

## STEPS TO A WELL-MANAGED BUDGET

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The most important action a governing body takes each year is the adoption of the annual budget. Through the budget, elected officials establish spending authority and set the priorities of the local government. One community's priority could be the reduction of crime, while another's may be investing in better parks and sidewalks. Whatever the plan, if the budget is not monitored to ensure that public dollars are spent as intended, problems can occur.

### BUDGET TO ACTUAL MONITORING

After the governing body approves the budget, the members will need updates on how the plan is going. Reviewing budget to actual reports frequently throughout the year is the most effective way for the governing body to maintain a well-managed budget. Budget to actual comparisons show how close the budget estimates are, if changes to the budget are needed, or if everything is on course as planned. Accuracy in accounting data is essential to make useful budget to actual reports, and timeliness in reviewing the information is vital.



### REVENUES

Revenues are meticulously forecast during the budget preparation phase, but as the budget year progresses, revenue collection should be closely monitored for variations from original estimates. Most tax collections are cyclical. Comparing the current year's monthly collections to last year for each tax category will help a local government understand if its assumptions, such as whether its planned growth rate is holding true. Timeliness is important because if revenue collections are lower for the year, then cutting expenditures or increasing the use of fund balance may be needed to ensure the budget remains balanced.

### OPERATING EXPENDITURES

Operating expenditures tend to be less cyclical than revenues – think salaries and benefits. However, even

with less variability, the level of spending should be monitored throughout the year. A local government should closely review items like overtime; fuel and commodity purchases; repair and maintenance; and any item that can quickly increase due to outside forces. If changes to the operating budget are planned for mid-year, then those changes should be forecast throughout the remainder of the fiscal year.



### CAPITAL EXPENDITURES

Most capital expenditures tend to be planned well in advance, but cost overruns on large capital items, as well as small replacement items, can add up to an unbalanced budget. Local governments should frequently review any ongoing capital projects and ask department heads for updates on their plans to replace items so adjustments can be made if needed. It is important to know in advance what the funding source is for capital project cost overruns.



### AMENDING THE BUDGET

Every item in this document has led to this: **It is very important to amend the budget throughout the year.** When amending the budget, local governments should keep these principles in mind: the budget must be amended prior to increased spending; recurring revenues should be used to pay for recurring expenditures; cash liquidity must be considered; debt must be paid; and adequate reserves should be maintained. Amending the budget takes time, so local governments should know the process and how much lead time it takes to finalize an amendment. The budget undergirds the vision and strategy for a local government, and care must be taken to constantly monitor it.

