

Key Ideas

Chapter 1: The Purpose of Budgeting



In this section, we will discuss the following:

- *What a library budget does for the Library Director and the taxpayers.*
- *How budgets reflect community goals.*
- *How a budget explains each line item as it relates to the government's overall policy.*
- *How the budget relates to the development and administration of policy.*
- *Why the budget is the most important managerial tool available to local government.*

THE PURPOSES OF BUDGETING

When attempting to explain the Library budget process, it is important to have an understanding of the word “budget.” The American Heritage Dictionary defines the word budget as, “an itemized summary of probable expenditures and income for a given period.” Providing a definition for a Library budget means different things to different groups. Taxpayers might view the Library budget from the perspective of a tax rate and express concerns over any increase in taxes. Analysts might look at a Library budget from a historical perspective and develop charts to see trends in revenues and expenditures. The Library Director might consider the word budget as a series of steps toward certification of budgets, tax rates and tax levies.

The Budget as a Process

Preparation of a Library budget is more than projecting for receipts and disbursements for a given year. The Library budget provides a map for the Library Director and taxpayers that identifies the operating costs considered essential to the successful operation of the Library office for a given period. The budget cycle for the Library Director is year-round in nature because budget development and implementation occur throughout the year.



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The statement that the budget is a map implies that budgeting must be more than simply compiling an annual report to be approved by the Library Board. Each Library Director must constantly monitor receipts and expenditures and compare those to actual figures. The Library Director must ensure that budget items are classified, expended, and estimated properly to maintain taxpayer trust. Libraries and their Boards are required by 590 IAC 1-1-2.5 to prepare a long range plan spanning three (3) to five (5) years with attention to financial stability.



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In an indirect way, every budget provides some statement of community goals. At a minimum, the allocation of resources among different functions reflects both the particular goals that the government hopes to attain and the relative priorities assigned to each goal. Additionally, the budget reflects the elected official's philosophy of local government. By programming funds for certain activities, by reducing or omitting other functions, the policymaker indicates those services that the government will (or will not) attempt to provide. For the politically successful official, these activities are a statement and a synthesis of community goals and expectations.

This "statement" of community goals may be either implied in the approved budget document, or expressly announced in a budget message. If the government's goals are implied, communities look at expenditures, levies, and revenue sources, and try to deduce which services the government will provide, how much of each service and so on.

An explicit statement of budgetary goals provides this information to the taxpayers. First, it tells them what the government intends to do, when, how and why. Second, it publicly states specific governmental objectives, which are important to both the local officials and the community. Third, it establishes expectations and avoids the mistaken impressions of what the government can or should do. That is, the citizen knows in advance what the local government intends to accomplish, and why one activity may have priority over another. The likelihood of misunderstandings downstream is therefore diminished, and the taxpayer is able to understand and participate in the budget process at the development and adoption stages.

Naturally, no local government can provide all things to all concerned. But a central, affirmative, and informative statement of what will be provided can dramatically reduce the confusion and dissatisfaction that is frequently demonstrated by citizen groups.

As a practical matter, there will probably be several statements of goals. Managerially, each department head or other responsible official should develop a fairly firm and complete idea of what his or her department or Board intends to accomplish. These individual objectives are then integrated and reconciled by the Library Board into a single, cohesive policy. The result is a comprehensive statement of governmental goals, indicating not only what the executive branch of the local government intends to do, but also reflecting executive decisions as to priority and practicality.

This budgetary statement or plan will then be presented to the adopting Library Board, along with supporting financial data. The legislative body, of course, is responsible for ratifying or modifying the executive's plans, and authorizing the official local budget to implement these policies and programs.

An express statement of goals is extremely valuable at this point, for the Library Board. It allows the approving body to make more effective and rational budget choices by relating specific budget items to overall government operations and assessing the

impact of any desired changes. For the Library Director, this kind of statement of goals simplifies the process of justifying a budget precisely because it explains to the Library Board and taxpayers how each line item in the budget contributes to the government's overall policy. Additionally, a budgetary statement integrates the proposed operations and costs of any single department with all others. As a result, the Library Director's political responsibilities are made easier because the information he or she must use to defend the budget proposal is presented in a complete and logical format. The chances of piecemeal changes or ill-considered reductions are thereby diminished, and the relationships between the budget document and local budget policies are explained in a straightforward and comprehensive manner.



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To summarize, the budget serves as a statement of community goals to the extent that the budget document and the budget message reveal the philosophy of the elected officials and relate that philosophy to proposed governmental activities or services, such that they address community needs and expectations.

