

Key Ideas

Chapter 1: The Purpose of Budgeting



In this section, we will discuss the following:

- *What a county budget does for the County Auditor 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 county 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 county budget means different things to different groups. Taxpayers might view the county budget from the perspective of a tax rate and express concerns over any increase in taxes. Analysts might look at a county budget from a historical perspective and develop charts to see trends in revenues and expenditures. The County Auditor might consider the word budget as a series of steps toward certification of budgets, tax rates and tax levies.

Before we go any farther, we first need to clarify some other terminology used in this manual. The term “County Executive” is defined in IC 36-1-2-5 and means the Board of Commissioners for a county not having a consolidated city; or the Mayor of the consolidated city if the county has a consolidated city. Currently, Marion County is the only county with a consolidated city. Therefore to simplify matters and make the process as clear as possible for the majority of the county officials, when we use the term “County Executive” we will be referring to the County Commissioners and vice versa. Officials in Marion County will need to be aware that the terminology is different for your county.

Furthermore, IC 36-1-2-6 defines “Fiscal Body” to mean the County Council for a county not having a consolidated city and the City-County Council for a consolidated city or county having a consolidated city. Therefore throughout this manual when you see the term “Fiscal Body” we will be referring to the County Council and vice versa. Officials in Marion County will need to be aware that the terminology is again different for your county.

Now it gets a little more complicated. IC 36-1-2-9 defines “Legislative Body” to mean the County Commissioners except in a county containing a consolidated city (*think Marion County*) OR in counties covered under IC 36-2-3.5. Since the majority of counties will not fit into one of these exceptions, for purposes of this manual we will use the term Legislative Body to mean the County Commissioners and vice versa. Counties that fall under the exceptions listed in IC 36-2-3.5 or IC 36-3-1 will need to substitute terminology when reading through this manual.

Now that we have covered the technicalities, let’s talk about the budget process!

The Budget as a Process

Preparation of a county budget is more than projecting receipts and disbursements for a given year. The county budget provides a financial plan for the County Council and taxpayers that identifies the operating costs considered essential to the successful operation of the county for a given period. The budget cycle for the County Auditor 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 financial plan implies that budgeting must be more than simply compiling an annual report to be approved by the County Council. Each County Auditor must constantly monitor receipts and expenditures and compare those to the estimated amounts. The County Auditor must insure that budget items are classified, expended, and estimated properly to maintain taxpayer trust. Continuity in process promotes constant reevaluation of county priorities and assists the County Auditor in identifying future trends and needs for the county. The policies and procedures established by the County Commissioners and County Council support the identified trends and needs of the county.

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, which 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.



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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, which 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 County Commissioners and County Council 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 fiscal body, along with supporting financial data.

An express statement of goals is extremely valuable at this point for the County Commissioners. It allows the County Commissioners 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 County Auditor, this kind of statement of goals simplifies the process of justifying a budget precisely because it explains to the County Council 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 County Auditor'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 policy instrument.

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 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 County Council.



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Summary

So far, we have explained what a budget is and what it does. We said that a budget is a process, 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 County Auditor is compiling departmental budgets, he/she reviews the activities within the county. The department's present budget tells him/her how many people are on the payroll and how much it costs to maintain each county department. The budget also gives him/her an idea of the services performed by the county during the past year.

To understand the county budget realistically, however, the County Auditor needs additional information: how large the county is--that is, how many square miles must sheriff deputies cover and what other services are being provided to taxpayers. The County Commissioners and/or the County Council might also want to know the different types of services provided to taxpayers and the number and percentage of taxpayers returning for assistance. This type of information allows both the County Commissioners and the County Council to evaluate the present budget against actual performance. To prepare next year's budget adequately, an Auditor needs to know what the county did in the past and what it is doing now. The Auditor then compares those activities and costs to the services he/she expects the county to perform next year.

This kind of historical review is an example of the budget as a process. It serves as the plan that tells the County Commissioners and the County Council where the county 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 policy goals of both the County Commissioners and the County Council. 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. For example, the county officials might determine that a reduction in park services should occur and more funds should be allocated for police protection. This action is reflected in the budget and it indicates the county officials' desire for the county. As a statement of goals, the budget reflects the County Commissioner's and Council's philosophy and priorities.

While few elected 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 elected 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 County budget more useful.

Summary

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In this section, we have discussed the following:

- *The county budget provides a financial plan for the County Commissioners, County Council, and taxpayers that identifies the operating costs considered essential to the successful operation of the county 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 County Auditor, a budget that explicitly states the county's goals simplifies the process of justifying a budget precisely because it explains to everyone 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.*