyzing changes in productivity measured in terms of units per man-hour, it is not necessary to consider changes in
- (A) price level
 - (B) quality of labor
 - (C) quality of output
 - (D) technology.
37. In contrast with traditional object line-item budgeting, the PPBS information system mainly emphasizes
- (A) measurement
 - (B) people
 - (C) projects
 - (D) purposes.

38. A personnel utilization report for an activity indicates that efficiency for the fiscal year exceeded 100 per cent. As a budget examiner, you may most logically infer that
- (A) a study of the activity should be undertaken
 - (B) employess are overworked
 - (C) employees in this activity were very highly motivated
 - (D) the activity is well supervised.
39. The one of the following which is least likely to be a tool used by the Budget Examiner is
- (A) analysis
 - (B) balance sheet
 - (C) economic forecast
 - (D) standards.
40. It is estimated that prices will rise by 5 per cent during the coming year. Interest on the current outstanding debt for the coming year may be expected to
- (A) depend on new capital programs
 - (B) increase by about 5 per cent
 - (C) increase by more than 5 per cent because of the generally more rapid increase in construction costs
 - (D) remain unchanged.
41. Which of the following terms best describes a tax that places a greater burden on those less able to pay than on those more able to pay?
- (A) Escalator tax.
 - (B) Progressive tax.
 - (C) Regressive tax.
 - (D) Reversal tax.
42. The most important phase of the budget cycle, from a legal point of view is
- (A) appropriation
 - (B) classification
 - (C) execution
 - (D) formulation.
43. The best reason for prescribing definite procedures for certain work in an agency is to
- (A) enable supervision to keep on top of details of work
 - (B) enable work to be processed speedily and consistently
 - (C) prevent individual discretion
 - (D) reduce training periods.
44. Good program planning should start with
- (A) analysis of costs and benefits
 - (B) definition of objectives
 - (C) last year's program
 - (D) setting a top limit for spending.

45. A decrease in manpower needs for an appropriation unit because of declining activity may best be provided for in the budget by
- (A) a transfer of funds from other activities
 - (B) elimination of a vacant position
 - (C) elimination of backlog
 - (D) improved methods of work.
46. Historical data are often used to estimate work standards. The most serious short-coming of this procedure is that
- (A) it involves the use of data difficult to obtain
 - (B) it may tend to perpetuate existing inefficiencies
 - (C) it requires an accurate accounting system
 - (D) its use is difficult to sell to department officials.
47. Of the following, the one which is not a basic concept of administrative organization is to
- (A) assemble jobs into units which serve a common goal
 - (B) group like functions into the same job or jobs
 - (C) provide appropriate lines of authority and communication
 - (D) replace men with machines wherever machines can be built to do the work.
48. Within organizations, the basic functions of communication are to
- (A) build a permanent record of the organizational activities
 - (B) give and receive directions and information
 - (C) stimulate closer relationships between management and workers
 - (D) inform each employee of all significant events which may affect the organization.
49. Automatic data processing does not necessarily
- (A) assure more valid results
 - (B) facilitate data handling
 - (C) permit extensive manipulation of data
 - (D) permit the use of complex models of activities.
50. The head of the agency has issued instructions that employees preparing letters for his signature use no more words than are needed to convey adequately the required information. To follow this rule in letter writing is generally
- (A) desirable; typing of the correspondence will be less time-consuming
 - (B) undesirable; letters will be so terse that unfavorable attitudes toward government agencies may result
 - (C) desirable; the purpose of the letter will be carried out without obscuring the meaning or tiring the reader
 - (D) undesirable; it is usually necessary to elaborate on an explanation in order to make sure that the reader will understand the meaning.

51. When preparing a long report on a study prepared for your superior, the one of the following which should usually come first in your report is
- (A) a brief description of the working procedure followed in your study
 - (B) a review of the background conditions leading to the study
 - (C) a summary of your conclusions
 - (D) an outline of suggested procedures for implementing the report.
52. The main function of a research report is usually to
- (A) convince the reader of the adequacy of the research
 - (B) report as expeditiously as possible what was done, why it was done, the results and the conclusions
 - (C) contribute to the body of scientific knowledge
 - (D) substantiate a prior conclusion by presenting a set of persuasive quantitative data.
53. Which one of the following terms best describes operating agencies which directly serve the public?
- (A) administrative
 - (B) line
 - (C) specialist
 - (D) staff.
54. The budget in a democracy is primarily an expression of which one of the following types of authority?
- (A) Administrative
 - (B) Executive
 - (C) Legislative
 - (D) Managerial.
55. The "item veto", as applied to budgeting is the
- (A) power of the chief executive to veto legislative riders
 - (B) power of the chief executive to veto the entire appropriation bill
 - (C) requirement for a chief executive to itemize the reasons for his veto of the appropriation bill
 - (D) right of a chief executive to approve an appropriation bill as a whole but disapprove certain details.
56. An experiment was conducted to measure the error rate of typists. The results follow:

| <u>Typists</u> | <u>Per Cent of Total Output</u> | <u>Error Rate (in per cent)</u> |
|----------------|---------------------------------|---------------------------------|
| A | 30 | 1.00 |
| B | 30 | 1.50 |
| C | 40 | 0.50 |

The error rate (in per cent) for the three typists combined

- (A) is 0.95
- (B) is 1.00
- (C) is 3.00
- (D) cannot be calculated from the given data.

57. It is found that for the past three years the average weekly number of inspections per inspector ranged from 20 inspections to 40 inspections. On the basis of this information, it is most reasonable to conclude that

- (A) on the average, 30 inspections per week were made
- (B) the average weekly number of inspections never fell below 20
- (C) the performance of inspectors deteriorated over the three year period
- (D) the range in average weekly inspections was 60.

BUDGETING EXAMINATION ANSWERS

| | | | | |
|-------|---------|---------|-------|-------|
| 1. B | 15. B | 29. D | 43. B | 57. B |
| 2. C | 16. B | 30. A/D | 44. B | |
| 3. B | 17. C | 31. B | 45. B | |
| 4. D | 18. A | 32. C | 46. B | |
| 5. D | 19. C | 33. C | 47. D | |
| 6. D | 20. A | 34. A | 48. B | |
| 7. A | 21. A | 35. D | 49. A | |
| 8. D | 22. B | 36. A | 50. C | |
| 9. D | 23. B | 37. D | 51. C | |
| 10. A | 24. B/C | 38. A | 52. B | |
| 11. C | 25. D | 39. B | 53. B | |
| 12. D | 26. A | 40. D | 54. C | |
| 13. B | 27. A | 41. C | 55. D | |
| 14. A | 28. A | 42. A | 56. A | |