The Budget as a Policy Instrument

The budget document is in one sense the culmination of the budget process. Since it is a tangible result of local policy decisions, one is tempted to view the budget document as the end product of the gruesome task of budgeting. As previously noted, however, the budget process is a continuous one. Because of this fact, the budget is not only a document but also an effective planning instrument.

This means two things: the budget is a means of establishing a plan, and it is the financial method by which policy decisions are implemented. The first of these functions is accomplished through the budget's allocation of government resources. That process uses the budget as the instrument for translating community goals into government programs. The second function, the implementation of policy choices, uses the budget to ensure that government programs actually address these goals.



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Even though government services and policy goals are coordinated when the budget is adopted, the two do not always remain synchronized. The government's activities may be very well managed, for instance, yet still not accomplish the intended goals. At this point, the budget is perhaps the most effective instrument for achieving policy objectives because it is the means by which financial resources may be reallocated.

The Budget as a Management Tool

It is clear that good government does not run itself--it must be managed. And nowhere does this managerial responsibility fall more heavily than on the locally elected public official. For innumerable reasons, local government has been forced to "make do with less." Given this situation, few officials can afford the luxury of sitting back and formulating policy, and then letting others worry about carrying it out. The local policymaker has to be an effective manager as well.

The budget is perhaps the most important managerial tool available to local government. Since almost everything which local government does is reflected in the budget, it is a comprehensive tool. Because virtually all governmental activities are funded through the budget, and because the budget is a continuous process, it is an effective tool for the public official because it provides an effective management device at every stage of governmental activity. While recognizing that the budget is a management tool, we should not forget that its other characteristics might be equally important to the Library Board.



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Summary

So far, we have explained what a budget is and what it does. We have said that a budget is a process, a plan, a statement of goals, a policy instrument, and a managerial tool. Indeed, it may be all of these things simultaneously, since the four aspects are all related. These relationships may be better explained through the following example:

As the Library Director is compiling the budget, he/she reviews the activities within the Library. The department's present budget tells him/her how many people are on the payroll, how much it costs to maintain the Library office, and generally how much money it takes to operate the library as a whole. The budget also gives him/her some idea of the services performed by the Library during the past year.

To understand the Library budget realistically, however, the Library Director needs additional information: how large the Library is--that is, the number of patrons the library serves and what types of services are provided to taxpayers. The Library Director might also want to know the number of old and new patrons seeking assistance. This type of information allows the Library Director to evaluate the present budget against actual performance. To prepare next year's budget adequately, the director needs to know what the Library did in the past and what it is doing now. The director then compares those activities and costs to the services he expects the Library to perform next year. This kind of historical review is an example of the budget as a process.

Also, the Library's long range plan, broken down into year by year goals, is part of the planning process. It serves as the roadmap that tells the Library Director where the Library has been and what it is doing, and helps determine what services will be provided during the next year.

Next year's activities, though, also depend on the Library Director's policy goals. The budget can be a statement of these goals and objectives either indirectly or explicitly. And the goals may mandate certain activities or limit others. If the Library Director determines that a reduction in services provided should occur, more funds might be allocated for computer and equipment and less for personnel assistance. This action is reflected in the budget and it indicates the Library Director's desires for his Library. As a statement of goals, the budget reflects the Library Director's philosophy and priorities.

While few officials consciously decide to use the budget for management or policy or as a statement of goals, it is important that the different aspects of budgeting be understood. By knowing how to work through the budget process, and how to use the budget to address a variety of problems, the local official is better able to fulfill his or her responsibilities. Moreover, the official is able to use that control for the benefit of the community. Readers should keep these concepts in mind throughout the following sections, asking themselves what they might do to make the Library budget more useful.

Summary

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In this section, we have discussed the following:

- *The Library budget provides a map for the Library Director and taxpayers that identifies the operating costs considered essential to the successful operation of the Library office for a given period.*
- *The allocation of resources among different functions reflects both the particular goals that government hopes to attain and the relative priorities assigned to each goal.*
- *For the Library Director, this kind of statement of goals simplifies the process of justifying a budget precisely because it explains to the Library Board, the fiscal body and taxpayers how each line item in the budget contributes to the government's overall policy.*
- *This means two things, the budget is a means of establishing policy, and it is the financial method by which policy decisions are implemented.*
- *The budget is perhaps the most important managerial tool available to local government.*